Annual Report 2005

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

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

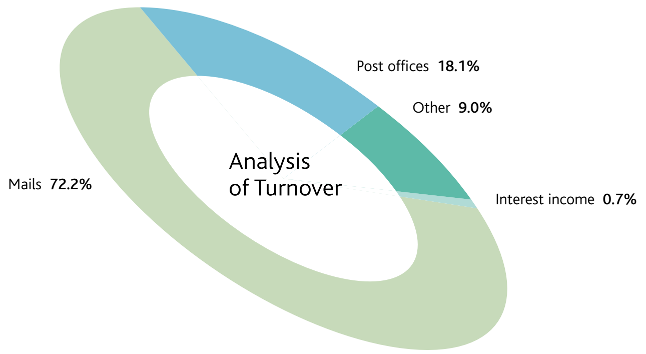
www.anpost.ie

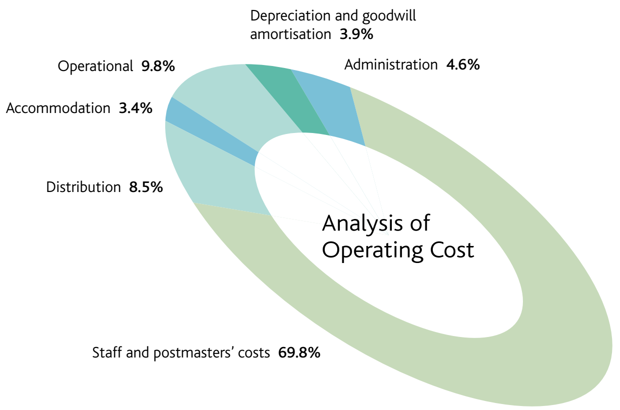
The An Post Annual Report 2005 is also available in Irish.

CONTENTS

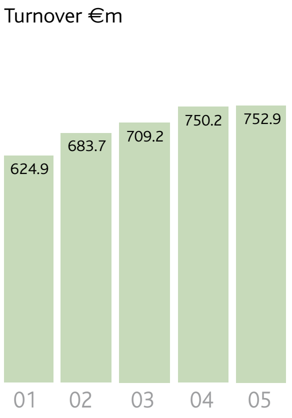
Financial Highlights

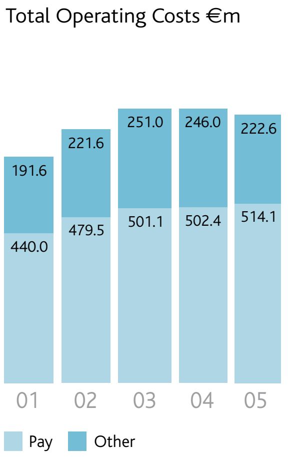
	2005 €m	2004 *(restated for FRS17)* €m	2004 *(as reported under SSAP24)* €m
Turnover	752.9	750.2	750.2
Operating profit/(loss)	16.2	(3.0)	1.8
Exceptional items	19.3	5.3	5.3
Profit for the financial year	40.7	11.1	6.5
Operating profit/(loss) as % of turnover	2.2%	(0.4%)	0.2%

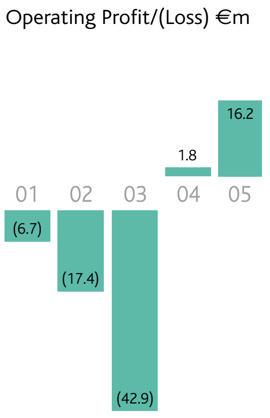


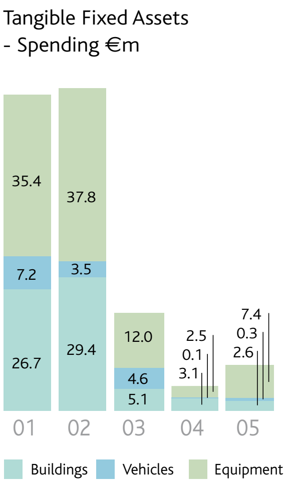


Financial Trends









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

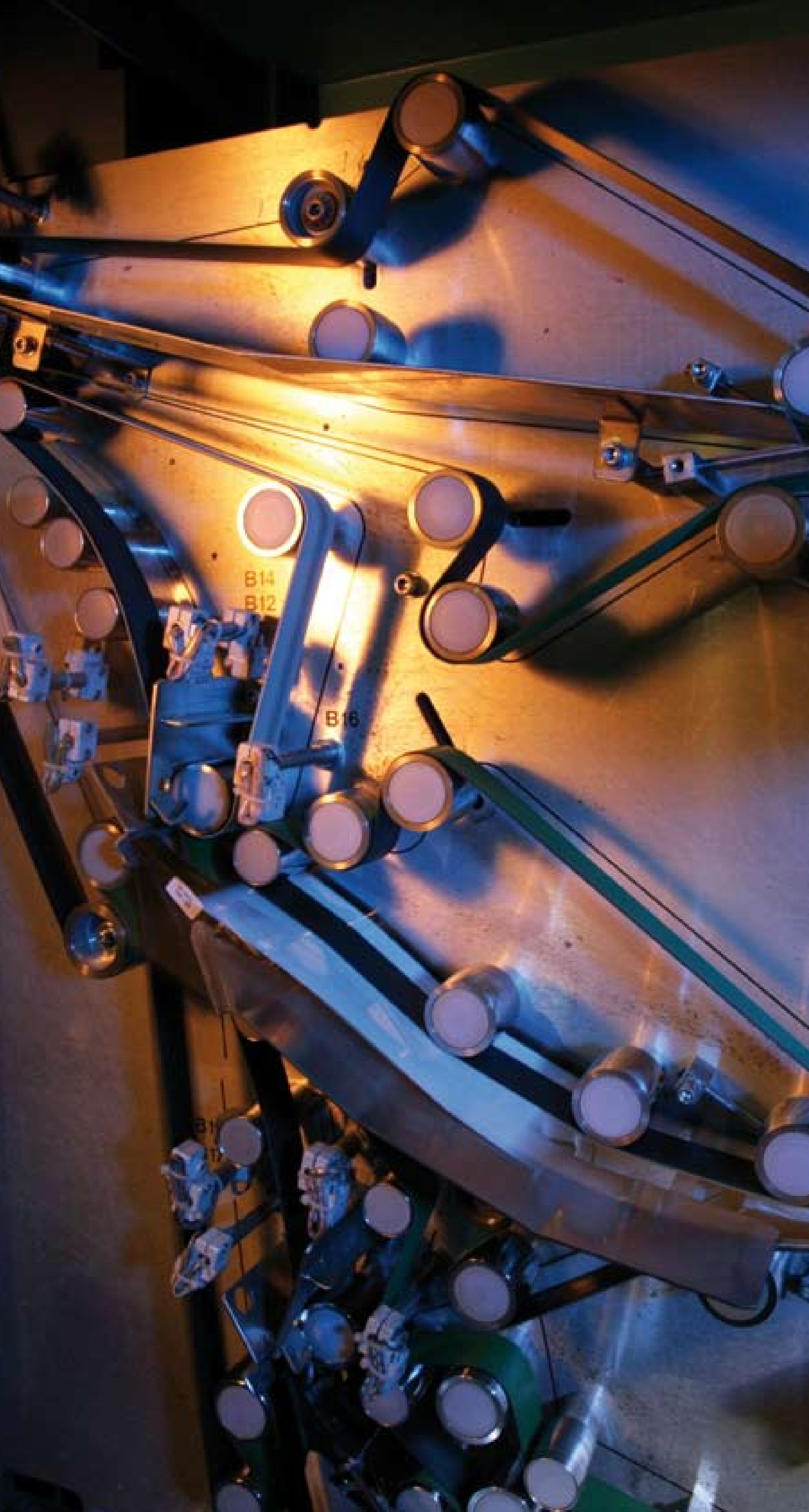
NEW REVENUE STREAMS

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

OUTLOOK

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


15 J.GRO
MASONRY
FIXINGS
POST OFFICE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B16

SECURITY

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

TRANSFORMATION

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


SWIFTPOST
guaranteed for less.

