POL00362149

Registered number: 4074919

CONSIGNIA HOLDINGS PLC

ACCOUNTS
for the period ended 31 March 2002

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Financial Review

Consignia Holdings plc and the Consignia Group
The Consignia Group (the Group) comprises Consignia Holdings plc (the Company) – which is wholly-owned by HM Government – and Consignia plc, which itself has a number of subsidiary undertakings and associates. Both Consignia plc and Consignia Holdings plc are incorporated under the Companies Act and as a result, the accounts are no longer produced in accordance with a direction from the Secretary of State. The main implications of this change are that the prior year comparatives are those of The Post Office Group and the accounting policy for fixed assets has changed from modified historic cost accounting to historic cost accounting – the almost universal choice of plcs. This has resulted in an upward restatement of last year's profit by £32m and a net reduction to tangible fixed assets of £521m.

The accounts are drawn up for the 53-week period ended 31 March 2002 (2001 52 weeks).

Going concern
There is significant uncertainty concerning the outcome of the funding discussions with Government and therefore as to whether or not the Group can be considered to be a going concern. A key issue is the viability and affordability of the network of Post Offices. Our plans require total funding of some £2.4bn over the next three years and the Company is in active discussions with Government about how these future cash requirements are to be funded. Government approval to fund the renewal plan and especially a decision on the funding of the social Post Office network is critical to our continuing operations. The Directors believe that the outcome of funding discussions with Government will be favourable. On this basis, after consideration of the cash flow projections, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Group results
Consignia made a full year loss from its operations of £318m (2001 £206m) before exceptional items – equivalent to £1.2m every trading day. The loss analysed by business segment was Mails and parcels £138m (2001 £150m), Counter services £164m (2001 £57m) and Other £15m (2001 profit £1m). This loss was before taking into account a net £1m loss on associates and a £250m pensions benefit (2001 £228m) derived in accordance with SSAP 24, which resulted in a net operating loss of £68m (2001 profit of £22m).

The loss before taxation was £1,124m (2001 profit £81m). This loss reflects net interest receivable of £56m (2001 £106m) and exceptional items of £1,112m (2001 £47m). The loss for the year after a net tax credit of £179m (2001 charge £34m) and equity minority interest £5m (2001 £2m) was £940m (2001 profit £49m).

External turnover grew by £289m (3.6%) to £8,408m, mainly reflecting growth in UK mails and parcels of £214m and overseas activities of £83m.

Whilst we sold current asset investments of £363m to generate cash, mainly to fund the Post Office network, our net cash inflow was only £172m. This principally represents increased cash in the network to cover benefit payments. All core trading businesses suffered net cash outflows totalling some £191m. The Group's cash position was helped by the pension holiday windfall of £135m (2001 £136m). The windfall relates to the surplus built up in the pension scheme over the past 20 years because of the high equity bias of the fund during a sustained period of bull market returns that exceeded actuarial forecasting assumptions.

The segmental analysis in note 1 to the Group accounts analyses the operating loss in accordance with SSAP 25 – Segmental reporting. We have set out below an alternative analysis that recognises the pensions benefit does not arise from current trading and the substantial amount of trading between operational and support units, including the impact of internal interest charged to businesses for centrally managed funding resources. Cash flows reflect both movements in physical cash and working capital movements funded through intercompany balances.

Mails and parcels
Mails and parcels consist of our traditional businesses of UK and international mails, UK parcels, and Logistics Solutions, together with some more recently acquired international businesses, our European parcels businesses – General Logistics Systems (GLS) and our overseas mails businesses. Together, these businesses reported total revenue of £7,367m, an increase of £279m (3.8%) over 2001, and losses from operations of £241m (2001 £407m).

UK mails revenue increased by £157m to £5,317m – a growth rate of 1.1% after adjusting for the 53rd week. A 1% growth in pillar box and collection postings and a 3.2% growth in commercial and bulk-posted letters were achieved, substantially below planned levels. These disappointing growths reflect a slow-down in the national economy and the impact of electronic substitution. Specifically, September 11 and anthrax scares impacted commercial and bulk-posted letters in the Autumn and Winter periods by an estimated £50m. The slow-down has rolled over into 2002-03.

Total costs grew by £82m to £5,391m, representing no growth after adjusting for the 53rd week.

Overall, the losses from operations for the mails business, before exceptional items, were reduced by £75m to £74m. This result includes profits from our Stamps and Collectibles operations of £47m (2001 £53m). Losses after exceptional items but before tax were £148m and the cash outflow was £31m.

International mails total income increased by £8m to £746m (no growth after adjusting for the extra week). Total costs at £764m reduced by £36m – a 6% saving over the prior year comparable period. These savings were largely due to lower handling costs both in the UK and overseas, and gave rise to a reduction in losses of £44m to £18m before exceptional items and tax, and a loss of £20m after exceptional items but before tax. The cash outflow from the international mails operations was £82m.

International mails will benefit from the cross-border business mail venture between Consignia (24.5%), TNT Post Group (51%) and Singapore Post (24.5%), which was allowed by the European Commission on 15 June 2001. The new company, branded as 'Spring', began trading in July 2001 and will deliver benefits to mailers worldwide, by combining the global reach, networks, systems, products and expertise of the three parent organisations. The Group contributed £38m in the form of the assets and business of its European branches, one of its USA subsidiary undertakings and the purchase of shares for £21m in the new venture.

UK parcels total income grew by £37m to £719m, of which £474m was external income and £245m for internal services. External income increased by £18m, representing 2% adjusted growth. Operating costs increased by £38m to £813m (3% adjusting for the 53rd week). The losses from operations remained broadly flat at £94m even after taking into account the £9m beneficial impact on depreciation arising from impairment at the half year. The business cash outflow was £115m.

Our UK parcels business has lost money for more than a decade. Clearly, mounting losses of this magnitude and the drain on the Group's financial reserves are unsustainable, and in March 2002, the Board announced the downsizing of its UK parcels operations, exiting from loss-making product areas namely, non 'time-guaranteed', non 'next day' or 'two day' express deliveries. This gave rise to exceptional charges of £397m (£138m impairment of assets, £222m redundancy costs and £37m restructuring and closure costs), such that the losses from operations after exceptional items but before tax were £491m.

The Parcelforce hub with its associated computerised track-and-trace system became fully operational early in the financial year, providing a key stepping stone in our capability to compete in the express market.

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Financial Review

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Logistics Solutions' income at £601m, of which £228m is external revenues, grew by £45m mainly in response to additional internal activity to support UK parcel operations. Costs at £616m were broadly in line with previous years. The net impact is a fall in the overall loss before exceptional costs by £51m to £15m. Exceptional costs were £127m bringing total losses before tax to £142m. Cash outflow for the business was £25m.

General Logistics Systems, our European parcels operation, grew its income by £65m to £600m during the year, of which £61m was attributable to the full-year impact of acquisitions and the remaining £4m from underlying growth. Losses before tax were £40m.

Consignia has increased its shareholding in the General Parcel network through the strategic acquisition of some small additional European operations principally in Italy and Denmark, amounting to a total investment of £9m.

Counter services
On 1 October Post Office Limited assumed the functions of Post Office Counters Ltd, which brought together the Network Banking, Post Office Network and Cash Handling and Distribution business units.

Counter services increased its total income by £93m (5.7% allowing for the additional week) to £1,289m. Overall, costs increased by £195m to £1,452m (13% after adjusting for the 53rd week). The annual costs of running Horizon – the front office computer terminal system – amounted to £105m, an increase of £31m following the system's full national deployment. Other key movements in costs were £25m higher payments to some 14,900 agents/subpostmasters, inflation impact of £7m and IT developments principally on the banking engine totalling £23m. The business also received contributions from Government for the investment in universal banking technology of £20m and 'Your Guide' pilot of £20m, the latter being an initiative to explore the feasibility of providing electronic access to Government information in the network branches.

Losses from operations before exceptional items amounted to £163m (£102m worse than last year) and £241m after exceptional items. The cash outflow for the year was £412m excluding the increase in network cash of £157m to support Benefits Agency payments to customers over the Easter Bank Holiday period. This weekend was also the accounting year end.

Responsibility for the liabilities of the Horizon/ICL Pathway project was transferred from Government to The Post Office in 1999. This resulted in a one-off payment by the Group for costs incurred by ICL of £550m, a write-off of £571m in the 1999-2000 accounts and the incurrence of substantial on-going maintenance costs. By the time the contract terminates in April 2005, aggregate contract costs are expected to amount to some £1bn.

The incremental costs of running the Horizon system have turned counter services into a fundamentally unprofitable operation – a position that will be exacerbated by the move of Benefits Agency transactions away from the counters network from April 2003. This will reduce total revenue by some £400m (30%). In addition, the absence of advance Benefits Agency funding will have a substantial adverse impact on the working capital of the business.

The difficult financial position is being addressed in two ways. Firstly, rationalisation of the Post Office network. Secondly, we are conducting a fundamental strategic review, which is examining the economic viability, social obligations and the commercial opportunities of the network. This entails discussions with Government on the funding of the social element and the deployment of universal banking.

We are committed to submitting a revised strategic plan to Government early this September. Following on from this, we expect the source and extent of funding for the network to be determined and agreed by Government.

Universal banking services – comprising introductory accounts offered by the banks and the card account – are being developed to meet the complex challenges of the stakeholders, which include Government, major high street banks, our customers and Consignia. Total investment to date on these new banking services has been around £62m, of which £49m was expended this year. The Government has contributed £20m towards these costs. The new service is expected to come on-stream from Spring of 2003. Universal banking services will allow people receiving benefits – currently some 15m people – who do not have access to a bank account to make cash withdrawals at Post Offices.

Other Group activities
Other Group activities comprise the Group Centre and support services to the main trading businesses. Profit from operations for the year, prior to the pensions benefit was £86m, £176m lower than last year. The profit mainly consists of internal interest charges made to operating and supporting units of £214m, offset by net losses on support services activities of £128m.

Exceptional items
The Group results include net exceptional costs of £1,112m (2001 £47m), of which 53% related to the costs associated with the restructuring of our UK parcels business and UK transportation systems. Both of these changes were announced on 25 March of this year and represent the first phase of a three-year programme to remove £1.4bn from our gross cost base.

Impairments totalled £453m of which £398m related to our UK and European mails and parcels operations, £48m was for Post Office network and £7m for goodwill in associates. We have written down the value of GLS in our balance sheet to reflect our view of the value of the business under current market conditions. The impairment of the Post Office network was made after consideration of the expected future cash flows of Post Office Limited bringing the cumulative total impairment of assets in this business to £619m.

Provisions for restructuring the UK parcels service amounted to £298m made up of £222m in redundancy and £76m for other restructuring costs.

Restructuring the mails and parcels pipeline required provisions amounting to £156m of which £62m was redundancy and £94m restructuring charges.

Redundancy provisions amounting to £228m relating to a number of minor UK mail projects totalling £60m, the review of the Post Office Limited structure of £28m and £140m for staff working in support services. In addition, £10m was raised for vacant leasehold properties.

The principal exceptional item in the previous year was £67m as a consequence of the BBC's decision to terminate the television licence administration and enforcement contract with Envision Licensing Limited. A subsequent recovery from another party has been included as an exceptional profit this year.

The accounts also include net profits on disposal of fixed assets of £14m (2001 restated £20m) in accordance with accounting standard FRS 3.

Taxation
The Group has adopted the new accounting standard FRS 19 – Deferred tax, and the accounts reflect deferred tax on a full provisioning basis. The accounts include a £3m current tax charge and a deferred tax credit of £182m for the year.

The tax credit for 2002 represents an effective tax rate of 16% on a loss before tax, compared to a restated tax charge of 42% for 2001. The credit mainly arises from relief for restructuring costs, which gives rise to losses that have been offset against deferred tax liabilities, and fixed asset write-downs, which have also reduced deferred tax liabilities.

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Treasury
The Group operates a central treasury function that manages some £1.8bn of investments, in accordance with investment restrictions set by Government, and acts as internal banker for the Group. Group operations are primarily financed through retained profits and borrowings.

The Government has indicated that it would expect the investments represented by cash surpluses arising from previous years' trading to be ring-fenced for specific purposes: to act as security for borrowing from the National Loans Fund to finance the mails business, and to support expenditure by Post Office Limited (POL) where such expenditure has the approval of the Secretary of State and the Treasury.

Group Treasury derives its authority from the Consignia Board. The Treasury function only has the authority to undertake financial transactions relating to the management of underlying business risks. All strategies are risk averse. Regular upward reporting is to the Consignia Executive Board.

The Group's main financial risks are interest rate risk and foreign currency risk.

The Group mitigates interest rate risk through a portfolio approach to investment. Short-term portfolios are driven by liquidity requirements whilst medium-term portfolios are driven by investment decisions. The duration of medium-term investments is set at between 240 and 450 days.

The Group has both fixed and occasional floating rate borrowings.

The Group is exposed to foreign currency translation risk on the net assets of all overseas subsidiaries with the exception of the German Parcel subsidiary, where a floating rate euro loan provides a partial hedge.

Foreign currency balances, held to operate the Bureau de Change service are hedged using a combination of forward and spot deals. Where possible, the internal netting of exposures takes place.

