POSTCOMM

POSTAL MARKET FACTSHEET

February 2006

Contents:

1. Market Size, Growth, and share

- In 2004/05:
  - the total addressed market accounted for 24bn items in 2004/05. The licensed area (0-350g, <£1) accounts for approximately 72% of the addressed mail market; and
  - total mail volumes in the licensed area grew by 1.5% in 2004/05 to 20.3bn items.

- In 2005/06:
  - mail volumes increased in Q3;
  - Royal Mail’s overall year on year volume growth (Dec 04 to Dec 05) stands at 0.7%;
  - in December 2005, Royal Mail’s operational volumes were up 3.2% compared to December 2004; and
  - Royal Mail accounts for over **97%** of the regulated market.

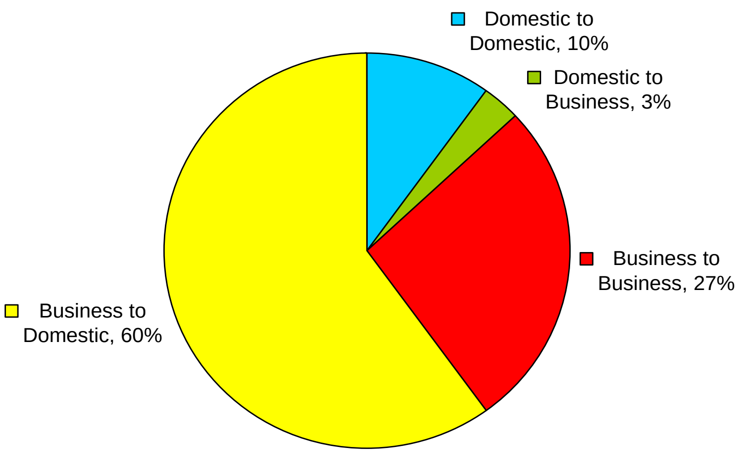
2. Letters Market (0-350g <£1) by volume (2005/06 Q2)

Letters Market 0-350g <£1	Market share
Royal Mail	97.2%
Alternative Providers	1.6%
Customer Direct Access (CDA)	1.2%
Total	100%

Source: Postcomm estimates[1]

[1] Access volumes are assumed to be ½ an item for both Access users and Royal Mail.

3. Mail Flows (2004/05)



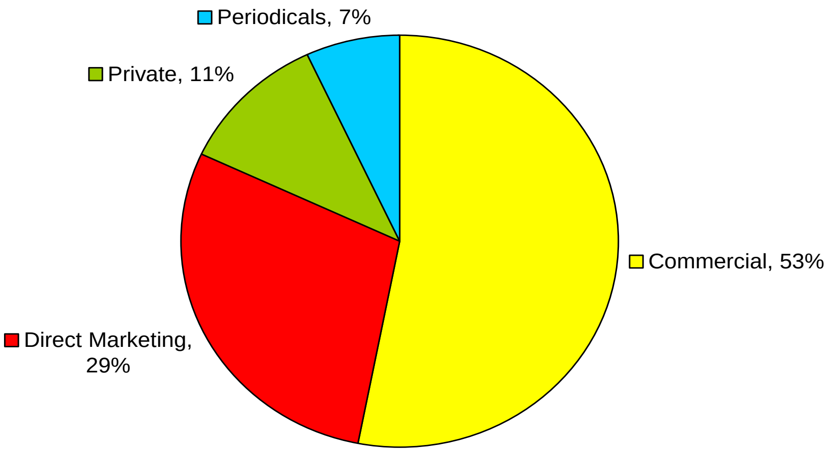
Source: Royal Mail

- Business customers send around **80%** of all addressed mail. **70%** of addressed mail is received by domestic customers.

- An average household spends around **50p** per week on postal services[2].

[2] "Family spending". A report on the 2003-4 Expenditure and Food Survey, Office for National Statistics.

4. Market segmentation by volume



Source: Triangle estimates “Triangle World Mail Review 2002 - UK

- Commercial mail (utility bills, statements etc) accounts for 53% of total mail volumes, followed by direct marketing (29%).

