



An Post

Strategic Recovery Plan

Key Objectives

Minimise losses in 2003 and 2004
and conserve cash

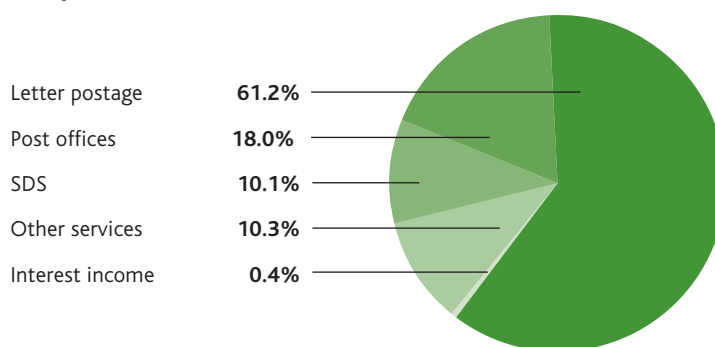
Reach breakeven in 2005

Achieve acceptable profitability
in 2006, 2007 and 2008

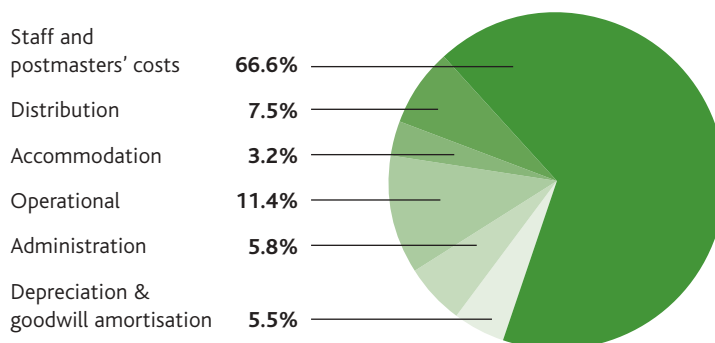
Financial Highlights

	2003 €m	2002 €m
Turnover	709.2	683.7
Operating loss	(42.9)	(17.4)
Exceptional items	13.3	(52.5)
Loss for the financial year	(32.0)	(70.5)
Operating loss as % of turnover	6.0%	2.5%

Analysis of Turnover

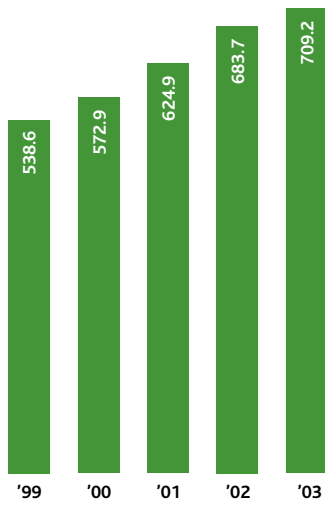


Analysis of Operating Costs



Financial Trends

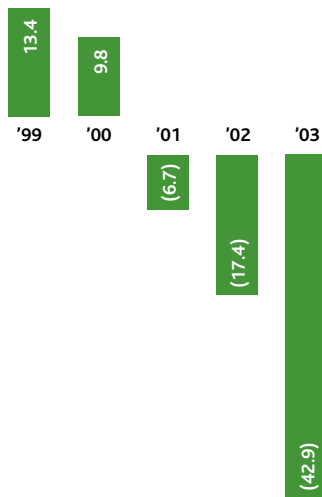
Turnover €m



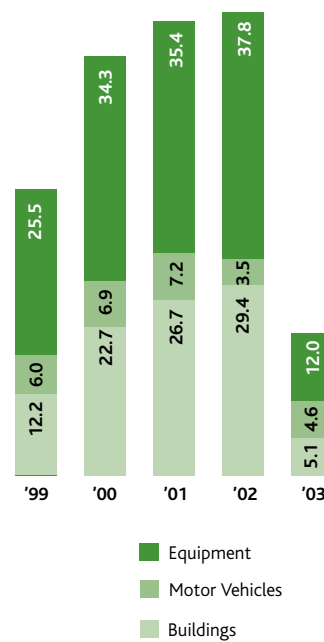
Costs €m



Operating Profit/(Loss) €m



Tangible Fixed Assets - Spending €m



Board of Directors and Corporate Information



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

*Chairperson – 2, 3, 4, 5
Age 44
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 47
Appointed 1 November, 2000;
third term*

Mr. Compton has worked in the postal service for the past thirty one 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 50
Appointed 1 November, 2000;
second 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 56
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.