The Group is exposed to transaction risk from its obligations to pay overseas postal administrations for the delivery of UK-originating mail. A maximum of 80% of this exposure is hedged in an initial 12-month programme, which is subsequently reviewed on a monthly basis. This programme utilises forward foreign currency contracts, options, and foreign currency deposits.

All other significant liabilities are hedged when they become contractual.

The Group's fuel risk management strategy aims to reduce uncertainty created by movements in the oil market. The strategy operates within the parameters set by the Board. Over-the-counter financial derivative products are used to manage both the commodity and foreign exchange elements of the exposure.

Treasury operates a rolling 18-month programme, which is subsequently reviewed on a quarterly basis.

Counterparty risk is managed by limiting aggregate exposure to an individual counterparty, taking account of its debt-to-income ratio and the counterparty size. These exposures are reviewed regularly and adjusted as appropriate.

Debt
Consolidated debt at 31 March 2002 was £705m, a year-on-year reduction of £100m, reflecting reduced hire purchase obligations.

Interest receivable
The Group's net interest receivable was £56m. This comprised £90m interest received on average investments of £1,900m, a rate of 4.7%, less £34m interest payable on average borrowings of £590m, a rate of 5.8%. Last year net interest receivable was £106m, comprising £116m received on average investments of £1,815m (a rate of 6.4%) less £10m payable on average borrowings of £180m (a rate of 5.5%).

Pensions
The overall Group result includes a £250m (2001 £228m) benefit derived in accordance with SSAP 24 on the basis set out below. The accounting charges are based on assumptions on a 'best estimate' basis, which reflects the difference between 'experienced' performance over the prudent actuarial assumption assumed in the funding rate. This has resulted in a lower regular accounting cost amounting to £53m of the benefit. The surplus in the Consignia Pension Plan allows a further reduction in cost – evaluated by the Scheme actuary using their 'best estimate' assumptions – providing £164m benefit, with the interest on the long-term pension debtor of £33m making up the final element of the benefit.

The new accounting standard FRS 17 – Retirement benefits, introduces radical changes to accounting for pensions and similar benefits. Consignia has adopted this standard and is complying with the transitional arrangements. The balance sheet aspects are disclosed in note 21 to the Group accounts. The 2002-03 accounts will make profit and loss disclosures in accordance with the new standard, whilst the 2003-04 accounts will report all pension costs and related information in accordance with the new standard. It is anticipated that the full adoption of FRS 17 will worsen the reported profits for 2003-04 by some £150m, compared with the position if the old standard were to apply.

Postcomm competition proposals
The Postal Services Commission (Postcomm) was set up as an independent regulator for the industry. On 26 March 2001, Consignia was granted its first licence, which required it to provide a universal postal service at a uniform affordable price. During the year, Postcomm issued interim licences to other operators of business postal services – Deya, Hays, TNT and UK Mail.

On 29 May 2002, Postcomm announced their decisions on the introduction of competition into the UK postal market. The three-phased approach adopted by Postcomm comprises:

From 1 January 2003 – the liberalisation of bulk mail posted in volumes above 4,000 items (from a single site and in identical size format) will take place. This is expected to open up 30% of the domestic mail market, as measured by revenue, to competition. In addition, other operators will be able to consolidate and convey mail for Consignia to undertake final delivery. Postcomm will continue to license niche services.

From 1 April 2005 – the bulk mail threshold will be reduced to open up 60% of the market, by revenue, to competition.

From 1 April 2007 – the whole of the UK postal market will be liberalised and open to competition.

Consignia estimates that after the full effects of competition have worked through, over the next 3 to 5 years, it could lose around 30% of its current market share in terms of both revenue and volume.

Sourcing reviews
Consignia is examining the feasibility of using outsourcing partners for some of its support services. This is designed to create the maximum value from support services and realise commercial potential. A new partnership venture covering the Group's occupational health needs has been concluded and others are in negotiations.

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European Monetary Union (EMU)
The Board has established a European Monetary Union Committee. The UK has yet to decide on entry to the EMU and Consignia has evaluated the implications of both entry and non-entry.

Consignia companies operating within the participating countries successfully managed the introduction of euro notes and coins on 1 January 2002. The introduction of the euro eliminates exchange rate risks between the former currencies of participating countries. Whilst the UK remains outside of EMU, and Consignia reports in Sterling, the need to move funds to and from our overseas businesses means that we will remain exposed to foreign exchange fluctuations between the euro and Sterling. The new currency will also have implications on our Bureau de Change service.

Major project investment
As part of the drive to modernise our infrastructure, the Group invested some £320m on a number of key programmes, including £94m to upgrade the mails and parcels infrastructure, £52m for counter services automation including universal banking of £49m, £98m to provide high quality IT infrastructure, £43m on the development of new products and services and £24m relating to acquisitions of subsidiary undertakings, including £9m for European parcels businesses within the GLS network.

National Lottery
On 5 August 1999, The Post Office entered into an agreement with Camelot (the National Lottery operator) to acquire a 20% holding in the company at a cost of £21m. Camelot has subsequently been awarded a second licence for seven years, which came into effect on 27 January 2002. At the same time, Camelot became an associate of the Group.

Dividends
The Government, as shareholder has indicated that it will not be seeking a dividend in respect of 2002. £244m has been earmarked as a notional dividend covering 2000 and 2001 and this is currently held within our short-term investments.

Future prospects
The financial prospects for 2002-03 will be heavily influenced by the up front costs of driving a lower operating cost base, downsizing and introducing new business models and service patterns. Additionally, the recent pay settlement with the Communication Workers Union will add in excess of £70m to next year's operating costs, whilst delay to postal tariff increases – which the Regulator will be invited to consider – will adversely affect profitability. Higher National Insurance Contributions will further increase our cost base, from April 2003, by some £40m per annum.

We plan to invest some £350m in capital expenditure next year to enhance further our infrastructure.

Our move to a single delivery at a consistent time six days a week with other efficiency measures across the Group will result in a further 17,000 jobs becoming redundant over the next three years. These plans are expected to cost some £500m. Included within this are redundancy costs of £350m associated with the move to a single delivery, which should produce gross savings in excess of £350m per annum as part of an overall cost reduction programme to produce gross savings of £1.4bn per annum by 2005.

Overall, we expect trading losses to continue into next year at a similar level with further exceptional costs of around £500m in the first half of the year, mainly as a result of the announced changes to the UK mails delivery patterns.

The Board are committed to meeting the substantial challenges provided by a new competitive and regulatory environment by both driving through changes and substantially reducing our costs.

GRO

Marisa Cassoni
Group Finance Director
London
12 June 2002

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Directors' Report

The Directors present the first Group accounts for Consignia Holdings plc. These accounts relate to the 53 weeks ended 31 March 2002, but in respect of Consignia plc, additionally cover the period between incorporation, on 10 January 2001, and 25 March 2001, during which time no trading activity took place.

Principal activities
The Group provides a nationwide and international distribution service. The Group also provides access to a wide range of financial and retail services through its network of Post Office branches.

Review of the business and future developments
Under the terms of the Postal Services Act 2000 (the Act), the assets and liabilities of The Post Office Corporation were transferred to Consignia Holdings plc and its subsidiary, Consignia plc. The Act also conferred some commercial freedoms that were not available to The Post Office. During the year, some of Consignia plc's assets were taken on by Post Office Counters Limited, which was renamed Post Office Limited on 1 October 2001. This wholly-owned subsidiary will be responsible for providing counter services on behalf of the Group.

A review of the Group's business and future developments is presented in the annual Review.

Results and dividends
The loss on ordinary activities before taxation amounted to £1,124m (2001 a restated profit of £81m). After taxation and minority interests, the loss was £940m (2001 a restated profit of £49m). The restatement reflects the introduction of FRS 19, which requires a change in accounting for deferred taxation and the Board's decision to adopt the historic cost accounting convention.

The Government indicated that when the Postal Services Act 2000 had received Royal Assent, it would seek a dividend payment from Consignia Holdings plc in respect of the final two years' trading of The Post Office Corporation. The Shareholder is considering a request from the Board of Directors that no dividend payment be made in respect of pre-incorporation trading. The Secretary of State for Trade and Industry announced on 25 March 2002 that the Shareholder would forego the dividend for this financial year.

Political and charitable contributions
During the year the Group made charitable contributions of £444,623 (2001 £847,430). No political contributions were made.

Supplier payment policy
The policy of the Company and its principal operating subsidiaries is to use their purchasing power fairly. Payment terms are agreed in advance for all major contracts. For lower value transactions, standard payment terms (shown on the purchase order) apply. The policy is to make payments within 45 days of receiving a valid invoice. The Company and its principal operating subsidiaries in the UK have sought to comply with the DTI's Better Payment Practice Code. Copies of this can be obtained from the DTI. This code replaced the CBI prompt payment code. As the Company is a non-operating company, the creditor days are zero. The creditor days of the operating subsidiaries can be found in their accounts.

Land and buildings
From 26 March 2001, the Group changed its accounting policy relating to fixed assets from the modified historic cost to the historic cost accounting convention. In the opinion of the Directors, the aggregate market value of the Group's land and buildings exceeds the net book value of £1,244m by a considerable margin.

Post balance sheet events
Details of post balance sheet events are included in note 26 to the accounts.

Directors and their interests
The Directors of the Company and details of changes during the year are given on page 8. The Chairman is appointed by the Secretary of State, all other Directors are appointed by the Company with the Secretary of State's consent.

HM Government is the Company's sole shareholder and accordingly, the Directors have no interest in shares of the Company.

The Directors' biographical details are included on pages 34 and 35 of the annual Review.

Employees
The Group employs more than 220,000 people and is one of the UK's largest employers. The majority of staff are employed in the UK.

The Group's policy is to encourage effective communication and consultation between employees and management, particularly on matters relating to strategy, financial and economic factors that may influence the Group's performance. This is achieved through the use of an extensive range of communication channels, including magazines, briefings, open forums and an intranet website. Employees have various bonus schemes, significant elements of which are based on business-related targets.

Regular Employee Opinion Surveys are conducted to allow employees an opportunity to express their views and opinions on important issues. This two-way communication encourages all employees to contribute towards making business improvements.

We actively encourage continuous training and skill development for all employees to ensure achievement of corporate and individual objectives. Management development and training programmes have been designed to attract and retain the best people. The Group has worked with the unions to introduce several innovative working practices to improve efficiency.

Disabled employees
The Group's policy is to give full consideration to applications for employment from disabled persons. Employees who become disabled whilst employed receive full support through the provision of training and special equipment to facilitate continued employment where practicable. The Group provides training, career development and promotion to disabled employees wherever appropriate.

An Equal Opportunities policy is maintained in all respects including disability, age, religion, colour, sex, nationality, ethnic origin, sexual orientation, race, creed and marital status.

Going concern
As outlined in note A of Accounting policies and general notes, there is a fundamental uncertainty concerning the outcome of the funding discussions with Government as to whether or not the Group can be considered to be a going concern. Our plans require total funding of some £2.4bn over the next three years. The Company is in active discussions with Government about how future cash requirements are to be funded. Government approval to fund the renewal plan and a decision on the funding of the social Post Office network is critical to our continuing operations. The Directors believe that the outcome of funding discussions with Government will be favourable. On this basis, after consideration of cash flow projections, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Auditors
During the year, Ernst & Young acted as auditor to the Company until 28 June 2001. On 28 June 2001, Ernst & Young transferred its business to a limited liability partnership, Ernst & Young LLP, incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. At the Annual General Meeting, a resolution will be proposed to reappoint Ernst & Young LLP as auditors.

By order of the Board

GRO

Jonathan Evans
Secretary
London
12 June 2002

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Corporate Governance

Statement by the Directors on compliance with the Combined Code
The Group is committed to high standards of corporate governance. This statement describes how the principles of corporate governance are applied by the Group and its compliance with the Combined Code (the Code).

The Group has been in full compliance with the provisions of the Combined Code throughout the year and up to the date of approval of these accounts, in so far as they are appropriate to a public company with a single shareholder. The exceptions are that a senior non executive Director has not been designated and that Directors are normally appointed by the Company with the Secretary of State's consent. Thus, there is no need for a Nominations Committee. The Secretary of State also approves the remuneration of both executive and non executive Directors.

The Board and its committees
Details of the Board and committees are set out below.

The Board
The Board is responsible for setting the objectives and strategy of the Group and for monitoring performance. The Board usually meets monthly, and has defined those matters which are reserved exclusively for its consideration. The Board currently comprises a non executive Chairman, four executive Directors and three non executive Directors. There are also two additional non executive Director vacancies, which the Company is seeking to fill. Executive Directors have rolling 12-month contracts and non executive Directors are generally appointed for a two-year term.

There is a clear division of responsibilities between the Chairman and Chief Executive. All non executive Directors are considered independent.

Directors may take independent professional advice in the furtherance of their duties, at the Group's expense. All Directors have access to the advice and services of the Company Secretary.

The following committees deal with specific aspects of the Group's management:

Audit and Risk Committee
The Audit and Risk Committee consists of non executive Directors: Rosemary Thorne (Chairman), Allan Leighton and Miles Templeman.

The Audit and Risk Committee provides a forum for reporting by both internal and external auditors and is responsible for a wide range of matters including:

- monitoring the effectiveness of internal controls;
- reviewing the half year and annual accounts before their submission to the Board;
- advising the Board on the appointment of external auditors and on their remuneration both for audit and non-audit work;
- discussing the nature, scope and outcomes of the audit with external auditors;
- keeping under review the independence and objectivity of the external and internal auditors.

