

Businesspost[®]

Group plc

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BUSINESS POST GROUP PLC PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2008

Highlights

- Group revenues up 10% to £359m (2007: £326m)
- Group revenues excluding Federal Express up 16.5%
- UK Mail revenues up 52% to £137m (2007: £90m)
- Profit before tax up 45% to £14.2m (2007: £9.8m)
- Basic earnings per share up 41% to 18.0p (2007: 12.8p)
- Final dividend of 10.8p per share (2007: 10.8p)

Guy Buswell, Chief Executive, said:

“We have made good progress during the period which has resulted in a much improved financial performance. Our strategy of creating an integrated offering is well developed and starting to deliver benefits across the Group. Our focus remains to drive the recovery of our parcels business and to continue the strong growth in our mail business where we are seeking to broaden our product portfolio to attract a significantly wider range of mail users.

“The start of the new financial year has been encouraging with trading in the early weeks in line with management’s expectations.”

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INTRODUCTION

The Group has made good progress in the year. UK Mail has again grown strongly, with a number of significant contract wins. The recovery in our Parcels business has continued and we are confident of maintaining the momentum we have seen this year. Our Specialist Services courier business has undergone a year of change as the new management team has re-focused the business. New contract wins mean that Courier is back on track for improved performance.

We have achieved a significantly improved financial performance compared to last year. Group revenues grew by 10.1% to £358.6m and profit before tax at £14.2m was 44.9% up on last year. This profit increase was achieved despite the termination of the Federal Express contract in April 2007.

STRATEGY

Our aim is for Business Post to become the UK's leading independent integrated postal group. In support of this objective we have developed a more integrated management approach, a much greater degree of customer orientation and continued product innovation, all of which are serving to reinforce our market leadership and differentiated positioning. Our sales, marketing and customer relations teams are now fully integrated across our Parcels, Mail and Specialist businesses. This integration has started to deliver benefits in the form of revenues and profits as we build on our strong customer relationships to create new opportunities across our business.

RESULTS

The results can be summarised as follows:

	2008 £m	Year to 31 March	
		2007 £m	Inc/(Dec) %
Group revenue	358.6	325.6	10.1%
Operating profit (before exceptional items)	14.5	12.1	19.8%
Exceptional items	-	(1.7)	-
Operating profit	14.5	10.4	39.4%
Net interest payable	(0.3)	(0.6)	50.0%
Profit before tax	14.2	9.8	44.9%
Taxation	(4.5)	(2.9)	(55.2)%
Profit after tax	9.7	6.9	40.6%
Basic earnings per share	18.0p	12.8p	40.6%

Revenue and operating profit are analysed as follows:

	Revenue			Operating Profit		
	2008 £m	2007 £m	Inc/ (Dec) %	2008 £m	2007* £m	Inc/ (Dec) %
Parcels	179.8	193.8	(7.2)%	15.4	15.1	2.0%
Mail	137.3	90.3	52.0%	10.0	6.4	56.3%
Specialist services	41.5	41.5	-	1.3	2.0	(35.0)%
Total	<u>358.6</u>	<u>325.6</u>	<u>10.1%</u>	<u>26.7</u>	<u>23.5</u>	<u>13.6%</u>
Central costs				<u>(12.2)</u>	<u>(11.4)</u>	<u>(7.0)%</u>
Total operating profit (before exceptional items)				<u>14.5</u>	<u>12.1</u>	<u>19.8%</u>

* *before exceptional items*

Parcels

Revenues in Parcels, which comprises the Group's business-to-business, business-to-consumer and international parcel delivery service, were up 2% for the year on a like-for-like basis (excluding the revenues from the terminated Federal Express contract). Reported revenues were 7.2% lower at £179.8m (2007: £193.8m).

Parcel's operating profit increased by 2% to £15.4m. Parcel's operating margin increased by 0.8% to 8.6%.

Business-to-business, which represents approximately 80% of our Parcels revenues, has achieved good growth for the year with revenues up some 6%. This strong performance has been driven by continued high levels of customer service and innovative product offerings.