Board of Directors

Margaret McGinley, B.A., LL.B.
Chairperson – 2,3,4,5,6
Age 46
Appointed 4 February, 2003
second term

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

Patrick Compton
Employee Director – 2
Age 49
Appointed 1 November, 2004
fourth term

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

Jerry Condon
Employee Director – 4
Age 52
Appointed 1 November, 2004
third term

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

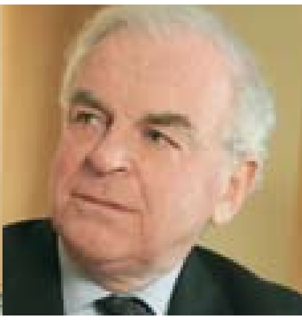
Donal Curtin, B.E. (Elec.)
Director – 2,4,6
Age 58
Appointed 14 July, 2003

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







James Hyland, B.Comm., F.C.A., F.C.I.S., M.C.I.Arb., M.E.W.I.
Director – 1,3
Age 70
Appointed 11 December, 2003

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

Terry Kelleher, Dip. Industrial Relations
Employee Director
Age 38
Appointed 1 November, 2004

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

Alice O'Flynn, B.A., M.Sc., Dip. Legal Studies, Cert. Eur.Comm.Law
Director – 1,5
Age 53
Appointed 27 May, 2002
second term

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

John Quinlivan, B.Sc. (Mgt. & Law), M.Sc. (Spatial Planning), Dip. in Public Admin.
Director – 3
Age 67
Appointed 9 May, 2003

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

Patrick Davoren
Employee Director – 1,6
Age 56
Appointed 1 November, 2004
fourth term

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

Thomas Devlin
Employee Director
Age 46
Appointed 1 November, 2004

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

Louise English, B. Comm., F.C.A.
Director – 3
Age 43
Appointed 1 June, 2005

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





Alan Sloane
Postmaster Director – 2
Age 48
Appointed 1 January, 2004
second term

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

Peter Wyer, B. Comm., LL.B.
Director – 5,6
Age 57
Appointed 4 February, 2003
second term

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

Corporate Information

Secretary
Michael Tyndall

Registered Office
General Post Office
O'Connell Street
Dublin 1

Auditors
KPMG
Chartered Accountants

Bankers
Bank of Ireland

Solicitors
Matheson Ormsby Prentice

Key to Board Committees

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

Chairperson's Statement

Margaret McGinley
Chairperson

Financial Stability

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

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

An Post's cash position at the end of 2005 is a particular source of satisfaction to the Board. The ongoing rationalisation of the Company's property portfolio and of its subsidiary companies in 2004 and 2005 is largely responsible for this positive outcome. It must however be noted that a significant portion of these monies will be required to fund severance and early retirement packages provided for in the various change programmes that have been agreed with the trade unions representing staff in An Post.

Industrial Relations

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

Postal Tariffs

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

Changing Times and Markets

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

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

Quality Issues

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

Major Initiatives

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

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

Shaping our Future

While financial stability has been restored to An Post, the Board is conscious that the Company must establish a long term, sustainable future. This will be no easy task given that An Post must increasingly operate in markets that are populated by competitors working in both the traditional and electronic sectors. To that end, the Board approved, in December 2005, a work programme for the formulation of a new Strategic Plan – one that will likely combine a continuing focus on change and efficiency with a heightened emphasis on meeting evolving customer needs.

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

Conclusion

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

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

Margaret McGinley

Margaret McGinley
Chairperson

23 March, 2006

Chief Executive's Review

Donal Curtin
Chief Executive

Financial Results

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

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

Turnover in 2005 is reported at €752.9m, an increase of €2.7m over the figure for 2004. This small increase must be seen in the context of the disposal of two subsidiary companies in March 2005 – a disposal which effectively reduced turnover in 2005 by €21.3m when compared to 2004. There are two other important points to note about the reported income. Firstly, the budget was achieved despite the fact that an expected increase in postal rates did not materialise. Secondly, against the backdrop of a buoyant economy, the level of increase in income adds further weight to the stark reality that An Post is operating mainly in markets that are growing at a slower rate than overall economic growth.

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

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

Competition and Regulation

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

As part of its preparation for the reduction in the reserved area, An Post applied to ComReg for an increase in postal rates. This application was motivated by the need to generate sufficient revenues to enable An Post meet its objectives, including the provision of universal services to postal users. Despite ongoing interaction with ComReg throughout 2005, a decision on An Post's application was only issued in December and that decision did not meet the Company's needs. In the absence of an appeals mechanism, the Board came to the conclusion that its only recourse was to seek a Judicial Review of ComReg's decision.

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

Change Agreements

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

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

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

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

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

Quality of Service

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

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

Other Significant Developments

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

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

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

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

Facing the Future

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

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

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

Donal Curtin
Chief Executive

23 March, 2006

Management Organisation

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

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

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

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

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

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

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

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

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

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

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

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

Eoin Morgan
Collection and Delivery Director, Age 51

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

Liam O'Sullivan
Mail Processing Director, Age 39

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

Financial Review

Financial Overview

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

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

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

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

Turnover

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

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

Operating Costs

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

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

Disposal of certain subsidiary companies

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

Restructuring Provisions

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

Taxation

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

Capital Expenditure

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

Liquidity

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

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

Strategic Recovery Plan

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

Universal Service Obligation (USO)

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

Requirements of the USO

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

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

(i) one clearance, and

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

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

(a) the clearance, sorting, transport and distribution of postal items up to 2 kgs;

(b) the clearance, sorting, transport and distribution of postal packages up to 20 kgs;

(c) services for registered items;

(d) services for insured items within the State and to and from all countries which, as signatories to the Convention of the Universal Postal Union, declare their willingness to admit such items whether reciprocally or in one direction only.

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

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

(a) the service shall guarantee compliance with the essential requirements;

(b) an identical service shall be offered to users under comparable conditions;

(c) the service shall be made available without any form of discrimination whatsoever, especially without discrimination arising from political, religious or ideological considerations;

(d) the service shall not be interrupted or stopped except in cases of *force majeure*; and

(e) the service shall evolve in response to the technical, economic and social environment and to the needs of users.

Access to Universal Services

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

Tariffs

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

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

[1] From 20 March, 2006.

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

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

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

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

Quality of Service

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

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

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

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

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

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

Customer Complaints

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

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

Universal Service Obligation (USO) continued

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

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

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

Quality of Letter Post Service – National

PRICEWATERHOUSECOOPERS

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

The National Standards Authority of Ireland (NSAI) conducted an independent audit of the study and has issued a Certificate of Conformity, indicating that the study was conducted in accordance with I.S. EN 13850:2002 throughout 2005. The NSAI certificate notes that the study uses a statistical design based on a 1998 real mail study updated from An Post management information systems. The standard requires that a real mail study be carried out at least once every three years. A programme of real mail studies is currently being conducted by An Post, the results of which will be available during 2006. It should also be noted that the statistical profile (including allowed variances) was not fully achieved in 2005 in relation to certain characteristics, e.g. weekend postings. However, these variances do not affect the validity of the results shown over.

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

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

Stamp Issues and Philatelic Publications

The Philatelic Service issued 47 special and commemorative stamps during 2005. The issues covered a wide range of topics and included stamps to mark Cork's distinction as European Capital of Culture, the 150th anniversary of the Dublin-Belfast Railway Line and the UNESCO World Year of Physics. A joint issue with Canada Post, commemorating Biosphere Reserves, was issued in April.

A further 5 stamps, featuring Irish wild flowers, were issued in the current definitive series. The *Irish Wild Flowers* series is the sixth definitive series to be issued by the Post Office since 1922. In addition to the special and commemorative stamp issues, the Philatelic Service also issued a Year Pack and published the annual Year Book which is an informative and richly illustrated record of the year's stamps.

Index to the Financial Statements

Report of the Directors

The directors have pleasure in submitting their twenty second Annual Report together with the audited financial statements of the Group for the year ended 31 December, 2005, in fulfilment of their obligations under the Companies Acts, 1963 to 2005.

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 26 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 46 and in the related notes to the financial statements. The directors do not propose the payment of a dividend for the year.

3. Business Review

The information required by Regulation 37 of the European Communities (Companies: Group Accounts) Regulations, 1992, is included in the information given on pages 14 to 25.

