POL00362155
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Royal Mail Holdings plc

Accounts

2002 - 2003

POL00362155

Royal Mail Holdings plc

Registered No. 4074919

Directors

Details of Directors are shown on pages 11 and 12.

Secretary

Jonathan Evans

Auditors

Ernst & Young LLP

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Royal Mail Holdings plc

Chairman's Statement

Year one of our Renewal Plan has been a year of progress. A year where we have started to control our costs, reduce overheads and take the first real steps towards creating a sustainable and thriving company.

At the end of year one of our three-year Renewal Plan, the Group has made a £611m pre-tax loss and a £197m loss from operations. This is an improvement of £121m or 38% over our losses from operations in 2001-02.

Our people have worked hard to achieve this progress and it is to their credit that we can look to the future more positively today. We have a great deal more to do and some significant risks to deal with before we can demonstrate that we have transformed our business into a profitable, modern and competitive company.

A 'Share in Success' scheme was launched earlier this year, which will pay a dividend to all our eligible people if we hit the profit targets in the third year of the Renewal Plan. I am pleased that this year's results show that we are on target to reward our people for their hard work in turning this business around.

We have appointed an experienced leadership team with Elmar Toime, the new Executive Deputy Chairman, Adam Crozier, Chief Executive of Royal Mail Group plc, and David Mills, Chief Executive of Post Office Limited, together with six external appointments to the Board.

Customer service has improved throughout the year with an overall cumulative increase in our quality of service for First Class letters, however, we missed hitting a number of our year end targets. Parcelforce Worldwide exceeded its target of 96% for PF 24 hour delivery, achieving 98%, and Post Office Limited made great strides in improving queuing times over last year to exit at 94.3%. Improved colleague relations, leading to fewer strikes with strike days down 90% year on year, have played an important part in getting this right, but we still have further to go to achieve our service targets across all our key products.

Our goals for the organisation remain clear:

- Make our business a great place to work
- Improve customer service
- Return to profitability
- Deliver positive cash flow

In order to achieve these goals we must deliver the critical strands of our Renewal Plan, which fundamentally restructures our operations in order to make the Royal Mail Group a profitable and sustainable business.

Parcelforce Worldwide has led the way through working in partnership with its people to eliminate unprofitable products and inefficient aspects of its operations. Progress has not been as rapid in the UK mails operations as we work through a number of issues, including taking stock of the regulatory environment.

The radical surgery I talked about last year means we have cut management and administrative overheads right across the business. Overall some 16,600 jobs have gone with around 5,500 people taking voluntary redundancy and 4,600 people not being replaced as they leave. Some 6,500 jobs have transferred to new companies under TUPE arrangements.

We have now secured a manageable package of price controls in consultation with Postcomm, our Regulator. These controls allow us to add 1p to the cost of First and Second Class stamps - the first increase in First Class postage for three years. We still offer one of the lowest price yet highest delivery specifications in Europe.

What we now need to resolve is a fair and reasonable price for competitors' access to our delivery network. At present the Regulator's proposals on competition and the price set for access to our network, which we believe are again out of step with the EU Postal Directive, could strip out £1bn of revenue from Royal Mail over the forthcoming years and force the Company to sort and deliver letters for a price well below economic costs. It is vital that we charge a commercial price for our services if we are to protect a universal price and service for all customers.

A commercial loan package worth £1,044m has been agreed with Government. Securing this finance deal means we can concentrate on delivering the savings identified in our Renewal Plan to take the Company back into profitability.

In addition, the Government has agreed financing support, using our £1.8bn investments for the Post Office network. This includes a £450m three-year package of support to ensure the continuation of uneconomic services via Post Offices in the rural communities.

The new pensions accounting standard (FRS 17) means we are reporting in the notes to the accounts a hypothetical deficit of £4.6bn on Royal Mail's pension fund, which had assets at the end of last year of £15.6bn. This accounting approach depends on the state of the stock market on the day that the assets of the fund are valued, and the FRS 17 deficit reflects the low market conditions at the end of our financial year. The deficit does not represent the Pension Plan valuation by an independent actuary, and a separate review of this on behalf of the Trustees is being carried out as at 31 March 2003. We anticipate that we will no longer benefit from a pension surplus as we have for the past 13 years and we are likely to make additional payments to the fund of some £100m per annum until the deficit is cleared, subject to agreement with the Trustees of an approved funding plan, to ensure our people's existing contributions are safe.

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Chairman's Statement (continued)

Although the pension provision is an additional cost, improvements in customer service, fewer strikes and a real focus on making this a better place to work will put us back on track. We are still some way off reporting a profit but this year's results are a real step in the right direction.

The enormous goodwill we have in our people, our brands and our customers means we are within sight of regaining our profitability and our position as the best postal service in the world.

GRO

Allan Leighton

Chairman

28 May 2003

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Royal Mail Holdings plc

Joint Deputy Chairman's and Chief Executives' Statement

In the last year the business has managed to reduce its ongoing losses through measures that have contained costs and reduced overheads. But there is slippage on some of the key programmes in the Renewal Plan and this is where we must focus in the coming year.

Lord Sawyer's second review of industrial relations, published in March 2003, praised Royal Mail and the unions for their ongoing effort to stop industrial action and improve relations. Since the launch of 17 local partnership boards, industrial action is at a ten-year low. Out of some 55 million available working days for our people in the UK, 6,686 (0.01%) were lost to strike action in the last year.

There was nearly a 2% cumulative rise in quality of service for First Class letters, and customer confidence is building. We achieved good results for Parcelforce Worldwide (98%), and Post Office Limited was up on last year, but we still missed our target for First Class quality of service and overall, only achieved 3 out of 15 year end headline service standards for mail. There is obviously still room for improvement and our quality of service plan is geared to achieve that in the coming year.

The timed, next day guaranteed delivery product, Special Delivery, has continued to outperform competitive offerings in terms of value-for-money and is responsible for £239m (an underlying growth of 10% on previous year) or around 4% of revenue for Royal Mail.

We wanted to move nationally to a single daily delivery early in 2003. Although we failed to meet that target, the common sense rationale is still compelling – as second deliveries account for 20% of costs but only 4% of volume, it is not a viable proposition. The 13 trial areas told us what worked and what didn't, and we've made changes to the plan accordingly. Customer reactions to the changes and their willingness to be flexible in order to protect the Universal Service Obligation in the long-term are encouraging.

Despite some frustratingly slow progress, we are now pushing ahead, with real buy-in from our people. We are expecting to implement a union agreement, which offers our people an increase in basic pay, a five-day working week and simplified bonus schemes based on the achievement of agreed weekly targets.

93 offices have started planning for these changes and a further roll-out will happen over the next year - but because of slippage in the first year, the pressure is on to deliver the predicted programme benefits.

We've modernised key stages of the UK's mail sortation, and not before time. To support improved and more efficient delivery systems, we are introducing address interpretation electronic systems capable of reading poorly addressed mail, which will drive up quality by reducing sorting errors. 63 out of 70 mail centres are connected and more than half of our automated mail passes through these systems currently.

We have also embarked on the wholesale rationalisation of our transport network. We are implementing plans to move standard tariff and bulk mail around more efficiently by creating a single, integrated network based on a regional 'hub-and-spoke' system. The number of distribution centres has reduced to 13 from 16 and the successful absorption of work from Thames Valley distribution centre to Bristol proves the approach is viable and delivers. In addition, a £40m hub at Daventry is expected to be finished in August 2003.

Our logistics business continues to offer a warehousing capability to customers and return logistics contracts such as those with Amazon.com and Return Logistics Limited (supplying Virgin, Waterstones and Safeway), support the growth in sales through the internet, mail order and home shopping.

Parcelforce Worldwide has successfully undergone the most radical surgery across the Group in line with plans announced in March 2002. After some ten years of losses, the business is on target to break even in 2004-05. The number of depots has been cut from 101 to 54, routes have been completely reworked and new ways of combined working and a new system of owner-drivers have been introduced successfully. Significantly for customers, Parcelforce Worldwide has identified and focused on the successful business of 'time-guaranteed', 'next day' and 'two day' express deliveries, exiting loss-making non-guaranteed services and 350 unprofitable contracts.

Our European parcels business, General Logistics Systems (GLS), has continued to grow its volumes and revenues. As a result of the economic downturn across Europe, the rate of growth has been slower than expected. Consequently GLS has tightened further its control on operating expenses and, coupled with margin improvement, has increased its operating earnings before interest and tax. The focus is on continued integration of the individual parcel companies - building upon the recent re-branding exercise, which brought the companies under a common brand, and the cross-border IT project, which increases the information available to customers and the efficiency of the cross-border product stream.

An unprecedented restructuring and modernisation programme is underway for our Post Office network. As outlined in our network plan, agreed with Government last autumn, new products and funding packages are now in place and the rate of unplanned closures has slowed from 262 in 2001-02 to 239 this year.

However, the Post Office network continues to make a loss and comprehensive reinvention is needed to manage a rapidly changing environment.

In March 2003, we launched the Post Office card account. This card is used to access benefits payments and we can now undertake basic bank account transactions for the major banks together with current account transactions for selected institutions. The introduction of new and enhanced services such as currency exchange, travel insurance and access to funds through the high street banks' basic bank accounts all ensure that the network remains relevant to the business of everyday life.

Parliamentary and EU approval for a funding package of £210m to support the urban network has enabled our Network Reinvention programme to push ahead. This involves the planned closure of some 3,000 urban Post Offices over the next three years and incorporates compensation payments to subpostmasters. In a preference exercise 3,700 subpostmasters expressed an interest in this scheme. The package also includes £30m for investment in branches that want to expand or improve.

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Joint Deputy Chairman's and Chief Executives' Statement (continued)

We are determined to keep a Post Office branch in urban areas within a mile of 95% of our customers. 'Urban deprived' branches (totalling 2,800 in England) will also be able to apply for an improvement grant from a £15m fund, which forms part of the Government's plan to regenerate impoverished communities. In November 2002, Post Office branches in Wales received a total fund of £2.5m and the Scottish Executive announced a £2m fund for branches in deprived areas in December 2002.

The Government's £450m funding package over three years will help continue access to over-the-counter services in rural areas and prevent avoidable closures.

One of the key activities over the year has been our absolute focus on our core businesses. We have successfully outsourced some 5,000 jobs from our facilities management services, saving some £30m per annum over the seven-year contract, and a further 200 employee health services jobs and switched 1,300 jobs to Capita, who now collect TV licence fees. Our 1,735-strong Business Systems unit will be outsourced from early June as part of an agreed deal that will deliver savings of some £60m per annum over the ten-year life of the contract.

We have simplified our UK organisational structure - stripping out layers of management and administrative roles. Our aim is to reduce these jobs by 25% and we are well on our way towards that goal.

We also changed the corporate name to Royal Mail in order to focus on our key UK brands: Royal Mail, Parcelforce Worldwide and Post Office™.

There is a great deal to do in year two of our Renewal Plan and it will be even more challenging than the year we've just seen. We now have the leadership team in place to drive change through the business and the Renewal Plan is just the beginning. Our focus on creating a profitable and sustainable business for the future means we will deliver for our customers and our people.

GRO

Elmar Toime

Executive Deputy Chairman

Royal Mail Holdings plc

28 May 2003

GRO

Adam Crozier

Chief Executive

Royal Mail Group plc

28 May 2003

GRO

David Mills

Chief Executive

Post Office Limited

28 May 2003

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Royal Mail Holdings plc

Financial Review

The Royal Mail Group (the Group) comprises Royal Mail Holdings plc (the Company) - which is wholly-owned by HM Government - and its subsidiary and associated undertakings and joint ventures. The Company is incorporated under the Companies Act (the Act), and the accounts are produced in accordance with this Act and applicable UK accounting standards.

On 4 November 2002, the Company changed its name from Consignia Holdings plc to Royal Mail Holdings plc.

The accounts are drawn up for the 52-week period ended on 30 March 2003 (2002 53 weeks).

Going concern

Since the uncertainty over going concern reported in last year's accounts, considerable progress has been made in our financing discussions with Government. We have now concluded a £1,044m commercial loan facility, which is designed to enable Royal Mail to fund itself through to cash flow self-sufficiency. The Directors are, therefore, now satisfied that Royal Mail will continue as a going concern.

We have agreed with Government that the total operational financing needs of Post Office Limited of £0.7bn over the next five years will be provided out of the Group's existing current asset investments that have been set aside to back the Mails Reserve. In addition, a further £1.2bn loan facility to fund the working capital needs of the Post Office network has been agreed in principle with Government, with the detailed terms close to completion.

As such, the Directors consider it appropriate to prepare the Group statements on a going concern basis.

Group results

The Group's full year loss from its operations of £197m (2002 £318m) before exceptional items - equivalent to £0.8m every trading day - is a significant improvement on last year's £1.2m loss per trading day. The difference between the Group operating profit/(loss) and the loss from operations, both before exceptional items, is explained below:

	2003 **£m**	2002 £m
Group operating profit/(loss) before exceptional items	**19**	(67)
Add back pensions benefit derived in accordance with SSAP 24	**(246)**	(250)
	(227)	(317)
Share of profit/(loss) in associates and joint ventures (including non-exceptional impairment of goodwill)	**30**	(1)
Loss from operations	**(197)**	(318)

The £227m loss, analysed by business segments on page 33 of the accounts, is attributed to a mails and parcels profit of £12m, Post Office services loss of £209m and other businesses losses of £30m.

The loss before taxation was £611m (2002 £1,124m). This loss reflects net interest receivable of £35m (2002 £56m) and exceptional items of £695m (2002 £1,112m). The loss for the year of £559m (2002 £940m) was after a net tax credit of £52m (2002 £179m) and a small amount of equity minority interest.

External turnover at £8,299m (excluding £79m turnover from joint ventures) was £109m lower than last year. 2001-02 was, however, a 53-week accounting period against 52 in the current year. After adjusting last year's turnover to a 52-week basis, the 2002-03 turnover represents an increase of £50m (0.6%), driven by growth in the mails and parcels segment (£140m) offset by declines in Post Office Limited (£36m) and other businesses (£54m).