As part of its continuing role, the Committee has always considered the independence of the external auditors and will continue to do so taking into consideration the lessons learned from Enron.

Executive Board
The Chief Executive, John Roberts, chairs the Executive Board, which comprises all executive Directors and certain other senior executives of the Group. The Executive Board develops and monitors deployment of the Group's strategy, annual operating plans and budgets for Board approval. It reviews operational activities and sets policies where these are not reserved to the Board.

Investment Board
The Investment Board is chaired by Marisa Cassoni and is responsible for reviewing major investment projects and approving projects within the authorities devolved by the Board.

Mergers and Acquisitions Board
The Mergers and Acquisitions Board is chaired by John Roberts and comprises Marisa Cassoni, Jerry Cope and Martin Gafsen, the Head of Mergers and Acquisitions. The Board is responsible for reviewing prospective transactions for commercial and strategic effectiveness and giving authorisation on behalf of the Group up to an agreed limit.

Pensions Committee
The Pensions Committee is chaired by Marisa Cassoni. The Committee is responsible for reviewing funding, benefits, scheme structure and strategic developments impacting on the Group's occupational pension schemes. The Committee represents the Group in discussions with the Trustees of the Group's occupational pension schemes.

Remuneration Committee
The Remuneration Committee develops the Company's policy on executive Directors' remuneration for approval by the Board and the Secretary of State. The Remuneration Committee consists of non executive Directors. The membership is Miles Templeman (Chairman), Allan Leighton, John Lloyd and Rosemary Thorne.

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Internal Control

The Board is responsible for the system of internal control and risk management as well as the timely review of its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the guidance detailed by the Turnbull Committee as part of the Combined Code. The Board regularly reviews this process. The process has been in place for the full year and up to the date of approval of these accounts. The key processes of internal control and risk management include the following:

Management structure
The business units have authority to manage within the limits set by the Board and within the scope of reserved powers. The Code of Business Standards sets the principles of professionalism and integrity for employees of the Group.

Identification and evaluation of business risks
A process of internal control self-assessment encompasses all areas of the Group. The process defines significant risks and the controls in place to manage them and requires each business unit Managing Director to undertake formal assessment of the effectiveness of the control processes. This information is communicated to the Board. The internal audit and risk management function regularly reviews the Group's risks for coverage, relevance and effective management. The function also undertakes regular reviews of the most significant areas of risk and ensures that key controls remain in place and reports its findings to the Audit and Risk Committee.

Information and financial reporting system
The Group's planning, financial and reporting procedures include annual budgets, which are reviewed and approved by the Board. Performance is monitored regularly by reference to key performance indicators, updated forecasts and information on the key risk areas.

Audit and Risk Committee
The Committee reports to the Board and meets as a minimum on a quarterly basis to monitor and review the effectiveness of the control environment.

Risk Management Committee
This is a sub-committee of the Audit and Risk Committee. It sets the framework for risk management within the Group and ensures integration with strategic planning. It also facilitates regular reporting of key risks, assesses the risks identified and the actions to manage the risks to a desired level.

The Board has reviewed the effectiveness of the system of internal control. The key elements include a review of internal audit reports, regular confirmations from local management and communication from the Chairman of the Audit and Risk Committee on the outcome of Audit and Risk Committee meetings.

Report on Directors' Remuneration

The Remuneration Committee is made up wholly of non executive Directors as outlined on page 6. Throughout the year, the Company has applied the principles in Section 1 of the Combined Code on Corporate Governance (the Code) and has complied with the Code.

The Board is ultimately responsible for the framework and costs of executive remuneration and the material terms of the service contracts offered to all Directors, which require the consent of the Secretary of State. The Committee's role is to develop the remuneration policy for executive Directors and, specifically, to recommend their salaries, benefits, including bonuses, and other terms and conditions of employment. The Committee also recommends terms for their cessation of employment.

In the performance of its role, the Committee has access to professional advisers, both within the Company and externally.

Policy of remuneration of Directors
Remuneration policy and arrangements are kept under review to ensure that the Company can attract and retain executives of the necessary quality in a complex business and a competitive international marketplace.

Remuneration packages for executive Directors comprise the following elements:

Basic salary
Salaries are reviewed annually and appropriate increases are recommended where the Committee believes that it is necessary to reflect performance, increased responsibilities and market pressures.

Performance-related bonus
Executive Directors may earn a performance-related bonus for achievement of measurable targets. This bonus is based on targets set each year, internally and by the Shareholder. The maximum bonus for all executive Directors, except the Chief Executive, is 40% of basic pay; the Chief Executive can achieve a maximum of 50%. Most targets relate to financial performance and quality of service, with the greater proportion available for profit achievement.

Allan Leighton was appointed as non executive Chairman on 25 March 2002. His performance-related bonus arrangements had not been finalised at the time these accounts were approved.

Benefits
Benefits incorporate all benefits arising from their employment. In the main, these relate to the provision of company cars, life insurance and health insurance plus the cash-equivalent of any benefits not taken.

Pensions
The Group has a liability to pay pensions in respect of Directors' services, with the consent of the Secretary of State and, for some executive Directors, makes contributions to pension schemes for this purpose. The Company has set up a Funded Unapproved Retirement Benefit Scheme (FURBS). FURBS will provide benefits to Directors and employees whose contributions to the Company scheme are restricted by the Inland Revenue earnings cap.

Contracts of service
Executive Directors have rolling 12-month contracts and non executive Directors are generally appointed for a two-year term.

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Report on Directors' Remuneration

continued

Directors' remuneration, excluding pensions, was as follows:

	Basic salary and fees £	Performance -related bonus £	Benefits £	Total excluding pensions 2002 £	Total excluding pensions 2001 proforma as restated £
CHAIRMAN (NON EXECUTIVE)					
Allan Leighton	21,093	–	–	**21,093**	–
Neville Bain (retired 31 December 2001)	71,697	–	–	**71,697**	95,352
EXECUTIVE					
John Roberts	211,560	–	14,292	**225,852**	219,314
Jerry Cope	144,480	–	12,374	**156,854**	151,899
Marisa Cassoni (appointed 1 February 2001)	295,000	–	13,532	**308,532**	49,594
Richard Close (died 6 April 2000)	–	–	–	**–**	2,868
NON EXECUTIVE					
John Lloyd	21,500	–	–	**21,500**	16,657
Miles Templeman	23,054	–	–	**23,054**	17,700
Rosemary Thorne	24,000	–	–	**24,000**	18,227
Mike Kinski (resigned 12 February 2002)	20,857	–	–	**20,857**	18,227
Total 2002	833,241	–	40,198	**873,439**	–
Total 2001	567,257	–	22,581	–	589,838

No fees (2001 nil) were paid to third parties in respect of services provided by Directors.

Allan Leighton was appointed as a non executive Director on 2 April 2001 and was subsequently appointed interim Chairman on 8 January 2002 and Chairman on 25 March 2002.

David Mills was appointed as an executive Director on 15 April 2002.

The figures in the table represent emoluments earned and receivable as Directors during the financial year, whenever paid. Such emoluments are normally paid in the same financial year with the exception of the performance-related bonus, which is paid in the year following that in which it is earned. This is a change from the previous year when only those emoluments actually paid in the financial year were disclosed. Accordingly, the figures for 2001 have been restated to include the effect of a salary increase for Neville Bain, John Roberts and Jerry Cope that was effective from October 2000 but not settled until May 2001. In addition, the restated figures include fees totalling £1,451 relating to 2001 that were not paid until 2002.

During the year, the Secretary of State as Special Shareholder, approved an increase of 10% in the base salaries of John Roberts and Jerry Cope. Both Directors have agreed to waive the increase for the financial year ended 31 March 2002.

Pensions
The Group normally offers its most senior employees membership of the Consignia Senior Executive Pension Plan (CSEPP). Details of CSEPP are set out in note 21 to the accounts. The plan is a funded, Inland Revenue-approved final salary occupational pension scheme. The scheme provides for a two-thirds final pensionable salary at normal retirement age, subject to the necessary pensionable service and Inland Revenue earnings cap. Pensions in payment are increased annually in line with Retail Prices Index (RPI), subject in some cases to a cap. Pensions are also payable to dependants on the death of the member and a lump sum is payable if death occurs in service.

John Roberts was a member of the Consignia Pension Plan (CPP) Section B until 23 November 2001, when he transferred on a 1/30th basis to CSEPP, with a one-year-for-one-year service transfer. Details of CPP are in note 21 to the accounts.

Jerry Cope was a member of CPP Section B until 23 November 2001. He was also a member of the Post Office Senior Executive Pension Scheme (POSEPS), which was an Inland Revenue-approved top-up scheme. From 24 November, Jerry Cope became a member of CSEPP on a 1/30th basis and ceased membership of the other schemes. Previous service was transferred on a one-year-for-one-year basis.

From 1 April 2001, Marisa Cassoni became a member of CSEPP on a 1/30th basis. Her pension is funded by a combination of the company scheme and FURBS, for which provision is being made in the accounts. The cost of FURBS in 2002 was £100,000 (2001 £17,000). The Post Office Corporation provided life assurance protection from 1 February 2001 to 26 March 2001. Life cover was provided in line with normal death-in-service benefits of four times salary (as restricted by the Inland Revenue earnings cap). Marisa Cassoni's pension benefits have been augmented by the employer to give her two months' additional pensionable service in respect of her service in the previous year.

The pension contributions and entitlements for Neville Bain were determined using the rules of CPP Section C. Details of this scheme are set out in note 21 to the accounts. Neville Bain retired from the Company on 31 December 2001 and receives a pension of £5,839 per annum.

The accumulated total accrued pensions for John Roberts and Jerry Cope have been adjusted to reflect the enhanced annual pensions that are payable in lieu of the lump sum entitlements, which were payable from their previous schemes.

Pension scheme benefits

	CPP (formerly POPP) Section B	CPP (formerly POPP) Section C	CSEPP
Annual pension entitlement fraction of final year salary (which constitutes only basic salary) for each year's service	1/80th*	1/60th*	Varies
Lump sum	3 times annual pension	nil	nil

*A fraction of 1/45th applied where a Director or employee was also a member of POSEPS

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The pension entitlements of the Directors at the year end were:

	Increase in the accrued pension in the period (after inflation) £	Transfer value of the increase in accrued pension in the period £	Accumulated total accrued pension At 31 March 2002 £	At 25 March 2001 as restated £
Neville Bain	989	14,100	5,839	4,850
John Roberts	35,824	564,835	149,869	112,139
Jerry Cope	15,588	219,416	75,931	59,334
Marisa Cassoni	3,710	39,222	3,710	–

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and excludes Directors' contributions. The transfer value represents a liability of the Company rather than any remuneration due to the individual and cannot be meaningfully aggregated with annual remuneration, as it is not money the individual is entitled to receive.

Statement of Directors' responsibilities in respect of the accounts

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period.

In preparing those accounts Directors are required to:
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy, at any time, the financial position of the Company and of the Group, and which enable them to ensure that the accounts comply with the Companies Act 1985. Directors are also responsible for ensuring that the assets of the Group are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Consignia Holdings plc

We have audited the Group's financial statements for the year ended 31 March 2002 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement and associated notes, the Group statement of total recognised gains and losses, accounting policies and general notes and the related notes 1 to 29. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the annual Review and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the accounts and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, Financial Review, Corporate Governance statement and Directors' Remuneration statement. 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 audit opinion
We conducted our audit in accordance with United Kingdom Auditing Standards 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.

Fundamental uncertainty – going concern
In forming our opinion, we have considered the adequacy of the disclosures made in accounting policy note A concerning the outcome of funding discussions with Government and the consequent fundamental uncertainty as to whether or not the Group can be considered to be a going concern. The accounts do not include any adjustments that would result from Government not approving appropriate funding or restricting access to current asset investments, as described in accounting policy note A. It is not practical to quantify the adjustments that might be required, but should any adjustments be required they would be significant. In view of the significance of this fundamental uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
12 June 2002

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Accounting policies and general notes

The following accounting policies and general notes apply throughout the Group:

A) Fundamental accounting concept note
Current strategic plans indicate that funding totalling some £2.4bn is required over the next three years to restructure and reduce the cost base and to fund Post Office Limited.

Potentially available cash and other current asset investments totalled £1,850m at 31 March 2002. Whilst the Company's Articles allow Consignia Holdings plc to borrow up to £5,000m, this is subject to prior approval by Government.

The Company is in active discussions with Government as to how future cash requirements are to be funded, including certain conditions and constraints on how the current asset investments can be used to arrange National Loans Fund (NLF) finance and to support Post Office Limited. The Government has indicated that it will seek for the current asset investments of £1.8bn to be distributed from Consignia plc to Consignia Holdings plc. Financial support of Post Office Limited is conditional on the production of a business plan by September 2002, which is acceptable to the Company and the Secretary of State but funding has been permitted from current assets investments up to April 2003 and for existing commitments that go beyond that date. Government approval to fund the renewal plan and a decision on funding of the social Post Office network is critical to Consignia's continuing operations.

The Directors believe that the conditions and constraints imposed by the Secretary of State will be met and that the outcome of funding discussions with Government, described above, will be favourable. On this basis, after consideration of cash flow projections, the Directors consider it appropriate to prepare the financial statements on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future. However, the margin of funds over requirements is not large and there can be no certainty in relation to this matter.