As described therein, the performance of the Group and Company in the current year has been satisfactory with an operating profit of €16.2m compared to an operating loss of €3.0m in 2004. The profit for the financial year was €40.7m and is inclusive of an exceptional profit of €59.3m, arising from the disposal of two subsidiary companies, and an exceptional charge of €40m in respect of business restructuring. Further details of these exceptional items are given in note 4 to the financial statements. Net liabilities of the Group at 31 December, 2005 were €68.5m (2004: €107.4m). This includes a pension liability of €307.8m (2004: €298.5m), see note 25 for further details. 2004 comparative figures above have been restated for FRS 17.

In monitoring performance, the directors and management have regard to a range of key performance indicators (KPIs), including the following:

KPI	Performance in 2005	Performance in 2004
Financial – consolidated results		
Operating profit/(loss) as a percentage of turnover	**2.2%**	(0.4%)
Staff and postmasters' costs as a percentage of turnover	**68.3%**	67.6%
Other operating costs as a percentage of turnover	**29.6%**	32.8%
Net cash inflow from operating activities (millions)	**€40.9m**	€52.3m
Cash at bank and in hand (millions)	**€185.3m**	€89.4m
Staff		
An Post staff – Full Time Equivalent	**8,966**	9,164
Casual staff – Full Time Equivalent	**377**	358
Overtime hours – Full Time Equivalent	**1,953**	1,918
Total – Full Time Equivalent at year end	**11,296**	11,440
Mail business		
Traffic index – core mail growth	**(0.6%)**	(0.2%)
Tariff increase – average for all mail services	**0.0%**	5.2%
Letter post items delivered (millions)	**756.9**	757.2
Letter post items per capita	**183.3**	187.4
Quality of service (national) – next day delivery of letters	**83.5%**	84.5%
Retail business		
Social welfare transactions (millions)	**37.7m**	39.4m
Bill Payment transactions (millions)	**24.8m**	23.3m
TV Licence sales (thousands)	**1,273k**	1,241k
Investment Products – net Fund inflow (millions)	**€173.0m**	€136.5m
Post Office Savings Bank (incl. SSIA) – net Fund inflow (millions)	**€172.7m**	€167.0m
Burglaries and Robberies – number of incidents	**192**	158
Customer Service		
Written complaints	**36,478**	29,091
Telephone enquiries (routine and complaints)	**276,464**	200,779

In accordance with the requirement to analyse the key risks and uncertainties facing the future development of the Group and Company, the following have been identified:

- The threat to the financial viability of the Group posed by failure to fully implement the critical change and cost-saving measures contained in the Company's Strategic Recovery Plan
- The risk that revenue streams will be seriously affected both by competitive threats and by failure to achieve planned price increases
- The risk that quality of service standards will fall below acceptable levels
- The potential for serious industrial relations problems during the implementation of strategic change programmes
- The risk that normal business operations will be severely disrupted by accidental damage to mails processing centres
- The danger of losing, through communications failure, the support of important external interest groups
- The risk to staff safety and cash security occasioned by potential weaknesses in security arrangements.

The directors have analysed these and other risks and appropriate programmes are in place to manage and control these risks. The Corporate Governance Statement on pages 31 to 37 sets out the policies and approach to risks and the related internal control procedures and responsibilities.

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. Paul Kavanagh resigned on 31 May, 2005
Ms. Louise English was appointed on 1 June, 2005
Ms. Cathy Herbert resigned on 16 January, 2006.

The directors and secretary who held office at 31 December, 2005 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 and future regulations of the Safety, Health and Welfare at Work Act, 2005. Health and safety management co-ordinate 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

The policy of An Post is to comply with the requirements of relevant prompt payment of accounts legislation. 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 the 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

23 March, 2006

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 Code of Practice for the Governance of State Bodies and the relevant main and supporting principles of 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 question of designating one of its number, in addition to the Chairperson, to be someone with whom matters of concern may be raised. It continues to believe, however, that both the shareholding structure of the Company and existing Board procedures do not at present lend themselves to such an arrangement.

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 is currently comprised of thirteen directors viz: the Chief Executive, five employee directors, one postmaster director and six non-executive directors. The names of the directors together with their biographical details are set out on pages 12 and 13. The positions of Chairperson and Chief Executive are held by different persons. In view of its status as a wholly State-owned Company and the responsibility of its principal shareholder in the appointment of directors, the Board continues to feel that the criteria applied in considering the independence of the directors of a listed company are not appropriate to An Post's circumstances. The Board, consequently, has not evaluated the independence of its 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 he or she has 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 continually updated 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 implementation, in line with the requirements of the 2003 Combined Code, of a formal process for the annual evaluation of the performance of the Board, its principal Committees, and individual directors remains a matter for consideration by the Board. It has yet to determine whether such a performance evaluation system would, given the Company's ownership structure and the role of its principal shareholder in the appointment of directors, suit its particular circumstances.

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.

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 2005, 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

Twelve Board meetings were held during the year ended 31 December, 2005 and the attendance record of each director is set out in the following table:

Name	Eligible to attend	Attended
Margaret McGinley	12	12
Patrick Compton	12	12
Jerry Condon	12	12
Donal Curtin	12	12
Patrick Davoren	12	11
Thomas Devlin	12	9
Louise English	6	4
Cathy Herbert	12	11
James Hyland	12	10
Paul Kavanagh	6	2
Terry Kelleher	12	11
Alice O'Flynn	12	9
John Quinlivan	12	10
Alan Sloane	12	12
Peter Wyer	12	10

Fourteen meetings of the Remuneration Committee were held during the year ended 31 December, 2005 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	12
Peter Wyer	14	12

Eight meetings of the Audit and Security Committee were held during the year ended 31 December, 2005 and the attendance record of each director, eligible to attend, is set out in the following table:

Name	Eligible to attend	Attended
Patrick Davoren	8	8
James Hyland	8	8
Alice O'Flynn	8	6

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 plans 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. Its Chairman, James Hyland, has recent and relevant financial experience. 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 2005 the Audit and Security Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements for 2004 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 for 2005, confirmations of auditor independence and the proposed audit fee, and approving the terms of engagement for the audit;
- reviewing the key risks to the business and 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.

The Group operates procedures to ensure 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.

Compliance Statement

The directors confirm that the Group has been in compliance with the Code of Practice for the Governance of State Bodies and the relevant main and supporting principles of the 2003 Combined Code 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 is not in place;

- no formal procedure currently exists 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 division of responsibilities between Chairperson and Chief Executive has not been 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 2005.

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

23 March, 2006

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, 2005.

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, 2005 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. A revised manual was submitted to ComReg in 2005.

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, 2005.

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

23 March, 2006

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law, the directors have elected to prepare the Group and parent Company financial statements in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

The Group and parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent Company and of the profit or loss of the Group for that period.

In preparing each of the Group and parent Company 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; and
- 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 2005. They are also responsible 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.

The directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Acts, 1963 to 2005.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

23 March, 2006

Report of the Independent Auditor to the Members of An Post

We have audited the Group and parent Company financial statements (the 'financial statements') of An Post for the year ended 31 December, 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies therein.

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 responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), are set out in the Statement of Directors' Responsibilities on page 39.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland and are properly prepared in accordance with the Companies Acts, 1963 to 2005, and the European Communities (Companies: Group Accounts) Regulations, 1992. We also report to you whether in our opinion: proper books of account have been kept by the Company; at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Company's financial statement is in agreement with the books of account.

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 Corporate Governance statement on pages 31 to 37 reflects the Group's compliance with the nine provisions of the 2003 FRC Combined Code that the Listing Rules of the Irish Stock Exchange specifies for review by auditors and (2) the statement on the system of internal control on pages 33 and 34 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 and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors, the Chairperson's Statement, the Chief Executive's Review, the Financial Review, the Corporate Governance Statement and the Five Year Financial Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

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, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of affairs of the Group and the Company at 31 December, 2005 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 2005 and the European Communities (Companies: Group Accounts) Regulations, 1992.

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, 2005 is in agreement therewith.

In our opinion, the information given in the report of the directors on pages 28 to 30 is consistent with the financial statements.

The balance sheet on page 49 shows an excess of liabilities over assets and, in our opinion, on that basis there did exist at 31 December, 2005 a financial situation which under section 40(1) of the Companies (Amendment) Act 1983 may require the convening of an extraordinary general meeting of the Company.

KPMG

Chartered Accountants
Registered Auditor

1 Stokes Place
St. Stephen's Green
Dublin 2

23 March, 2006

Report of the Independent Auditor 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 38 concerning the Company's compliance, for the year ended 31 December, 2005, 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 38 appropriately reflects the Company's compliance, for the year ended 31 December, 2005, 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.