Paul Kavanagh

*Director
Age 62
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.



Evanne Kilmurray, M.A.(Pol)

*Director – 3, 5
Age 43
Appointed 17 December, 1999*

Ms. Kilmurray is the founder and former Managing Director of Inner City Enterprises Limited. She is also a former Director of Forbairt and Telecom Eireann and a mentor to the Marketing Development Programme in the Michael Smurfit School of Business. She is currently the Corporate and Community Affairs Director of Woodford Development Limited. She is also a trustee of Dublinia Limited and she is on the Advisory Board of The Ireland Funds.



Shay Martin

*Employee Director
Age 51
Appointed 1 November, 2000*

Mr. Martin commenced work in 1970 with the Department of Posts and Telegraphs. He has held various administrative positions in that Department and in An Post and he is currently the Claims Manager in the insurance department of An Post. He has been involved in trade unions at a local level throughout his career and he is currently on the An Post branch committee of the Public Service Executive Union.



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

*Director – 1, 4
Age 51
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 54
Appointed 1 November, 2000;
third 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.



Cathy Herbert, B.A.

*Director
Age 44
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.



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

*Director
Age 68
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.



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

*Director
Age 65
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 46
Appointed 1 January, 2004;
second term*

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



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

*Director – 4, 5
Age 55
Appointed 4 February, 2003;
second term*

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

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

Ba é an bhliain atá faoi mheas an bhliain is deacra i stair An Post. Le moilliú ag teacht ar an eacnamaíocht náisiúnta agus na patrúin post ag athrú, bhí sé dosheachanta go mbéadh droch éifeacht ar ár gnó poist agus dáileacháin. Cé go raibh méadú €25.5m sa láimhdeachas, bhí méadú €51.0m i gcostais. Mar thoradh ar seo, mhéadaigh an caillteanas gníomhach ó €17.4m i 2002 go €42.9m i 2003. Is é seo an caillteanas gníomhach is mó a tharla in An Post ó bunaíodh é mar chuideachta tráchtála Stáit i 1984. Tháinig fadhbanna troma chun cinn i rith na bliana nuair a sholéiríodh é nach sroicfeadh an Chuideachta a bhunbhuisead beartaithe chun na caillteanais a réiteach i 2003 agus fillleadh ar bhrabachas i 2004.

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

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

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

In 2003, a continuing inability to control costs, compounded by a decline in revenue growth and a delay in achieving an expected increase in domestic postal tariffs, resulted in a third successive year of losses. It is evident to everyone that these

losses, both operational and pre-tax, are unsustainable. These results clearly show the magnitude of the problems facing the Company and demonstrate the need for urgent action to implement change throughout the organisation.

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

While talks with the major trade union on new collection and delivery arrangements have been delayed, other aspects of the Plan are already producing significant advances. One of the main objectives is to reduce costs and some progress in this area has been achieved already. Expenditure is under tighter control and efforts to enhance revenues are continuing. Permission from the Commission for Communications Regulation (ComReg) – the body which regulates aspects of the postal business – for a domestic price increase was secured last August and a further increase in the price of services, which are outside the scope of the Universal Service Obligation, was introduced with effect from 5 January, 2004. By international comparisons, our current domestic tariff is still relatively low, especially as it relates to the size of our market and its uniquely dispersed population features. We are giving attention to the development of a portfolio of practical new products which will meet the growing and changing demands of an increasingly sophisticated consumer. New products will form part of continuing measures to boost revenues in 2004. It is also our intention to seek approval from ComReg for a further increase in the domestic postal tariff later this year.

Acting, as it must, to encourage efficiency and a cost-effective service for customers, ComReg has made it clear that it will not consent to further price increases unless An Post has achieved efficiencies in its operations and meets the quality of service standards that it has stipulated. We have several imperatives. One is to convince ComReg of the need and justification for a level of tariffs which compensate us



- 2003 has been the most difficult year in the history of An Post.
- The importance of the Recovery Plan to the future well-being of An Post cannot be overstated.
- The Company must implement radical change in the way in which it conducts its business.
- All the stakeholders in An Post must work together to address the perilous financial position.

adequately for our Universal Service Obligation. We are undermined in this task by our continuing failure to meet quality of service targets. Our overall quality of service in 2003, as measured for us by PricewaterhouseCoopers, was 87% next-day delivery. This was below our own stated target of 92% and even further below the target of 94% set by ComReg.