The Group net assets at the 30 March 2003 stood at £2,088m, a reduction of £517m from the closing position last year. The principal movement arose from the sale of current asset investments of £550m to sustain the Post Office network, to fund the Renewal Programme and to make the pension prepayment. As with last year, the Group's cash position was helped by the pension holiday of £126m (2002 £135m). The holiday 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.

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 to reflect the substantial amount of trading between operational units and other support functions (internal trading). The analysis below also takes into account the impact of internal interest charged to businesses for their use of centrally managed funding resources. Cash flows include 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 (including overseas mails businesses set up or acquired), Parcelforce, Logistics Solutions and our European parcels businesses - GLS. Together, these businesses reported total external revenue of £7,351m, an increase of £1m over 2002, and losses from operations of £120m (2002 £241m).

Royal Mail Holdings plc

Financial Review (continued)

UK mails

UK mails' external revenue increased by £256m to £5,548m. The increase was attributable to a switch of £269m income from Parcelforce for the Special Delivery product, the Universal Service Obligation parcels and Mail Order returns, offset principally by loss of revenue due to the 53rd week, to give an underlying growth of £56m in core letter products - represented by a 1.1% growth in pillar box and collection postings and a 1.2% growth in commercial and bulk-posted letters. These low levels of growth continue to reflect a slowdown in the national economy that has particularly impacted the advertising and publishing markets.

Total costs including net internal trading grew by £116m to £5,482m. The cost of inflation, the annual pay award and one-off costs of mails automation programmes were largely offset by efficiency improvements and a robust management of all discretionary spend.

Overall, the mails business turned a loss from operations last year, before exceptional items, of £74m to a profit of £66m. This result includes new profits for the UK mails division from the transferred products amounting to some £75m. Losses after exceptional items but before tax were £269m and the cash inflow was £74m.

International mails

International mails' external income fell by 9% to £687m. This decline was partly the effect of the 53rd week (£14m) but largely due to *management action to exit from loss-making product areas and the impact of electronic substitution. Total external costs at £343m reduced by* £74m - an 18% saving over the prior year. These savings were due to the exit from loss-making products and lower handling costs both in the UK and overseas. The net effect of these operational changes were offset by higher internal trading costs, resulting in an unchanged loss at £18m before exceptional items and tax, and a loss of £44m after exceptional items but before tax. The cash outflow from the international mails operations was £45m, driven by a combination of losses and the timing of settlements with other postal administrations.

Parcelforce

In March 2002, the Board announced a far-reaching turnaround plan for its UK parcels business. This involved the closure of the operational network that provided the Standard product (i.e. non 'time-guaranteed', non 'next day' or 'two day' express deliveries) and a full withdrawal from the product (and its declining market), the introduction of more owner-drivers to the collection and delivery fleet, and the termination of some 350 large customer contracts that were judged to provide inadequate yield. Accountability for the Special Delivery product, the Universal Service Obligation parcels and Mail Order returns was also switched to UK mails. The actions taken so far have included the closure of five sort centres, the reduction of some 50% of operational jobs, the closure of 50 depots and the reduction of average daily traffic volumes from some 400,000 to 170,000. The consequence of this was a reduction in UK parcels' external income by £178m to £296m (a 38% decline). At the same time, the restructuring of its network caused operating costs to fall by £85m to £483m (a decline of 15%). Overall, the losses from operations increased from £94m to £187m. This reflected the immediate impact of the income withdrawal versus the slower pace to drive down the cost base as we worked through the network closure programme, which is fundamentally complete. The business cash outflow was £211m.

Logistics Solutions

Logistics Solutions manages a network of warehouses and 1,900 vehicles to provide a distribution service for both external customers and other internal operating businesses.

As a consequence of the restructuring of Parcelforce, the transfer of accountability for high volume parcels customers, previously with Logistics Solutions, moved back to Parcelforce. As a result, Logistics Solutions' external income fell by £194m to £34m. The repositioning of the high volume parcels customers had the effect of increasing Logistics Solutions' internal trading receipts by £207m to £332m. The external operating costs for the overall service fell by £15m to £353m due to a number of local efficiency measures. The net impact was to turn last year's overall loss before exceptional costs of £15m to a profit of £13m. Exceptional costs were £46m, bringing total losses before tax to £33m. Cash inflow for the business was £42m.

General Logistics Systems

GLS, our European parcels operation, grew its external income by £186m to £786m during the year. This increase was driven by a combination of the full year effects of acquisitions (£90m), currency translations (£71m) and underlying growth £25m (4%). Profit before interest and tax was £14m, a significant improvement on last year's £14m loss. The earnings before interest, tax, depreciation and amortisation was £39m, an £18m improvement over the previous year.

Post Office Limited

Post Office Limited is responsible for 17,239 retail outlets of which 16,521 are independently owned. This year saw the delivery of many key milestones designed to stem the network's high levels of losses. The Horizon contract was re-negotiated and will result in considerable savings; 36,000 people were trained to deliver the banking transactions; a sales and marketing function was set up; 12 financial institutions signed up for banking access with the system going live at all outlets on schedule; 13 cash centres and depots were closed and all funding was agreed with Government.

Total income decreased by £104m (8%) to £1,186m, of which internal income from servicing the mails and parcels businesses accounted for £50m of this decline. External income was £899m, a decline of £54m (6%). This is a combination of a small growth in our underlying business of £20m that was more than offset by a reduced contribution from Government for developing banking capabilities and piloting the Your Guide initiative. Overall costs, including internal trading costs from other parts of the Group, reduced by £73m (5%) to £1,380m.

Losses before exceptional items amounted to £194m - £31m (19%) higher than last year - which includes a net investment of about £50m in the banking programme. The loss after exceptional items was £363m and the cash outflow for the year was £288m.

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Financial Review (continued)

The universal banking system has now gone live with the first Post Office card accounts and Basic Bank accounts being opened - it is too early to say what the level of take-up of either product will be. This service will allow people receiving benefits, currently over 15 million people, to make cash withdrawals at Post Offices.

The difficult financial position of Post Office Limited (including the replacement of the substantial Department for Work and Pensions revenue stream) continues to be addressed in three ways. Firstly, we are rationalising the urban network, secondly, we are implementing our strategic review, which is addressing the economic viability, social obligations and the commercial opportunities of the network, and thirdly, we are reducing our overhead costs.

Other Group activities

Other Group activities comprise the treasury management of cash and market investments, the Group Centre and other support services to the main trading businesses. Profit from operations for the year, prior to the pensions benefit was £117m, £31m better than last year. The profit mainly consists of internal interest charges made to operating and support units of £176m (2002 £214m), offset by lower net losses on support services' activities of £59m (2002 £128m), mainly arising from lower estate management costs and development spend.

Exceptional items

The Group results include net exceptional costs of £695m (2002 £1,112m), all of which resulted from a series of initiatives announced in the Renewal Programme to remove £1.4bn from our annual gross cost base.

Provisions of £449m were made in the year for redundancy, covering the changes in sorting and delivery of mail of £230m, the review of the Post Office Limited structure of £73m and the restructuring of distribution transport operations of £22m. The provisions relate to our people working directly in the businesses implementing change. In addition, provisions of £124m were made covering our people working in support functions and minor restructuring projects. The provisions above are inclusive of the necessary top-up to the Royal Mail Pension Plan of £200m.

Impairment write-downs of £97m and non-redundancy-related provisions of £151m were made, of which £25m relates to costs associated with changes to our transport network, and £126m in respect of vacant property costs and other costs associated with the Renewals Programme.

We have impaired our investment in associates by £24m, principally Spring £19m, reflecting our view of economic prospects within the relevant markets.

The accounts also include net profits on disposal of fixed assets of £24m (2002 £24m) and £2m profit on sale of part of one of our subsidiary undertakings, Romec Limited, to our joint venture partner, Haden Building Management Limited.

Taxation

The accounts include a £4m current tax credit (2002 a charge of £3m) and a deferred tax credit of £48m (2002 £182m) for the year.

The tax credit for 2003 represents an effective tax rate of 9% on a loss before tax, compared to a 16% credit for 2002. The credit mainly arises from relief on restructuring costs, which gives rise to losses that have in part been offset against deferred tax liabilities and surrendered to associates and joint ventures.

Treasury

The Group operates a central treasury function that manages some £1,251m of investments and £550m of borrowings in accordance with investment restrictions set by Government, and acts as internal banker for the Group. The Group finances its operations largely through retained profits and borrowings.

Group Treasury derives its authority from the Royal Mail Holdings plc Board and provides regular monitoring reports for their review. The treasury function only has the authority to undertake financial transactions relating to the management of underlying business risks. All strategies are risk averse and the treasury policy has remained unchanged during the period.

During the third quarter of this financial year, the Group entered into financing arrangements with the DTI to secure a package for the restructuring of the Mails Business. The Royal Mail Credit Agreement provides for a maximum facility of £1,044m, made up of fixed and floating tranches repayable between March 2007 (£200m) and March 2009 (£844m).

A framework agreement has been signed between Post Office Limited, Royal Mail and the Secretary of State dealing with Mails' past surpluses and funding for the Mails Business restructuring. Under the framework agreement Royal Mail will provide funding to Post Office Limited out of certain accumulated reserves. Finance in the form of loans from the Secretary of State for Trade and Industry is to be provided for cash and near cash items in the Post Office Limited network, in transit and in cash centres, including peak funding requirements to a maximum of £1,200m. This finance is intended to replace the pre-funding provided by the Department for Work and Pensions (DWP) for benefit payments prior to the introduction of Automatic Credit Transfer (ACT) for claimant payments. Although details have yet to be agreed, it is thought that the finance will be made up of a core facility of bonds together with a flexible loan facility.

The Group's main financial risks are interest rate and foreign currency risk. The Group mitigates interest rate risk through a portfolio approach to investment. Short-term portfolios are driven by liquidity requirements and medium-term portfolios driven by investment decisions. The Group's principal sterling financial instruments are deposits, gilts and short and long-term borrowings.

Royal Mail Holdings plc

Financial Review (continued)

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

The Group is exposed to transaction risk from its obligation to pay overseas postal administrations for the delivery of UK-originating mail. This exposure is denominated in Special Drawing Rights (SDRs) - a basket currency of US Dollars, euros, Japanese Yen and Sterling. This risk is minimised by using forward foreign currency contracts, options and foreign currency deposits. The Group has a policy of matching receipts and payments for individual currencies. A maximum of 80% of the exposure to pay overseas administrations is hedged. This programme utilises forward contracts, options, and foreign currency deposits. Treasury operate a rolling 18-month programme, which is subsequently reviewed on a quarterly basis.

All other significant current liabilities are hedged when they become contractual.

The Group is exposed to foreign currency translation risk on the net assets of all overseas subsidiaries.

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. The fuel procurement programme allows for the use of over-the-counter derivative products to manage both the commodity and foreign exchange elements of the exposure.

Counterparty risk is managed by limiting aggregate exposure to any individual counterparty. These exposures are reviewed regularly and adjusted as appropriate.

Debt
Consolidated debt at 30 March 2003 was £637m, a year-on-year reduction of £68m, principally reflecting the early repayment of a loan.

Interest receivable
The Group's net interest receivable was £35m. This comprised £69m of interest received on average investments of £1.6bn at a rate of 4.3%, less £34m interest payable on average borrowings of £580m at a rate of 5.8%.

Last year net interest receivable was £56m, comprising £90m received on average investments of £1.9bn at a rate of 4.7%, less £34m interest payable on average borrowings of £590m at a rate of 5.8%.

Pensions
The overall Group result includes a £246m (2002 £250m) benefit derived in accordance with SSAP 24, and this amount can be analysed into its three key components. 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 £48m of the benefit. The surplus in the Royal Mail Pension Plan (RMPP) allows a further reduction in cost - evaluated by the Plan actuary using their 'best estimate' assumptions - providing £153m benefit, with the interest on the long-term pension debtor of £45m 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. Royal Mail is complying with the transitional arrangements as modified by the Accounting Standards Board in November 2002. The balance sheet and profit and loss aspects are disclosed in note 21 to the Group accounts. These disclosures will be continued for the next two years, with 2005-06 being the first year in which all pension costs and related information will be reported in accordance with FRS 17.

The FRS 17 requirements mean we are reporting, within the notes to the accounts, a hypothetical deficit of £4.6bn on the RMPP fund. This deficit represents the difference between the market value of the Plan's assets and the assessed value of the Plan's liabilities at the balance sheet date of 30 March 2003. An FRS 17 deficiency of some 28% of fund assets is a similar size to those currently experienced by other large pension schemes. However, as the RMPP is the 5th largest UK occupational pension scheme, the monetary value appears disproportionately large. Asset values reflect the low stock market valuations at the end of our financial year, falling to £12.1bn (from £15.6bn at March 2002) mirroring falls in the FTSE 100 from 5272 to 3708 over the same period. At 5272, last year's accounts reported an FRS 17 surplus of £272m. Liabilities are assessed using AA bond rates, and as these rates have also fallen, the present value of liabilities has increased to £16.7bn (£15.3bn in 2002).

This FRS 17 assessment of our Pension Plan produces a hypothetical snapshot of its finances at a single point in the life of a pension fund (typically 50 years and beyond). By using a snapshot approach, the asset valuation is highly sensitive to timing effects. Recent short-term fluctuations in stock market valuations would have changed this position by several £100m if taken only two or three days apart. To further illustrate this point, the recovery in the FTSE equity values between the balance sheet date and 28 April 2003 would have reduced the declared deficit by over £600m. It is therefore important to separate this FRS 17 snapshot from the long-term Pension Plan valuation by an independent actuary under the Scheme rules, and a separate review of this on behalf of the Trustees is being carried out as at 31 March 2003. Although the result of the actuary's work is likely to produce a substantially lower disclosed deficit when results are available in the autumn, we are not complacent. The sustained lower stock market valuations will undoubtedly mean that we no longer anticipate benefits from a pension surplus that we have enjoyed for the past 13 years. We have also made allowances in our strategic plans for additional pension payments until the deficit is cleared. This is likely to generate changes to our pensions costs in 2003-04, remove the reduction due to surplus benefits (shown as £153m in note 21 to the Group accounts) and require annual deficiency payments in the order of some £100m until the deficit is cleared. This amount is subject to agreement with the Trustees of an approved funding plan.