KPMG

Chartered Accountants

1 Stokes Place
St Stephen's Green
Dublin 2

23 March, 2006

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 under the historical cost convention and in accordance with applicable law and Irish Generally Accepted Accounting Practice which includes compliance with the financial reporting standards of the UK Accounting Standards Board as published by the Institute of Chartered Accountants in Ireland. These have been applied consistently with last year except as explained in note 25, the Group has adopted in full FRS 17 Retirement Benefits in accounting for retirement obligations instead of SSAP 24 Accounting for Pension Costs.

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 9 March, 2006.

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. Amounts held in the performance of these services are included in amounts held in trust in cash at bank and at hand.

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	3-10

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. On disposal of a business, any goodwill is included in determining the profit or loss on sale of the business.

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

The Group provides pensions to its employees under defined benefit superannuation schemes and a defined contribution scheme. It also provides retirement gratuities under normal circumstances to postmasters engaged as agents and to certain non-pensionable employees.

In relation to the defined contribution scheme, contributions are accrued and recognised in operating profit or loss in the period in which they are earned by the relevant employees.

For the defined benefit schemes, the difference between the market value of the schemes' assets and the actuarially assessed present value of the schemes' liabilities, calculated using the projected unit credit method, is disclosed as an asset/liability on the balance sheet, net of deferred tax (to the extent that it is recoverable).

The amount charged to operating profit is the actuarially determined cost of pension benefits promised to employees earned during the year plus any benefit improvements granted to members during the year.

The expected return on the pension scheme's assets during the year and the increase in the scheme's liabilities due to the unwinding of the discount during the year are shown as financing costs in the profit and loss account.

Any difference between the expected return on assets and that actually achieved and any changes to the liabilities due to changes in assumptions or because actual experience during the year was different to that assumed, are recognised as actuarial gains and losses in the statement of total recognised gains and losses.

In relation to the unfunded liability for retirement gratuities, the actuarially determined present value of the liability is recorded in full in the balance sheet and it is increased for the cost of additional benefits earned during the year which is charged to operating profit. The unwinding of the discount on the liability is shown as a financing cost in the profit and loss account. Changes to the liability as a result of changes in measurement assumptions or because actual experience is different to that assumed are considered to be an actuarial gain or loss and are included in the statement of total recognised gains and losses.

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, 2005

	Notes	2005	2004 *(restated for FRS17 note 25)*
		€'000	€'000
Turnover – continuing operations	2	**752,887**	750,193
Operating costs – continuing operations	3	**(734,427)**	(750,499)
Goodwill amortisation	10	**(2,263)**	(2,701)
Operating profit/(loss) – continuing operations		**16,197**	(3,007)
Exceptional items – continuing operations			
- Net profit on sale of subsidiary companies	4	**59,323**	–
- Cost of fundamental restructuring	4	**(40,000)**	–
- Profit on sale of property	4	**–**	5,298
Share of result of joint venture and associate	5	**–**	(50)
Other finance income	19	**5,391**	9,399
Profit on ordinary activities before taxation	6	**40,911**	11,640
Tax on profit on ordinary activities	7	**(201)**	(503)
Profit for the financial year	8/21	**40,710**	11,137

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December, 2005

		2005	2004 *(restated for FRS17 note 25)*
		€'000	€'000
Profit for the financial year		**40,710**	11,137
Actuarial loss on post employment plans recognised	19	**(1,786)**	(110,589)
Total recognised gains and losses		**38,924**	(99,452)
Prior year adjustment – adoption of FRS 17	25	**(282,759)**	
Total recognised gains and losses since last Annual Report		**(243,835)**	

Consolidated Balance Sheet

at 31 December, 2005

	Notes	2005	2004 (restated for FRS17 note 25)
		€'000	€'000
Fixed Assets			
Intangible assets – goodwill	10	12,138	18,393
Tangible assets	11	204,137	229,686
Financial assets	12	–	–
		216,275	248,079
Current Assets			
Debtors	13	79,434	82,291
Cash at bank and in hand	14	185,344	89,415
		264,778	171,706
Creditors: Amounts falling due within one year	15	(148,875)	(153,349)
Net Current Assets		115,903	18,357
Total Assets less Current Liabilities		332,178	266,436
Creditors: Amounts falling due after more than one year	17	(4,073)	(4,175)
Provisions for Liabilities and Charges	18	(88,847)	(71,162)
Net Assets excluding Pension Liability		239,258	191,099
Pension Liability	19	(307,770)	(298,535)
Net Liabilities including Pension Liability		(68,512)	(107,436)
Capital and Reserves			
Called up share capital	20	68,239	68,239
Capital conversion reserve fund	20	877	877
Profit and loss account	21	(137,628)	(176,552)
Shareholders' Deficit	22	(68,512)	(107,436)

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

Company Balance Sheet

at 31 December, 2005

	Notes	2005	2004 *(restated for FRS17 note 25)*
		€'000	€'000
Fixed Assets			
Tangible assets	11	186,046	203,906
Financial assets	12	13,531	13,499
		199,577	217,405
Current Assets			
Debtors	13	83,187	105,553
Cash at bank and in hand	14	165,057	62,916
		248,244	168,469
Creditors: Amounts falling due within one year	15	(189,411)	(126,546)
Net Current Assets		58,833	41,923
Total Assets less Current Liabilities		258,410	259,328
Creditors: Amounts falling due after more than one year	17	(2,985)	(3,058)
Provisions for Liabilities and Charges	18	(88,847)	(71,162)
Net Assets excluding Pension Liability		166,578	185,108
Pension Liability	19	(307,770)	(298,535)
Net Liabilities including Pension Liability		(141,192)	(113,427)
Capital and Reserves			
Called up share capital	20	68,239	68,239
Capital conversion reserve fund	20	877	877
Profit and loss account	21	(210,308)	(182,543)
Shareholders' Deficit	22	(141,192)	(113,427)

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

Consolidated Cash Flow Statement

for the year ended 31 December, 2005

	Notes	2005 €'000	2004 €'000
Net cash inflow from operating activities (below)		**40,888**	52,258
Returns on investments and servicing of finance	23	**(56)**	(46)
Taxation	23	**132**	(2,860)
Capital expenditure	23	**(9,242)**	(6,116)
Disposal of subsidiary undertakings	23	**76,200**	–
Acquisition of subsidiary undertakings	23	**(243)**	(1,838)
Cash inflow before use of liquid resources		**107,679**	41,398
Management of liquid resources	23	**(84,442)**	(46,750)
Increase/(decrease) in cash in the year		**23,237**	(5,352)

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

	2005 €'000	2004 *(restated for FRS17)* €'000
Operating profit/(loss)	**16,197**	(3,007)
Depreciation	**27,067**	33,861
(Profit)/loss on sale of tangible fixed assets other than land and buildings	**(185)**	34
Movement in provision for business restructuring	**(20,815)**	17,915
Non cash pension cost	**12,840**	5,782
Capital grants amortised	**(102)**	(102)
Goodwill amortised	**2,263**	2,701
Interest payable	**56**	46
(Increase) in operating debtors	**(10,673)**	(8,241)
Increase in operating creditors	**14,240**	3,269
Net cash inflow from operating activities	**40,888**	52,258

Reconciliation of net cash flow to movement in net funds

	Notes	2005 €'000	2004 €'000
Increase/(decrease) in cash in the year	24	**23,237**	(5,352)
Cash inflow from change in liquid resources	24	**84,442**	46,750
Change in net funds resulting from cash flows	24	**107,679**	41,398
Cash in subsidiaries sold	24	**(11,750)**	–
Net funds at beginning of year	24	**89,415**	48,017
Net funds at end of year	24	**185,344**	89,415

Notes to the Financial Statements

for the year ended 31 December, 2005

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

	2005 €'000	2004 €'000
The analysis of turnover is as follows:		
Republic of Ireland		
Postage: Letters and parcels	**543,411**	517,251
Postage: Elections and referendum	**691**	11,857
Post offices: Agency, remittance and other services	**135,963**	135,078
Other services	**44,141**	42,190
Interest income	**5,259**	3,429
	729,465	709,805
United Kingdom and Other European		
Other services	**23,422**	40,388
	752,887	750,193

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

	2005 €'000	2004 *(restated for FRS17)* €'000
Staff and postmasters' costs (note 9)	**514,105**	507,227
Other costs:		
Distribution	**62,647**	58,779
Accommodation	**24,648**	25,149
Operational	**72,321**	84,877
Administration	**33,639**	40,606
Depreciation	**27,067**	33,861
	734,427	750,499

4. Exceptional Items

	2005 €'000	2004 €'000
Net profit on sale of subsidiary companies	59,323	–
Cost of fundamental restructuring	(40,000)	–
Profit on sale of property	–	5,298
	19,323	5,298

Net profit on sale of subsidiary companies

On 15 March, 2005 the Group sold its subsidiaries PostTS UK. Limited and An Post Transaction Services S.A. for a consideration of €82,700,000 net of transaction costs. This included the repayment of amounts owed to An Post and other Group companies of €16,141,000. €6,500,000 of the consideration is held in escrow pending the resolution of contract warranty issues and has not been included in net proceeds below. No tax payable arose on this transaction.