Should Government fail to approve appropriate funding, the going concern basis would be invalid and adjustments would have to be made to reduce the value of the assets to their realisable amount, to provide for any further liabilities that might arise and to reclassify fixed assets and long-term liabilities as current assets and current liabilities.

B) Basis of preparation and change in accounting policy
These are the first accounts prepared for the Group under a plc status. Previously the accounts were produced under a direction from the Secretary of State. By way of a scheme under Section 60 of the British Telecommunications Act 1981, the assets and liabilities of The Post Office Corporation were, on 25 March 2001, transferred to Consignia plc in consideration of the issue of 50,000 ordinary shares in Consignia plc to The Post Office Corporation. On 26 March 2001, the shares in Consignia plc, owned by The Post Office Corporation, were vested in Consignia Holdings plc under Section 62 of the Postal Services Act 2000. Consignia Holdings plc was incorporated on 20 September 2000, and financial statements were completed for the period ended 25 March 2001. Consignia plc was incorporated on 10 January 2001 and did not trade prior to 26 March 2001.

This reorganisation does not technically meet the merger rules of Schedule 4(A) to the Companies Act 1985 as there was no share-for-share transaction. Nevertheless, in accordance with the principles of FRS 6 for group reconstructions, the financial statements are presented as if The Post Office Group and its subsidiaries had been owned and controlled by the Company throughout.

The Directors consider that the application of acquisition accounting would fail to give a true and fair view of the Group's state of affairs and results because the Shareholder has had a continuing interest in The Post Office Group businesses both before and after the transfers. Due to the number and complexity of transactions involved, it is not practicable to quantify the effect of this departure.

The comparative information shown relates to the previous accounting period of The Post Office Group rather than the statutory accounting period of Consignia Holdings plc, which commenced on 20 September 2000, its date of incorporation.

The accounts on pages 10 to 35 have been prepared in accordance with applicable accounting standards under the historic cost accounting convention, except for the issue described in accounting policy note I(iii) and quantified in note 12.

Consignia Holdings plc (the Company) has not presented its own profit and loss account, as permitted by the Companies Act 1985 s230(3). However, the results of the Company for the year are in note 29.

The Board reviewed the accounting policies adopted by The Post Office Corporation and decided that the historic cost accounting convention would be more appropriate for a plc. The prior year results have been restated to show the effect of this change.

Three new Financial Reporting Standards have been issued by the Accounting Standards Board and where necessary, changes have been made to comply with these. The effects of the new standards are as follows:

FRS 17 – Retirement benefits. The transitional arrangements will be phased over the three years ending March 2002, March 2003 and March 2004 respectively. Additional information relating to the closing balance sheet is given in note 21. The pension cost figures in the accounts comply with SSAP 24.

FRS 18 – Accounting policies. The accounts reflect adoption of this standard. No material changes have arisen.

FRS 19 – Deferred tax. This standard requires that in general, deferred tax be provided on a full provision basis instead of a partial provision basis, as applied formerly. The revised accounting policy is outlined in accounting policy note K.

C) Financial year
The financial year ends on the last Sunday in March and accordingly, these accounts cover the 53-week period ended 31 March 2002 (the year) (2001 52 weeks).

D) Basis of consolidation
The accounts consolidate the accounts of Consignia Holdings plc and its subsidiary undertakings. These accounts consolidate the results of Consignia plc from its date of incorporation, as outlined in accounting policy note B.

Entities, other than subsidiary undertakings in which the Group has a participating interest and over whose operating and financial policies the Group exercises a significant influence, are treated as associates. In the accounts, associates are accounted for using the equity method.

The Group operates through business units that make use of each other's services in order to take advantage of Group synergies, having regard to the mutual dependencies that exist. The Board's view is that there is a significant interdependency between mails and counter services. The interbusiness charges recognise this dependency. The Board's policy is to maintain controls to ensure that appropriate pricing principles are adhered to.

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E) Turnover
Turnover is the value of all services provided excluding VAT. In the case of mails and distribution, turnover comprises revenue receivable directly from customers and a measured share of stamp income.

It is not considered that there is a material difference between turnover by origin and destination.

F) Goodwill
Goodwill arising on acquisition, being the excess of the consideration over the fair value of the separately identifiable net assets acquired, is capitalised and amortised on a straight-line basis over its estimated useful economic life up to a maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following acquisition and thereafter as appropriate.

G) Tangible fixed assets
(i) Tangible fixed assets are recognised at cost, including directly attributable costs in bringing the asset into working condition for its intended use.

(ii) Depreciation of tangible fixed assets is provided on a straight-line basis by reference to original cost, and to the remaining useful economic lives of assets and their estimated residual values. The lives assigned to major categories of tangible fixed assets are:

Property:	
Freehold buildings	up to 60 years
Leasehold land and buildings	the shortest of the period of the lease, 60 years or the estimated remaining useful life
Plant and machinery	3 – 35 years
Motor vehicles	1 – 12 years
Fixtures and equipment:	
office machines	3 – 20 years
computers	2 – 7 years
other	4 – 25 years

(iii) Impairment reviews of fixed assets are performed annually for assets with an estimated remaining useful life in excess of 50 years and additionally where there is an indication of impairment as defined by FRS 11.

H) Leasing and hire purchase
Assets acquired under finance leases or hire purchase agreements are capitalised and treated as tangible fixed assets. Depreciation is provided accordingly and the capital element of future rentals is included within creditors. Interest on such contracts is charged to the profit and loss account over the period of the contract, and represents a charge that relates to the proportion of the capital repayments outstanding. All other leases are regarded as operating leases and rentals are charged on a straight-line basis over the lease term.

I) Investments
(i) In the Company's accounts, the investments in subsidiary undertakings and associates are stated at cost less provision for impairment for acquired undertakings and at net asset value for internally formed companies.

(ii) Other fixed asset investments are stated at cost, less provision for impairment.

(iii) Government gilt-edged securities, held as current assets, are stated at market value at the balance sheet date and the difference between cost and market value is taken to the profit and loss account. This treatment is a departure from UK accounting rules, which stipulate that unrealised profits be credited to a revaluation reserve. In the opinion of the Directors, the treatment adopted is necessary to present a true and fair view. The accounting treatment adopted represents a fairer reflection of the investment return. All other asset investments are treated according to standard UK accounting rules.

J) Stocks
Stocks comprise unissued stores and in the case of counter services also include retail stocks. All stocks are carried at the lower of cost and net realisable value.

K) Deferred tax
Deferred tax is generally provided in full on timing differences at the balance sheet date, at rates expected to apply when the tax liability (or asset) crystallises based on substantially enacted tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts.

Deferred tax is not recognised in the following instances:

- on gains on disposal of fixed assets where, on the basis of available evidence, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when there is a commitment to dispose of those replacement assets.
- on unremitted earnings of subsidiaries and associates where there is no commitment to remit those earnings.
- deferred tax assets are recognised only to the extent that the Directors consider that it is 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 assets and liabilities are not discounted.

L) Pensions and other post-retirement benefits
Membership of occupational pension schemes (as detailed in note 21) is open to most permanent UK employees of the Group. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

The defined benefit schemes are financed on the basis that the combined current service contributions payable by the employees and employer are sufficient to cover the cost of the benefits which are expected to accrue in the future to members. The charge to the profit and loss account is calculated so as to spread variations from regular cost and to amortise the surplus or deficit over the expected remaining service lives of the employees. The assets of the schemes are held in separate trustee administered funds.

Valuations of the defined benefit schemes are carried out by independent professionally qualified actuaries at intervals not normally exceeding three years, as determined by the Trustees. In each year between actuarial valuations, the actuaries perform a high-level review of the funding position of the schemes.

The accounting charge for pensions reflects best estimate assumptions as required by SSAP 24, whereas the funding arrangements use a more cautious assumption for investment returns to assess the cash position of CPP. This results in the cash payments being higher than the accounts charge for CPP. The difference is dealt with through the long-term pensions debtor in the balance sheet.

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Accounting policies and general notes

continued

M) Research and development
Expenditure on research and development is written off in the year in which it is incurred.

N) Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction (or at the contracted rate if the transaction is covered by a forward foreign currency contract). Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date (or the appropriate forward contract rate). All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings which are used to finance or provide a hedge against foreign equity investments. These are taken directly to reserves together with the exchange difference on the carrying amount of the related investments. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves. The accounts of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date and the differences arising from the translation of opening net investments are taken to reserves.

O) Derivative instruments
The Group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The Group's policy is that its derivative instruments qualify for hedge accounting when the following criteria are met:

- the instrument must be related to a foreign currency asset or liability that is probable and whose characteristics have been identified;
- it must involve the same currency as the hedged item; and
- it must reduce the risk of foreign currency movements on the Group's operations.

The contracted rates are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains or losses on the related financial assets and liabilities. Where the instrument is used to hedge a committed or probable future transaction, gains or losses are not recognised until the transaction occurs.

Group profit and loss account

		2002			2001		
		53 weeks ended 31 March 2002			proforma 52 weeks ended 25 March 2001 as restated		
	Notes	Before exceptional items £m	Exceptional items (note 4) £m	Total £m	Before exceptional items £m	Exceptional items (note 4) £m	Total £m
Turnover – continuing operations							
Ongoing		8,377	–	8,377	8,119	–	8,119
Acquisitions		31	–	31	–	–	–
Turnover	1	8,408	–	8,408	8,119	–	8,119
Staff costs	2	(4,865)	(513)	(5,378)	(4,671)	–	(4,671)
Depreciation and other amounts written off tangible and intangible fixed assets:							
Depreciation and amortisation	3	(271)	–	(271)	(277)	–	(277)
Impairment	3	–	(446)	(446)	(9)	–	(9)
Other operating charges		(3,339)	(179)	(3,518)	(3,155)	(67)	(3,222)
Other operating income	3	–	19	19	15	–	15
Total net operating costs		(8,475)	(1,119)	(9,594)	(8,097)	(67)	(8,164)
Group operating (loss)/profit – continuing operations							
Ongoing		(67)	(1,119)	(1,186)	22	(67)	(45)
Acquisitions		–	–	–	–	–	–
Group operating (loss)/profit		(67)	(1,119)	(1,186)	22	(67)	(45)
Share of operating profit in associates		4	–	4	–	–	–
Impairment of goodwill in associates		(5)	(7)	(12)	–	–	–
Total operating (loss)/profit: Group and share of associates	3	(68)	(1,126)	(1,194)	22	(67)	(45)
Net profit on disposal of tangible fixed assets	4	–	24	24	–	20	20
Loss on disposal of subsidiary undertaking		–	(10)	(10)	–	–	–
(Loss)/profit on ordinary activities before interest		(68)	(1,112)	(1,180)	22	(47)	(25)
Net interest receivable	5	56	–	56	106	–	106
(Loss)/profit on ordinary activities before taxation		(12)	(1,112)	(1,124)	128	(47)	81
Taxation	6			179			(34)
(Loss)/profit on ordinary activities after taxation				(945)			47
Equity minority interests				5			2
(Loss)/profit for the financial year				(940)			49
Transfer to dividend reserve	7			–			(93)
Loss transferred to reserves for the financial year	19			(940)			(44)

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Group statement of total recognised gains and losses

	Notes	2002 53 weeks ended 31 March 2002 £m	2001 proforma 52 weeks ended 25 March 2001 as restated £m
(Loss)/profit for the financial year excluding share of profit/(loss) in associates		(943)	50
Share of associates' profit/(loss) for the year		3	(1)
(Loss)/profit for the financial year		(940)	49
Exchange differences on translation of net assets		(15)	13
Exchange differences on translation of loans		2	(3)
Unrealised gain on associate transaction	10	15	–
Total recognised (losses)/gains for the financial year		(938)	59
Prior period adjustments:			
Historic cost accounting convention	9	(521)	
Deferred tax	18	(230)	
Total recognised losses since last accounts		(1,689)	

There is no statement of historical cost profits and losses as the accounts are produced under the historic cost accounting convention.

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Balance sheets

	Notes	Group at 31 March 2002 £m	Group proforma at 25 March 2001 as restated £m	Company at 31 March 2002 £m	Company at 25 March 2001 £m
Fixed assets					
Intangible assets	8	**146**	421	**–**	–
Tangible assets	9	**1,783**	2,026	**–**	–
Investments in associates	10	**80**	27	**–**	–
Other investments	10	**14**	33	**2,725**	–
		2,023	2,507	**2,725**	–
Current assets					
Stocks		**42**	44	**–**	–
Debtors – receivable beyond one year	11	**549**	375	**–**	–
Debtors – receivable within one year	11	**882**	1,022	**–**	–
Investments	12	**1,800**	2,163	**–**	–
Cash at bank and in hand		**1,054**	891	**–**	–
		4,327	4,495	**–**	–
Creditors – amounts falling due within one year	13	**(2,340)**	(2,487)	**–**	–
Net current assets		**1,987**	2,008	**–**	–
Total assets less current liabilities		**4,010**	4,515	**2,725**	–
Creditors – amounts falling due after more than one year	14	**(655)**	(697)	**–**	–
Provisions for liabilities and charges	18	**(750)**	(280)	**–**	–
		2,605	3,538	**2,725**	–
Capital and reserves					
Called up share capital	28	**–**	–	**–**	–
Profit and loss account		**2,346**	3,299	**2,481**	–
Dividend reserve		**244**	244	**244**	–
Other reserves		**15**	–	**–**	–
Total capital and reserves	19	**2,605**	3,543	**2,725**	–
Equity minority interests		**–**	(5)	**–**	–
		2,605	3,538	**2,725**	–

GRO

Allan Leighton

GRO

John Roberts

GRO

Marisa Cassoni

Approved by the Board on 12 June 2002.