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Royal Mail Holdings plc

Financial Review (continued)

Regulation

The Postal Services Commission (Postcomm) was created as the independent Regulator for the UK postal industry in 2000. Subsequently, Royal Mail was granted its first licence, which required it to provide a universal postal service at affordable prices. Currently, several other companies have also been granted licences.

During the year, Royal Mail accepted Postcomm's proposals for a second price control over a three-year period starting 1 April 2003. This allows Royal Mail to increase its prices by approximately 3% immediately, followed by a conventional RPI-1% approach in the second and third years. Although Royal Mail finally accepted these proposals, it has been highly critical of the process, which took almost a year to complete.

Royal Mail has very recently received the results of Postcomm's determination on access, which it believes could significantly damage the fabric of the business and its ability to provide the universal service. Royal Mail is not against access as long as the price imposed by Postcomm does not undermine the uniform tariff and allows it to make a commercial return. However, Postcomm's proposals to introduce competition, including access to our network, could eventually reduce revenues by over £1bn, and the Group continues to rigorously defend this position with Postcomm.

Postcomm have published their draft work programme for 2003, which includes work on Royal Mail's cost structure, regulatory accounts and fundamentally, the definition and development of the universal service.

Major project investment

We continue the drive to modernise our infrastructure. During the year, the Group invested £297m (of which £104m was capital expenditure) through our key strategic programmes. This included £133m to upgrade the mails and parcels infrastructure and services, £87m to develop the Universal Banking capability, £35m to provide a high quality enterprise-wide IT environment and £42m on a range of other key initiatives.

Future prospects

The performance for 2002-03 at a loss from operations of £197m was significantly better than our target and keeps us in line to achieve our Renewal Plan objective for 2004-05.

Continued progress through 2003-04 and 2004-05 does critically depend on reaping the benefits of the strategic programmes that we have embarked upon. Thus, the introduction of new business models and service patterns in UK mails and parcels, capitalising on the new international mails facility at Langley with its latest technology, new business opportunities for the Post Office network, urban Post Office closures and successful outsourcing of non-core activities will continue to be key in driving the business back to profitability and positive cash flows. At the same time, we have to mitigate the financial consequences of delays to postal tariff increases, higher National Insurance costs and increases to our pension contributions.

We plan to maintain a reasonable investment in our infrastructure through a £253m capital expenditure programme next year.

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. (This is over and above the 13,000 disclosed in last year's accounts but in line with our original announcement of 30,000).

The Board are encouraged by this year's results and remain committed to the remaining two years of the three-year Renewal Programme. We expect to continue to reduce trading losses and move back into profit next year.

GRO

Marisa Cassoni

Group Finance Director

28 May 2003

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Royal Mail Holdings plc

Royal Mail Holdings plc Board

Non Executive Directors

ALLAN LEIGHTON (CHAIRMAN)
Allan (50) joined the organisation in April 2001 and became chairman of the Company in March 2002. He began his career with Mars Confectionery and moved to Pedigree Petfoods as sales director. In 1992 he became group marketing director of Asda Stores Limited, and chief executive in 1996, becoming president and CEO of Wal-Mart Europe when Wal-Mart bought Asda in 1999. He left in 2000 and is currently chairman of Bhs Limited, Wilson Connolly plc, Cannons Group Limited and lastminute.com, non executive director of Dyson Limited, BSkyB and George Weston Limited, and deputy chairman of Leeds United plc.

DAVID FISH
David (54) joined the Board on 1 January 2003. He was a member of the Mars Inc Operating Board from 1994 to 2001, and joint president of Masterfoods Europe. He has also been president of Snackfoods Europe, and held European vice-president positions in marketing and personnel. He is also a non executive director of Christian Salvesen. David is chairman of the Remuneration Committee, and a member of the Nomination Committee.

RICHARD HANDOVER
Richard (57) is group chief executive of WH Smith plc. He is also chairman of the Adult Learning Inspectorate and Business in the Community Education Leadership, and is a non executive director of Nationwide Building Society. Richard was appointed to the Board on 1 January 2003. He is chairman of the Nomination Committee, and a member of the Remuneration Committee.

MIKE HODGKINSON
Mike (59) has been chief executive of BAA plc since 1999, and retires in June 2003. He is also board member and chairman of the Finance Committee of Transport for London, and a non executive director of FKI plc. Mike was appointed to the Board on 1 January 2003. He is the senior independent director, and a member of the Remuneration Committee. From 1 May 2003, he is also chairman of Post Office Limited.

JOHN NEILL CBE
John (55) has been group chief executive and deputy chairman of the Unipart Group of companies since 1987. He is a director of the Court of the Bank of England, and a non executive director of Charter plc. He is also vice-president of the Society of Motor Manufacturers and Traders, and a director of the SMMT Forum. John was appointed to the Board on 1 January 2003, and is a member of the Audit and Risk Committee.

ROSEMARY THORNE
Rosemary (51) is group finance director of Bradford & Bingley plc. She joined the Board in October 1998 and is chairman of the Audit and Risk Committee and a member of the Remuneration Committee. She is a member of the Financial Reporting Council, Financial Reporting Review Panel and The Hundred Group's main and technical committees.

ROBERT WIGLEY
Bob (42) joined the Board on 1 April 2003, and is a member of the Audit and Risk Committee. He is chairman of Merrill Lynch's European Investment Banking Business, and a trustee of the children's mobility charity, Whizz-Kidz.

Executive Directors

ELMAR TOIME (EXECUTIVE DEPUTY CHAIRMAN)
Elmar (55) joined the Company on 1 March 2003, having been chief executive of New Zealand Post since 1993. Prior to that he had held senior appointments in New Zealand Post in business planning, marketing and retail operations. In 2002 he established Kiwibank a new, full-service retail bank, as a wholly-owned subsidiary of New Zealand Post. Elmar remains a non executive director of Sky City Entertainment Group in New Zealand. He is also a member of the Board of Post Office Limited.

MARISA CASSONI (GROUP FINANCE DIRECTOR)
Marisa (51) joined the organisation in February 2001 from Britannic Assurance plc, where she was group finance director from 1998. Previous to that she was Group finance director of the Prudential's UK Division from 1994. She became a non executive director of Severn Trent plc in September 2001.

JERRY COPE (MANAGING DIRECTOR UK, ROYAL MAIL)
Jerry (51) joined the organisation in 1973 and has held senior positions in personnel and industrial relations, line management and strategic and commercial planning. He was appointed to the Board in 1996 as group managing director Strategy and Business Development. He became group managing director of Mail Services in September 2001. He is a shareholder-nominated director of Camelot and chairman of the governors of Kingston University.

ADAM CROZIER (CHIEF EXECUTIVE ROYAL MAIL GROUP PLC)
Adam (39) joined the company on 1 February 2003, having previously been chief executive of the Football Association since 2000. Before then he had held a number of senior roles at Saatchi and Saatchi Advertising, including that of joint chief executive from 1995.

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Royal Mail Holdings plc

Royal Mail Holdings plc Board (continued)

TONY McCARTHY (GROUP DIRECTOR PEOPLE AND ORGANISATIONAL DEVELOPMENT)
Tony (47) joined the company on 6 January 2003, having previously been group human resources director of BAE Systems, where he had worked in a variety of HR roles since 1978.

DAVID MILLS (CHIEF EXECUTIVE POST OFFICE LIMITED)
David (59) joined the organisation as an executive director and chief executive of Post Office Limited on 15 April 2002. He began his career with Midland Bank (now HSBC Bank plc) in 1962, and in December 1999 was appointed general manager, Personal Banking and was the chair of First Direct. David has held a number of senior external positions and directorships including chairman APACS Cash Services Group and of Mondex International Limited, director of British Interactive Broadcasting Limited, and of Personal Investment Authority Limited.

During the year the following Directors left the Company:

John Roberts CBE was an Executive Director until 31 December 2002.
John Lloyd was a Non Executive Director until 25 March 2003.
Miles Templeman was a Non Executive Director until 25 March 2003.

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Royal Mail Holdings plc

Directors' Report

The Directors present the Group accounts for Royal Mail Holdings plc (the Company). These accounts relate to the 52 weeks ended 30 March 2003 (2002 53 weeks).

Principal activities
The Group continues to provide a nationwide and international distribution service, principally of mails and parcels. The Group also provides access to a wide range of financial and retail services through its network of Post Office branches across the United Kingdom (UK).

Change of name
On 4 November 2002, the Company changed its name from Consignia Holdings plc to Royal Mail Holdings plc.

Review of the business and future developments
A review of the Group's business and future developments is presented in the Chairman's Statement, Joint Deputy Chairman's and Chief Executives' Statement and the Financial Review.

Results and dividends
The loss on ordinary activities before taxation amounted to £611m (2002 £1,124m). After taxation and minority interest, the loss was £559m (2002 £940m). The Directors do not recommend a dividend (2002 nil dividend).

The Government confirmed in July 2002 that the funds set aside for the payment of past dividends should now be considered a part of past surpluses. Past surpluses of the Group are to form a part of the amounts transferred to the Mails Reserve in accordance with the section 72 order issued by the Secretary of State for Trade and Industry.

Political and charitable contributions
During the year the Group made charitable contributions of £0.3m (2002 £0.4m). 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 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
In the opinion of the Directors, the aggregate market value of the Group's land and buildings exceeds the net book value, based upon a historic cost accounting policy, of £1,201m by a considerable margin.

Post balance sheet events
Details of the 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 pages 11 and 12. 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 the shares of the Company.

People
The Royal Mail Group employs more than 200,000 people making it one of the largest employers in the UK. The vast majority of our people are engaged in providing services directly to customers through the collection and delivery of mail and parcels to the provision of services through the network of Post Office branches.

Over the past few years the Royal Mail Group has suffered from a troubled commercial, employee relations and industrial relations environment, which has resulted in low levels of morale, trust and involvement. However, opinion surveys of our people indicate a strong underlying commitment to the business and its long-term success, which provides a strong foundation to build on.

The goal is to renew the Group through a transformational change in the way all our people are engaged and involved in the business and are aligned and equipped to meet business goals. The objective is to make the Royal Mail Group a 'great place to work', which will drive better service to our customers and result in greater commercial success. In order to achieve this, focus will be on improving the quality of leadership within the organisation, professionalising key roles and achieving greater involvement of our people in decision making and influencing the business. Underpinning all of this is a need for dignity at work where everybody feels valued, is treated fairly and equally with everyone playing a full part in helping the business to achieve its goals.

Over the past year we have started to lay the foundations for this change. Weekly face-to-face sessions are taking place between groups of our people and their team leaders to discuss ways in which the team can become more effective in meeting its objectives and how it can improve the working environment - supported by local budgets which the teams control. The surveys of our people have been revamped to ensure that local and national issues are identified and discussed within the teams and that all of the issues raised have clear action plans to address them. Bullying and harassment in the workplace is being tackled with the objective of completely driving out this unacceptable behaviour from the

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Royal Mail Holdings plc

Directors' Report (continued)

organisation through the provision of a confidential counselling helpline and independent investigators who will follow up. There has also been significant success in reducing strike action over the past 12 months following the review conducted by Lord Sawyer and his team. Substantial progress towards these recommendations have been made and management continue to work with the unions and Lord Sawyer to ensure that this success can be built upon. The Board remain fully committed to implementing the recommendations made by the team.

The Group's policy is to give full consideration to applications for employment from disabled persons. Our people 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 our disabled people 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
After consideration of cash flow projections for the Group, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Auditors
A resolution to reappoint Ernst & Young LLP as auditors will be put to the Annual General Meeting.

By order of the Board

GRO

Jonathan Evans
Secretary
London
28 May 2003

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Royal Mail Holdings plc

Corporate Governance

Statement by the Directors on compliance with the Combined Code on Corporate Governance
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 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 only exception was that a Senior Independent Director was not appointed until 4 March 2003. The Secretary of State also approves the remuneration of both executive and non executive Directors, including all incentive plans.

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 that are reserved exclusively for its consideration. The Board currently comprises a non executive Chairman, six executive Directors and six non executive Directors (including Bob Wigley who joined on 1 April 2003). There is also an additional non executive Director vacancy, which the Company is seeking to fill. Executive Directors have rolling 12-month contracts and non executive Directors are generally appointed for a three-year term.

There is an agreed division of responsibilities between the Chairman, the Executive Deputy Chairman and the Chief Executive roles. 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. The Committee has been chaired throughout the year by Rosemary Thorne, with Miles Templeman and Allan Leighton as the other members. Miles Templeman stood down from the Committee on 4 March 2003 and was replaced by John Neill. Allan Leighton was replaced by Bob Wigley on 1 April 2003.

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 corporate risk exposure of the business and 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 and internal auditors;
- agreement of the annual internal audit plan; and
- keeping under review the independence and objectivity of the external and internal auditors.

Management Board
The Executive Deputy Chairman, Elmar Toime, chairs the Management Board, which comprises all executive Directors of Royal Mail Holdings plc and Royal Mail Group plc, and certain other senior executives of the Group. The Management Board develops the Group's strategy, annual operating plans and budgets for Board approval, and monitors their deployment. It reviews operational activities, sets policies where these are not reserved to the Board.

The Management Board comprises:

Elmar Toime, Executive Deputy Chairman

Paul Bateson, Managing Director Logistics

Marisa Cassoni, Group Finance Director

Vanessa Leeson, Managing Director Parcelforce Worldwide

David Mills, Chief Executive of Post Office Limited

Alan Williams, Corporate Affairs Director

Adam Crozier, Chief Executive of Royal Mail Group plc

David Burden, Chief Information Officer

Jerry Cope, Managing Director UK, Royal Mail

Tony McCarthy, Group Director People and Organisational Development

Paul Rich, Deputy Managing Director and Marketing Director UK, Royal Mail

Kevin Williams, Managing Director International

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. Other members of the Committee are the Company Secretary, Jonathan Evans and the Group Director People and Organisational Development, Tony McCarthy.

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Royal Mail Holdings plc

Corporate Governance (continued)

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 Committee consists of non executive Directors. Membership until 3 March 2003 was Miles Templeman (Chairman), Rosemary Thorne, John Lloyd and Allan Leighton. From 4 March 2003 the membership has been David Fish (Chairman), Rosemary Thorne, Richard Handover and Mike Hodgkinson.