	2005 €'000
Net proceeds received	76,200
Inter Group loans repaid	(16,141)
Carrying value of assets sold	(736)
Profit on disposal	59,323

The assets sold consisted of:

	€'000
Goodwill	4,024
Fixed Assets	7,052
Debtors	13,530
Creditors	(35,620)
Cash at bank	11,750
Carrying value of assets sold	736

Subsidiaries disposed of during the year contributed €4.6m (2004: €25.9m) to turnover. The consolidated profit and loss account includes profit after tax of €1.3m (2004: €3.7m) in respect of these companies up to the date of sale.

Cost of fundamental restructuring

Agreement has been reached between the Company and its employee representatives on a programme of work practice changes. Implementation of these programmes is expected to take place in the next three years. A charge of €40,000,000 has been made in respect of further fundamental restructuring costs which consist mainly of anticipated voluntary severance and voluntary early retirement costs.

The 2004 exceptional item arose from disposal of land and buildings.

5. Joint Venture and Associate

	2005 €'000	2004 €'000
Share of joint venture's loss before tax	–	(50)
Share of associate's result before tax	–	–
	–	(50)

6. Profit on Ordinary Activities Before Taxation

	2005 €'000	2004 €'000
The profit on ordinary activities before taxation is stated after charging:		
Directors' emoluments		
Fees	213	204
Other emoluments	338	253
Pension contributions	65	60
Auditors' remuneration	287	318
Depreciation	27,067	33,861
Amortisation	2,263	2,701
Operating lease rentals:		
Rental of buildings	7,442	7,892
Other	3,363	3,729
Interest payable on bank facilities repayable within one year and similar charges	56	46
and after crediting:		
Capital grants amortised	102	102

The amounts shown above as directors emoluments include only the amounts paid to the directors in the execution of their duties as directors and the salary of the Chief Executive who is also a director. Other than this, they do not include the salaries of the employee and postmaster directors.

The remuneration package of the Chief Executive, which is included in the amounts shown above as directors' emoluments, was as follows:

	2005 €'000	2004 €'000
Director's fee	13	13
Basic salary	261	241
Non pensionable performance related bonus 2005	32	–
Non pensionable performance related bonus 2004	32	–
Taxable benefits, including the use of a company car	13	12
	351	266
Pension contributions	65	60
	416	326

7. Tax on Profit on Ordinary Activities

	2005 €'000	2004 €'000
Current tax		
Ireland – Capital gains tax	–	373
UK – Corporation tax	201	257
	201	630
UK – Deferred tax asset recognised	–	(127)
	201	503

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

The differences are explained below:

	2005 €'000	2004 *(restated for FRS17)* €'000
Profit on ordinary activities before tax	40,911	11,640
Current tax of 12.5% (2004: 12.5%)	5,114	1,455
Effects of:		
Expenses not deductible	360	550
Capital allowances in excess of depreciation	(883)	(408)
Manufacturing corporation tax relief	(16)	(29)
Income taxed at higher rates	918	409
Adjustment to tax charge in prior periods	–	182
Utilisation of tax losses	(1,266)	(729)
Tax losses not utilised	6,229	459
Profit on asset sales	–	(671)
Capital gains tax payable	–	373
Profit on sale of subsidiaries not taxable	(7,567)	–
Short term timing differences	(2,688)	(961)
Current tax charge	201	630

Given the uncertainty over the existence of future taxable profits, a potential deferred tax asset of €50,649,000 (2004: €46,626,000) has not been recognised in the consolidated balance sheet at 31 December, 2005. This deferred tax asset not recognised comprises a deferred tax asset in relation to the net pension deficit recognised of €38,471,000 (2004: €37,317,000), timing differences on business restructuring, €2,381,000 (2004: €6,583,000), tax losses forward not utilised, €13,245,000 (2004: €7,974,000), offset by timing differences of €3,448,000 (2004: €5,248,000). 2004 comparative figures above have been restated for FRS 17.

8. Profit for the Financial Year

	2005 €'000	2004 (restated for FRS17) €'000
(Loss)/profit after tax in the holding company	(25,979)	5,224
Profit after tax in subsidiary undertakings	66,689	5,963
Share of results after tax in joint venture and associate	–	(50)
	40,710	11,137

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.

9. Staff Numbers and Costs

	2005	2004
The average number of persons working in the Group during the year was as follows:		
Headquarters	557	578
Savings/Remittance services	306	313
Inspection	41	46
Postmen/postwomen	4,426	4,600
Postal sorters	1,238	1,297
Post office clerks	1,068	1,110
Other grades	753	804
Temporary	1,163	1,015
Total An Post employees	9,552	9,763
Subsidiary companies	478	600
Total Group employees	10,030	10,363
Postmasters: Engaged as agents	1,349	1,391

	2005 €'000	2004 (restated for FRS17) €'000
The aggregate payroll costs of these persons were as follows:		
Wages, salaries and postmasters' costs	430,708	433,735
Social welfare costs	27,916	26,438
Other pension costs (note 19)	55,481	47,054
	514,105	507,227

10. Intangible Fixed Assets – Goodwill

GROUP

	Total €'000
Cost	
At 31 December, 2004	28,267
Additions – deferred consideration paid	32
Disposal of subsidiaries (note 4)	(5,858)
At 31 December, 2005	22,441
Amortisation	
At 31 December, 2004	9,874
Disposal of subsidiaries (note 4)	(1,834)
Charged during the year	2,263
At 31 December, 2005	10,303
Net Book Value	
At 31 December, 2005	12,138
At 31 December, 2004	18,393

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, 2004	179,310	26,180	35,372	222,273	463,135
Additions	2,580	–	293	7,380	10,253
Disposals	–	–	(3,362)	(466)	(3,828)
Disposal of subsidiaries (note 4)	(39)	–	–	(13,223)	(13,262)
Exchange differences	–	–	2	36	38
At 31 December, 2005	**181,851**	**26,180**	**32,305**	**216,000**	**456,336**
Accumulated Depreciation					
At 31 December, 2004	31,286	7,547	28,391	166,225	233,449
Charged during year	3,717	642	3,365	19,343	27,067
Provision for impairment (note 18)	–	–	–	1,500	1,500
Eliminated on disposals	–	–	(3,185)	(441)	(3,626)
Disposal of subsidiaries (note 4)	(33)	–	–	(6,177)	(6,210)
Exchange differences	–	–	–	19	19
At 31 December, 2005	**34,970**	**8,189**	**28,571**	**180,469**	**252,199**
Net Book Value					
At 31 December, 2005	**146,881**	**17,991**	**3,734**	**35,531**	**204,137**
At 31 December, 2004	148,024	18,633	6,981	56,048	229,686

11. Tangible Fixed Assets *continued*

COMPANY

	Freehold & long leasehold land & buildings	Interest in GPO	Motor vehicles	Computer & other equipment	Total
	€'000	€'000	€'000	€'000	€'000
Cost					
At 31 December, 2004	159,178	26,180	35,227	199,009	419,594
Additions	2,580	–	219	5,095	7,894
Disposals	–	–	(3,216)	–	(3,216)
At 31 December, 2005	**161,758**	**26,180**	**32,230**	**204,104**	**424,272**
Accumulated Depreciation					
At 31 December, 2004	26,760	7,547	28,387	152,994	215,688
Charged during year	3,332	642	3,330	16,824	24,128
Provision for impairment (note 18)	–	–	–	1,500	1,500
Eliminated on disposal	–	–	(3,090)	–	(3,090)
At 31 December, 2005	**30,092**	**8,189**	**28,627**	**171,318**	**238,226**
Net Book Value					
At 31 December, 2005	**131,666**	**17,991**	**3,603**	**32,786**	**186,046**
At 31 December, 2004	132,418	18,633	6,840	46,015	203,906

GROUP AND COMPANY

The depreciable element of freehold & long leasehold land & buildings amounts to:

Group €155,796,000 (2004: €153,276,000), Company €139,023,000 (2004: €136,464,000).