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Group cash flow statement

	Notes	2002 53 weeks ended 31 March 2002 £m	2001 proforma 52 weeks ended 25 March 2001 £m
Net cash flow from operating activities	(a)	12	330
Dividends from associates		1	1
Returns on investments and servicing of finance			
Interest received		111	114
Interest paid		(32)	(11)
Net cash inflow from returns on investments and servicing of finance		79	103
Taxation			
Corporation tax recovered/(paid)		13	(67)
Cash inflow/(outflow) from taxation		13	(67)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(216)	(303)
Purchase of fixed asset investments		(6)	(21)
Sale of tangible fixed assets		61	54
Sale of fixed asset investments		4	6
Net cash outflow from capital expenditure and financial investment		(157)	(264)
Acquisitions and disposals			
Purchase of subsidiary undertakings		(14)	(167)
Net cash acquired with subsidiary undertakings		-	(1)
Purchase of interest in associates		(25)	(24)
Payment of deferred consideration in respect of prior years' acquisitions		(9)	(32)
Net cash outflow from acquisitions and disposals		(48)	(224)
Cash outflow before use of liquid resources and financing		(100)	(121)
Management of liquid resources			
Net movement in current asset investments	(b)	363	(150)
Net cash inflow/(outflow) before financing		263	(271)
Financing			
Repayment of hire purchase agreements	(b)	(83)	(179)
New long-term loans	(b)	1	512
Repayment of loans	(b)	(9)	(5)
Net cash (outflow)/inflow from financing		(91)	328
Increase in cash		172	57

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Reconciliation of net cash flow to movement in net funds

	Note	2002 53 weeks ended 31 March 2002 £m	2001 proforma 52 weeks ended 25 March 2001 £m
Increase in cash		**172**	57
Repayment of hire purchase agreements	(b)	**83**	179
New long-term loans	(b)	**(1)**	(512)
Repayment of loans	(b)	**9**	5
Cash flow from management of liquid resources	(b)	**(363)**	150
Change in net funds resulting from cash flows		**(100)**	(121)
Exchange differences	(b)	**(8)**	(3)
Movement in net funds		**(108)**	(124)
Net funds at 26 March 2001	(b)	**2,266**	2,390
Net funds at 31 March 2002	(b)	**2,158**	2,266

Notes to the cash flow statement

(a) Reconciliation of operating loss to net cash flow from operating activities	2002 £m	2001 proforma as restated £m
Group operating loss	**(1,186)**	(45)
Depreciation and amortisation	**271**	277
Impairment	**446**	9
	(469)	241
Change in operating assets and liabilities		
Stocks	**2**	(1)
Debtors	**(69)**	(235)
Creditors	**(100)**	208
Counter services client balances	**(4)**	108
Provisions	**652**	9
Net cash inflow from operating activities	**12**	330

Cash flows relating to operating exceptional items
There was a net cash outflow of £53m in 2002 in respect of redundancy payments (2001 a net cash outflow of £37m in respect of television licence administration contract losses).

(b) Analysis of net funds	At 26 March 2001 proforma £m	Cash flows £m	Exchange differences £m	At 31 March 2002 £m
Cash at bank and in hand	891	172	(9)	**1,054**
Debt due beyond one year	(580)	(1)	–	**(581)**
Debt due within one year	(19)	9	1	**(9)**
Hire purchase agreements due beyond one year	(106)	36	–	**(70)**
Hire purchase agreements due within one year	(83)	47	–	**(36)**
Current asset investments	2,163	(363)	–	**1,800**
	2,266	(100)	(8)	**2,158**

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Notes to the accounts

1 Segmental information

Analysis of turnover **By class of business**	2002 53 weeks ended 31 March 2002 Total sales £m	Sales between segments £m	External turnover £m	2001 proforma 52 weeks ended 25 March 2001 as restated Total sales £m	Sales between segments £m	External turnover £m
Mails and parcels	7,367	(17)	7,350	7,079	(21)	7,058
Counter services	1,290	(337)	953	1,196	(289)	907
Other businesses	212	(107)	105	248	(94)	154
Total	8,869	(461)	8,408	8,523	(404)	8,119
By geographic area of origin						
United Kingdom			7,752			7,512
Rest of the World			656			607
Total			8,408			8,119

Analysis of (loss)/profit before taxation

By class of business	2002 Operational activity £m	Pensions benefit £m	Before exceptional items £m	Exceptional items £m	Total £m	2001 Operational activity £m	Pensions benefit £m	Before exceptional items £m	Exceptional items £m	proforma as restated Total £m
Mails and parcels	(138)	205	67	(1,022)	(955)	(150)	185	35	–	35
Counter services	(164)	20	(144)	(94)	(238)	(57)	19	(38)	–	(38)
Other businesses	(15)	25	10	(3)	7	1	24	25	(67)	(42)
Pensions benefit	250	(250)	–	–	–	228	(228)	–	–	–
Group operating (loss)/profit	(67)	–	(67)	(1,119)	(1,186)	22	–	22	(67)	(45)
Share of operating profit in associates			4	–	4			–	–	–
Impairment of goodwill in associates			(5)	(7)	(12)			–	–	–
Profit on disposal of fixed assets			–	24	24			–	20	20
Loss on disposal of subsidiary undertaking			–	(10)	(10)			–	–	–
Net interest receivable			56	–	56			106	–	106
(Loss)/profit on ordinary activities before taxation			(12)	(1,112)	(1,124)			128	(47)	81
By geographic area of origin										
United Kingdom			(17)	(868)	(885)			59	(67)	(8)
Rest of the World			(50)	(251)	(301)			(37)	–	(37)
Group operating (loss)/profit			(67)	(1,119)	(1,186)			22	(67)	(45)
Share of operating profit in associates			4	–	4			–	–	–
Impairment of goodwill in associates			(5)	(7)	(12)			–	–	–
Profit on disposal of fixed assets			–	24	24			–	20	20
Loss on disposal of subsidiary undertaking			–	(10)	(10)			–	–	–
Net interest receivable			56	–	56			106	–	106
(Loss)/profit on ordinary activities before taxation			(12)	(1,112)	(1,124)			128	(47)	81

Analysis of net assets/(liabilities) **By class of business**	2002	2001
Mails and parcels	1,225	2,257
Counter services	(286)	(151)
Other businesses	(35)	(3)
	904	2,103
Share of net assets of associates	80	27
Unallocated net assets	1,621	1,408
Total net assets	2,605	3,538

Unallocated net assets principally include current asset investments, tax and borrowings. All net assets other than £143m (2001 £426m) were located in the United Kingdom. In order to reflect the segmental analysis more appropriately, a number of changes have been made to names, presentation and structure of the segments. The mails and distribution segment has been renamed 'mails and parcels'. In addition, Consignia's philatelic business has been moved from 'other' to 'mails and parcels', resulting in a prior year transfer of £51m profit between these segments. As a result of a reorganisation within the Group, Consignia's cash distribution business has been moved from 'mails and parcels' to 'counter services', resulting in a prior year transfer of £8m profit between these segments. Last year's figures have been restated to reflect these changes.

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2 Staff costs

	2002 £m	2001 proforma £m
Wages and salaries	4,778	4,285
Social security costs	323	321
Pension costs (note 21)	277	65
	5,378	4,671

A loan to one officer totalling £5,516 (2001 as restated – one officer £7,212) was outstanding at the end of the year.

Staff costs include £513m (£313m wages and salaries and £200m pension costs) which is included in exceptional items.

Average staff numbers, calculated on a full-time equivalent basis, including part-time employees were:

	2002	2001 proforma
Mails and parcels	190,107	188,297
Counter services	14,564	11,815
Other	17,139	17,852
Group total	221,810	217,964

	2002	2001 proforma as restated
Subpostmasters at year end	14,901	15,217

Details of Directors' remuneration and pension entitlements are included on pages 7 to 9.

3 Operating loss

	2002 £m	2001 proforma as restated £m
Group operating (loss)/profit is stated after charging/(crediting):		
Depreciation:		
Owned assets	220	250
Assets held under hire purchase agreements	28	9
Impairment write-down:		
Owned assets	148	4
Assets held under hire purchase agreements	39	–
Intangible assets:		
Amortisation	23	18
Impairment	259	5
	717	286
Subpostmasters' costs	565	551
Research and development expenditure	9	11
Operating lease charges:		
Land and buildings	136	107
Vehicles and equipment	50	29
Counter services net interest receivable (note 5)	(1)	(11)
Expenditure reimbursed to:		
Postcomm	5	4
Postwatch	7	2
Other operating income:		
Participation fee in respect of a sale and hire purchase back transaction	–	(15)

Auditors' remuneration:	2002 £000	2001 proforma £000
Audit services	1,269	1,078
Non-audit services:		
Due diligence and taxation services in respect of acquisition and disposal activity – UK	1,927	2,109
Regulatory, taxation, accounting and other assurance services – UK	3,292	5,076
Other advisory services – UK	1,007	–
Total non-audit services – UK	6,226	7,185
Overseas	1,679	548
Total non-audit services	7,905	7,733

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Notes to the accounts

continued

4 Exceptional items

	2002 £m	2001 proforma as restated £m
Recognised in arriving at operating loss:		
Television licence administration contract losses	-	(67)
Recovery of losses arising from the supply of services for television licensing	19	–
Impairment write-downs	(446)	–
Provision for restructuring of parcel services	(298)	–
Pipeline restructuring	(156)	–
Other redundancy provisions	(228)	–
Vacant leasehold property provisions	(10)	–
	(1,119)	(67)
Recognised below operating loss:		
Impairment of goodwill in associate	(7)	–
Net profit on disposal of tangible fixed assets (no tax or minority interest effect)	24	20
Loss on disposal of subsidiary undertaking	(10)	–
	(1,112)	(47)

Impairment reviews were carried out using a weighted average cost of capital of 8% and by reference to future projections in accordance with long-term average growth rates.

The impairment relates to tangible fixed assets in Post Office Limited and the goodwill and other assets in the parcels businesses amounting to £446m.

Parcel services restructuring relates to the decision that Parcelforce Worldwide should concentrate solely on the growing market for 'time-guaranteed' and 'next day' and 'two day' express deliveries, both in the UK and overseas. Consignia will transfer its universal parcels service to Royal Mail who will use its existing network.

The provision for the pipeline restructuring relates to the initiative to streamline the transport network. A more integrated road-based regional hub and spoke system will reduce the total number of road journeys.

Other redundancy provisions relate to improvements in efficiency throughout Consignia to support the initiative to reduce gross costs by £1.4bn per annum by April 2005.

5 Net interest receivable

	2002 £m	2001 proforma £m
Interest payable:		
– On bank loans and overdrafts	(4)	(6)
– On other loans	(30)	(4)
	(34)	(10)
Interest receivable	90	116
	56	106

In addition, counter services (Post Office Limited) net interest receivable of £1m (2001 £11m) is included within other operating charges.

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6 Taxation

The 2001 figures have been restated to show the effect of the implementation of FRS 19 – Deferred tax.

(a) Tax on (loss)/profit on ordinary activities
The tax charge/(credit) is made up as follows:

	2002 £m	2001 proforma as restated £m
Current tax		
UK corporation tax on income for the period	–	1
Tax overprovided in previous years	–	(13)
	–	(12)
Foreign tax	2	1
Group current tax	2	(11)
Share of associates' current tax	1	1
Total current tax (note 6 (b))	3	(10)
Group deferred tax – origination and reversal of timing differences (note 6 (d))	(182)	44
Tax on (loss)/profit on ordinary activities	(179)	34

(b) Factors affecting current tax charge/(credit)
The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2001 30%). The differences are explained below:

	2002 £m	2001 proforma as restated £m
(Loss)/profit on ordinary activities before tax	(1,124)	81
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001 30%)	(337)	24
Deferred/(accelerated) relief for asset depreciation and impairment	112	(6)
Accelerated relief for pension contributions	(31)	(43)
Provisions not deductible until incurred	101	5
Impairment and amortisation of goodwill	85	1
Deferred tax, including losses, not recognised	57	(1)
Other tax assets, including losses	16	10
Total current tax (note 6 (a))	3	(10)

(c) Factors that may affect future tax charges
The Group has unrecognised deferred tax assets of £57m (2001 £18m) relating to tax losses in subsidiaries that are available to offset against future taxable profits of those companies. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and have arisen in companies which have been loss-making for some time.

The Group has capital losses carried forward, the tax effect of which is approximately £11m (2001 £11m). These may be set-off in future against capital gains. The Group has rolled over capital gains, the tax effect of which totals £67m (2001 £60m). It is expected that gains on assets sold in the year will be fully rolled over into assets acquired in the same year or the next three years.

Post Office Limited has £126m of deferred tax assets relating to timing differences which have not been recognised due to the uncertain outlook for trading, making future taxable profits uncertain. This deferred tax asset may be recognised in future if, and to the extent that, suitable taxable profits become available.