Nomination Committee
The Nomination Committee has the overall role of leading the process both for appointments to the Board of the Company, and for appointments to subsidiary boards. Some appointments are subject to the consent of the Secretary of State. The Committee consists of non executive Directors and its membership is Richard Handover (Chairman), Allan Leighton and David Fish.

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

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 our people.

Identification and evaluation of business risks
A process of risk and 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 a formal assessment of the effectiveness of the risk management and 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 are effective 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 Audit and Risk Committee reports to the Board and meets as a minimum on a quarterly basis to monitor and review the effectiveness of the risk management and 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, provides a forum for highlighting emerging risks and assesses the risks identified and the actions to manage the risks to a desired level.

Royal Mail Holdings plc

Report on Directors' Remuneration

The Board is 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 Remuneration Committee's role is to develop the remuneration policy for executive Directors and specifically, to recommend their salaries, benefits, including bonuses, pensions, and other terms and conditions of employment. The Committee also recommends terms for their cessation of employment. No Director is involved in determining his or her own remuneration.

The Remuneration Committee is made up wholly of non executive Directors as outlined above. 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.

In the performance of its role, the Committee has access to professional advisers within the Company. The Committee commissioned no direct external advice during the period but sought via the Company advice from Hay Group on benchmark remuneration package comparators, Watson Wyatt regarding pensions arrangements for certain executive Directors, and Ernst & Young's Human Capital Division in regard to the Long-Term Incentive Plan.

Policy on remuneration of Directors

The Company's policy on Directors' remuneration is that the overall remuneration package should be sufficiently competitive to attract and retain executives of the necessary quality in a complex business and a competitive international market place. The package consists of basic salary, benefits, annual performance-related bonuses, pensions and a Long-Term Incentive Plan with a significant proportion being based on performance and the achievement of demanding targets. Consideration is given to pay and employment policies elsewhere in the Group, especially when determining annual salary increases.

The Remuneration Committee, having received consent from the Secretary of State, has now implemented its proposals to realign executive Directors' remuneration packages to support the Company's Renewal Plan, whilst ensuring the rewards are market-competitive. All executive Directors are on service contracts which have been changed where necessary to reflect best commercial practice, and introduced in conjunction with the new Long-Term Incentive Plan. The Company has supplemented the annual performance-related cash bonus with a transparent Long-Term Incentive Plan based on three-year business renewal targets. The relative importance of the performance-related element of remuneration has been significantly increased, with Directors entitled to receive substantial performance-related payments, but only on achieving demanding targets based on measures aligned to returns over the longer term.

The fees of the Chairman and the non executives are agreed with the Secretary of State, and are currently £20,000 per annum and £30,000 per annum respectively. Additional fees are paid to the Chairs and members of committees.

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 individual responsibilities and market levels.

Performance-related personal annual bonus

The Chairman and executive Directors may earn a performance-related bonus for achievement of financial and customer targets. These bonuses are based on targets set each year in line with the Renewal Plan and agreed with the Shareholder. The maximum annual bonus for all executive Directors, except the Executive Deputy Chairman and Chief Executive of Royal Mail Group plc, is 40% of basic pay. The Executive Deputy Chairman and Chief Executive of Royal Mail Group plc can achieve a maximum of 75%; the non executive Chairman may earn an annual performance-related bonus of £180,000. 80% of potential bonus earnings relate to financial performance and 20% to the achievement of customer service targets. The Chief Executive of Post Office Limited can achieve a maximum of 40% of basic pay based upon achievement of financial targets of Post Office Limited (80%), the Group's financial targets (16%) and customer service standards (4%).

Benefits

Benefits incorporate all benefits arising from their employment. In the main, these relate to the provision of company cars, death-in-service benefit 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 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). The FURBS will provide benefits to Directors and employees whose contributions to the Company scheme are restricted by the Inland Revenue earnings cap.

Long-Term Incentive Plan

The Company recently introduced a Long-Term Incentive Plan for its most senior managers, which was approved by the Secretary of State for application to the executive Directors. The objectives of the Long-Term Incentive Plan are to incentivise the delivery of the long-term business goals of the Group and to reward success in achieving or exceeding these goals over a three-year period.

The Plan consists of Annual Performance Awards and Bonus Awards, both of which are made at the discretion of the Remuneration Committee. Annual Performance Awards will be accrued on a sliding scale above a threshold level of financial performance of the Group, in line with the Renewal Plan operating profit targets, and subject to satisfactory personal performance. The Renewal Plan operating profit targets have been agreed with Government, our sole shareholder and are based on moving the Group from a loss from operations of £318m in 2001-02 to a profit, before the cost of the 'Share in Success' scheme and Long-Term Incentive Plan awards, of £400m in 2004-05. Individual senior managers are eligible for annual awards of up to 37.5% of their basic salary if the Group achieves 120% of the agreed target.

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Royal Mail Holdings plc

Report on Directors' Remuneration (continued)

The award for on-target performance is 25% of basic salary and no award is made below 87.5% of the agreed target. The Bonus Award element of the scheme allows the Remuneration Committee to award into the Plan up to 50% of their personal performance-related annual bonus, taking into account individual preferences.

At the end of the three-year period, the value of these annual accrued awards together with any deferred bonus elements will be paid out in cash and enhanced by up to 33% if the cumulative target over the 3 years is met. The maximum enhancement is 100% if the cumulative target over the three years is exceeded by 178%.

The Remuneration Committee may, if it is appropriate for the retention of key senior managers, permit a further period of deferral with enhancement beyond the proposed three-year period.

All awards under the Long-Term Incentive Plan are subject to payments being made under the 'Share in Success' scheme to all our people. If no payments are made to our people under the 'Share in Success' scheme, no Annual Performance Awards will be paid and there will be no enhancement to Bonus Awards.

The 'Share in Success' scheme is designed to pay £800 to all our qualifying people for achieving on-target profits for the financial year ending March 2005, and up to £1,200 per person if stretch targets are achieved.

Contracts of service
The rolling service contracts and letters of appointment of the Directors include the following terms:

	Date of contract	Unexpired term at 30 March 2003 (months)
Chairman (Non Executive)		
Allan Leighton (appointed Chairman 25 March 2002. Initially appointed non executive Director on 2 April 2001).	25 March 2002	24
Executive Directors		
Elmar Toime	1 March 2003	12
Marisa Cassoni	1 February 2001	12
Jerry Cope	23 January 2003	12
Adam Crozier	1 February 2003	12
Tony McCarthy	6 January 2003	12
David Mills	15 April 2002	12
Non Executive Directors		
David Fish	1 January 2003	33
Richard Handover	1 January 2003	33
Mike Hodgkinson	1 January 2003	33
John Neill	1 January 2003	33
Rosemary Thorne	26 March 2002 (initial appointment 6 October 1998 for 3 years plus one year extension)	12
Robert Wigley	1 April 2003	36

All executive Directors have a contracted 12-month notice period from the Company, the Director may give six-months notice. The standard terms for compensation for loss of office is a maximum payment of 12-months basic salary. The Company is committed for the full three-year term for non executive Directors, including the Chairman.

Royal Mail Holdings plc

Report on Directors' Remuneration (continued)

Audited information

Directors' remuneration, excluding pensions, was as follows:

	Basic salary and fees	Performance-related bonus	Benefits	Compensation for loss of office	Total excluding pensions 2003	2002
	£	£	£	£	£	£
CHAIRMAN (NON EXECUTIVE)						
Allan Leighton	21,375	165,420	-	-	**186,795**	21,093
Neville Bain (retired 31 December 2001)	-	-	-	-	-	71,697
EXECUTIVE						
Elmar Toime (appointed 1 March 2003)	41,667	28,719	3,050	-	**73,436**	-
Marisa Cassoni	295,000	108,442	13,618	-	**417,060**	308,532
Jerry Cope	168,541	58,968	12,607	-	**240,116**	156,854
Adam Crozier (appointed 1 February 2003)	83,333	57,438	2,100	-	**142,871**	-
Tony McCarthy (appointed 6 January 2003)	70,968	26,088	127,937	-	**224,993**	-
David Mills (appointed 15 April 2002)	240,278	94,573	11,934	-	**346,785**	-
John Roberts (retired 31 December 2002)	293,645	80,200	10,791	119,108	**503,744**	225,852
NON EXECUTIVE						
David Fish (appointed 1 January 2003)	8,056	-	-	-	**8,056**	-
Richard Handover (appointed 1 January 2003)	7,807	-	-	-	**7,807**	-
Mike Hodgkinson (appointed 1 January 2003)	7,615	-	-	-	**7,615**	-
Mike Kinski (contract ended 12 February 2002)	-	-	-	-	-	20,857
John Lloyd (contract ended 4 March 2003)	21,069	-	-	-	**21,069**	21,500
John Neill (appointed 1 January 2003)	7,615	-	-	-	**7,615**	-
Miles Templeman (resigned 4 March 2003)	25,255	-	-	-	**25,255**	23,054
Rosemary Thorne	26,500	-	-	-	**26,500**	24,000
Total 2003	1,318,724	619,848	182,037	119,108	**2,239,717**	-
Total 2002	833,241	-	40,198	-	-	873,439

No fees (2002 nil) were paid to third parties in respect of services provided by Directors.

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 annual performance-related bonus, which is paid in the year following that in which it is earned. Under the new Long-Term Incentive Plan, a proportion no greater than 50% of this bonus may be made as an award under the Plan by the Remuneration Committee, taking into account executive Director preferences.

The above table includes any benefits or expenses paid to the Director on their recruitment. In this respect, Tony McCarthy received compensation for costs incurred on departing his previous employer of £125,000.

John Roberts' basic salary included six-months pay in lieu of notice amounting to £119,108.

Unaudited information

As required by the Shareholder, in determining the appropriate level of annual bonus for 2002-03, the Committee has taken into account the performance of the Company against the year's financial and service targets, and the extent to which the Company is on track with its three-year Renewal Plan.

The profit performance of the Company at operating level has exceeded the first-year Renewal Plan target by £120m (38%).

On customer service, the Committee has taken into account performance against the licence targets agreed with Postcomm, both in terms of achieved levels and year-on-year improvement. Of the 15 targets applying to the mails businesses, only three were achieved in full. However, 14 showed year-on-year cumulative improvements and the 15th matched last year's level. In addition, the queuing performance target for Post Office Limited showed sufficient improvement in the final two months of the year to meet Postcomm's criterion for this target to be dropped from the licence.

In judging progress against the Renewal Plan, the Committee has looked at the status of the key Renewal Programmes. Some but not all are behind schedule, however, the Company has secured additional benefits in other areas to compensate. The Committee is satisfied that the underlying and sustainable expenditure performance of the Company is in line with the requirements of the Renewal Plan going forward.

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Royal Mail Holdings plc

Report on Directors' Remuneration (continued)

Audited information

Pensions

The Group normally offers its most senior people membership of the Royal Mail Senior Executive Pension Plan (RMSEPP). Details of RMSEPP 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.

For senior executives whose membership of the RMSEPP is restricted by the earnings cap, pension provision is made by a combination of the Company scheme and an appropriate Funded Unapproved Retirement Benefits Scheme (FURBS) or equivalent. Gross employer contribution rates range between 40% and 55% of base pay above the earnings cap. The Company has made provision for Elmar Toime, Adam Crozier and Tony McCarthy at a rate of 40% pending final resolution of these new Directors' pension arrangements. The total provision made for FURBS is £167,740 (2002 £100,000). In addition, David Mills receives cash supplements of 24.2% for earnings below the pensions cap, and 40% for earnings above, giving a total of £80,754.

Disclosure of Directors' pension transfer values is required under two separate requirements:

- Stock Exchange Listings Rules: the requirements are the same as that disclosed in last year's accounts and are designed to place a value on the increase in Directors' accrued benefits during the period. The transfer value is calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and excludes Directors' contributions.
- Directors' Remuneration Report Regulations 2002: this is a new requirement and is designed to assess the change in transfer values during the year, taking into account movement in investment market conditions. Falls in market values may generate a negative movement in the transfer values.

The transfer values disclosed represent a potential 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.

The pension entitlements (under Stock Exchange Listing Rules) of the Directors at the year end were:

	Age	Accumulated accrued benefit at 30 March 2003	Increase in accrued benefits during the period*	Increase in accrued benefits during the period (net of inflation)*	*Transfer value** of increase before inflation less Directors' contributions
		£	£	£	£
John Roberts	58	161,161	11,292	33,964	730,056
Jerry Cope	51	85,945	10,014	8,723	78,965
Marisa Cassoni	51	107,537	1,655	1,624	8,266
Elmar Toime	55	275	275	275	2,879
Adam Crozier	39	524	524	524	1,482
Tony McCarthy	47	377	377	377	299
David Mills	59	1,558	1,558	1,558	20,173

* Excluding any increase arising from the transfer in of pension entitlements accrued with previous employers.

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Royal Mail Holdings plc

Report on Directors' Remuneration (continued)

The transfer value (in accordance with the Directors' Remuneration Report Regulations 2002) of each Director's accrued benefits at the end of the financial year is as follows:

	Age	At 31 March 2002	Plus transfers-in received	Sub total	At 30 March 2003	Movement in the period, less Directors' contributions
		£	£	£	£	£
John Roberts	58	2,416,122	-	2,416,122	3,516,855	1,100,733
Jerry Cope	51	939,789	-	939,789	767,026	(176,134)
Marisa Cassoni	51	22,376	916,751	939,127	933,777	(11,182)
Elmar Toime	55	-	-	-	3,365	2,879
Adam Crozier	39	-	-	-	2,454	1,482
Tony McCarthy	47	-	-	-	1,687	299
David Mills	59	-	-	-	26,005	20,173

John Roberts was an employee of Royal Mail for the previous 35 years and, more recently, a member of the RMSEPP until his early retirement on 31 December 2002, on a pension of £161,161 per annum. As at the end of the previous financial year, John Roberts had a deferred pension entitlement of £149,869 per annum or an immediate pension entitlement of £127,197 per annum after allowing for the early retirement reduction factor. The increase in the accrued pension of £33,964 represents the increase (net of inflation) in his immediate pension entitlement, arising from his departure. The effect of early retirement on the transfer value shown in the above table is £663,000. The balance of £1,100,733 is attributable to normal pension accruals and a favourable market movement at the time of retirement.