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

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

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

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

The Company is now equipped with the most modern infrastructure possible and the staff are well-trained and experienced in its use. While there have been delays in exploiting the full potential of the equipment, we know from our experience over the recent Christmas period that, when used effectively, the equipment can provide the high-quality integrated service originally envisaged. The challenge now is

Chairperson's Statement

continued

to move to achieve optimum usage on an ongoing basis and, from there, to secure the savings and the quality of service which the technology is designed to deliver.

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

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

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

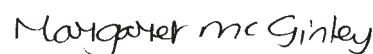
On a positive note, An Post was one of the main sponsors of the Special Olympics World Summer Games in 2003. The event saw the involvement of hundreds of An Post staff as

volunteers over a period of three weeks and the experience of the Games was a hugely uplifting one for participants, volunteers and visitors alike.

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

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

Tá ré athraitheach i ndán do na cuideachtaí Stáit go léir anois agus beidh na blianta beaga atá le teacht an-dúshlánach do An Post. Go príomha is fiú staid airgeadais baolach na Cuideachta a réiteach tríd an Phlean Athshlánaithe a chur i gcrích. Chomh maith le sin caithfidh an Chuideachta a ullmhú don chomórtas atá le neartú trí fhás i saorú an mhargaidh poist. Níl an dara rogha againn ach glacadh le héilimh nua na ré nua. Tá sé fíorthábhachtach go n-oibróidh na páirtithe leasmhara go léir le chéile don toradh sin.



Margaret McGinley

Chairperson

25 March, 2004

Management Organisation



Chief Executive

Donal Curtin, B.E. (Elec.)

Chief Executive, Age 56

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.

Corporate & Regulatory Affairs



Larry Donald, B.A. (Econ.)

Corporate & Regulatory Affairs Director, Age 54

Mr. Donald joined An Post in August 2003 and was appointed Corporate & Regulatory Affairs Director in October 2003. 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.

Commercial



Derek Kickham, B.E. (Elec.), M.I.E.I.

Commercial Director, Age 44

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.

Human Resources



Patrick Knight, M.Sc. (Organisational Behaviour), F.C.I.P.D.

Human Resources Director, Age 49

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.

Finance



Ciaran McGivern, B.A., F.C.A.

Acting Finance Director, Age 46

Mr. McGivern joined An Post in April 1989 from Price Waterhouse where he had been an Audit Manager. He has held a number of senior positions within the Finance and IT departments of An Post and he was appointed to his current position in October 2003.

Mail Processing



Brian McCormick, B.E. (Mech.), M.B.A.

Director Mail Processing, Age 44

Mr. McCormick joined An Post in May 2002 as Strategy Director and was appointed to his current position in October 2003. Prior to joining An Post, he was a Director of Merrion Corporate Finance. He also worked for CRH

Collection & Delivery



Ken Robinson

Director Collection & Delivery, Age 57

Mr. Robinson joined An Post in November 1999 as National Operations Director. Before joining An Post, he was a Director of Royal Mail Northern Ireland. In July 2000, he was appointed Managing Director of the postal business and, in October 2003, he was appointed to his current position, Director Collection & Delivery.

SDS



Garrett Thornton

Director SDS, Age 47

Mr. Thornton joined An Post as Director SDS in June 2003. He has over twenty years experience in logistics management and, immediately prior to joining An Post, he was responsible for Securicor's distribution businesses in Ireland.

Post Office Operations



Tony Waters

Director Post Office Operations, Age 57

Mr. Waters joined the Department of Post and Telegraphs in 1963 and, in his forty one years in the organisation, he has gained extensive experience across all areas of the Post Office business. He held a number of senior management positions in An Post prior to being appointed Director Post Office Operations in January 2004.

Chief Executive's Review

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

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

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

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

The magnitude of the problems at An Post became clear shortly after I joined the Company, as Chief Executive, in July 2003. A thorough review of the Company's financial position was initiated and, following this, a comprehensive Strategic

Recovery Plan was prepared to address the worsening situation. The Recovery Plan sets out in detail the measures that are necessary if we are to stem the current level of losses, achieve financial stability and restore to modest profitability an important public service company that provides a valuable strategic service.