12. Financial Fixed Assets

	Group		Company	
	2005	2004	**2005**	2004
	€	€	**€**	€
Shares in subsidiary undertakings, at cost	**102**	102	**13,530,777**	13,498,718
Interest in joint venture and associated undertakings	**163**	163	**163**	163
	265	265	**13,530,940**	13,498,881

The movements on financial fixed assets were as follows:

	Group 2005	Group 2004	Company 2005	Company 2004
Shares in subsidiary undertakings				
At beginning of year	**102**	102	**13,498,881**	13,498,881
Additions – deferred consideration paid	**–**	–	**31,896**	–
At end of year	**102**	102	**13,530,777**	13,498,881

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 2005 €'000	Group 2004 €'000	Company 2005 €'000	Company 2004 €'000
Amounts falling due within one year				
Trade debtors	50,562	45,491	39,738	25,973
Amounts owed by subsidiary undertaking not consolidated	512	681	512	681
Amounts owed by other subsidiary undertakings	–	–	1,099	12,670
Amounts owed by associated undertaking	198	189	198	189
Other debtors	4,867	1,333	4,788	336
Deferred tax asset	–	127	–	–
Prepayments and accrued income	23,295	34,470	20,886	30,285
	79,434	82,291	67,221	70,134
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	–	–	15,966	35,419
	79,434	82,291	83,187	105,553

14. Cash at Bank and in Hand

	Group 2005 €'000	Group 2004 €'000	Company 2005 €'000	Company 2004 €'000
Cash at bank	50,377	48,032	30,094	21,537
Cash in hand	194,095	161,177	194,091	161,173
	244,472	209,209	224,185	182,710
Term deposits	224,298	139,856	224,298	139,856
Less: Amounts held in trust	(283,426)	(259,650)	(283,426)	(259,650)
	185,344	89,415	165,057	62,916

15. Creditors: Amounts falling due within one year

	Group 2005 €'000	Group 2004 €'000	Company 2005 €'000	Company 2004 €'000
Trade creditors	43,675	54,375	32,051	31,730
Amounts owed to subsidiary undertakings	–	–	56,442	4,866
Other creditors	4,462	4,140	3,945	3,814
Taxation and social welfare (note 16)	18,395	10,114	17,215	9,911
Accruals	64,399	67,218	61,843	58,752
Deferred income – capital grants (note 17)	102	102	73	73
Deferred postage income	17,842	17,400	17,842	17,400
	148,875	153,349	189,411	126,546

16. Taxation and Social Welfare

	Group		Company	
	2005	2004	**2005**	2004
	€'000	€'000	**€'000**	€'000
Corporation tax	**201**	257	**–**	–
Capital gains tax	**–**	(132)	**–**	(132)
Income tax deducted under PAYE	**9,846**	6,388	**9,661**	6,105
Pay related social insurance	**5,614**	4,126	**5,460**	3,931
Value added tax	**2,512**	(842)	**1,872**	(308)
Professional services withholding tax	**222**	317	**222**	315
	18,395	10,114	**17,215**	9,911

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

	Group		Company	
	2005	2004	**2005**	2004
	€'000	€'000	**€'000**	€'000
Deferred income – capital grants	**4,073**	4,175	**2,985**	3,058
The movements on grants were as follows:				
At beginning of year	**4,277**	4,379	**3,131**	3,204
Amortised to profit and loss account	**(102)**	(102)	**(73)**	(73)
At end of year	**4,175**	4,277	**3,058**	3,131
Transferred to creditors: amounts falling due within one year	**(102)**	(102)	**(73)**	(73)
	4,073	4,175	**2,985**	3,058

18. Provisions for Liabilities and Charges

GROUP AND COMPANY

	2005	2004 *(restated for FRS17)*
	€'000	€'000
Business restructuring	**88,847**	71,162

The movements during the year were as follows:

	Pensions and similar obligations	Business Restructuring	Total
	€'000	€'000	€'000
At beginning of year as previously stated	15,776	71,162	86,938
Prior year adjustment (note 25)	(15,776)	–	(15,776)
At beginning of year restated for FRS 17	–	71,162	71,162
Charge for year (note 4)	–	40,000	40,000
Utilised during year	–	(20,815)	(20,815)
Reclassified as fixed asset impairment (note 11)	–	(1,500)	(1,500)
At end of year	**–**	**88,847**	**88,847**

18. Provisions for Liabilities and Charges *continued*

The provision for business restructuring at 31 December, 2005 includes €69,801,000 (2004: €52,116,000) in relation to business restructuring redundancy costs, and €19,046,000 (2004: €19,046,000) in relation to the introduction of an Employee Share Ownership Plan (ESOP). Business restructuring is anticipated to be completed by 31 December, 2008.

The Labour Court has recommended that retrospection of certain pay awards should be regarded as a liability due to employees, payment of which is contingent on the Company returning to reasonable and sustainable profit and as its financial and commercial circumstances permit. No provision has been made in the financial statements in relation to the payment of retrospection which amounts to approximately €20,000,000 as the directors regard it as a contingent liability due to the uncertainty over the crystallisation of this liability in the future.

19. Pensions and Similar Obligations

The Group has adopted FRS 17 'Retirement Benefits' in full for the year ended 31 December, 2005.

The pension entitlements of employees arise under a number of defined benefit and defined contribution pension schemes, the assets of which are vested in independent trustees appointed by the Company for the sole benefit of employees and their dependents. Annual contributions are based on the advice of a professionally qualified actuary.

The amounts charged during the year to operating costs were as follows:

	2005 €'000	2004 €'000
Defined benefit schemes – current service cost	54,000	45,723
Unfunded retirement benefits – current service cost	850	784
Defined contribution scheme	631	547
	55,481	47,054

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, 2005 using the attained age method which showed that the market value of the schemes' assets was sufficient to cover 99.9% of the accrued liabilities. The principal actuarial assumption was that, over the long term, the annual rate of return on investments would be 2.0% higher than the annual increase in pensionable remuneration. The actuarial valuation of 1 January, 2005 recommended a contribution rate of 14.4% (2004: 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 valuations of the penison schemes used for the purpose of FRS 17 disclosures have been based on the most recent actuarial valuations as identified above and updated by the independent actuaries to 31 December, 2005. 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:

	2005	2004	2003
Valuation method	Projected Unit	Projected Unit	Projected Unit
Discount rate	4.25%	4.85%	5.25%
Inflation rate	2.00%	2.00%	2.00%
Increase to pensions in payment	3.75%	4.00%	4.00%
Pensionable salary increases	3.75%	4.00%	4.00%

The long term expected rates of return on the assets of the pension scheme were:	2005	2004	2003
Equities	7.10%	7.30%	7.75%
Bonds	3.50%	3.80%	4.75%
Other	4.80%	4.30%	5.75%

19. Pensions and Similar Obligations *continued*

The market value of the assets of the defined benefit schemes at 31 December, 2005, 2004 and 2003 were:

	2005 €'000	2004 €'000	2003 €'000
Equities	**1,326,000**	1,039,000	957,000
Bonds	**504,000**	430,000	414,000
Other	**158,000**	177,000	101,000
Total market value of pension schemes' assets	**1,988,000**	1,646,000	1,472,000
Present value of pensions schemes' liabilities	**(2,282,000)**	(1,932,000)	(1,652,000)
Net deficit in pension schemes	**(294,000)**	(286,000)	(180,000)