During the year Marisa Cassoni brought a transfer payment of £916,751 into the RMSEPP. This provided additional accrued pension of £104,035 per annum. The effect of this additional pension has been to reduce Marisa Cassoni's future accrual rate within RMSEPP from 1/30th to 1/60th.

Tony McCarthy and David Mills are also on a 1/60th basis due to the effect of retained benefits from previous employers. All other executive Directors are members of RMSEPP on a 1/30th basis.

By order of the Remuneration Committee

GRO

Jonathan Evans
Secretary
London
28 May 2003

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Royal Mail Holdings plc

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; and
– 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.

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Royal Mail Holdings plc

Independent auditor's report to the members of Royal Mail Holdings plc

We have audited the Group's financial statements for the year ended 30 March 2003 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 28. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as being audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the accounts, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the statement of Directors' responsibilities in respect of the accounts.

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 whether the financial statements have been 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, Directors' Remuneration Report and Corporate Governance 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.

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 30 March 2003 and of the loss of the Group for the year then ended; and the financial statements have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
28 May 2003

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Royal Mail Holdings plc

Accounting policies and general notes

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

A) Going concern

The Group's accounts for the year ended 31 March 2002 noted an uncertainty over how the Group's future cash requirements were to be financed. The required financing was to cover its two principal businesses, Royal Mail Group covering mails and parcels and Post Office Limited covering the Post Office network.

During the year, loan documentation was signed with Government giving Royal Mail Group plc access to £1,044m of financing on commercial terms. Based upon current cashflow projections, the Directors believe that this is sufficient to meet the foreseeable funding needs of this business. All relevant conditions precedent attaching to this financing, including a satisfactory outcome to Postcomm's price control proposals, have been satisfied. The business is now able to draw down against this facility, as and when it is required. For this reason, the Directors have concluded that there is no longer any uncertainty over the financing of this business.

In respect of Post Office Limited, agreement has been reached between Royal Mail Holdings plc and Government on how financial support will be provided to the company. Post Office Limited's current strategic plans indicate that funding of £0.7bn is required for operational needs and a further £1.2bn working capital facility. The agreed funding package is made up as follows:

(a) the write-off of indebtedness of £464m owed to Royal Mail Group against a special Royal Mail Group reserve backed by the Group's past surpluses;

(b) rural network payments of £150m per annum for the next three years to support the maintenance of the rural network of Post Offices;

(c) further advances from the Royal Mail special reserve to meet Post Office Limited's projected net cash outflows until 2006-07.

A loan facility of up to £1.2bn will also be granted by Government to fund working capital needs, arising from the withdrawal by the Department for Work and Pensions of advance funding for benefit payments being made on its behalf over the Post Office network.

All of the above have been agreed and the £1.2bn loan facility is in the course of being documented.

After careful consideration of the Group's cash flow projections, the Directors have concluded that the Group will continue in operational existence for the foreseeable future.

B) Basis of preparation

The accounts on pages 24 to 55 have been prepared in accordance with applicable accounting standards under the historic cost accounting convention and the requirements of the Companies Act 1985, except for the issue described in accounting policy note I(iii) and quantified in note 11.

Royal Mail 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 disclosed in note 28.

No new Financial Reporting Standards, which affect the presentation of these accounts, have been issued by the Accounting Standards Board.

C) Financial year

The financial year ends on the last Sunday in March and accordingly, these accounts cover the 52-week period ended 30 March 2003 (2002 53 weeks).

D) Basis of consolidation

The accounts consolidate the accounts of Royal Mail Holdings plc and its subsidiary undertakings.

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 or, where the Group exercises joint control, joint ventures. In the consolidated accounts, associates are accounted for using the equity method and joint ventures are accounted for using the gross 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 interbusiness charges recognise these dependencies. The Board's policy is to maintain controls to ensure adherence to appropriate pricing principles.

E) Turnover

Turnover comprises revenue receivable directly from customers as adjusted for an assessment of prepaid stamps and meter sales still in the hands of the public. Turnover excludes VAT.

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

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Royal Mail Holdings plc

Accounting policies and general notes (continued)

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 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 – 15 years
Motor vehicles	1 – 12 years
Fixtures and equipment:	
office machines	3 – 12 years
computers	2 – 7 years
other	4 – 15 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, associates and joint ventures 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 current asset investments are treated according to standard UK accounting rules.

J) Stocks

Stocks comprise unissued stores, such as uniforms, bicycles and stationery, 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; and
- 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.

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Royal Mail Holdings plc

Accounting policies and general notes (continued)

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. 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 the Royal Mail Pension Plan (RMPP). This results in the cash payments being higher than the accounts charge for the RMPP. The difference is dealt with through the long-term pensions debtor in the balance sheet.

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.

In addition, over-the-counter derivative products are used to manage both the commodity and foreign exchange risks associated with the fuel procurement policy.

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Royal Mail Holdings plc

Group profit and loss account

		52 weeks ended 30 March 2003			53 weeks ended 31 March 2002		
	Notes	Before exceptional items £m	Exceptional items (note 4) £m	Total £m	Before exceptional items £m	Exceptional items (note 4) £m	Total £m
Turnover: Group and share of joint ventures' turnover		8,378	-	8,378	8,408	-	8,408
Less: share of joint ventures' turnover		(79)	-	(79)	-	-	-
Turnover - continuing operations		8,299	-	8,299	8,408	-	8,408
Ongoing		8,299	-	8,299	8,377	-	8,377
Acquisitions		-	-	-	31	-	31
Turnover	1	8,299	-	8,299	8,408	-	8,408
Staff costs	2	(4,632)	(564)	(5,196)	(4,865)	(513)	(5,378)
Depreciation and other amounts written off tangible and intangible fixed assets:							
Depreciation and amortisation	3	(233)	-	(233)	(271)	-	(271)
Impairment	3/4	-	(97)	(97)	-	(446)	(446)
Other operating charges	4	(3,415)	(36)	(3,451)	(3,339)	(179)	(3,518)
Other operating income	4	-	-	-	-	19	19
Total net operating costs		(8,280)	(697)	(8,977)	(8,475)	(1,119)	(9,594)
Group operating profit/(loss) – continuing operations							
Ongoing		19	(697)	(678)	(67)	(1,119)	(1,186)
Group operating profit/(loss)	3	19	(697)	(678)	(67)	(1,119)	(1,186)
Share of operating profit in joint ventures		18	-	18	-	-	-
Share of operating profit in associates		12	-	12	4	-	4
Impairment of goodwill in associates	4	-	(24)	(24)	(5)	(7)	(12)
Total operating profit/(loss): Group and share of joint ventures and associates		49	(721)	(672)	(68)	(1,126)	(1,194)
Net profit on disposal of tangible fixed assets	4	-	24	24	-	24	24
Profit/(loss) on disposal of subsidiary undertaking		-	2	2	-	*(10)*	*(10)*
Profit/(loss) on ordinary activities before interest		49	(695)	(646)	(68)	(1,112)	(1,180)
Net interest receivable	5	35	-	35	56	-	56
Profit/(loss) on ordinary activities before taxation		84	(695)	(611)	(12)	(1,112)	(1,124)
Taxation	6			52			179
Loss on ordinary activities after taxation				(559)			(945)
Equity minority interests				-			5
Loss transferred to reserves for the financial year	18			(559)			(940)

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Royal Mail Holdings plc

Group statement of total recognised gains and losses

	52 weeks ended 30 March 2003 £m	53 weeks ended 31 March 2002 £m
Loss for the financial year excluding share of profit in joint ventures and associates	**(588)**	(943)
Share of joint ventures' profit for the year	**18**	-
Share of associates' profit for the year	**11**	3
Loss for the financial year	**(559)**	(940)
Exchange differences on translation of net assets and loans	**40**	(13)
Unrealised gain on joint venture/associate transaction	**2**	15
Total recognised losses for the financial year	**(517)**	(938)

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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Royal Mail Holdings plc

Balance sheets

	Notes	Group At 30 March 2003 £m	Group At 31 March 2002 £m	Company At 30 March 2003 £m	Company At 31 March 2002 £m
Fixed assets					
Intangible assets	7	**156**	146	**-**	-
Tangible assets	8	**1,648**	1,783	**-**	-
Investments in joint ventures:	9	**10**	-	**-**	-
Share of gross assets		**64**	-	**-**	-
Share of gross liabilities		**(54)**	-	**-**	-
Investments in associates	9	**62**	80	**-**	-
Other investments	9	**11**	14	**2,180**	2,725
		1,887	2,023	**2,180**	2,725
Current assets					
Stocks		**33**	42	**-**	-
Debtors - receivable beyond one year	10	**712**	549	**-**	-
Debtors - receivable within one year	10	**1,296**	882	**-**	-
Investments	11	**1,250**	1,800	**-**	-
Cash at bank and in hand		**1,060**	1,054	**-**	-
		4,351	4,327	**-**	-
Creditors – amounts falling due within one year	12	**(2,566)**	(2,340)	**-**	-
Net current assets		**1,785**	1,987	**-**	-
Total assets less current liabilities		**3,672**	4,010	**2,180**	2,725
Creditors – amounts falling due after more than one year	13	**(618)**	(655)	**-**	-
Provisions for liabilities and charges	17	**(966)**	(750)	**-**	-
		2,088	2,605	**2,180**	2,725
Capital and reserves					
Called up share capital	19	**-**	-	**-**	-
Profit and loss account	18	**218**	2,346	**2,180**	2,481
Mails Reserve	18	**1,853**	-	**-**	-
Dividend reserve	18	**-**	244	**-**	244
Other reserves	18	**17**	15	**-**	-
Total capital and reserves		**2,088**	2,605	**2,180**	2,725

Approved by the Board on 28 May 2003

GRO

Allan Leighton

GRO

Marisa Cassoni

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Royal Mail Holdings plc

Group cash flow statement

	Notes	52 weeks ended 30 March 2003 £m	53 weeks ended 31 March 2002 £m
Net cash flow from operating activities	(a)	(383)	12
Dividends from joint ventures and associates			
Dividends from associates		7	1
Cash inflow from dividends from joint ventures and associates		7	1
Returns on investments and servicing of finance			
Interest received		69	111
Interest paid		(35)	(32)
Net cash inflow from returns on investment and servicing of finance		34	79
Taxation			
Corporation tax recovered		17	13
Cash inflow from taxation		17	13
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(221)	(216)
Purchase of fixed asset investments		-	(6)
Sale of tangible fixed assets		58	61
Sale of fixed asset investments		4	4
Net cash outflow from capital expenditure and financial investment		(159)	(157)
Acquisitions and disposals			
Purchase of subsidiary undertakings		-	(14)
Purchase of interest in joint ventures and associates		-	(25)
Payment of deferred consideration in respect of prior years' acquisitions		(9)	(9)
Disposal of subsidiary undertaking		7	-
Net cash outflow from acquisitions and disposals		(2)	(48)
Cash outflow before use of liquid resources and financing		(486)	(100)
Management of liquid resources			
Net movement in current asset investments	(b)	550	363
Net cash inflow before financing		64	263
Financing			
Repayment of hire purchase agreements	(b)	(37)	(83)
New long-term loans	(b)	53	1
Repayment of loans	(b)	(77)	(9)
Net cash outflow from financing		(61)	(91)
Increase in cash		3	172

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Royal Mail Holdings plc

Group cash flow statement (continued)

Reconciliation of net cash flow to movement in net funds

	Notes	52 weeks ended 30 March 2003 £m	53 weeks ended 31 March 2002 £m
Increase in cash		**3**	172
Repayment of hire purchase agreements	(b)	**37**	83
New long-term loans	(b)	**(53)**	(1)
Repayment of loans	(b)	**77**	9
Cash flow from management of liquid resources	(b)	**(550)**	(363)
Change in net funds resulting from cash flows		**(486)**	(100)
Exchange differences	(b)	**1**	(8)
Movement in net funds		**(485)**	(108)
Opening net funds	(b)	**2,158**	2,266
Closing net funds	(b)	**1,673**	2,158

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Royal Mail Holdings plc

Notes to the cash flow statement

(a) Reconciliation of operating loss to net cash flow from operating activities

	52 weeks ended 30 March 2003 £m	53 weeks ended 31 March 2002 £m
Group operating loss	**(678)**	(1,186)
Depreciation and amortisation	**233**	271
Impairment	**97**	446
	(348)	(469)
Change in operating assets and liabilities		
Stocks	**9**	2
Debtors	**(573)**	(69)
Creditors	**198**	(100)
Counter services client balances	**67**	(4)
Provisions	**264**	652
Net cash (outflow)/inflow from operating activities	**(383)**	12

Cash flows relating to operating exceptional items charged in both current and prior years

The net cash outflows relating to the above were as follows:

Net cash outflow relating to:	**2003 £m**	2002 £m
Current year exceptional items	**29**	53
Prior year exceptional items	**210**	-
Total	**239**	53

The net cash outflow from operating activities includes cash outflows of £93m in respect of the restructuring of parcels services, £19m in relation to the transport network restructuring programme and £127m for other redundancies and other miscellaneous costs.