The Recovery Plan was approved by the Board of An Post in September 2003 and was then presented to our shareholder, the Minister for Communications, Marine and Natural Resources. Details of the plan were communicated widely to our staff and the trade unions. The Recovery Plan sets out the short, medium and longer term targets, with an emphasis on the urgent requirement to reduce costs, increase our overall efficiency and thereby improve our financial performance. We must also secure regulatory approval for further price increases and accelerate the introduction of new products that have the potential to offset the industry-wide trend in revenue decline in traditional core product areas. These measures are essential in order to achieve increases in An Post revenues.

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

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

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



- An Post remains on a financial knife-edge.
- The overwhelming imperative is to reduce the overall cost base and achieve revenue growth.
- The market is being liberalised and customers are adapting to new technology at a rapidly increasing rate.
- We must sharpen our customer service, develop our commercial capacity and be flexible in the way we work.

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

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

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

Current costs are significantly above sustainable levels and are at the root of the Company's financial difficulties. The urgent

need to achieve targeted reductions in the main operational areas cannot be overstated. IT activities are being rationalised and we have targeted a reduction of 1,450 in the overall numbers employed by An Post by the end of 2006. This is a critical and unavoidable part of the Recovery Plan.

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

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



- The Recovery Plan aims to refocus management resources on our core business.
- There is a critical imperative for an acceptance of the need to move to the maximum possible deployment of technology.
- Cost savings, averaging in excess of €40m per annum, have been identified.
- It is important that strategically significant new revenue streams are developed.

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

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

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

A profit target of €43m has been set for asset and property disposals in the period 2003 to 2008. No further investment will be made in overseas activities that are not essential for

the maintenance of our core business and the issue of a strategic alliance has been postponed indefinitely. The essential objective will be closer integration of our activities to ensure that plans are implemented, that management and structural duplication is eliminated and that cost savings are realised.

In 2004, we will also present proposals to the National Treasury Management Agency and to the Government to accelerate revenues from savings products and to build on the strong position that An Post enjoys in the financial services market in Ireland. Discussions with financial services organisations on new product development and other initiatives will be geared to increasing contributions by €6m by 2008. A successful outcome from these measures will help reduce our vulnerability and dependence on traditional mails revenue streams.

The shocking reality is that, even when targeted savings have been achieved, revenue levels will not be adequate for financial stability in the medium and long term. We must implement significant revenue-enhancing measures which will inevitably include a further domestic price increase application later this year. The approval of ComReg for new pricing proposals is required and we will be putting forward a robust submission in support of our need for a further increase in domestic postal tariffs. Despite increases in the last eighteen months, standard postal tariffs in An Post compare favourably

Chief Executive's Review

continued

with those in other European Union countries even before factoring in the increased unit delivery costs associated with this country's relatively low rural population density.

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

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

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

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

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

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

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

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

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



- We have a loyal, highly respected staff and our infrastructure is the most modern available.
- Serving and satisfying the customer must be the priority and will be the foundation of the Company's relevance in the future.
- An Post has limited time in which to get its affairs in order.
- We have the means at our disposal to create the future that An Post deserves and that the people of Ireland expect.

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

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

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

Donal Curtin
Chief Executive

25 March, 2004

Financial Review

Financial Overview

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

Operating loss

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

Turnover

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

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

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

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

Competition has also increased in the parcel and express mail sectors. Revenues in SDS fell by 10.2% during 2003, reflecting

both this increased level of competition and a decision to exit unprofitable services following a restructuring of the business which was undertaken during the year.

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

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

Costs

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

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

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

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

Exceptional items

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

Taxation

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

Financial Review

continued

Loss for the financial year

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

Capital expenditure

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

Liquidity

The Group had a net cash inflow during the year of €21.2m. However, this inflow was driven by an improvement in the working capital position of the Company during the last quarter, the receipt of cash of €15.4m from the disposal of tangible fixed assets, the receipt of €12.7m in respect of additional share capital and the curtailment of the capital programme, as opposed to cash generated from trading.