5. Scale and nature of competition

- Long term licences now issued to **14** alternative providers, in addition to the 15 year long term licence granted to Royal Mail in 2001. 6 alternative providers were granted licences in 2005. One company, Express, exited the market in November 2005.

- Competitive entry has gained momentum. Alternative providers accounted for a total of **193m** items in 2004/05.

  End to end (E2E) services

  - E2E volumes for alternative providers were **106m** in 2004/05, a rise of **85.9%**. This has mainly been business to business services (B2B).

  - DHL and DX account for most of these volumes. For example, DHL's Citispeed service offers UK wide collection, but delivery is within a specific range of postcodes which has expanded to major urban areas. Deliveries are made next day, within 2 days or 3-5 days depending on customer requirement.

  - DX is now using "Mail Boxes Etc" to provide drop boxes for collections.

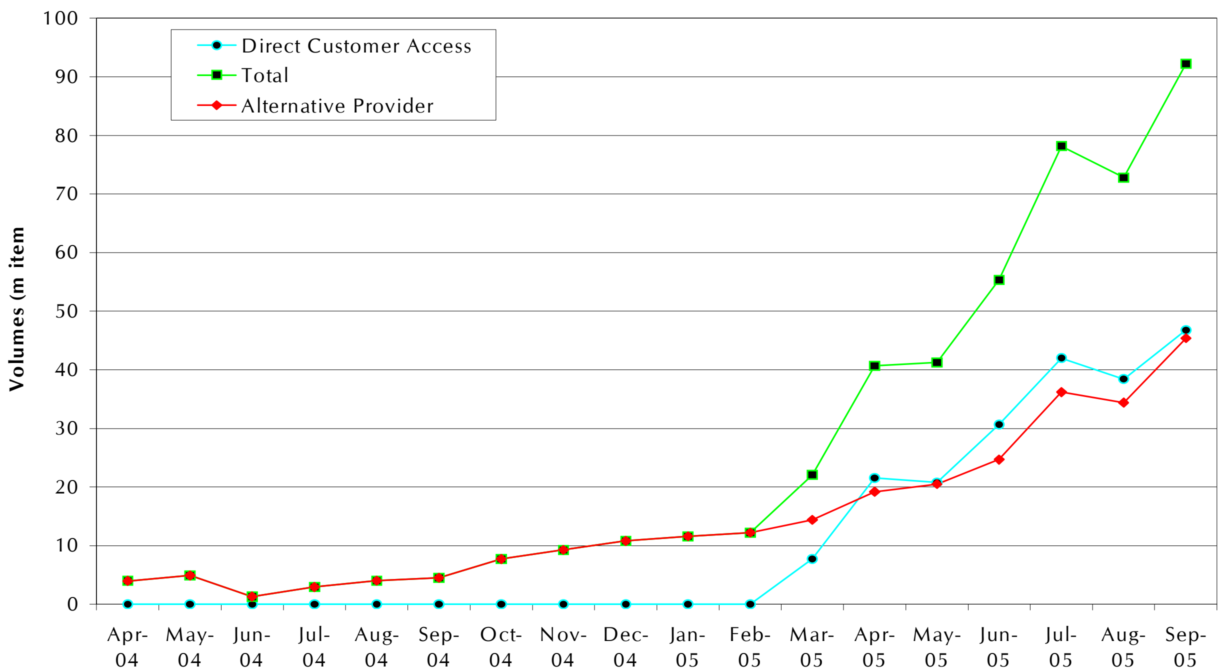
  - Citipost AMP (formerly AMP), provide a collection and delivery service in particular cities for B2B.

Downstream access

- Total access volumes (direct customer access (DCA) and alternative provider access) accounted for approx. **381m** items **(£51m by revenue**) by the half year 2005/06.

- Some 52.3% of this volume was DCA (several licensed alternative providers do the trunking for these customers).

- Access volumes now account for around **121m items per month** (as at Dec. 2005), with DCA and alternative provider access accounting for almost equal share of this amount (with a number of licensed operators do the trunking for direct access customer).