(b) Analysis of net funds

	At 1 April 2002 £m	Cash flows £m	Exchange differences £m	**At 30 March 2003 £m**
Cash at bank and in hand	1,054	3	3	**1,060**
Debt due beyond one year	(581)	67	(1)	**(515)**
Debt due within one year	(9)	(43)	(1)	**(53)**
Hire purchase agreements due beyond one year	(70)	35	-	**(35)**
Hire purchase agreements due within one year	(36)	2	-	**(34)**
Current asset investments	1,800	(550)	-	**1,250**
	2,158	(486)	1	**1,673**

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Notes to the accounts

1 Segmental information

Analysis of turnover

	52 weeks ended 30 March 2003 Total turnover £m	Turnover between segments £m	External turnover £m	53 weeks ended 31 March 2002 Total turnover £m	Turnover between segments £m	External turnover £m
By class of business						
Mails and parcels	7,364	(13)	7,351	7,367	(17)	7,350
Counter services	1,186	(287)	899	1,290	(337)	953
Other businesses	151	(102)	49	212	(107)	105
Total	8,701	(402)	8,299	8,869	(461)	8,408
By geographic area of origin						
United Kingdom			7,481			7,752
Rest of the World (principally Europe)			818			656
Total			8,299			8,408

Analysis of (loss)/profit before taxation

By class of business	2003 Operational activity	Pensions benefit	Before Exceptional items	Exceptional items	£m Total	2002 Operational activity	Pensions benefit	Before Exceptional items	Exceptional items	£m Total
Mails and parcels	12	205	217	(496)	(279)	(138)	205	67	(1,022)	(955)
Counter services	(209)	21	(188)	(185)	(373)	(164)	20	(144)	(94)	(238)
Other businesses	(30)	20	(10)	(16)	(26)	(15)	25	10	(3)	7
Pensions benefit	246	(246)	-	-	-	250	(250)	-	-	-
Group operating profit/(loss)	19	-	19	(697)	(678)	(67)	-	(67)	(1,119)	(1,186)

	2003 Before Exceptional items	Exceptional items	Total	2002 Before Exceptional items	Exceptional items	Total
By geographic area of origin						
United Kingdom	12	(690)	(678)	(17)	(868)	(885)
Rest of the World (principally Europe)	7	(7)	-	(50)	(251)	(301)
Group operating loss	19	(697)	(678)	(67)	(1,119)	(1,186)
Share of operating profit in joint ventures	18	-	18	-	-	-
Share of operating profit in associates	12	-	12	4	-	4
Impairment of goodwill in associates	-	(24)	(24)	(5)	(7)	(12)
Profit on disposal of fixed assets	-	24	24	-	24	24
Profit/(loss) on disposal of subsidiary	-	2	2	-	(10)	(10)
Net interest receivable	35	-	35	56	-	56
Profit/(loss) on ordinary activities before taxation	84	(695)	(611)	(12)	(1,112)	(1,124)

Analysis of net assets/(liabilities) by class of business	At 30 March 2003 £m	At 31 March 2002 £m
Mails and parcels	1,533	1,225
Counter services	(108)	(286)
Other businesses	(2)	(35)
	1,423	904
Share of net assets of joint ventures	10	-
Share of net assets of associates	62	80
Unallocated net assets	593	1,621
Total net assets	2,088	2,605

Unallocated net assets principally include current asset investments, tax and borrowings. All net assets other than £300m (2002 £143m) were located in the United Kingdom with the balance principally in Europe.

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2 Staff costs

	2003 £m	2002 £m
Wages and salaries	4,628	4,778
Social security costs	303	323
Pension costs (note 21)	265	277
	5,196	5,378

A loan to one officer totalling £3,818 (2002– one officer £5,516) was outstanding at the end of the year.

Staff costs include £564m (£364m wages and salaries and £200m pension costs), which is included in exceptional items (2002 £513m, £313m and £200m respectively).

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

	2003 Employees	2002 as restated Employees
Mails and UK parcels	176,381	181,264
Counter services	13,893	14,564
Other	15,706	17,139
European parcels	9,587	8,843
Group total	215,567	221,810

	2003	2002
Subpostmasters at year end	14,567	14,901

Details of Directors' remuneration and pension entitlements are included on pages 17 to 21.

3 Operating loss

	2003 £m	2002 £m
Group operating loss is stated after charging/(crediting):		
Depreciation and amortisation:		
Depreciation of owned assets	196	220
Depreciation of assets held under hire purchase agreements	27	28
Amortisation of intangible assets	10	23
	233	271
Impairment write-down:		
Owned assets	90	148
Assets held under hire purchase agreements	-	39
Intangible assets	7	259
	97	446
Subpostmasters' costs	575	565
Research and development expenditure	5	9
Operating lease charges:		
Land and buildings	113	136
Vehicles and equipment	89	50
Counter services net interest receivable (note 5)	(6)	(1)
Expenditure reimbursed to:		
Postcomm	6	5
Postwatch	10	7

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3 Operating loss (continued)

	2003	2002
Auditors' remuneration:	£000	£000
Audit services - current year	**1,409**	1,269
- prior year	**109**	-
Total audit services	**1,518**	1,269
Non-audit services - UK:		
Due diligence and taxation services in respect of acquisition and disposal activity	**132**	1,927
Regulatory, taxation, accounting and other assurance services	**1,298**	3,292
Other advisory services	**515**	1,007
Total non-audit services – UK	**1,945**	6,226
Overseas	**438**	1,679
Total non-audit services	**2,383**	7,905

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4 Exceptional items	**2003** **£m**	2002 £m
Recognised in arriving at Group operating loss:		
Recovery of losses arising from the supply of services for television licensing	-	19
Impairment write-downs	**(97)**	(446)
Provision for surplus properties	**(18)**	(10)
Provision for transport network restructuring	**(47)**	(156)
Provision for restructuring of parcel services	**5**	(298)
Provision for one delivery a day	**(245)**	-
Other redundancy provisions	**(250)**	(228)
Other	**(45)**	-
	(697)	(1,119)
Recognised below Group operating loss:		
Impairment of goodwill in associates	**(24)**	(7)
Net profit on disposal of tangible fixed assets (no tax or minority interest effect)	**24**	24
Profit/(loss) on disposal of subsidiary undertaking	**2**	(10)
	(695)	(1,112)

Impairment reviews were carried out using an appropriate discount rate applicable to these specific types of assets of 8% and by reference to future projections in accordance with long-term average growth rates. The impairment write-downs of £97m relate to tangible fixed assets in Post Office Limited (£88m) and UK parcels (£2m), and goodwill in UK and international mails subsidiaries of £7m. The £24m impairment of goodwill in associates mainly comprises Spring (£19m).

Surplus property provisions arise from vacating administration and operational buildings as a result of the business restructuring initiatives.

Transport network restructuring relates to the initiative to streamline the transport network to a more integrated, road-based, regional 'hub-and-spoke' system, which will reduce the total number of road journeys. The increase in the provision relates to further streamlining of the transport network, in particular, the rationalisation of the air and rail networks.

Parcel services restructuring relates to the decision that Parcelforce Worldwide should concentrate solely on the growing market for 'time-guaranteed', 'next day' and 'two day' express deliveries, both in the UK and overseas. The parcels business has transferred its universal parcels service to the UK mails operation, which will use its existing network.

The one delivery a day programme relates to the restructuring of the letter delivery service.

Other redundancy provisions relate to improvements in efficiency throughout the Group to support the initiative to reduce gross costs by £1.4bn per annum. The increase in the provision relates to further efficiency reviews in the UK mails operations and counter services, and a major restructure of the Group into six core business units - Counter Services, Letters, Parcelforce, International Letters, Logistics and GLS, and a central support unit.

'Other' comprises provisions for the further rationalisation of support services, the incremental costs of running the redundancy programme and miscellaneous write-offs and provisions.

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5 Net interest receivable

	2003 £m	2002 £m
Interest payable:		
– On bank loans and overdrafts	(5)	(4)
– On other loans	(29)	(30)
	(34)	(34)
Interest receivable	69	90
	35	56

In addition, counter services net interest receivable of £6m (2002 £1m) is included within other operating charges.

6 Taxation

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

	2003 £m	2002 £m
Current tax		
Amount receivable for surrender of losses to associates and joint ventures in respect of consortium relief	(10)	-
Tax overprovided in previous years	(7)	-
	(17)	-
Foreign tax	2	2
Group current tax	(15)	2
Amount payable by joint ventures' in respect of consortium relief	5	-
Amount payable by associates' in respect of consortium relief	5	-
Share of associates' current tax payable	1	1
Total current tax (note 6(b))	(4)	3
Group deferred tax – origination and reversal of timing differences (note 6(d))	(48)	(182)
Tax on loss on ordinary activities	(52)	(179)

(b) Factors affecting current tax (credit)/charge
The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2002 30%). The differences are explained below:

	2003 £m	2002 £m
Loss on ordinary activities before tax	(611)	(1,124)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 30%)	(183)	(337)
Deferred relief for asset depreciation and impairment	52	112
Accelerated relief for pension contributions*	(180)	(31)
Provisions not deductible until incurred	88	101
Impairment and amortisation of goodwill	5	85
Losses and other reliefs not utilised	196	57
Other	18	16
Total current tax (note 6(a))	(4)	3

* Pensions contributions qualify for tax relief in the year in which they are paid. Contributions paid in the year significantly exceeded pensions charges to the profit and loss account.

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6 Taxation (continued)

(c) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £146m (2002 £57m) relating to tax losses in subsidiaries that are available to offset against future taxable profits of those companies. The Group also has unrecognised deferred tax assets of £158m (2002 £126m) relating mainly to fixed asset timing differences.

Deferred tax assets have not been recognised in respect of these items as they have arisen in companies which are loss-making and the losses, in particular, may not be used to offset future taxable profits elsewhere in the Group. The unrecognised deferred tax assets will be recognised in future to the extent that suitable taxable profits are expected to become available.

The Group has capital losses carried forward, the tax effect of which is approximately £12m (2002 £11m). These may be set-off in future against capital gains. The Group has rolled over capital gains, the tax effect of which totals £75m (2002 £67m). It is expected that gains on assets sold in the year will be fully rolled over in due course.

(d) Deferred tax

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

	2003 £m	2002 £m
Included in provisions for liabilities and charges (note 17)	**(10)**	(58)
Deferred/(accelerated) capital allowances	**43**	(9)
Pension contributions timing differences	**(338)**	(158)
Provisions	**197**	109
Losses	**88**	-
	(10)	(58)

At 1 April 2002	(58)
Deferred tax credit in Group profit and loss account (note 6(a))	48
At 30 March 2003	(10)

7 Intangible fixed assets

Group	**Goodwill**	**Other intangible assets**	**Total**
COST	£m	£m	£m
At 1 April 2002	442	17	459
Exchange movement	40	2	42
At 30 March 2003	**482**	**19**	**501**
AMORTISATION			
At 1 April 2002	312	1	313
Exchange movement	15	-	15
Charge for the year	9	1	10
Impairment	7	-	7
At 30 March 2003	**343**	**2**	**345**
NET BOOK AMOUNT			
At 30 March 2003	**139**	**17**	**156**
At 1 April 2002	130	16	146

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

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8 Tangible fixed assets

Group	Land and buildings						
	Freehold	Long lease	Short lease	Plant and machinery	Motor vehicles	Fixtures and equipment	Total
COST	£m	£m	£m	£m	£m	£m	£m
At 1 April 2002	1,589	225	366	624	342	862	4,008
Exchange movements	7	1	-	4	-	4	16
Reclassification	(26)	4	22	(2)	-	2	-
Additions	25	5	59	70	8	36	203
Disposals	(38)	(3)	(25)	(30)	(104)	(48)	(248)
At 30 March 2003	**1,557**	**232**	**422**	**666**	**246**	**856**	**3,979**
ACCUMULATED DEPRECIATION							
At 1 April 2002	648	114	174	306	197	786	2,225
Exchange movements	-	1	-	2	-	3	6
Reclassification	-	-	-	(1)	-	1	-
Charge for the year	52	7	32	57	38	37	223
Impairment	12	7	13	-	30	28	90
Disposals	(25)	(1)	(24)	(28)	(89)	(46)	(213)
At 30 March 2003	**687**	**128**	**195**	**336**	**176**	**809**	**2,331**
NET BOOK AMOUNT							
At 30 March 2003	**870**	**104**	**227**	**330**	**70**	**47**	**1,648**
At 1 April 2002	941	111	192	318	145	76	1,783

The net book amounts held under hire purchase contracts amount to £110m (2002 £118m).

9 Fixed asset investments

Group	At 1 April 2002	Additions	Disposals	Impairment/ amortisation	Share of profit retained by joint ventures/ associates	At 30 March 2003
	£m	£m	£m	£m	£m	£m
Share of net assets in associates	33	-	(1)	-	9	**41**
Goodwill	47	-	-	(26)	-	**21**
Net investment in associates	80	-	(1)	(26)	9	**62**
Share of net assets in joint ventures	-	2	-	-	8	**10**
Other investments	14	-	(3)	-	-	**11**
	94	2	(4)	(26)	17	**83**

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

During the year, the Group sold 49% of its equity investment in Romec Limited, and 50% of its equity investment in First Rate Travel Services Holdings Limited. Both companies are now accounted for as joint ventures, but there is no goodwill associated with the investment in either company. In addition, the Group sold all of its equity investment in Optecon, which was previously accounted for as an associate.

Also during the year, the Group disposed of most of its equity investment in Cashtec and at the same time acquired a non-equity investment in the same company. Cashtec is now accounted for as a trade investment, whereas it was previously accounted for as an associate. Both the original associate and the trade investment now held are recorded at zero value.

Further details of principal joint ventures and associates are given in note 27.

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9 Fixed asset investments (continued)

Company	**2003** Total £m	2002 Total £m
At 1 April 2002	2,725	-
Transfer from The Post Office Corporation	-	3,784
Change in net asset value of subsidiary undertaking	(545)	(1,059)
At 30 March 2003	2,180	2,725

The fixed asset investment of the Company represents the net asset value of its investment in an internally formed subsidiary undertaking, as stated in accounting policy note I(i).

(i) Acquisitions in the prior year

No material adjustments have been made during the year to the provisional fair values of either the consideration relating to, or the net assets acquired of, the subsidiary undertakings purchased in the year ended 31 March 2002.

(ii) Acquisitions during the year

There were no material acquisitions of subsidiary undertakings during the year.

Details of principal subsidiary undertakings can be found in note 27.

(iii) Disposals during the year

There were no material disposals of subsidiary undertakings during the year except for the part-disposal of Romec Limited, which subsequently became a joint venture. Further details can be found in the second paragraph below the table at the beginning of this note.

10 Debtors

	2003 £m	2002 £m
Receivable beyond one year:		
Pension prepayment	707	531
Other debtors	5	18
	712	549

	2003 £m	2002 £m
Receivable within one year:		
Trade debtors	695	700
Pension prepayment	400	-
Other prepayments and accrued income	201	182
	1,296	882

The pension prepayment beyond one year 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. The amount within one year represents prepaid contributions for 2003-04.