Business-to-consumer revenues, which represent approximately 15% of our Parcels revenues, were down some 7% in the period. The first three quarters of the year were particularly challenging in business-to-consumer, reflecting a more competitive market. However, we have seen an improved trend of performance in the fourth quarter. We continue to focus on the attractive opportunities that exist for us in this market, particularly with customers that require a premium service.

We have made substantial progress with our plans to improve the efficiency and effectiveness of our Parcels operation – leading to the reported increase in operating margin. In particular we have further improved the efficiency of our overnight linehaul operation and implemented new technology to improve the effectiveness of our deliveries and our customer service.

In December 2007 we appointed a new Network Operations Director to help drive the necessary changes through the division. Following his appointment we have restructured Parcels' management team to increase the focus on improving operational performance and customer service levels. We have also reviewed our customer service operation and established new specialist customer care centres to improve customer support and reduce operating costs.

There is still more to do in our Parcels business to achieve our margin and efficiency targets.

Mail

UK Mail showed further strong growth. We have enjoyed continued success in attracting new business, as a result of which, revenues rose 52% to £137.3m (2007: £90.3m).

UK Mail operating profits were up 56% to £10.0m (2007: £6.4m), reflecting the strong revenue growth combined with a slight increase in the operating margin to 7.3% (2007: 7.1%).

On 10th May 2008, UK Mail reached the fourth anniversary of its trading. It has now developed into the leading player in the 'Downstream Access' market, with a market share, by volume collected, of some 11%.

We have achieved this growth through providing industry leading customer service levels and technology solutions combined with unrivalled product innovation. We have won a significant number of new customers in the year, including MBNA and Virgin Media. We have also continued to win further business from existing customers and renewed a number of major contracts.

To gain critical mass, our initial focus has been on securing contracts with large corporate customers. Through our product innovation and integrated sales operation, we are now increasingly able to offer our Mail service to a significantly wider market.

A vital element of our success has been product innovation. We are about to launch three further new products 'iMail', 'disguised mail' and 'returned mail'.

iMail is a hybrid next day mail service allowing customers of any size to electronically transmit mail items to our national network of mail centres. At these centres the mail is printed, enveloped and sent for next day delivery. We estimate this service reduces the 'carbon footprint' of a letter by some 80% as well as providing later deadlines for submission of mail and reduced costs for our customers.

In December 2007 the Government announced a review of the Postal Market. The interim report published this month outlined the terms of reference to enable decisions to be made on the future of Royal Mail, its Universal Service Offering and financial stability. The review highlighted that competition, namely Access operators, have provided innovation to large mail users, but that consumers had yet to benefit from competition, although it also cited UK Mail's "iMail" as a future innovation for that market. The final report is expected in autumn 2008.

We have submitted our response to the review with the proposal for 'Commercial Equivalence' which would segregate the selling and distribution elements of Royal Mail. We believe this proposal will incentivise the Royal Mail network to become more efficient and profitable. It will also incentivise Royal Mail to market products to Access operators as a true wholesale channel to market, as now seen in the telecoms industry.

Specialist Services

Overall revenues in Specialist Services, comprising our nationwide palletised goods delivery service (UK Pallets) and same-day courier activities (UK Mail – Courier), remained unchanged year on year at £41.5m. However, revenues are now increasing, with the fourth quarter showing growth.

UK Pallets again performed well, with revenues up 4% to £30.4m (2007: £29.1m), driven by improvements in the quality of the pallet network, management and marketing initiatives. Revenues in our Courier business however reduced by 10% to £11.1m (2007: £12.4m).

Overall, Specialist Services operating profits reduced by 35% to £1.3m. This decrease reflects the reduction in revenues and operating margins in the Courier business during this period of reorganisation

In March 2007 we changed the management of our courier business. The renewed strategy is to develop a nationwide network of couriers to allow us to win and effectively support national courier contracts. This strategy is now working and we have recently won a number of major contracts, including a contract with Orange to support its CARE service. These contracts commence in the first half of the current financial year.