Source: Royal Mail

6. Access agreements with Royal Mail

- TNT Mail UK, UK Mail, and DHL account for the bulk of alternative provider's access volumes (note: a number of licensed operators do the trunking for DCAs as well). UK Mail is now beginning to move into consolidating mail for smaller mailers.

7. Access Prices

Current Zonal access prices to 31st March 2006

Zone	Acess 1400 0-60g	Access 700 CBC 0-100g	Access 120 CBC 0-100g	Access 120 OCR 0-100g	Access 120 Letters 0-60g	Access 120 Flats & Packets 0-60g	Access Walksort 0-60g
1. Commercial	11.25	10.95	11.00	11.10	11.73	12.35	9.85
2. High density	12.65	12.35	12.40	12.50	13.13	13.75	11.25
3. Medium density	13.15	12.85	12.90	13.00	13.63	14.25	11.75
4. Low density	15.25	14.95	15.00	15.10	15.73	16.35	13.85
5. Very low density	21.65	21.35	21.40	21.50	22.13	22.75	20.25

Source: Royal Mail

Zone 3 “medium density” indicative access prices from April 2006 (currently being negotiated)

Service	Price
Access 1400 0-60g	13.40p
Access 120-Letters 0-60g	13.89p
Access 120 Flat	14.52p
Access 120 cbc	13.15
Access 700 cbc	13.09
Access walksort 0-60g	11.97

Source: Postcomm

8. Mailing houses

- Mailing houses are increasingly seeing opportunities from access to develop integrated mailing solutions for customers.

- Regional Mail Services (RMS) in Northern Ireland already has a DCA agreement with Royal Mail.

- Mail Marketing International (MMI) is marketing software (under the brand “ONEPOST”) which allows customers to compare operators & prices for different mailing profiles.

- Intercity Communications (licence granted in Aug 05), and Complete Management Services (Oct 05), have begun local B2B mail services via their own networks, and currently pass consolidated mail to Royal Mail (i.e. stamped or franked) for customers’ convenience.

- SMS provides a ‘disguised mail’ service– collection and re-enveloping of credit cards etc before passing to Royal Mail for delivery.

9. Innovation

- Customers: Many argue to date there has been little or no innovation in the market. They want better tracking of mail, later collection times and time-certain delivery.

- Alternative providers: Some argue there has been innovation through more tracking services, more flexibility of collection times, ‘access’ generally, greater data quality/information provision, security features, and new pricing structures.

- Development of new software by MMI now allows customers to compare operators & prices for different mailing profiles. This is marketed under the brand ONEPOST.

10. 2005 Business customer survey

The main findings of the 2005 business customer survey were as follows:

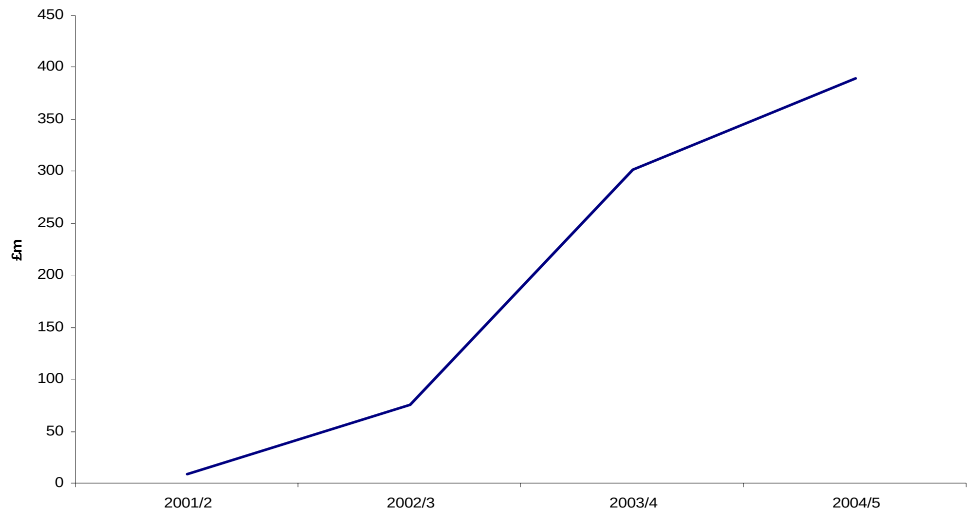
- Over **80%**[3] support competition.
- **52%** expecting competition to reduce mail prices; improve choice (75%); & improve the quality of Royal Mail's own service (66%).
- **72%** believed there will not be enough competitive pressure on Royal Mail to control its prices without Postcomm intervention.
- Mail volumes expected to rise over the next five years.
- **8%** reported using an alternative provider.
- **25%** identified 1 January 2006 as the date on which the market will be open to competition.
- Business customers are poorly informed about the alternative providers active in the market.
- **48%** of Top Segment reported having been contacted by alternative providers, compared to 40% in 2004.
- **64%** indicated a willingness to switch compared to **30%** in 2004.
- Of those who have switched some of their mail away from Royal Mail, some **25%** said they plan to switch more, only **12%** plan to move back to Royal Mail.
- **50%** who had not switched said the primary reason was that being "happy with Royal Mail".
- Business customers continue to prefer end-to-end more than access.

