

Royal Mail Wholesale

Proposed 2011/12 Access Prices

Dear Customer,

3rd February 2011

Royal Mail Wholesale has announced indicative Access prices that we intend to introduce from May 2011¹. Full details of this change can be found on the Royal Mail Wholesale website, www.royalmailwholesale.com.

The changes follow the news release issued in December on retail stamp prices when we said we were seeking annual price rises for access prices averaging 15%. However, within the package, some of our prices will be coming down.

No-one likes to inform their customers of higher prices, especially at a time when many businesses are also increasing their prices, combined with tough trading conditions. We regret to have to announce these increases. Our access customers are very important to us as more than 45% of all the letters delivered by Royal Mail's postmen and women have entered our network under access arrangements. However, last financial year, there were losses averaging 2.5p for every item of access mail we delivered. Our need to continue investment, coupled with the continuing sharp decline in mail volumes, means that if we do not generate more income, we will simply not be able to keep funding the vital one-price-goes-anywhere, six-days-a-week Universal service to the UK's 28 million homes and businesses.

These prices are indicative because we are awaiting Postcomm's decision on what price rises it will allow. Their decision is expected late February, following feedback from the market on their latest consultation document ("Laying the foundations for a sustainable postal service" November 2010). Postcomm said at the time that it was "minded to" accept a Royal Mail proposal to increase access prices by an average of 15% in May 2011.

¹ Indicative Wholesale prices have been prepared for their proposed introduction on the 9th May 2011. These indicative prices are not published as a licence requirement, but are put forward to inform the market in the light of Postcomm's proposed licence modifications and will be finalised subject to Postcomm's decision.

N.B. These indicative prices have been published in good faith, but inevitably, given the nature of the process are liable to change.

Royal Mail Wholesale is requesting an increase in prices by an annualised average of 15%. The smallest increases are for machinable letters, with the largest increases applied to manually sorted mail, making our prices more cost reflective. The indicative price movements, including available discounts, for our most used services are provided in Annex 1. Zonal prices will have the same indicative increases as National prices².

We are in the midst of a modernisation programme. We want to ensure that we provide the most cost-effective service while continuing to do all we can to provide target-beating customer service at universal prices that remain among the lowest in Europe. While we are making good progress, there is a great deal that remains to be done. We need to strengthen our technology platforms and we need to continue to accelerate modernisation particularly in the area of packets automation. The price increase requested for 2011/12 is one of several interconnected approaches to provide the required cash funding. We fully expect, over time, to deliver a more efficient, cost-effective service through the comprehensive modernisation plans we have in place.

Substantial Discounts for Direct Mail

The Royal Mail Advertising Mail® service³ for Letter format items has proved to be very popular with our customers in a climate where marketing budgets are being squeezed and mail is increasingly competing with alternative media. To build on this industry-wide success, we are proposing to substantially increase this discount by 1.65p to 1.9p per item. This proposal will keep the direct mail price increase close to RPI for our most used machineable letter services.

We will be extending the Advertising Mail discounts to the Large Letter format. In addition, we plan to offer discounts for Advertising Mail handed over on a Friday and due for delivery on Saturday⁴.

The Royal Mail Responsible Mail® discounts of 0.3p for Entry level and 0.7p for Intermediate level remain. If our proposals are accepted by Postcomm, customers who can meet the environmental standard of Intermediate level Responsible Mail will now be able to achieve a total discount of 2.6p per item for their Direct Mail.

² Our Licence from Postcomm allows us to move relative zonal prices (that is Urban, Suburban, Rural and London) individually by up to +/-3%, whilst at the same time ensuring that the weighted zonal prices are the same as the overall National price.

³ We recently contacted some of our Advertising Mail customers to seek their views and the feedback has been universally positive. Customers have been using the discount to maintain or increase their use of direct mail, achieving an improved return on investment as a result.

⁴ Please note, to support the early roll out of Advertising Large Letters we are temporarily removing the availability of the Premium 1400 Large Letter Responsible Intermediate product code with immediate effect. A new product code will be available in the Summer. We don't expect this to cause any inconvenience to our customers, however if you have any concerns please contact your account manager.

Packet Prices

We have re-balanced our packet prices. We are pleased to announce that we are reducing prices for the majority of the weight range, with substantial reductions of up to 20% in absolute terms and c.25% in real terms. There will be price increases for our lightest packets (which are currently loss making).

All of these price changes will come into effect in early May 2011, subject to the terms of Postcomm's final decision on the 2011/12 price control.

Future Service Enhancements

We propose to extend the maximum weight of Access 120 packets to 5kg. This weight extension will allow our customers to hand over heavier items between 2-5kg in bags⁵.

This service enhancement is planned for launch later in 2011. We will inform customers of details nearer the time.

Further Details

The full details of all price points and the means of calculating specific prices can be found on our website at www.royalmailwholesale.com.

Yours faithfully



Jenny Ledger
Commercial Director
Royal Mail Wholesale

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⁵ As with Access 1400, "Auto Level Packet Sleeves" (ALPS) may be used where the minimum number of mailing items per bag cannot be accommodated due to either weight restrictions or size.

Annex 1

Summary of National Price Changes:

Service	Weight	Standard Prices			Direct Mail Prices		
		Proposed Price* Per Item (pence)	Annualised* % Increase	Annualised Real Terms** % Increase	Maximum Discount*** Per Item (pence)	Proposed Discounted Price Per Item (pence)	Annualised Real Terms % Increase
70 CBC Letters		16.889	17%	12%	(2.600)	14.289	1%
120 CBC Letters		17.003	18%	13%	(2.600)	14.403	2%
120 OCR Letters		17.060	18%	13%	(2.600)	14.460	2%
120 Manual Letters		19.483	19%	15%	(2.600)	16.883	5%
1400 Manual Letters		18.349	21%	16%	(2.600)	15.749	6%
1400 Large Letters	100g	22.513	19%	14%	(2.600)	19.913	4%
	250g	28.608	14%	9%	(2.600)	26.008	2%
	750g	79.391	5%	0%	(7.215)	72.176	-7%
120 Packets	100g	71.498	25%	20%			
	250g	79.819	25%	20%			
	1000g	113.011	-15%	-20%			
	2000g	159.225	-20%	-25%			

* Please note that because these prices reflect a May implementation, prices are proportionately higher than would have occurred with the customary April change.

** The impact of inflation (RPI at 4.9%) has been removed.

*** Advertising & Intermediate Responsible Mail Discounts for Letters and Large Letters. N.B. The year on year comparison for Large Letters reflects the proposed maximum discount (Advertising & Responsible Mail Intermediate) against the maximum currently available (Intermediate Responsible Mail).