Movement in deficit during year

	2005 Schemes €'000	2005 Unfunded €'000	2005 Total €'000	2004 Schemes €'000	2004 Unfunded €'000	2004 Total €'000
Deficit in schemes at beginning of year	**(286,000)**	**(12,535)**	**(298,535)**	(180,000)	(11,563)	(191,563)
Current service cost	**(54,000)**	**(850)**	**(54,850)**	(45,723)	(784)	(46,507)
Contributions paid	**41,199**	**811**	**42,010**	39,723	1,002	40,725
Other finance (expense)/income	**6,000**	**(609)**	**5,391**	10,000	(601)	9,399
Actuarial loss	**(1,199)**	**(587)**	**(1,786)**	(110,000)	(589)	(110,589)
Deficit in schemes at end of year	**(294,000)**	**(13,770)**	**(307,770)**	(286,000)	(12,535)	(298,535)

Other Finance Income

	2005 Schemes €'000	2005 Unfunded €'000	2005 Total €'000	2004 Schemes €'000	2004 Unfunded €'000	2004 Total €'000
Interest on schemes' liabilities	**(94,000)**	**(609)**	**(94,609)**	(87,000)	(601)	(87,601)
Expected return on schemes' assets	**100,000**	**–**	**100,000**	97,000	–	97,000
	6,000	**(609)**	**5,391**	10,000	(601)	9,399

The actuarial gains and losses are analysed as follows:

	2005 Schemes €'000	2005 Unfunded €'000	2005 Total €'000	2004 Schemes €'000	2004 Unfunded €'000	2004 Total €'000
Difference between expected and actual return on assets	**257,000**	**–**	**257,000**	85,000	–	85,000
Experience gains and losses on schemes' liabilities	**(2,000)**	**(587)**	**(2,587)**	(65,000)	(589)	(65,589)
Changes in assumptions underlying the present value of schemes' liabilities	**(256,199)**	**–**	**(256,199)**	(130,000)	–	(130,000)
Actuarial loss recognised in statement of total recognised gains and losses	**(1,199)**	**(587)**	**(1,786)**	(110,000)	(589)	(110,589)

19. Pensions and Similar Obligations *continued*

History of actuarial gains and losses

	2005 €'000	2004 €'000	2003 €'000	2002 €'000
Difference between expected and annual return on assets	**257,000**	85,000	45,000	394,000
Expressed as a percentage of schemes' assets	**13%**	5%	3%	(29%)
Experience gains and losses on schemes' liabilities	**(2,000)**	(65,000)	(79,000)	242,000
Expressed as a percentage of schemes' liabilities	**(0%)**	(3%)	(5%)	17%
Total actuarial gains and losses	**(1,199)**	(110,000)	(106,000)	(215,000)
Expressed as a percentage of schemes' liabilities	**(0%)**	(6%)	(6%)	(15%)

20. Share Capital

GROUP AND COMPANY

	2005 €'000	2004 €'000
Authorised:		
80,000,000 Ordinary Shares of €1.25 each	**100,000**	100,000
Allotted, called up and fully paid:		
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 renomalised from €1.269738 to €1.25 per share and an amount of €877,000 was transferred to a capital conversion reserve fund.

21. Profit and Loss Account

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
At beginning of year as previously stated	**106,207**	99,691	**100,216**	99,613
Prior year adjustment (note 25)	**(282,759)**	(176,791)	**(282,759)**	(176,791)
At beginning of year as restated for FRS 17	**(176,552)**	(77,100)	**(182,543)**	(77,178)
Profit/(loss) for the financial year	**40,710**	11,137	**(25,979)**	5,224
Other recognised gains/(losses)	**(1,786)**	(110,589)	**(1,786)**	(110,589)
At end of year	**(137,628)**	(176,552)	**(210,308)**	(182,543)

22. Reconciliation of Shareholders' Funds/(Deficit)

	Group 2005 €'000	Group 2004 €'000	Company 2005 €'000	Company 2004 €'000
At beginning of year as previously stated	175,323	168,807	169,332	168,729
Prior year adjustment (note 25)	(282,759)	(176,791)	(282,759)	(176,791)
At beginning of year as restated for FRS 17	(107,436)	(7,984)	(113,427)	(8,062)
Profit/(loss) for the financial year	40,710	11,137	(25,979)	5,224
Other recognised gains/(losses)	(1,786)	(110,589)	(1,786)	(110,589)
Shareholders' deficit at end of year	(68,512)	(107,436)	(141,192)	(113,427)

23. Gross Cash Flows

	2005 €'000	2004 €'000
Returns on investments and servicing of finance		
Interest paid	(56)	(46)
Taxation		
Tax refunded/(paid)	132	(2,860)
Capital expenditure		
Purchase of tangible fixed assets	(9,629)	(11,340)
Disposal of tangible fixed assets	387	5,224
	(9,242)	(6,116)
Disposal of subsidiary undertakings	76,200	–
Acquisition of subsidiary undertakings	(243)	(1,838)
Management of liquid resources (note a)		
Increase in term deposits	(84,442)	(46,750)

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

24. Analysis of Net Funds

	At beginning of year €'000	Subsidiaries Sold €'000	Cash flows €'000	At end of year €'000
Cash at bank and in hand	209,209	(11,750)	47,013	244,472
Amounts held in trust	(259,650)	–	(23,776)	(283,426)
			23,237	
Term deposits	139,856	–	84,442	224,298
Total	89,415	(11,750)	107,679	185,344

25. Prior Year Adjustment

The Group adopted the reporting requirements of FRS 17 Retirement Benefits in its primary financial statements from 1 January, 2005. The financial information for the year ended 31 December, 2004 which was originally prepared under the accounting requirements of SSAP 24 Accounting for Pension Costs, has been restated following the adoption of FRS 17. The main impact of the change in accounting policy was to record on the balance sheet the full amount of the deficit in the defined benefit pension schemes measured in accordance with FRS 17.

In addition, the amounts provided with respect to retirement gratuities provided to postmasters engaged as agents and to certain non-pensionable staff have been measured in accordance with FRS 17 and reclassified as a pension liability. This liability was previously recognised in Provisions for Liabilities and Charges (note 18).

The impact on the 2004 results and closing balance sheet as originally reported is set out below:

	As reported under SSAP 24 €'000	Prior year adjustment €'000	As restated for FRS 17 €'000
Profit and Loss Account			
Turnover	750,193	–	750,193
Operating costs	(745,721)	(4,778)	(750,499)
Goodwill amortisation	(2,701)	–	(2,701)
Operating profit/(loss)	1,771	(4,778)	(3,007)
Exceptional item	5,298	–	5,298
Share of losses of joint venture and associate	(50)	–	(50)
Other finance income	–	9,399	9,399
Profit on ordinary activities before taxation	7,019	4,621	11,640
Tax on profit on ordinary activities	(503)	–	(503)
Profit for the financial year	6,516	4,621	11,137
Statement of Total Recognised Gains & Losses			
Profit for the year	6,516	4,621	11,137
Actuarial loss	–	(110,589)	(110,589)
Total recognised gains and losses	6,516	(105,968)	(99,452)
Balance Sheet			
Total assets less current liabilities	266,436	–	266,436
Creditors: Amounts falling due after more than one year	(4,175)	–	(4,175)
Provisions for liabilities and charges	(86,938)	15,776	(71,162)
Pension liability	–	(298,535)	(298,535)
Net assets/(liabilities) including pension liability	175,323	(282,759)	(107,436)
Shareholders' Funds/(Deficit)	175,323	(282,759)	(107,436)

26. Subsidiary and Associated Undertakings

Name	Nature of Business	% Holding	Registered Office
Subsidiary undertakings held directly by the Company			
An Post National Lottery Company (note 29)	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, database services and business directories	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	Dormant	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, 1076 AZ Amsterdam, The Netherlands.
An Post GeoDirectory Limited	Database services	100%	General Post Office, O'Connell Street, Dublin 1.
Subsidiary undertakings held indirectly through a subsidiary undertaking			
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.
Air Business Limited	Distribution	100%	4, The Merlin Centre, Acrewood Way, St. Albans Herts, U.K.

26. Subsidiary and Associated Undertakings *continued*

Name	Nature of Business	% Holding	Registered Office
Associated undertaking held directly by the Company			
The Prize Bond Company Limited	Administration of the Prize Bond Scheme	50%	General Post Office, O'Connell Street, Dublin 1.
Joint Venture			
Wizard Direct Stationery Company Limited	Dormant	50%	General Post Office O'Connell Street, Dublin 1.

Air Business Limited is incorporated in and operates 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.

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.