[3] Figures underlined are results from the survey of 300 business customers. In the larger survey, 1,200 companies were interviewed.

11. Royal Mail's financial performance

- Royal Mail's operating profitability has continued to improve since 2002/03. The financeability of the universal service has become increasingly healthy.

Royal Mail profit from operations at 2000/01 prices



Source: Postcomm

- Royal Mail improved its financial performance in 2004/05, making a profit of £452m (from operations) from its regulated business. This has been largely driven by high market share and price rises afforded to Royal Mail under its current price control.

12. Royal Mail's Quality of Service performance

- A number of large customers say Royal Mail is becoming more responsive, and has improved communication through better account management.

- Royal Mail's quality of service performance improved in 2004/05, after poor levels of performance in 2003/04. However, whilst performance improved in 2004/05 for all products (except first class Response Services), the only products to achieve their licence targets were Mailsort 1, Mailsort 3, Presstream 2 and second class stamped and metered mail.

- Recent quality of service data indicates that most products and services are on course to achieve their targets by the end of the year if they continue to achieve the average of their performance levels so far. 2nd Class PPI, 1st and 2nd Class Response Services and Special Delivery must perform better if they are to achieve their targets.

Royal Mail Quality of Service performance 2005/06

Standard	**Target March 2006 (%)**	**Cumulative Result (%) (from 22/03/05 to 04/12/05)** [4]	**Cumulative difference against target (%)**
1st Class Stamped & Meter All	**93.0**	93.8	0.8
2nd Class Stamped & Meter All	**98.5**	98.7	0.2
1st Class Postage Paid Impression	**91.1**	91.8	0.7
2nd Class Postage Paid Impression	**97.4**	97.2	-0.2
Mailsort 1	**91.5**	93.6	2.1
Mailsort 2	**97.5**	98.6	1.1
Mailsort 3	**97.5**	99.4	1.9

Source: Postcomm

[4] Period Performance figures are subject to adjustment by Royal Mail and consequently cumulative figures may vary slightly.

13. Indicative Price changes from April 2006

Key points are:

- 1st Class stamp to rise by 2p to 32p
- 2nd class stamp prices to rise by 2p to 23p
- Channel pricing: 1st class franked mail and items carrying a printed postage impression (PPI) will continue to get a 1p discount for items up to 60g compared to the price of stamped mail. For the first time, this discount will also apply to 2nd class franked and PPI mail.
- Note: 210,000 customers use franking machines, 28,000 are PPI customers.