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11 Current asset investments

	2003 £m	2002 £m
Government gilt-edged securities	253	358
Government short-term deposits (National Loans Fund)	913	1,172
Other deposits	84	270
	1,250	1,800

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 £1m (2002 £9m).

The above investments include deposits of £549m, which are subject to a charge as security against the loans from the Department of Trade and Industry. The balance of investments are restricted in their use to that permissible by the section 72 order, which created the Mails Reserve (note 18).

12 Creditors – amounts falling due within one year

	2003 £m	2002 £m
Loans (note 14)	53	9
Obligations under hire purchase agreements (note 15)	34	36
Counter services client services balances	1,054	987
Trade creditors and accruals	1,026	970
Advance customer payments	253	220
Deferred consideration (note 16)	-	6
Corporation tax	12	1
Other taxation and social security	112	104
Other creditors	22	7
	2,566	2,340

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.

13 Creditors – amounts falling due after more than one year

	2003 £m	2002 £m
Loans (note 14)	515	581
Obligations under hire purchase agreements (note 15)	35	70
Deferred consideration (note 16)	-	3
Pensions creditor	68	-
Other	-	1
	618	655

14 Loans

	2003 £m	2002 £m
Amounts falling due in:		
One year or less	53	9
More than one year but not more than two years	1	3
More than two years but not more than five years	5	74
More than five years	509	504
	568	590

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14 Loans (continued)

Analysis of loans

	Security	Total principal £m	Interest range %
DTI Loans:			
Loans repayable between March 2021 and September 2025	Assets	500	5.26 to 6.12
Short-term DTI loan	Deposits	50	4.06
Miscellaneous long-term bank loans taken out by overseas subsidiaries	Land and buildings	18	2.13 to 7.35
		568	

On 20 December 2002, the Group signed a credit facility from the Department of Trade and Industry for additional loans up to a maximum of £1,044m, thereby giving a total credit facility of £1,544m. All loans under this facility are secured against cash deposits and a fixed and floating charge against certain assets of the Group.

15 Obligations under hire purchase agreements

	2003 £m	2002 £m
Amounts falling due in:		
One year or less	**34**	36
More than one year but not more than two years	**32**	34
More than two years but not more than five years	**1**	35
More than five years	**2**	1
Sub total beyond one year	**35**	70
Total	**69**	**106**

16 Deferred consideration

	2003 £m	2002 £m
Amounts falling due in:		
One year or less	**-**	6
More than one year but not more than two years	**-**	3
	-	9

Royal Mail Holdings plc

17 Provisions for liabilities and charges

	At 1 April 2002 £m	Charged in the year £m	Released in the year £m	Utilised in the year £m	At 30 March 2003 £m
Surplus properties	21	27	-	(8)	**40**
Restructuring of transport network	156	76	(29)	(29)	**174**
Restructuring of parcel services	297	-	(5)	(93)	**199**
One delivery a day	-	245	-	(11)	**234**
Other redundancy	206	250	-	(193)	**263**
Other	12	45	-	(11)	**46**
Deferred tax (note 6)	58	-	(48)	-	**10**
	750	643	(82)	(345)	**966**

The provisions comprise:-

(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. £17m of the provision is expected to be utilised in 2003-04 and the majority of the balance over the following 6 years.

(ii) Restructuring of transport network - redundancy and other operating charges. £121m is expected to be utilised in 2003-04 and the remainder of the balance in the following two years.

(iii) Restructuring of parcel services - redundancy costs and other operating charges. £120m is expected to be utilised in 2003-04 and the majority of the balance in the following two years.

(iv) One delivery a day - redundancy costs and other operating charges. £86m is expected to be utilised in 2003-04 and the remainder of the balance in 2004-05.

(v) Other redundancy costs - it is expected that £218m will be incurred in 2003-04 and the balance in the following two years.

(vi) Other provisions - further rationalisation of support services, the incremental cost of running the redundancy programme and miscellaneous write-offs. £26m is expected to be utilised in 2003-04 and the majority of the balance in 2004-05.

18 Reserves

Group	Profit and loss account £m	Mails £m	Dividend £m	Other £m	2003 Total £m	2002 Total £m
At 1 April 2002	2,346	-	244	15	**2,605**	3,543
Loss for the financial year	(559)	-	-	-	**(559)**	(940)
Transfer of dividend reserve (see note below)	244	-	(244)	-	-	-
Mails Reserve (see note below)	(1,853)	1,853	-	-	-	-
Unrealised gain on associate/joint venture transaction	-	-	-	2	**2**	15
Exchange differences on retranslation of net assets and loans of subsidiaries	40	-	-	-	**40**	(13)
At 30 March 2003	218	1,853	-	17	**2,088**	2,605

HM Government confirmed in July 2002 that the funds set aside for the possible payment of prior year dividends are now considered to be part of past surpluses. Accordingly, the amounts in the dividend reserve have been transferred to the profit and loss reserve within Royal Mail Holdings plc. The past surpluses of the Group are dealt with in accordance with the restrictions applied to the Mails Reserve created under section 72 of the Postal Services Act 2000, as detailed below.

The Mails Reserve of £1,846m was created in Royal Mail Group plc on 3 February 2003, following directions issued by the Secretary of State for Trade and Industry under section 72 of the Postal Services Act 2000. Interest subsequently earned on the assets backing this reserve, amounting to £7m, was transferred into the Mails Reserve at the year end date. The amounts allocated to the reserve in accordance with these directions are to be applied as if they were profits available for distribution within the meaning of section 263(1) of the Companies Act 1985 (distributions to be made out of profits).

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18 Reserves (continued)

The purposes for which the Mails Reserve may be applied are also defined by these directions, which are principally the provision of financial assistance to Post Office Limited and security for loans for Royal Mail Group plc.

Company	Profit and loss account	Dividend	2003 Total	2002 Total
	£m	£m	£m	£m
At 1 April 2002	2,481	244	**2,725**	3,784
Loss for the financial year	(545)	-	**(545)**	(1,059)
Transfer of dividend reserve	244	(244)	**-**	-
At 30 March 2003	2,180	-	**2,180**	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.

19 Share capital

Authorised	2003	2002
	£	£
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	2003	2002
	£	£
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 section 63(7) of the Postal Services Act 2000, 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.

Royal Mail Holdings plc

20 Derivatives and other financial instruments

An explanation of the Group's treasury policy and controls is included in the Financial Review on pages 8 and 9. The role of financial instruments in creating or changing the risks the Group faces in its activities is also explained in that 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:

	2003				2002			
	Fixed rate	Floating rate	Non-interest-bearing	Total	Fixed rate	Floating rate	Non-interest-bearing	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Euro	12	6	-	18	20	70	4	94
Sterling	550	40	1,083	1,673	500	40	1,056	1,596
US Dollar	-	-	-	-	2	-	-	2
Total	562	46	1,083	1,691	522	110	1,060	1,692

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

2003

	Fixed rate			Floating rate			Non-interest-bearing	
	Value	Interest rate	Average time to maturity	Value	Interest rate	Average time to maturity	Value	Average time to maturity
	£m	%	Years	£m	%	Years	£m	Days
Euro	12	5.50	7	6	euro LIBOR plus 2	5.0	-	-
Sterling	550	5.67	18	40	One-week money market	1.0	69	497
	-	-	-	-	-	-	1,014	On demand
Total	562			46			1,083	

2002

	Fixed rate			Floating rate			Non-interest-bearing	
	Value	Interest rate	Average time to maturity	Value	Interest rate	Average time to maturity	Value	Average time to maturity
	£m	%	Years	£m	%	Years	£m	Days
Euro	20	5.74	8.14	70	euro LIBOR plus 0.25	2.0	4	183
Sterling	500	5.84	21.25	40	One-week money market	1.0	947	On demand
	-	-	-	-	-	-	106	726
	-	-	-	-	-	-	3	183
US Dollar	2	4.00	1.00	-	-	-	-	-
	522			110			1,060	

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20 Derivatives and other financial instruments (continued)

(ii) Financial assets – interest rate profile

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

	2003 Fixed rate	2003 Floating rate	2003 Non-interest-bearing	2003 Total	2002 Fixed rate	2002 Floating rate	2002 Non-interest -bearing	2002 Total
	£m	£m	£m	£m	£m	£m	£m	£m
Euro	-	43	22	65	1	19	8	28
Sterling	1,261	-	986	2,247	1,814	3	1,016	2,833
US Dollar	-	-	7	7	4	-	2	6
Other	-	-	2	2	-	-	1	1
Total	1,261	43	1,017	2,321	1,819	22	1,027	2,868

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

2003

	Fixed rate			Floating rate			Non-interest-bearing	
	Value	Weighted average interest rate	Average time to maturity	Value	Interest rate	Average time to maturity	Value	Average time to maturity
	£m	%	Days	£m	%	Days	£m	Days
Euro	-	-	-	43	Bank rate minus 1	1	22	On demand
Sterling	1,261	3.59	82	-	-	-	986	On demand
US Dollar	-	-	-	-	-	-	7	On demand
Other	-	-	-	-	-	-	2	On demand
Total	1,261			43			1,017	

2002

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

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

A one percentage point increase in interest rates throughout the period would have increased profit before tax by £7m.

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Royal Mail Holdings plc

20 Derivatives and other financial instruments (continued)

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

The maturity profile of the Group's financial liabilities at 30 March 2003 is set out below:

	2003	2002
	£m	£m
One year or less or on demand	1,141	1,036
More than one year but not more than two years	33	38
More than two years but not more than five years	6	111
More than five years	511	507
	1,691	1,692

(iv) Maturity profile of the Group's undrawn committed borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 30 March 2003 in respect of which all conditions precedent had been met at that date are as follows:

	2003	2002
	£m	£m
Expiring in one year or less	-	-
Expiring in more than one year but not more than two years	500	-
Expiring in more than two years	494	-
	994	-

The above facilities comprise a loan facility of £544m of which £50m had been utilised at 30 March 2003. These loans have been secured by charges on cash deposits in favour of HM Treasury. The other £500m is a debt security facility which is secured by a fixed and floating charge on various assets of the Group.

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

a) Primary financial instruments held or issued to finance the Group's operations

	2003		2002	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Cash	1,060	1,060	1,054	1,054
Current asset investments	1,250	1,250	1,800	1,800
Fixed asset investments	11	11	14	14
Long-term borrowings	(515)	(515)	(590)	(590)
Short-term borrowings	(53)	(53)	-	-
Deferred consideration	-	-	(9)	(9)
Hire purchase creditor	(69)	(69)	(106)	(106)
Client services balances	(1,054)	(1,054)	(987)	(987)

Fair values for borrowings and deposits have been calculated by discounting at an appropriate rate.

The carrying value of gilts is £263m (2002 £371m), of which £253m (2002 £358m) is included in the current asset investment figures and £10m (2002 £13m) in the fixed asset investment figures. The Group portfolio of gilt holdings showed a loss of £1m (2002 £9m loss) during the financial year when revalued.

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Royal Mail Holdings plc

20 Derivatives and other financial instruments (continued)

b) Derivative financial instruments held to manage currency and commodity price fluctuations

	2003 Market value £m	2002 Market value £m
Foreign currency transactions	**185**	188
Fuel derivatives	**18**	10

At the balance sheet date, the Group held contracts to purchase foreign currency for £186m (2002 £188m) and £17m (2002 £10m) fuel contracts. No carrying amounts are shown as all these items are held off balance sheet. The difference between the contracted forward rate and mark to market rate was £1m (2002 £0m) for currency contracts and £1.4m (2002 £0.3m) for fuel contracts.

(vi) Forward transactions
The Group had outstanding forward transactions to hedge foreign currencies and fuel purchases as follows:

	In currency (millions)		Sterling equivalents (millions)	
	2003	2002	**2003**	2002
Maturing within one year				
Euro	**80**	76	**55**	46
JPY	**1,781**	2,545	**9**	14
USD	**181**	180	**116**	127
AUD	**3**	2	**1**	-
Maturing after one year				
USD	**-**	1	**-**	1
Euro	**4**	-	**5**	-

(vii) 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, leaving 21 million SDRs unhedged this year (2002 32 million SDRs).

	2003	2002
Net foreign currency liabilities (SDRm)	**21**	32
Sterling equivalent value (£m)	**19**	28

At 30 March 2003, the Group also held various open forward contracts that were taken out to hedge expected future foreign currency payments (as shown in note (vi) above).

(viii) 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.

(ix) Borrowing facilities
The Group has committed borrowing facilities totaling £1,544m. Details of undrawn committed borrowing facilities are shown in note (iv) above.

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Royal Mail Holdings plc

21 Pensions

The Group operates pension schemes as detailed below:

Name	Former name	Eligibility	Type
Royal Mail Pension Plan (RMPP)	Consignia Pension Plan (CPP)	UK employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	Consignia Senior Executive Pension Plan (CSEPP)	UK senior executives	Defined benefit
Royal Mail Retirement Savings Plan (RMRSP)	Consignia Retirement Savings Plan (CRSP)	UK employees	Defined contribution
Various other small-scale schemes operated by overseas subsidiaries		Overseas subsidiary employees	Defined contribution

The RMPP 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 £264m for the defined benefit schemes, which includes £200m in respect of redundancy provisions and £1m for defined contribution schemes (2002 £276m, £200m and £1m respectively). The overall Group result includes a £246m (2002 £250m) 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 £48m (2002 £53m) of the benefit. The surplus in the Royal Mail Pension Plan allows a further reduction in cost – evaluated by the Scheme actuary using their 'best estimate' assumptions – providing £153m benefit (2002 £164m). This surplus is being amortised over 12 years, the average remaining service lives of employees. The interest on the long-term pension debtor of £45m (2002 £33m) 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 the RMPP and the RMSEPP 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 the RMPP Section A&B (as at 31 March 2000), £2,434m for the RMPP Section C (as at 31 March 2000) and £60m for the RMSEPP (as at 1 April 2001). The asset cover of the benefits accrued to members after allowing for future increases in earnings was 115% for the RMPP Section A&B (as at 31 March 2000), 109% for the RMPP Section C (as at 31 March 2000) and 77% for the RMSEPP (as at 1 April 2001). The next full valuation of both the RMPP and the RMSEPP is being carried out as at 31 March 2003.