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; Waldermar 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.

27. Lease Commitments

	2005 Land & buildings €'000	**2005 Other €'000**	**2005 Total €'000**	2004 Land & buildings €'000	2004 Other €'000	2004 Total €'000
Annual commitments under non-cancellable operating leases were as follows:						
Group						
Expiring within one year	**1,227**	**496**	**1,723**	733	821	1,554
Expiring after one year and before five years	**594**	**3,375**	**3,969**	1,071	2,066	3,137
Expiring after five years	**5,298**	**–**	**5,298**	5,305	97	5,402
	7,119	**3,871**	**10,990**	7,109	2,984	10,093
Company						
Expiring within one year	**636**	**432**	**1,068**	496	805	1,301
Expiring after one year and before five years	**506**	**3,250**	**3,756**	608	1,861	2,469
Expiring after five years	**4,844**	**–**	**4,844**	4,801	97	4,898
	5,986	**3,682**	**9,668**	5,905	2,763	8,668

Lease commitments of the Company include commitments to subsidiary undertakings.

There were no material finance lease commitments either at 31 December, 2005 or which were due to commence after that date.

28. Capital Commitments

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

	Group		Company	
	2005	2004	**2005**	2004
	€'000	€'000	**€'000**	€'000
Contracted for	**3,501**	2,263	**3,501**	2,263
Authorised but not contracted for	**10,464**	491	**10,464**	491
	13,965	2,754	**13,965**	2,754

29. 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 €5,331,000 (2004: €6,334,000) in respect of services provided to An Post National Lottery Company. These amounts are inclusive of a management fee of €2,966,000 (2004: €2,977,000) 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 €5,763,000 for the year ended 31 December, 2005 (2004: €4,725,000).

The amount owed by An Post National Lottery Company to the Company was €512,000 at 31 December, 2005 (2004: €681,000).

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 €1,720,000 for the year ended 31 December, 2005 (2004: €1,685,000). The amount owed by The Prize Bond Company Limited to the Company was €198,000 at 31 December, 2005 (2004: €189,000).

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.

30. Contingencies

GROUP AND COMPANY

There were no contingent liabilities or guarantees at 31 December, 2005 in respect of which material losses are expected other than as disclosed elsewhere in the financial statements.

31. Board Approval

The financial statements were approved by the Board of Directors on 23 March, 2006.

Five Year Financial Summary

CONSOLIDATED PROFIT & LOSS ACCOUNT

	2005 €'000	2004* €'000	2003* €'000	2002* €'000	2001* €'000
Turnover	**752,887**	750,193	709,209	683,716	624,924
Operating costs	**(736,690)**	(748,422)	(752,100)	(701,112)	(631,611)
Operating profit/(loss)	**16,197**	1,771	(42,891)	(17,396)	(6,687)
Exceptional items	**19,323**	5,298	13,310	(52,500)	–
Share of results of joint venture and associate	**–**	(50)	(113)	(376)	–
Other finance income	**5,391**	–	–	–	–
Profit/(loss) before taxation	**40,911**	7,019	(29,694)	(70,272)	(6,687)

CONSOLIDATED BALANCE SHEET

	2005 €'000	2004* €'000	2003* €'000	2002* €'000	2001* €'000
Fixed assets	**216,275**	248,079	279,513	301,305	248,241
Net current assets/(liabilities)	**115,903**	18,357	(38,410)	(25,606)	48,788
Other liabilities	**(92,920)**	(91,113)	(72,296)	(87,541)	(38,609)
Net assets excluding pension liability	**239,258**	175,323	168,807	188,158	258,420
Pension liability	**(307,770)**				
Net liabilities including pension liability	**(68,512)**				
Capital and reserves	**(68,512)**	175,323	168,807	188,158	258,627
Minority interests – equity	**–**	–	–	–	(207)
	(68,512)	175,323	168,807	188,158	258,420

RATIOS

	2005	2004*	2003*	2002*	2001*
Operating profit/(loss) as % of turnover	**2.15%**	0.24%	(6.05%)	(2.5%)	(1.07%)
Operating profit/(loss) as % of average shareholders' funds before pension liability	**7.81%**	1.03%	(24.03%)	(7.79%)	(2.56%)
Staff and postmasters' costs as % of operating costs	**69.79%**	67.13%	67.00%	68.59%	69.75%
Current assets as % of current liabilities	**177.85%**	111.97%	75.96%	83.03%	131.04%

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

Operational Statistics

MAIL

	2005	2004	2003	2002	2001
Traffic index (2000 = 100) (note 1)	**106.3**	106.9	107.1	106.8	104.8
Tariff index (2000 = 100) (note 2)	**114.3**	114.3	108.6	103.4	100.0
Tariff index adjusted for inflation (2000 = 100) (note 2)	**96.4**	98.5	95.6	94.2	95.3
Letter Post items delivered (millions)	**756.9**	757.2	742.3	790.6	779.8
Letter Post items per capita	**183.3**	187.4	186.6	201.8	203.1

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.

SYSTEM SIZE

	2005	2004	2003	2002	2001
No. of delivery points (millions)	**1.875**	1.765	1.685	1.598	1.482
Post office network:					
Company post offices	**88**	90	92	96	96
Sub-post offices	**1,321**	1,365	1,417	1,584	1,687
Postal agencies	**161**	159	149	86	–
	1,570	1,614	1,658	1,766	1,783
Other Company premises	**63**	62	62	58	54
No. of motor vehicles	**2,905**	2,908	3,011	2,917	2,901

PERSONNEL (Staff numbers at 31 December)

	2005	2004	2003	2002	2001
Headquarters	**562**	567	588	675	626
Savings/Remittance services	**295**	299	327	340	357
Inspection	**37**	45	47	49	51
Postmen/postwomen	**4,326**	4,520	4,680	4,722	4,427
Postal sorters	**1,197**	1,313	1,281	1,215	1,104
Post office clerks	**1,042**	1,094	1,126	1,145	1,136
Other grades	**708**	790	817	803	744
Temporary	**1,298**	1,019	1,010	864	1,085
Total An Post staff	**9,465**	9,647	9,876	9,813	9,530
Total An Post staff (FTE)[1]	**8,966**	9,164	9,411	9,416	n/a
Casual staff (FTE)[2]	**377**	358	386	349	n/a
Overtime hours (FTE)[3]	**1,953**	1,918	2,121	2,813	n/a
Grand Total (FTE)	**11,296**	11,440	11,918	12,578	n/a
Subsidiary companies	**492**	577	622	577	309
Postmasters: Engaged as agents	**1,321**	1,365	1,417	1,584	1,687

1 FTE = Fulltime equivalent

2 Weekly average

3 Overtime hours converted to basic hours in FTE

n/a Data not available pre-2002

Operational Statistics continued

	2005 €m	2004 €m	2003 €m	2002 €m	2001 €m
VALUE OF SAVINGS SERVICES FUNDS AT 31 DECEMBER (note 1)	**5,668**	5,311	5,004	4,794	4,806
COUNTERS: Business Value					
Remittance Services					
Postal money orders issued	**422**	496	564	619	666
Post Office Savings Services					
Savings bank deposits	**811**	812	792	746	624
Savings bank withdrawals	**638**	645	621	590	498
Savings certificates issued	**400**	417	347	217	211
Savings certificates repaid	**725**	881	757	611	648
Instalment savings issued	**78**	72	67	63	68
Instalment savings repaid	**104**	131	134	147	136
Savings bonds issued	**475**	505	469	263	233
Savings bonds repaid	**362**	329	360	332	461
Pensions, Allowances and Social Welfare Benefits					
Child benefits paid	**1,116**	1,101	1,101	1,016	707
Unemployment benefits paid	**1,075**	1,069	1,042	990	847
Old age pensions paid	**1,225**	1,195	1,140	1,083	983
Widows/orphans pensions paid	**865**	815	766	726	652
Other allowances	**2,341**	2,228	2,167	2,060	1,828
Other					
Miscellaneous	**3,325**	2,969	2,316	1,679	1,275

	2005 000's	2004 000's	2003 000's	2002 000's	2001 000's
BILLPAY VOLUMES	**24,777**	23,329	21,238	17,533	13,730
TV LICENCE SALES	**1,273**	1,241	1,176	1,167	1,097

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.

An Post

General Post Office
O'Connell Street
Dublin 1
Ireland