We see significant further opportunities for this business, now trading under the UK Mail brand, to benefit from existing customer relationships elsewhere in the Group, particularly in the financial services sector.

Exceptional item

There is a net exceptional item of £nil (2007: £1.7m). This comprises management restructuring cost of £0.7m, offset by a £0.7m partial provision release of a prior year exceptional item relating to the termination of the Federal Express contract.

Interest

Net interest payable decreased to £0.3m (2007: £0.6m) due to the increased cash balances.

Cash Flow and Balance Sheet

The Group had a net cash inflow of £4.4m for the year, leading to net cash at the end the period of £6.2m (2007: £0.1m). Cash inflow from operating activities totalled £25.7m, including £4.0m of cash generated from improved working capital.

Capital expenditure for the period was £5.6m (2007: £9.6m). The capital expenditure for the year includes £1.8m on computer equipment and £1.2m on new vehicles.

Dividend

The Board has proposed an unchanged Final Dividend of 10.8p (2007: 10.8p) resulting in an unchanged total dividend for the year of 17.2p (2007: 17.2p). The total dividend for the year is covered 1.04 times by earnings.

The Final Dividend will be paid on 25 July 2008 to shareholders registered on 27 June 2008 with an ex-dividend date of 25 June 2008.

Earnings per Share

Basic earnings per share increased 40.6% to 18.0p (2007: 12.8p).

CURRENT TRADING & OUTLOOK

We have made good progress during the period which has resulted in a much improved financial performance. Our strategy of creating an integrated offering is well developed and starting to deliver benefits across the Group. Our focus remains to drive the recovery of our parcels business and to continue the strong growth in our mail business where we are seeking to broaden our product portfolio to attract a significantly wider range of mail users.

The start of the new financial year has been encouraging with trading in the early weeks in line with management's expectations.

Consolidated Income Statement

for the year ended 31 March 2008

	2008	2007
	£m	£m
Revenue	358.6	325.6
Cost of sales	<u>(306.6)</u>	<u>(275.6)</u>
Gross profit	52.0	50.0
Administrative expenses	(37.5)	(39.6)
Operating profit before exceptional items	14.5	12.1
Exceptional items	-	(1.7)
Operating profit	14.5	10.4
Finance costs	(0.7)	(0.7)
Finance income	0.4	0.1
Profit before taxation	14.2	9.8
Taxation	<u>(4.5)</u>	<u>(2.9)</u>
Profit for the year	<u>9.7</u>	<u>6.9</u>
Basic earnings per share	18.0p	12.8p
Diluted earnings per share	17.5p	12.6p

The profit for the financial year arises from the Group's continuing activities, and is wholly attributable to equity holders of the Company.

Consolidated Balance Sheet

as at 31 March 2008

	2008	2007
	£m	£m
ASSETS		
Non-current assets		
Goodwill	9.5	9.5
Intangible assets	1.2	1.2
Investment properties	1.0	1.1
Property, plant and equipment	36.9	37.3
Deferred tax assets	0.5	-
	49.1	49.1
Current assets		
Inventories	0.3	0.2
Trade and other receivables	59.5	56.2
Cash and cash equivalents	16.4	12.0
	76.2	68.4
LIABILITIES		
Current liabilities		
Borrowings	(1.7)	(1.7)
Trade and other payables	(56.4)	(48.8)
Current tax liabilities	(2.1)	(1.4)
Provisions	(1.2)	(0.6)
	(61.4)	(52.5)
Net current assets		
	14.8	15.9
Non-current liabilities		
Borrowings	(8.5)	(10.2)
Deferred tax liabilities	(1.0)	(0.5)
Provisions	(0.4)	(0.8)
	(9.9)	(11.5)
Net assets		
	54.0	53.5
Shareholders' equity		
Ordinary shares	5.5	5.5
Share premium	16.6	16.2
Retained earnings	31.9	31.8
Total shareholders' equity	54.0	53.5