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

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

Strategic Recovery Plan

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

Universal Service Obligation (USO)

On 23 May, 2003, the Commission for Communications Regulation (ComReg), the statutory regulator of the postal sector, issued a Direction under Regulation 6(1) and (2) of the European Communities (Postal Services) Regulations, 2002 (S.I. 616 of 2002) ("the Regulations"), obliging An Post, inter alia, to publish in its annual report information relating to the universal service, viz. "a universal service provider shall provide users with regular, detailed and up to date information on the particular features of the universal service, with special reference to the general conditions of access to the service, as well as to prices and quality standard levels".

The Company is also obliged, under Regulation 15(2) of the Regulations, to publish, together with its annual report on the monitoring of its performance, information on the number of complaints and the manner in which they have been handled.

USO Requirements

Under Regulation 4(2)(a) of the Regulations, An Post is designated as a universal service provider for the purpose of the Direction 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 service 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 92 Company post offices, 1,417 sub-post offices and 149 postal agents. In addition, a retail network of 3,944 premises are licensed to sell postage stamps. To facilitate physical access to the service, approximately 6,300 pillar and wall boxes are distributed widely throughout the State. (This data is valid as at 31 December, 2003.)

Details of ComReg's Directions and Decisions in relation to access conditions may be found in ComReg's document "Postal Services: Universal Service Obligation, Tariff Principles and miscellaneous issues - Directions to An Post" – Decision D11/03 Document No: 03/50 of 13 May, 2003, at website www.comreg.ie.

Universal Service Obligation (USO)

continued

Prices

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

<i>Letter prices</i>	<i>Letters up to C5</i>	<i>Large Envelopes</i>	<i>Packets</i>
Domestic Service <100g:	48c	60c	96c
Britain <50g:	50c	75c	€1.20
Europe <25g:	57c	95c	€1.70
Rest of World <25g:	57c	95c	€1.70
Registered Post <100g:	€3.90	€3.90	€3.90

Registered Post (International)

Fee (in addition to Priority Postage): €3.40

Insurance (Domestic)

Compensation Limit €1,250: Additional Fee: €2.00

Compensation Limit €1,750: Additional Fee: €3.00

<i>Parcel prices weight <0.5kg</i>	<i>Economy service</i>	<i>Priority service</i>
Domestic	€4.50	€7.50*
Northern Ireland	€6.50	€9.00*
Great Britain	€11.50	€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

N/A Not Applicable

* 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 2003 as follows:

National and Local Mail:

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

This target relates to single piece priority mail which accounts for less than half of the total. 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 2003 were 87% for D+1 delivery and 99.5% 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 overall results of the TNS/MRBI monitor for 2003 were 71% 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.

Even allowing for the differences in the mail monitored by these two fully independent systems, there is a substantial discrepancy in the results. An Post and ComReg are working together to explain these differences. The ultimate objective is to have a single, independent monitor of mail which is standard-compliant in both design and conduct and generates results that are accepted by all parties as accurate.

Customer Complaints

ComReg's Direction under Regulation 15(2) of the Regulations requires An Post to maintain records of customer complaints in a specific format which is consistent with the CEN European standard prEN 14012. As the direction to An Post was issued on 22 May, 2003, it has not been possible to compile the data in the specified format for the full year.

The table below gives a breakdown of written complaints received from customers during 2003 in respect of letter post items. In future years, An Post will provide a breakdown covering both letter post and parcel items. The total number of written complaints in 2003 in respect of letter post items represents a minute fraction of the total letter post traffic handled during 2003, i.e. approximately 0.004 of one per cent.

The CEN European standard also envisages a breakdown of customer complaints received over the telephone. This information is not currently available but An Post is developing a system that will distinguish between telephone enquiries and telephone complaints. Most telephone contacts by customers are of a routine nature such as enquiries about the An Post track-and-trace system for registered items.

<i>Written complaints received from customers</i>	<i>Number</i>
Items lost or damaged	13,626
Items damaged	300
Items arriving late	518
Mail collection or delivery	
Time of delivery	44
Failure to make daily delivery to home or premises	100
Collection times/Collection failures	10
Mis-delivery	74
Access to customer service information	61
Underpaid mail	59
Tariffs for single piece mail/discount schemes & conditions	None
Registered items	8,700
Change of address (Redirections)	1,214
Behaviour and competence of postal personnel	48
How complaints are treated	12
Other (not included in above)	1,000
Swiftpost	1,745
Exprès	605
Passport express	90
Total	28,206

Quality of letter post service

National

Throughout 2003, PricewaterhouseCoopers undertook an independent and continuous study of the quality of service of domestic mail 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 for data measurement involves internationally accepted principles of statistical sampling and analysis. 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 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.