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Notes to the accounts

continued

6 Taxation (continued)

(d) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2002 £m	2001 proforma as restated £m
Included in provision for liabilities and charges (note 18)	**(58)**	(240)
Accelerated capital allowances	**(9)**	(121)
Pension contributions timing differences	**(158)**	(127)
Provisions	**109**	8
	(58)	(240)

	£m
At 26 March 2001 proforma as restated	(240)
Deferred tax credit in Group profit and loss account (note 6 (a))	182
At 31 March 2002	(58)

7 Transfer to dividend reserve

	2002 £m	2001 proforma £m
Transfer to dividend reserve	**–**	93

In its White Paper (Cmd 4340), HM Government indicated that it would seek a dividend in respect of the trading results of The Post Office Group in 2000 and 2001. Under the terms of the British Telecommunications Act 1981, The Post Office Corporation was unable to declare and pay a dividend. However, the Board Members of the Corporation designated £244m of reserves in respect of a prospective request for payment of dividends. The Secretary of State for Trade and Industry announced on 25 March 2002 that the Shareholder would forego the dividend for this financial year.

8 Intangible fixed assets

	Goodwill £m	Other intangible assets £m	Total £m
COST			
At 26 March 2001 proforma	441	17	458
Additions in the year (note 10(ii))	24	–	24
Disposals in the year	(5)	–	(5)
Adjustments in respect of prior year's acquisitions (note 10(i))	(13)	–	(13)
Exchange movement	(5)	–	(5)
At 31 March 2002	**442**	**17**	**459**
AMORTISATION			
At 26 March 2001 proforma	37	–	37
Charge for the year	22	1	23
Impairment	259	–	259
Disposals in the year	(5)	–	(5)
Exchange movement	(1)	–	(1)
At 31 March 2002	**312**	**1**	**313**
NET BOOK AMOUNT			
At 31 March 2002	**130**	**16**	**146**
At 26 March 2001 proforma	404	17	421

Goodwill arising on acquisitions is being amortised evenly over its estimated useful economic life of 20 years.

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9 Tangible fixed assets

Group	Land and buildings Freehold £m	Long lease £m	Short lease £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
COST							
At 26 March 2001 proforma	1,755	244	481	610	464	932	4,486
Prior period adjustment (note 9 (ii))	(265)	(21)	(102)	(21)	(31)	(9)	(449)
As restated	1,490	223	379	589	433	923	4,037
Reclassification	8	1	(9)	–	–	–	–
Additions	111	–	–	40	32	45	228
On acquisition of subsidiaries	–	2	–	–	–	–	2
Disposals	(20)	(1)	(4)	(5)	(123)	(106)	(259)
At 31 March 2002	**1,589**	**225**	**366**	**624**	**342**	**862**	**4,008**
ACCUMULATED DEPRECIATION							
At 26 March 2001 proforma	436	54	188	241	260	760	1,939
Prior period adjustment (note 9 (ii))	168	21	(61)	(22)	(25)	(9)	72
As restated	604	75	127	219	235	751	2,011
Charge for the year	49	5	24	45	61	64	248
Impairment	5	35	26	46	–	75	187
Disposals	(10)	(1)	(3)	(4)	(99)	(104)	(221)
At 31 March 2002	**648**	**114**	**174**	**306**	**197**	**786**	**2,225**
NET BOOK AMOUNT							
At 31 March 2002	**941**	**111**	**192**	**318**	**145**	**76**	**1,783**
At 26 March 2001 proforma as restated	886	148	252	370	198	172	2,026

(i) The net book amounts held under hire purchase contracts amount to £118m (2001 a restated £185m).

(ii) The prior period adjustment relates to the change of accounting policy from modified historic cost to the historic cost accounting convention.

10 Fixed asset investments

Group	At 26 March 2001 proforma £m	Additions £m	Disposals £m	Reclassification £m	Impairment £m	Share of associates' profit £m	At 31 March 2002 £m
Share of net assets in associates	5	3	–	21	–	4	33
Goodwill	22	37	–	–	(12)	–	47
Net investment in associates	27	40	–	21	(12)	4	80
Financial investments	15	2	(3)	–	–	–	14
Other investments	18	4	(1)	(21)	–	–	–
	60	46	(4)	–	(12)	4	94

Financial investments are Local Authority deposits which have a maturity date in excess of 12 months at the date of purchase.

Further details of principal associates are given in note 27.

During the year, the Group entered into a transaction with TNT Post Group (TPG) and Singapore Post whereby each party contributed assets and/or bought shares to form an international cross-border mail distribution company, G3 Worldwide Mail N.V. (trading as 'Spring'). The Group contributed the business of its European branches, the shares and business of a subsidiary and purchased further shares for £21m. This transaction resulted in an unrealised gain of £15m caused by the excess of the fair value of the part of the business given up as consideration over the previous book value.

In 2001, the Group acquired a 20% stake in Camelot, the UK National Lottery operator. However, the Group neither exercised significant influence nor shared in the profits of Camelot during the currency of the first lottery licence. Accordingly, the shareholding was reported as a fixed asset investment in the accounts for the year ended 25 March 2001. During the period of the second licence, commencing 27 January 2002, the Group will participate fully in the business of Camelot. Since that date, the 20% investment has therefore been treated as an associate in these accounts.

During the year, the Group increased its stake in Direzione Gruppo Executive S.p.A. from 49% to 100%. Accordingly, this has been treated as a subsidiary of the Group.

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10 Fixed asset investments (continued)

Company

	2002 Total £m	2001 Total £m
At 26 March 2001	–	–
Transfer from The Post Office Corporation	**3,784**	–
Net asset value adjustment	**(1,059)**	–
At 31 March 2002	**2,725**	–

The net asset value adjustment arises as a result of the accounting policy note I(i). This states that the value of investments in internally formed subsidiary undertakings are stated at net asset value.

(i) Acquisitions in the prior year
The Group acquired a number of letter and parcel delivery businesses in the year ended 25 March 2001 for which completion accounts had not been finalised. The consideration and net assets acquired were included at their provisional fair values, which equated to their estimated book values. Adjustments have been made to the consideration based on the final completion accounts and the book values of the net assets acquired as shown in the table below. No further fair value adjustments have been made.

	Provisional fair value to the Group £m	Adjustments £m	Fair value to the Group £m
Tangible fixed assets	30	(8)	22
Current assets			
Debtors	49	(3)	46
Total assets	79	(11)	68
Liabilities			
Bank overdraft	(2)	–	(2)
Trade creditors	(56)	7	(49)
Other creditors and accruals	(20)	16	(4)
Net assets acquired	1	12	13
Goodwill arising on acquisition	174	(13)	161
	175	(1)	174
Discharged by:			
Fair value of consideration	172	(1)	171
Costs of acquisition	3	–	3
	175	(1)	174

(ii) Acquisitions during the year

The principal entities acquired were:

	Date of acquistion
Direzione Gruppo Executive S.p.A. (formerly an associate)	13 December 2001
Financial Distribution Services Ltd	1 August 2001
City & Financial International Ltd (CFI)	17 November 2001
Stafetten Kolding A/S	1 June 2001

Further details of principal subsidiary undertakings can be found in note 27.

The acquisition method of accounting has been used. No acquisitions are material to the Group and the following disclosures have been made on an aggregated basis.

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10 Fixed asset investments (continued)

The following table sets out the identifiable assets and liabilities acquired at their provisional fair value to the Group.

	£m
Tangible fixed assets	2
Current assets	
Debtors	1
Total assets	3
Liabilities	
Trade creditors	(2)
Net assets acquired	1
Goodwill arising on acquisition	24
	25
Discharged by:	
Fair value of consideration	24
Costs of acquisition	1
	25

The provisional fair value to the Group of the acquisitions was consistent with their book values.

The acquisitions were made by share and asset purchases for a cash consideration, subject to adjustment on agreement of completion accounts.

No material adjustments were required in respect of accounting policy alignment. The completion accounts may result in adjustments.

(iii) Disposals during the year
On 30 November 2001, the Group disposed of its 67% interest in CityMail Sweden. The Group's share of the net assets of CityMail Sweden at the date of disposal were £10m.

11 Debtors

	2002 £m	2001 proforma £m
Receivable beyond one year:		
Pension prepayment	531	365
Other debtors	18	10
	549	375

	2002 £m	2001 proforma £m
Receivable within one year:		
Trade debtors	700	789
Prepayments and accrued income	182	218
Corporation tax recoverable	–	15
	882	1,022

The pension prepayment relates to the cumulative excess of the amounts funded in the Group's defined benefit schemes over the amounts charged to the consolidated profit and loss account.

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12 Current asset investments

	2002 £m	2001 proforma £m
Government gilt-edged securities	358	197
Government short-term deposits (National Loans Fund)	1,172	1,583
UK Government Treasury bills	–	272
Local Authority deposits	270	111
	1,800	2,163

In accordance with accounting policy note I(iii), current asset investments are stated at market value. The difference between cost and market value taken to the profit and loss account for these investments was £9m (2001 £nil).

The Government has indicated that it would expect the investments represented by cash surpluses arising from previous years' trading to be ring-fenced for specific purposes: to act as security for borrowing from the National Loans Fund to finance the mails business, and to support expenditure by Post Office Limited (POL) where such expenditure has the approval of the Secretary of State and the Treasury.

13 Creditors – amounts falling due within one year

	2002 £m	2001 proforma £m
Loans (note 15)	9	19
Obligations under hire purchase agreements (note 16)	36	83
Counter services client services balances	987	991
Trade creditors	596	626
Advance customer payments for mail services	220	214
Deferred consideration (note 17)	6	11
Corporation tax	1	–
Other taxation and social security	104	105
Other creditors	7	4
Accruals and deferred income	374	434
	2,340	2,487

The Group receives and disburses cash on behalf of Government agencies to customers (client services balances) through its counters network. The level of such funds held can vary significantly at each balance sheet date.

14 Creditors – amounts falling due after more than one year

	2002 £m	2001 proforma £m
Loans (note 15)	581	581
Obligations under hire purchase agreements (note 16)	70	106
Deferred consideration (note 17)	3	5
Other	1	5
	655	697

15 Loans

	2002 £m	2001 proforma £m
Amounts falling due in:		
One year or less	9	19
More than one year but not more than two years	3	17
More than two years but not more than five years	74	59
More than five years	504	505
	590	600

Analysis of loans

	Security	Total principal £m	Interest range %
National Loans Fund:			
Loans repayable between March 2021 and September 2025	None	500	5.26 to 6.12
Floating rate bank loans	None	70	0.25 above LIBOR
Miscellaneous long-term bank loans taken out by overseas subsidiaries	Land and buildings	20	Various fixed rates
		590	

16 Obligations under hire purchase agreements

	2002 £m	2001 proforma £m
Amounts falling due in:		
One year or less	36	83
More than one year but not more than two years	34	35
More than two years but not more than five years	35	71
More than five years	1	–
	106	189

17 Deferred consideration

	2002 £m	2001 proforma £m
Amounts falling due in:		
One year or less	6	11
More than one year but not more than two years	3	5
	9	16

Purchase consideration includes an estimate of £nil (2001 £6m) which is contingent upon the future performance of the acquired entities. The deferred consideration is payable in instalments.

18 Provisions for liabilities and charges

	As reported £m	Prior period adjustment £m	At 26 March 2001 proforma as restated £m	Charged in the year £m	Released in the year £m	Utilised in the year £m	At 31 March 2002 £m
Surplus properties	11	–	11	10	–	–	21
Television licence administration contract	22	–	22	–	(1)	(21)	–
Pipeline restructuring	–	–	–	156	–	–	156
Restructuring of parcel services	–	–	–	298	–	(1)	297
Other redundancy	2	–	2	228	–	(24)	206
Other	5	–	5	7	–	–	12
Deferred tax (note 6)	10	230	240	–	(182)	–	58
	50	230	280	699	(183)	(46)	750

The prior period adjustment reflects the impact of the implementation of FRS 19 – Deferred tax, during the financial year and the deferred tax effect of the change in accounting policy from modified historic cost to the historic cost accounting convention.

(i) Surplus properties
Where the Group holds surplus leasehold properties, provision is made for future rentals and other unavoidable property costs up to the earlier of the lease termination date and the Directors' best estimate of the likely date of disposal. £3m of the provision is expected to be utilised in 2002-03 and the majority of the balance over the following six years.

(ii) Television licence administration contract
Provisions were made in 2001 to reflect foreseeable losses arising on a new contract between the BBC and Consignia (Customer Management) Limited plus costs resulting from the terminated contract with Envision Licensing Limited.

(iii) Pipeline restructuring
The provision comprises redundancy and other operating charges. £42m is expected to be utilised in 2002-03 and the majority of the balance in 2003-04.

(iv) Restructuring of parcel services
The provision comprises redundancy costs and other operating charges. £198m is expected to be utilised in 2002-03 and the majority of the balance in 2003-04.

(v) Other redundancy
It is expected that £183m will be incurred in 2002-03 and the remainder in the following two years.

(vi) Other provisions
Other provisions relate to reimbursements to nominee subpostmasters, legal claims against the Group and the costs anticipated on the closure of a subsidiary. It is expected that the costs will be incurred in 2002-03.