Consolidated Cash Flow Statement

for the year ended 31 March 2008

	2008	2007
	£m	£m
Operating activities		
Cash generated from operations	25.7	28.2
Finance income	0.4	0.1
Finance costs	(0.7)	(0.7)
Taxation paid	(3.9)	(1.4)
Net cash inflow from operating activities	21.5	26.2
Investing activities		
Proceeds from disposal of property, plant and equipment	0.2	2.3
Purchase of property, plant and equipment	(5.0)	(8.6)
Purchase of intangible assets	(0.6)	(1.0)
Net cash outflow from investing activities	(5.4)	(7.3)
Financing activities		
Dividends paid to shareholders	(9.3)	(9.3)
Proceeds from re-financing under finance leases	-	3.9
Repayment of finance lease liabilities	(0.7)	(0.3)
Net proceeds from issue of ordinary share capital	0.3	0.2
Purchase of Business Post shares by the ESOT	(1.0)	-
Repayment of borrowings	(1.0)	(1.0)
Net cash outflow from financing activities	(11.7)	(6.5)
Net increase in cash and cash equivalents	4.4	12.4
Cash and cash equivalents at the beginning of the year	12.0	(0.4)
Cash and cash equivalents at the end of the year	16.4	12.0

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 March 2008

	2008	2007
	£m	£m
Shareholders' equity as at the beginning of the year	53.5	54.6
Dividends paid to shareholders	(9.3)	(9.3)
Purchase of Business Post shares by the ESOT	(1.0)	-
Employees' share option scheme:		
- value of employee services	0.9	1.0
- proceeds from shares issued	0.3	0.2
Tax on items taken directly to equity	(0.1)	0.1
Profit for the year	9.7	6.9
Shareholders' equity as at the end of the year	54.0	53.5

Notes to the Consolidated Financial Information

1 Segmental information

	2008	2007
	£m	£m
Revenue		
Parcel services	179.8	193.8
Mail services	137.3	90.3
Specialist services	41.5	41.5
	358.6	325.6
Operating profit		
Parcel services - before exceptional items	15.4	15.1
- exceptional items	-	(1.7)
	15.4	13.4
Mail services	10.0	6.4
Specialist services	1.3	2.0
Central costs	(12.2)	(11.4)
	14.5	10.4

2 Exceptional items

	2008	2007
	£m	£m
Operations restructure	0.7	-
FedEx termination costs	(0.7)	1.3
Provision against franchise balances	-	1.5
Profit on sale of freehold property	-	(1.1)
	-	1.7

Operations restructure

During the year a number of structural changes were made to operations, designed to both integrate the different parts of the Group more, and to improve the network infrastructure. This has resulted in a number of structural changes in operational and sales management, and the establishment of specialist customer care centres. The anticipated redundancy costs of £0.7m have been provided for in these financial statements.

FedEx termination costs

Following the cessation of the contract to act as Fed Ex's global service participant in the UK from 30 April 2007, anticipated exit costs of £1.3m were provided for, including one-off redundancy and management restructuring costs, vehicle livery removal, uniform replacement and legal expenses.

A surplus provision of £0.7m has been released, following a number of successful

management initiatives to reduce the cost of relivery of the vehicle fleet, during the year ended 31 March 2008.

3 Earnings per share

Basic earnings per share have been calculated by dividing the profit for the year by the weighted average number of ordinary shares in issue for the year ended 31 March 2008 of 54,068,346 (2007: 54,150,544). Diluted earnings per share have been calculated by adjusting the weighted average number of ordinary shares for the effect of the exercise of share options, increasing the number of shares to 55,480,127 (2007: 54,967,167).

4 General information

The above figures have been extracted from the Group's full financial statements for the year ended 31 March 2008, which will be delivered to the Registrar of Companies. Those financial statements carry an unqualified audit opinion. They have been prepared in accordance with the Companies Act 1985 and International Financial Reporting Standards as adopted by the European Union. The accounting policies, which have been applied consistently to all the years presented, are set out in those financial statements. These extracts do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.