14. Development of Competition in Europe

Country	Competitors	Brief description (business model, turnover)	Market share of comp. (2005)
Austria	Redmail (TNT), Feibra (Austria Post)	27m items of addressed mail (items of correspondence, printed matter, newspapers), turnover 55m euro	1.6%
		Un-addressed market shares: Austria Post 80%, its subsidiary Feibra 18%, Redmail 2%	
Belgium	BD, Very Small	Several local distributors in local addressed mail; some in catalogues/magazines; Ciblex, BD addressed mail; DHL, Spring cross border mail	<2%
		Un-addressed market shares: Belgische Distributiedienst (BD) 81%, the remainder for La Poste / De Post and Deltamedia (La Poste / De Post	
Denmark	Bladkompagnet, Forbrugerkontakt	100 mln magazines, 135 employees, 6,000/7,000 deliverers through 35 subcontractors, 7 times a week delivery to 300,000 households	3-5%
		Delivery of un-addressed items, entire Denmark, two times a week, market share of USP between 50-60%	

Finland	Local newspaper, delivery organisations, Suomen, Suoramainonta Oy, Letterbox Distribution, Finland Oy	Local newspaper delivery organisations in total deliver a large part of total newspapers delivered.	0.5-1%(newsp. Excl.)
		Un-addressed mail, 450 million (volume), 7,000 deliverers, 2 deliveries a week, nationwide service, applied for a licence to provide addressed mail delivery but never entered due to licence conditions.	
		Around 200 million, 5,000 deliverers, delivery once a week, almost nationwide delivery due to subcontractors	
		Un-addressed mail market share of USP is between 40 and 50%	
France	Adrexo	7.5 bln items un-addressed mail (catalogues, magazines); 25 mln items of addressed mail, turnover of circa 200 million euro, 26,000 employees, 220 distribution centres; delivery at least three times per week in urban areas and one-two times per week in rural areas; strong position in un-addressed and parcels. Many companies active in upstream activities (mail consolidation), including subsidiaries of La Poste and DPWN (KOBA, recent takeover)	<2%

Germany	PIN AG EP Europost (TNT) Various city mail operators, regional publishers, such as WAZ, with network and DPS	140-170 mln items of addressed mail, turnover 35 mln euro, 1000 employees, 3 distribution centres, delivery of addressed items in three German cities (Berlin, Köln and Leipzig) items of addressed mail unknown, turnover consolidated in TNT figures, active in B2C distribution, say to be say in entire Germany, coverage 75%, delivery via distribution network of publishers, use of network of 150 city mail operators, and Hermes network Entry in postal market mainly local or regional, co-delivery via publishers network	4%
Italy	Rinaldi Espresso, (TNT), Romana Recapiti	Several small operators active in direct mail, items of correspondence above 100 gr. and un-addressed mail in the main cities and local villages, Rinaldi is a large company, owned by TNT, and active in Milano and Roma. Romana Recapiti is a similar operator, but smaller. No existence of integrated service of city operators	1-2%

N'lands	Sandd, Selekt Mail (DPWN), Various	130 mln items of addressed mail annually (magazines, periodicals, direct mail), growing fast; turnover 32 mln euro (2004), 650 employees (excl. delivery), 6500 deliverers, 90 distribution centres, 100% nationwide coverage, 2-3 delivery rounds/ week; delivery of pre-sorted bulk mail handed over by large customers Ca. 100 mln items of addressed mail annually (magazines, direct mail), growing fast; turnover ? mln euro, 5000 deliverers, 120 distribution centres, distribution of addressed mail with a minimum volume of 5000 items, 100% nationwide coverage, 2 delivery rounds/ week MailMerge and Royal Mail deliver printed matter to P.O. Boxes, Royal Mail inbound UK; city delivery services, Swiss Post (intern. mail)	5%
Spain	Unipost (DPWN), Several local operators	Network of 12 private operators active in intra-city letter mail, magazines, direct mail, collaboration with other local operators, 500 million items claimed currently, alternative local operators have less than 200 million items combined Un-addressed mail competition mainly local, market share unknown	7-11%

Sweden	City Mall	216 min items of addressed mail annually (letters, magazines, periodicals, direct mail, outbound cross-border) in 2003, active in urban	7%

Source: Ecorys “Development of competition in European postal MARKT/2004/03/C” July 2005