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Notes to the accounts

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19 Reserves

Group

	Profit and loss account £m	Revaluation £m	Dividend £m	Other £m	2002 Total £m	2001 proforma as restated Total £m
At 26 March 2001 proforma:						
– As reported	3,666	384	244	–	**4,294**	4,099
– Prior period adjustments (accounting policy note B):						
Historic cost accounting convention	(137)	(384)	–	–	**(521)**	(434)
Deferred tax	(230)	–	–	–	**(230)**	(181)
– As restated	3,299	–	244	–	**3,543**	3,484
Profit/(loss) for the financial year	(940)	–	–	–	**(940)**	49
Unrealised gain on associate transaction (note 10)	–	–	–	15	**15**	–
Exchange difference on retranslation of net assets of subsidiaries	(15)	–	–	–	**(15)**	13
Exchange difference on loans	2	–	–	–	**2**	(3)
At 31 March 2002	2,346	–	244	15	**2,605**	3,543

The profit/(loss) impact of changes in accounting policies on the current and prior year results is summarised below:

	2002 £m	2001 proforma £m
Deferred tax	**62**	(49)
Historic cost accounting convention	**27**	32
Profit/(loss) impact on reported results	**89**	(17)

Company

	Revaluation £m	Profit and loss account £m	Dividend £m	2002 Total £m	2001 Total £m
At 26 March 2001	–	–	–	**–**	–
As reported in the Corporation's 2001 accounts	297	3,907	244	**4,448**	–
Impact of prior period adjustments in Consignia plc:					
Historic cost accounting convention	(297)	(137)	–	**(434)**	–
Deferred tax	–	(230)	–	**(230)**	–
Transfer from The Post Office Corporation	–	3,540	244	**3,784**	–
Loss for the financial year	–	(1,059)	–	**(1,059)**	–
At 31 March 2002	–	2,481	244	**2,725**	–

The Company is a non-trading company and the loss for the financial year represents the net asset value adjustment arising as a result of accounting policy note I(i). This states that the investments in internally formed subsidiary undertakings are stated at net asset value. Accordingly, the Company's loss for the financial year is eliminated in the Group accounts and does not therefore form part of the Group results.

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20 Derivatives and other financial instruments

An explanation of the Group's treasury policy and controls is included in the financial review on page 3. The role of financial instruments in creating or changing the risks the Group faces in its activities is also explained in this section.

As permitted by FRS 13, short-term debtors, trade creditors, prepayments and accruals have been excluded from the disclosures.

(i) Financial liabilities – interest rate profile

The currency profile of the financial liabilities of the Group was as follows:

	2002				2001			
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	proforma Total £m
Euro	20	70	4	94	40	71	–	111
Sterling	500	–	1,096	1,596	500	–	1,188	1,688
US Dollar	2	–	–	2	–	–	5	5
Total	522	70	1,100	1,692	540	71	1,193	1,804

The interest rate and maturity profiles of the financial liabilities were as follows:

	2002							
	Fixed rate			Floating rate			Non-interest bearing	
	Value £m	Interest rate %	Average time to maturity Years	Value £m	Interest rate %	Average time to maturity Years	Value £m	Average time to maturity Days
Euro	20	5.74	8.14	70	Euro LIBOR + 0.25	2.00	4	183
Sterling	500	5.84	21.25	–	–	–	987	On demand
	–	–	–	–	–	–	106	726
	–	–	–	–	–	–	3	183
US Dollar	2	4.00	1.00	–	–	–	–	–
Total	522			70			1,100	

	2001 proforma							
	Fixed rate			Floating rate			Non-interest bearing	
	Value £m	Interest rate %	Average time to maturity	Value £m	Interest rate %	Average time to maturity Years	Value £m	Average time to maturity Days
Euro	29	Various fixed rates	9.10 years	71	Euro LIBOR + 0.25	3.00	–	–
	11	5.00	182 days	–	–	–	–	–
Sterling	500	5.84	22.25 years	–	–	–	999	On demand
	–	–	–	–	–	–	189	1,091
US Dollar	–	–	–	–	–	–	5	732
Total	540			71			1,193	

(ii) Financial assets – interest rate profile

The currency profile of the financial assets of the Group was:

	2002				2001			
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	proforma Total £m
Euro	1	19	8	28	–	1	–	1
Sterling	1,814	3	1,016	2,833	2,178	2	902	3,082
Swedish Kroner	–	–	–	–	–	–	1	1
US Dollar	4	–	2	6	–	2	1	3
Other	–	–	1	1	–	–	–	–
Total	1,819	22	1,027	2,868	2,178	5	904	3,087

Notes to the accounts

continued

20 Derivatives and other financial instruments (continued)

The interest rate and maturity profile of the financial assets were as follows:

2002

	Fixed rate			Floating rate			Non-interest bearing	
	Value £m	Weighted average interest rate %	Average time to maturity Days	Value £m	Interest rate %	Average time to maturity Days	Value £m	Average time to maturity Days
Euro	**1**	**3.08**	**8**	**19**	**Euro overnight**	**On demand**	**8**	**On demand**
Sterling	**1,791** **10** **13**	**4.02** **5.06** **8.33**	**143** **60** **382**	**3**	**Bank base minus 1**	**On demand**	**1,016**	**On demand**
US Dollar	**4**	**0.50**	**On demand**	**–**	**–**	**–**	**2**	**On demand**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**On demand**
Total	**1,819**			**22**			**1,027**	

2001
proforma

	Fixed rate			Floating rate			Non-interest bearing	
	Value £m	Weighted average interest rate %	Average time to maturity Days	Value £m	Interest rate %	Average time to maturity Days	Value £m	Average time to maturity Days
Euro	–	–	–	1	Euro overnight	On demand	–	–
Sterling	2,178	5.90	196	2	Bank base minus 1	On demand	902	On demand
Swedish Kroner	–	–	–	–	–	–	1	On demand
US Dollar	–	–	–	2	0.5	On demand	1	On demand
Total	2,178			5			904	

The Sterling assets of the Group comprise of gilts, deposits and cash.

A one percentage point increase in interest rates throughout the period would increase profit before tax by £9m.

(iii) Maturity profile of the Group's financial liabilities

The maturity profile of the Group's financial liabilities at 31 March 2002 is set out below:

	2002 £m	2001 proforma £m
One year or less or on demand	**1,036**	1,104
More than one year but not more than two years	**38**	58
More than two years but not more than five years	**111**	137
More than five years	**507**	505
	1,692	1,804

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20 Derivatives and other financial instruments (continued)

(iv) Fair value of financial assets/(liabilities)

	2002 Book value £m	2002 Fair value £m	2001 Book value £m	2001 proforma Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Cash	**1,054**	**1,054**	891	891
Current asset investments	**1,800**	**1,800**	2,163	2,163
Fixed asset investments	**14**	**14**	29	29
Investments – CityMail	**–**	**–**	4	1
Long-term borrowings	**(590)**	**(590)**	(600)	(600)
Deferred consideration	**(9)**	**(9)**	(16)	(16)
Hire purchase creditor	**(106)**	**(106)**	(189)	(189)
Client services balances	**(987)**	**(987)**	(991)	(991)
Other	**–**	**–**	(8)	(8)

Derivative financial instruments held to manage currency exposure

At the balance sheet date, the Group held contracts to purchase foreign currency for £188m (2001 £144m). There was no difference between the contracted rate and the actual rate at that date.

The carrying value of gilts is £358m (2001 £197m) which is included in the current asset investment figures. The Group portfolio of gilt holdings showed a loss of £9m (2001 £nil) during the financial year when revalued.

(v) Gains and losses on transactional exposures

The table below shows the Group's currency transactional exposures that give rise to net currency gains and losses recognised in the profit and loss account. These liabilities arise from the net payments due to overseas postal administrations for delivery of mail, and are denominated in Special Drawing Rights (SDRs). This is a basket currency comprising US Dollar, euro, Japanese Yen and Sterling. Such exposures comprise the monetary liabilities of the Group that are not denominated in the functional currency of the operating unit involved.

A maximum of 80% of the exposure to pay overseas administrations is hedged using SDRs, leaving 32 million SDRs unhedged this year.

	2002	2001 proforma
Net foreign currency liabilities (SDRm)	**32**	26
Sterling equivalent value (£m)	**28**	22

At 31 March 2002, the Group also held various open forward contracts that were taken out to hedge expected future foreign currency payments (as shown in note (iv) above).

(vi) Gains and losses on hedges

Foreign exchange exposures are hedged using currency deposits, currency borrowings, forward currency contracts and currency options.

Gains and losses on these instruments are not recognised until the hedged exposure itself is recognised. Unrecognised gains and losses on these instruments used for hedging are not material.

(vii) Borrowing facilities

In view of the large levels of cash and cash equivalents, the Group has no committed borrowing facilities.

21 Pensions

The Group operates pension schemes as detailed below:

Name	Former name	Eligibility	Type
The Consignia Pension Plan (CPP)	The Post Office Pension Plan (POPP)	UK employees	Defined benefit
The Consignia Senior Executive Pension Plan (CSEPP)	The Post Office Senior Executive Pension Scheme (POSEPS)	UK senior executives and Directors	Defined benefit
The Consignia Retirement Savings Plan (CRSP)	The Post Office Retirement Savings Plan (PORSP)	UK employees	Defined contribution
Various other small-scale schemes operated by overseas subsidiaries		Employees of the overseas subsidiaries	Defined contribution

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21 Pensions (continued)

CPP consists of two sections, Section A&B and Section C that were created by the merger of two former schemes with effect from 1 April 2000. The terms of the merger require separate consideration of the financial position of each section for up to six years after the date of the merger. The main requirement is that a funding surplus in one section cannot be used to offset a funding deficiency in the other. Thus, funding might still be needed for Section C even if Section A&B was experiencing a contribution holiday.

The pension charge was £276m for the defined benefit schemes, which includes £200m in respect of redundancy provisions, and £1m for defined contribution schemes (2001 £64m, £nil and £1m respectively). The overall Group result includes a £250m (2001 £228m) benefit derived in accordance with SSAP 24 on the basis set out below. The accounting charges are based on assumptions on a 'best estimate' basis, which reflects the difference between 'experienced' performance over the prudent actuarial assumption assumed in the funding rate. This has resulted in a lower regular accounting cost amounting to £53m (2001 £43m) of the benefit. The surplus in the Consignia Pension Plan allows a further reduction in cost – evaluated by the Scheme actuary using their 'best estimate' assumptions – providing £164m benefit (2001 £165m). This surplus is being amortised over 12 years, the average remaining service lives of employees. The interest on the long term pension debtor of £33m (2001 £20m) makes up the final element of the benefit.

Valuations of the defined benefit schemes are carried out at intervals not normally exceeding three years as determined by the trustees. The latest actuarial assessments of CPP and CSEPP were carried out as at 31 March 2000 and 1 April 2001 respectively. These were performed using an assumed rate of inflation of 3% for both schemes. Investment returns real were assumed to be 4.75% and 4.25% respectively. Pay increases real were assumed to be 1.5% and 3% respectively and pensions, both in payment and deferred, were assumed to increase at 3% for both schemes. The market value of assets at the latest actuarial assessments was £15,383m for CPP Section A&B (as at 31 March 2000), £2,434m for CPP Section C (as at 31 March 2000) and £60m for CSEPP (as at 1 April 2001). The asset cover of the benefits accrued to members after allowing for future increases in earnings was 115% for CPP Section A&B (as at 31 March 2000), 109% for CPP Section C (as at 31 March 2000) and 77% for CSEPP (as at 1 April 2001).

CSEPP commenced on 1 April 2001.

These accounts comply with the current accounting standard SSAP 24. A new accounting standard, FRS 17 has been adopted by the Group. Disclosures will be phased-in over the three years ending March 2002, March 2003 and March 2004 as permitted by the transitional rules.

FRS 17 disclosures

The net assets/(liabilities) of the schemes were calculated using an assumed rate of inflation of 2.5%. Pensions, both in payment and deferred, are assumed to increase at this rate, with pay increases some 1.3% higher. The discount rate used is 3.5% before inflation. The results are set out below.

Net pension assets/(liabilites) and expected rates of return

		CPP As at 31 March 2002		CSEPP As at 31 March 2002
	Long-term rate of return expected %	£m	Long-term rate of return expected %	£m
Equities	8.2	12,607	8.2	63
Bonds	5.3	1,706	5.3	7
Property	6.7	1,194	–	–
Other assets	4.5	106	4.5	7
Total market value of assets		15,613		77
Present value of scheme liabilities		(15,331)		(87)
Surplus/(deficit) in scheme		282		(10)
Surplus restriction		–		–
Pension asset/(liability) before deferred tax		282		(10)
Related deferred tax (liability)/asset		(85)		3
Net pension asset/(liability)		197		(7)

The present value of the scheme liabilities does not include the additional liabilities arising from the redundancy programmes. An amount of £200m has been provided in the accounts during the year for pension costs for these liabilities (see note 2).

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21 Pensions (continued)

Reconciliations of net assets and reserves under FRS 17

Net assets	2002 £m
Net assets as stated in balance sheet	2,605
SSAP 24 balance	(531)
Related deferred tax	158
Net assets excluding pension asset/liability	2,232
FRS 17 pension asset	197
FRS 17 pension liability	(7)
Net assets including pension asset/liability	2,422

Reserves	2002 £m
Profit and loss reserve as stated in balance sheet	2,346
SSAP 24 balance	(531)
Related deferred tax	158
Profit and loss reserve excluding amounts relating to pension asset/liability	1,973
FRS 17 pension asset	197
FRS 17 pension liability	(7)
Profit and loss reserve including amounts relating to pension asset/liability	2,163

The long-term rates of future contributions expressed as a percentage of pay are 12.1% for CPP Section A&B, 11.1% for CPP Section C and 24.9% for CSEPP.