Summary results for next day delivery¹ of letters during 2003 are presented below on a national level and within Dublin and the rest of the country ("Provinces").

The results below 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.

	Mar Qtr	Jun Qtr	Sept Qtr	Dec Qtr	Year
Dublin to Dublin	87%	87%	92%	83%	87%
Dublin to Provinces	81%	84%	84%	74%	81%
Provinces to Dublin	86%	87%	90%	84%	86%
Provinces to Provinces	90%	92%	92%	89%	91%
Overall	87%	88%	90%	84%	87%

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 letter post service

International

The International Post Corporation (IPC) is a co-operative comprising the national operators of 23 countries. The European 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 are published on a half-yearly basis. 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 has ISO 9001 certification.

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.

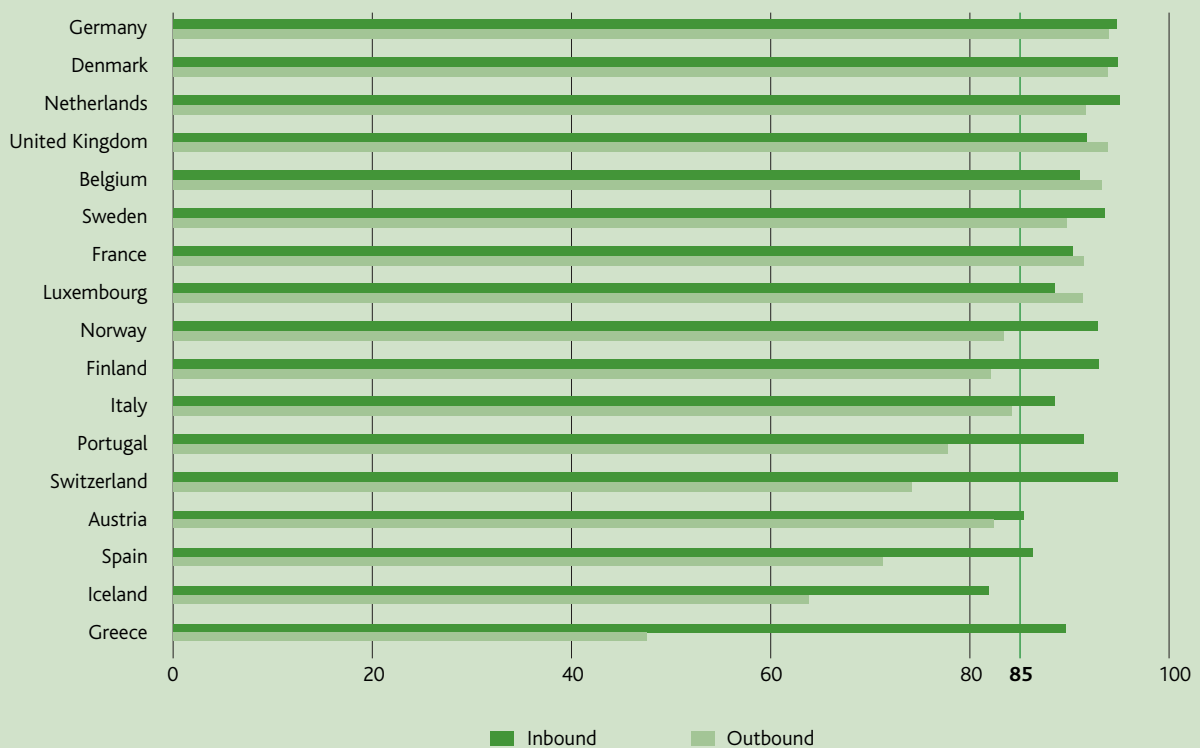
Throughout 2003, the UNEX system monitored approximately 1 million test letters on 306 country-to-country mail streams,

over 600 regional routes and 430 city-to-city links. The method of calculation of the quality of service is based on a five day business week (i.e. Saturday, 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 2003 for inbound and outbound international mail delivered within three working days. The accuracy of the results ranges between 1% and 5% with a 95% level of confidence.

Percentage on Time



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