These accounts have been produced in accordance with the current accounting standard SSAP 24. The latest pensions accounting standard, FRS 17, has been adopted by the Group in accordance with the transitional arrangements allowed by that standard. The amendment to FRS 17 announced by the Accounting Standards Board in November 2002 means that disclosures will be phased-in over the three years ending March 2003, March 2004 and March 2005.

FRS 17 disclosures

Name of Plans: Royal Mail Pension Plan (RMPP)
Royal Mail Senior Executives Pension Plan (RMSEPP)

Nature of Plans: defined benefit

a) Assumptions

The major assumptions used by the actuary were:

	At 30/03/2003	At 31/03/2002
	% pa	% pa
Rate of increase in salaries	**3.55**	3.80
Rate of increase in pensions	**2.25**	2.50
Discount rate	**5.50**	6.00
Inflation assumption	**2.25**	2.50
Expected average rate of return on assets	**7.90**	7.70

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Royal Mail Holdings plc

21 Pensions (continued)

b) Plan assets and expected rates of return

The assets in the Plans and the expected rates of return were:

At 30 March 2003

	Market value at 30 March 2003		
	RMPP	RMSEPP	Long-term rate of return expected at 30 March 2003
	£m	£m	% pa
Equities	9,650	56	8.50
Bonds	1,562	6	4.50
Property	1,240	-	6.50
Other net assets	(352)	25	4.25
Total market value of assets	12,100	87	
Present value of Plan liabilities	(16,752)	(119)	
Deficit in scheme	(4,652)	(32)	
Surplus restriction	-	-	
Pension liability before deferred tax	(4,652)	(32)	
Related deferred tax (liability)/asset*	-	-	
Net pension liability	(4,652)	(32)	

*No deferred tax is recognised in relation to the pension liabilities due to uncertainty regarding the existence of future tax liabilities against which tax relief on pension costs might be offset.

At 31 March 2002

	Market value at 31 March 2002		
	RMPP	RMSEPP	Long-term rate of return expected at 31 March 2002
	£m	£m	% pa
Equities	12,607	63	8.20
Bonds	1,706	7	5.30
Property	1,194	-	6.70
Other assets	106	7	4.50
Total market value of assets	15,613	77	
Present value of Plan 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)	

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Royal Mail Holdings plc

21 Pensions (continued)

c) Components of defined benefit costs

An analysis of the separate components of the cost that would be reflected in the performance statements is as follows:

	RMPP	RMSEPP	Total
	£m	£m	£m
Analysis of amounts charged to operating profit:			
Current service cost	382	4	386
Total charge to operating profit	382	4	386
Analysis of other amounts (credited)/charged to profit and loss account:			
Gain on settlements	(18)	-	(18)
Loss on curtailments*	105	14	119
Total net operating charge	469	18	487

*These costs have already been recognised in the Group primary statements on a SSAP 24 basis.

	RMPP	RMSEPP	Total
Analysis of amount charged/(credited) to other finance income:			
Interest on pension Plan liabilities	905	5	910
Expected return on pension Plan assets	(1,185)	(6)	(1,191)
Net (credit)/charge to other finance income	(280)	(1)	(281)
Total profit and loss charge before deduction for tax	189	17	206
Analysis of amounts recognised in statement of total recognised gains and losses (STRGL):			
Difference between actual and expected return on Plan assets	4,342	28	4,370
Experience (gain)/loss on Plan liabilities	(22)	5	(17)
Loss on change in assumptions (financial and demographic)	672	4	676
Actuarial loss recognised in STRGL	4,992	37	5,029

d) Movement in surplus/(deficit)

Analysis of the movement in surplus/(deficit) in the Plans during the period:

			2003
	RMPP	RMSEPP	Total
	£m	£m	£m
Surplus/(deficit) in Plan at beginning of period	282	(10)	272
Company contributions paid	247	32	279
Current service cost	(382)	(4)	(386)
Settlement gain	18	-	18
Curtailment loss	(105)	(14)	(119)
Other finance income	280	1	281
Actuarial loss	(4,992)	(37)	(5,029)
Deficit in Plan at end of period	(4,652)	(32)	(4,684)

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Royal Mail Holdings plc

21 Pensions (continued)

e) History of experience gains and losses

	RMPP	RMSEPP	2003 Total
Loss between actual and expected return on Plan assets:			
Amount (£m)	4,342	28	4,370
Percentage of Plan assets at end of period	35.9%	32.2%	35.9%
Experience (gain)/loss on Plan liabilities:			
Amount (£m)	(22)	5	(17)
Percentage of Plan liabilities at end of period	0.1%	4.2%	0.1%
Total actuarial loss recognised in STRGL:			
Amount (£m)	4,992	37	5,029
Percentage of Plan liabilities at end of period	29.8%	31.1%	29.8%

f) Balance sheet presentation

Net Assets	**At 30 March 2003**	**At 31 March 2002**
	£m	**£m**
Net assets as stated in balance sheet	**2,088**	2,605
Pension prepayment recoverable beyond one year (SSAP 24)	**(707)**	(531)
Related deferred tax	**-**	158
Net assets excluding pension asset/liability	**1,381**	2,232
FRS 17 pension asset	**-**	197
FRS 17 pension liability	**(4,684)**	(7)
Net assets including pension asset/liability	**(3,303)**	2,422

Reserves	**At 30 March 2003**	**At 31 March 2002**
	£m	**£m**
Profit and loss reserve as stated in balance sheet	**218**	2,346
Pension prepayment recoverable beyond one year (SSAP 24)	**(707)**	(531)
Related deferred tax	**-**	158
Profit and loss reserve excluding amounts relating to pension asset/liability	**(489)**	1,973
FRS 17 pension asset	**-**	197
FRS 17 pension liability	**(4,684)**	(7)
Profit and loss reserve including amounts relating to pension asset/liability	**(5,173)**	2,163

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

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Royal Mail Holdings plc

22 Commitments

(i) Capital commitments

Capital commitments contracted for but not provided in the accounts amount to £138m (2002 £45m).

(ii) Operating lease commitments

The Group is committed to the following payments on operating leases during the next 12 months:

	Land and buildings		Vehicles and equipment	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
For leases which expire:				
Within one year	**9**	7	**14**	7
Between one and five years	**26**	21	**56**	62
Beyond five years	**86**	90	**-**	-
	121	118	**70**	69

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 the Group has received credit, are secured by gilts deposited with the Bank of England. On default, the estimated maximum liability would be £118m.

24 Borrowing limit

At 30 March 2003, the Group borrowing limit under section 115(6)(b) of the Postal Services Act 2000 was £5,000m (2002 £5,000m), subject to Government agreement. The amount of outstanding borrowings at that date was £637m (2002 £705m).

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Royal Mail Holdings plc

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 Royal Mail Pensions Trustees Limited. The transactions entered into and the balances outstanding at 30 March 2003 were as follows:

	Sales to related party		Purchases from related party		Amounts owed from related party (including outstanding loans)		Amounts owed to related party	
	£m 2003	£m 2002	£m 2003	£m 2002	£m 2003	£m 2002	£m 2003	£m 2002
Royal Mail Pension Plan	42.0	44.4	-	-	18.7	19.7	-	-
Quadrant Catering Limited	0.3	-	41.0	42.0	-	-	0.9	1.0
Cashtec Limited	0.3	-	-	-	-	2.1	-	-
Postal Preference Services Limited	0.5	1.8	-	-	0.6	0.4	-	-
Media Marketing International Limited	0.3	-	0.4	-	0.1	-	-	-
Optecon Limited	1.5	0.6	4.0	0.8	-	0.6	-	0.2
Camelot plc	14.1	3.8	-	-	-	-	-	-
Szybka Paczka Spolka z.o.o.	-	-	-	-	5.7	4.6	-	-
G3 Worldwide Mail N.V	4.7	11.0	29.0	17.0	9.4	15.0	4.9	-
First Rate Travel Services Holdings Limited Group	16.9	-	-	-	1.9	-	-	-
Romec Limited	4.4	-	97.3	-	-	-	29.9	-
National Design Consultancy	-	-	4.4	-	-	-	0.4	-

Companies listed above are joint ventures and associates of the Group with the exception of the Royal Mail Pension Plan. However, Cashtec Limited and Optecon Limited ceased to be associates during the year as explained in note 9.

Jerry Cope, a Director, is a shareholder-nominated Director of Camelot plc, with whom the Group has a commercial relationship for the sale of £770m (2002 £810m) of lottery products per annum.

26 Post balance sheet events

On 6th May 2003 Royal Mail Group entered into an agreement with Computer Sciences Corporation (CSC) for the outsourcing of its IT operations. The services will be provided by CSC as prime contractor and BT and Xansa (together called the Prism Alliance).

The transaction has been effected by way of a transfer of a wholly owned subsidiary, Royal Mail Business Systems Limited, to CSC. In addition, CSC and Royal Mail Group have entered into a ten-year service agreement for the provision of IT services. CSC will manage the contract.

Some 1,735 people, mostly IT professionals currently employed by Royal Mail, will transfer in early June to CSC, Xansa and BT on existing terms and conditions under TUPE regulations. Savings of approximately £60m per annum will be generated over the ten-year life of the contract.

On 19 May 2003, Postcomm published a draft determination of the terms on which it is proposed that UK Mail Ltd, a subsidiary of Business Post Group plc, should have access to Royal Mail's postal facilities. Given the size and complexity of the proposals, the potential impact has still to be quantified. The proposals are not final and are subject to three-months public consultation.

On 27 May 2003, the European Commission announced that it has approved the measures proposed by the UK Government to fund, as detailed in note A of accounting policies and general notes, the net public service cost of the network within Post Office Limited.

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Royal Mail Holdings plc

27 Principal subsidiary undertakings, joint ventures and associates

	Country of incorporation	Percentage holding %	Principal activities
Subsidiary undertakings			
Royal Mail Group plc [1]	UK	100	Distribution services
Post Office Limited	UK	100	Counter services
Consignia (Customer Management) Limited [2]	UK	100	Customer management
Citipost Holdings Limited [3]	UK	100	Mail services
General Logistics Systems Germany (formerly German Parcels Beteiligungs GmbH)	Germany	100	Parcel services
Extand SA	France	100	Parcel services
General Logistics Systems Denmark A/S (formerly Pakke Trans A/S)	Denmark	100	Parcel services
General Logistics Systems Netherlands B.V. (formerly 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 [4]	UK	51	Catering services
G3 Worldwide Mail N.V. (trade name 'Spring')	Netherlands	24.5	Mail services
Joint ventures			
Romec Limited	UK	51	Facilities management
First Rate Travel Services Holdings Limited	UK	50	Foreign exchange

1. This investment is held by the Company. All other investments are held by subsidiaries.
2. Consignia (Customer Management) Limited ceased to trade with effect from 4 November 2002 after its business activities were sold to Royal Mail Group plc.
3. The results for the year ended 30 March 2003 have been consolidated for all subsidiaries except Citipost Holdings Limited, whose results for their year ended 31 December 2002 have been used. There were no material variations from their normal trading activities between 1 January 2003 and 30 March 2003.
4. 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.

A full list of subsidiary undertakings and joint ventures and associates is available from the Company's registered office. All shareholdings are equity shares.

28 Loss attributable to the members of the parent company

The loss dealt with in the accounts of the parent company was £545m (2002 £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 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. Further details can be found in notes 9 and 18.

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Royal Mail Holdings plc

Five-year summary

Profit and loss account	98-99 £m	99-00 £m	00-01 as restated £m	01-02 £m	02-03 £m
Turnover	7,010	7,522	8,119	8,408	**8,299**
Total operating costs before exceptional items	(6,616)	(7,141)	(8,097)	(8,475)	**(8,280)**
Exceptional items	-	(656)	(67)	(1,119)	**(697)**
Group operating (loss)/profit	394	(275)	(45)	(1,186)	**(678)**
Share of operating profit of joint ventures and associates	3	4	-	4	**30**
Impairment of goodwill in associates	-	-	-	(12)	**(24)**
Total operating (loss)/profit	397	(271)	(45)	(1,194)	**(672)**
Profit on sale of tangible fixed assets	41	11	20	24	**24**
Profit on disposal/part disposal of support service	22	-	-	-	**-**
Profit/(loss) on disposal of subsidiary undertaking	-	-	-	(10)	**2**
(Loss)/profit before interest	460	(260)	(25)	(1,180)	**(646)**
Net interest receivable	148	89	106	56	**35**
(Loss)/profit before tax	608	(171)	81	(1,124)	**(611)**
Taxation	(112)	(96)	(34)	179	**52**
(Loss)/profit after tax	496	(267)	47	(945)	**(559)**
Equity minority interests	-	3	2	5	**-**
(Loss)/profit for the financial year	496	(264)	49	(940)	**(559)**
Transfer to dividend reserve	-	(151)	(93)	-	**-**
(Loss)/profit retained	496	(415)	(44)	(940)	**(559)**

Balance sheet	98-99 £m	99-00 £m	00-01 as restated £m	01-02 £m	02-03 £m
Intangible assets	220	270	421	146	**156**
Tangible fixed assets	2,510	2,419	2,026	1,783	**1,648**
Fixed asset investments	22	26	60	94	**83**
Net current assets	1,708	1,723	2,008	1,987	**1,785**
Creditors beyond one year and provisions	(160)	(342)	(977)	(1,405)	**(1,584)**
Total assets less liabilities	4,300	4,096	3,538	2,605	**2,088**
Revaluation reserve	225	289	-	-	**-**
Profit and loss account	4,075	3,659	3,299	2,346	**218**
Mails Reserve	-	-	-	-	**1,853**
Dividend reserve	-	151	244	244	**-**
Other reserves	-	-	-	15	**17**
Equity minority interests	-	(3)	(5)	-	**-**
Capital and reserves	4,300	4,096	3,538	2,605	**2,088**

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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Royal Mail Holdings plc

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.

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 Royal Mail 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 readily convertible into known amounts of cash at, or close to, their carrying amount and can be disposed of without curtailing business operations.

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Glossary of terms (continued)

NLF
National Loans Fund provides a source of funds for Government lending.

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.

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.

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Further information is available from
the Company's website
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