22 Commitments

(i) Capital commitments
Capital commitments contracted for but not provided in the accounts amount to £45m (2001 £205m).

(ii) Operating lease commitments
The Group is committed to the following payments on operating leases during the next twelve months:

	Land and buildings 2002 £m	Land and buildings 2001 proforma £m	Vehicles and equipment 2002 £m	Vehicles and equipment 2001 proforma £m
For leases which expire:				
Within one year	**7**	6	**7**	–
Between one and five years	**21**	15	**62**	48
Beyond five years	**90**	74	**–**	–
	118	95	**69**	48

23 Contingent liabilities and guarantees

A subsidiary has guaranteed the performance of a third party in relation to lease payments payable over the 15-year term of a lease entered into on 21 December 2000, and has given certain tax indemnities to the US lessors. In the opinion of the Directors, no loss will result to the Group as a result of these guarantees.

As required by the Notes Sorting Facility rules, notes in transit to cash handling centres and those processed overnight, for which Consignia has received credit, are secured by gilts deposited with the Bank of England. On default, the estimated maximum liability would be £179m.

24 Borrowing limit

At 31 March 2002, the Group borrowing limit under Section 115(6)(b) of the Postal Services Act 2000 was £5,000m (2001 £5,000m), subject to Government agreement. The amount of outstanding borrowings at that date was £705m (2001 £805m).

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25 Related party transactions

During the year the Group entered into transactions with other related parties. The transactions were in the ordinary course of business and included administration and investment services recharged to the Group's pension scheme by Consignia Pensions Trustees Limited. The transactions entered into and the balances outstanding at 31 March 2002 are as follows:

	Sales to related party £m	Purchases from related party £m	Amounts owed from related party (including outstanding loans) £m	Amounts owed to related party £m
Consignia Pension Plan				
2002	44.4	–	19.7	–
2001	29.0	–	6.0	–
Quadrant Catering Limited				
2002	–	42.0	–	1.0
2001	–	41.0	–	1.0
Cashtec Limited				
2002	–	–	2.1	–
2001	–	–	0.7	–
Bull Information Systems Limited				
2002	–	–	–	–
2001	2.0	14.0	2.0	4.0
Postal Preference Services Limited				
2002	1.8	–	0.4	–
2001	0.9	–	0.3	–
Optecon				
2002	0.6	0.8	0.6	0.2
2001	–	–	–	–
Camelot plc				
2002	3.8	–	–	–
2001	–	–	–	–
Szybka Paczka Spolka z.o.o.				
2002	–	–	4.6	–
2001	–	–	–	–
G3 Worldwide Mail N.V.				
2002	11.0	17.0	15.0	–
2001	–	–	–	–

Companies listed above are associates of the Group with the exception of Bull Information Systems Limited, which was a co-shareholder of Envision Licensing Limited until 2001, and the Consignia Pension Plan.

Jerry Cope, a Director, is a shareholder-nominated Director of Camelot plc, with whom the Group has a commercial relationship for the sale of £810m (2001 £805m) of lottery products per annum. Camelot became an associate of the Group on 27 January 2002.

26 Post balance sheet events

The Consignia Group announced its intention to restructure its letter delivery service. The Tailored Delivery Services programme will introduce new delivery schedules, which will extend current delivery timeframes, whilst offering value-added delivery services. The structure and new services are scheduled for a phased implementation over the next three years at an estimated redundancy cost of approximately £350m. Long-term gross cost savings are provisionally estimated to be in excess of £350m per annum.

On 29 May 2002, Postcomm announced their decisions on the introduction of competition into the UK postal market. The three-phased approach adopted by Postcomm comprises:

From 1 January 2003 – the liberalisation of bulk mail posted in volumes above 4,000 items (from a single site and in identical size format) will take place. This is expected to open up 30% of the domestic mail market, as measured by revenue, to competition. In addition, other operators will be able to consolidate and convey mail for Consignia to undertake final delivery. Postcomm will continue to license niche services.

From 1 April 2005 – the bulk mail threshold will be reduced to open up 60% of the market, by revenue, to competition.

From 1 April 2007 – the whole of the UK postal market will be liberalised and open to competition.

Consignia estimates that after the full effects of competition have worked through, over the next three to five years, it will lose around 30% of its current market share in terms of both revenue and traffic volume.

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27 Principal subsidiary undertakings and associates

	Country of incorporation	Percentage holding %	Principal activities
Subsidiary undertakings			
Consignia plc [1]	UK	100	Distribution services
Post Office Limited (formerly Post Office Counters Ltd)	UK	100	Counter services
Consignia (Customer Management) Limited	UK	100	Customer management
Citipost Europe Ltd [3]	UK	100	Mail services
Citipost Corporation [3]	USA	100	Mail services
German Parcels Beteiligungs GmbH	Germany	100	Parcel services
Extand SA	France	100	Parcel services
Pakke Trans A/S	Denmark	100	Parcel services
Nederlandse Pakket Dienst B.V.	Netherlands	100	Parcel services
Direzione Gruppo Executive S.p.A.	Italy	100	Parcel services
Associates			
Camelot plc	UK	20	Lottery operations
Quadrant Catering Limited [2]	UK	51	Catering services
G3 Worldwide Mail N.V. (trade name 'Spring')	Netherlands	24.5	Mail services

1. This investment is held by the Company. All other investments are held by subsidiaries.
2. The Group holds 51% of the share capital of Quadrant Catering Limited. However, the voting rights attached to the various classes of shares give the other investor operational control. Quadrant is therefore treated as an associate in the Group accounts.
3. The results for the year ended 31 March 2002 have been consolidated for all subsidiaries except Citipost Europe Ltd and Citipost Corporation, whose results for their year ended 31 December 2001 have been used. There were no material variations from their normal trading activities between 1 January 2002 and 31 March 2002.

Details of subsidiaries acquired during the year are given in note 10. A full list of subsidiary undertakings and associates is available from the Company's registered office. All shareholdings are equity shares.

28 Share capital

Authorised	2002	2001
	£	£
Ordinary shares of £1 each	100,000	100,000
Special Rights Redeemable Preference Share (Special Share) of £1 each	1	1
	100,001	100,001

Allotted and called up	2002	2001
	£	£
Ordinary shares of £1 each	50,000	50,000
Special Rights Redeemable Preference Share of £1 each	1	1
	50,001	50,001

The Special Share can be redeemed at any time by its holder (the Special Shareholder). The Company cannot redeem the Special Share without the prior consent of the Special Shareholder. No premium is payable on redemption.

Subject to, and in accordance with, the provisions of the Postal Services Act 2000, the Special Shareholder can at any time require the Directors to declare and pay a dividend to the Special Shareholder or its nominee.

On distribution in a winding up of the Company, the Special Shareholder is entitled to repayment of the capital paid up on the Special Share in priority to any repayment of capital to any other member.

The Special Share does not carry any rights to vote.

In accordance with s63(7) of the Postal Services Act 2000, which provides that for the purposes of the Companies Act 1985, the shares issued to the Secretary of State shall be treated as if their nominal value had been fully paid up.

29 Loss attributable to the members of the parent company

The loss dealt with in the accounts of the parent company was £1,059m. The Company is a non-trading company and the loss for the financial year represents the net asset value adjustment arising as a result of accounting policy note l(i). This states that the investments in internally formed subsidiary undertakings are stated at net asset value (see note 19). Accordingly, the Company's loss for the financial year is eliminated in the Group accounts and does not therefore form part of the Group results.

Five-year summary

Profit and loss account	97-98 £m	98-99 £m	99-00 £m	00-01 as restated £m	01-02 £m
Turnover: all continuing operations	6,759	7,010	7,522	8,119	**8,408**
Total operating costs before exceptional items	(6,231)	(6,616)	(7,141)	(8,097)	**(8,475)**
Exceptional items	–	–	(656)	(67)	**(1,119)**
Group operating profit/(loss): continuing	528	394	(275)	(45)	**(1,186)**
Share of operating profit of associates	–	3	4	–	**4**
Impairment of goodwill in associates	–	–	–	–	**(12)**
Total operating profit/(loss)	528	397	(271)	(45)	**(1,194)**
Profit on sale of tangible fixed assets	4	41	11	20	**24**
Profit on disposal of support service	–	22	–	–	**–**
Loss on disposal of subsidiary undertaking	–	–	–	–	**(10)**
Profit/(loss) before interest	532	460	(260)	(25)	**(1,180)**
Net interest receivable	132	148	89	106	**56**
Profit/(loss) before tax	664	608	(171)	81	**(1,124)**
Taxation	(217)	(112)	(96)	(34)	**179**
Profit/(loss) after tax	447	496	(267)	47	**(945)**
Equity minority interests	–	–	3	2	**5**
Profit/(loss) for the financial year	447	496	(264)	49	**(940)**
Transfer to dividend reserve	–	–	(151)	(93)	**–**
Profit/(loss) retained	447	496	(415)	(44)	**(940)**

Balance sheet	97-98 £m	98-99 £m	99-00 £m	00-01 as restated £m	01-02 £m
Intangible assets	–	220	270	421	**146**
Tangible fixed assets	2,327	2,510	2,419	2,026	**1,783**
Fixed asset investments	31	22	26	60	**94**
Net current assets	1,479	1,708	1,723	2,008	**1,987**
Creditors beyond one year and provisions	(63)	(160)	(342)	(977)	**(1,405)**
Total assets less liabilities	3,774	4,300	4,096	3,538	**2,605**
Revaluation reserve	259	225	289	–	**–**
Other reserves	–	–	–	–	**15**
Profit and loss account	3,515	4,075	3,659	3,299	**2,346**
Dividend reserve	–	–	151	244	**244**
Equity minority interests	–	–	(3)	(5)	**–**
Capital and reserves	3,774	4,300	4,096	3,538	**2,605**

Note
The restated figures for 2000-01 reflect the impact of the implementation of FRS 19 – Deferred tax, and the change to the historic cost accounting convention.

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Glossary of terms

Accounting convention
The basis on which accounts are prepared.

Accounting Standards Board (ASB)
The Accounting Standards Board is responsible for producing accounting standards which are known as Financial Reporting Standards. The Company is required to comply with Financial Reporting Standards when preparing accounts.

Capital expenditure
Expenditure on new, or additions to existing, fixed assets.

Cash
Cash in hand and deposits repayable on demand (within 24 hours or one working day) with any financial institution.

CBI
Confederation of British Industry.

Client services balances
Balances owed to or due from clients in respect of counter transactions carried out by Post Office Limited.

Counter services
The services provided to customers by the network of Post Office branches.

Creditors
The amount owed to others for pay, goods and services.

Currency options
An option to buy or sell foreign currency.

Current assets
Cash, or other assets readily convertible into cash.

Debtors
Mainly amounts owed by customers for services provided and pension prepayment.

Deferred taxation
The estimated future tax consequences of transactions and events recognised in the financial statements of the current and previous periods.

FRS
A Financial Reporting Standard issued by the Accounting Standards Board.

Finance lease
A lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee.

Goodwill
The excess of consideration over net assets acquired.

Group
Comprises Consignia Holdings plc and its subsidiary undertakings.

Hedge
The use of financial assets and financial liabilities to manage risk.

Historic cost basis
The system of accounting where all current and capital expenditure is recorded at its cost at the time of purchase.

Interbusiness balances
Amounts owing between constituent businesses and subsidiary undertakings of the Group.

ICAEW
The Institute of Chartered Accountants in England and Wales.

Liquid funds (cash flow)
Current asset investments that are held as readily disposable stores of value. These investments are readily convertible into known amounts of cash at, or close, to their carrying amount and can be disposed of without curtailing business operations.

NLF
National Loans Fund.

Operating lease
A lease other than a finance lease.

Operating profit
Represents the profit (before interest and non-operating exceptional items) on ordinary activities with the exception of counter services where interest falls to be treated within operating activities.

POL
Post Office Limited.

Provisions
Amounts set aside to meet known liabilities likely to be incurred or certain to be incurred but where the amount is uncertain.

Reserves
The profit and loss account represents accumulated profits.

Shareholder
The Company's shareholder is HM Government.

Tangible fixed assets
Buildings, plant and vehicles purchased for use over a number of years.

Total recognised gains and losses
Total of all gains and losses – realised and unrealised – that are recognised in a period and are attributable to the shareholder.

Universal Service Obligation (USO)
The requirement to provide a universal postal service in the UK.

POL00362149

Contacts

Consignia
148 Old Street
LONDON
EC1V 9HQ
020 7250 2888

Royal Mail
Business Sales Centre
08457 950950

Royal Mail
Customer Services
08457 740740

Parcelforce Worldwide
Customer Services
0800 224466

Post Office Helpline
08457 223344

Further copies of the annual review
and accounts:
Review and accounts distribution
CS
5th Floor
130 Old Street
LONDON
EC1V 9PQ
020 7320 7313

Further information is available from
the Company's websites
(www.consignia-online.com
and www.consignia.com)