Registered Number 04138203

Royal Mail Group plc

Accounts

2003-2004

Contents

Royal Mail Group plc

Directors' Report

The Directors present the accounts of Royal Mail Group plc (the Company). These accounts relate to the 52 weeks ended 28 March 2004 (52 weeks ended 30 March 2003).

Principal activities
The Company continues to provide a nationwide and international distribution service, principally of mails and parcels.

Review of the business and future developments
Royal Mail is unique in reaching everyone in the UK every working day for prices that are amongst the cheapest in Europe. Every working day we collect, process and deliver around 82 million items to 27 million addresses and deliver some 40 million express parcels every year. But we need to change and modernise operations to improve service to customers and keep ahead of the competition in the letters and UK parcels businesses.

2003-04 was a tough year for Royal Mail but it was also a year of solid achievement. The Company made a post-tax profit of £949m which is an improvement of more than 265% on the £575 million loss a year earlier.

Our top priority now is to improve the quality of service to our customers. That means urgently tackling those areas where we know mail is being delayed and completing as quickly as possible much-needed operational changes in our letter business. These changes are crucial to deliver and sustain a high quality of service in the longer-term and the efficiency savings to achieve our financial targets.

During the second year of our three-year Renewal Plan, there has been a huge effort to complete the implementation of operational changes within the mails business. Out of 1,400 main delivery offices, more than 900 have successfully implemented a single daily delivery of mail, or have reached an agreement at local level on doing so, and now millions of customers receive letters through a single daily delivery. This has had real buy-in from our people and they are now benefiting from an increase in basic pay and a five-day working week. We are also committed to improving working practices in our 72 mail centres and 100 distribution hubs across the UK, so that all of them adopt a best practice standard for productivity and efficiency.

The cumulative effect of the essential operational changes we are making – in deliveries, in the transport network, and in our mail centres – has, unavoidably, led to a reduction in quality of service in the latter half of the year. We apologise to customers who will continue to see adverse effects while we complete these key operational changes in our letters business. The magnitude of the changes we are making over a period of just some six months amounts to the biggest restructuring of any company in the UK. It's notable that until September 2003, we were exceeding some of our targets and the First Class level of service was the best for 15 years.

The year saw the first agreement reached with another mail company for access to the Company's sorting and delivery network. There are now three such agreements. They allow the Company to earn a commercial return on the service it provides for other operators, while preventing the sort of cream-skimming which would damage our ability to continue providing the one-price-goes-anywhere universal service to the UK's 27 million addresses. This allows customers to have more choice, and access deals also offer the potential for market growth.

In February 2004, we signed a deal covering pay, London Weighting and changes to the business (including the introduction of single daily deliveries). This 14.5% pay package is giving every postman and woman basic pensionable pay of £300 a week – a key milestone for our frontline people. The Company is a people business and we know that pay has been an important issue, so we are pleased we've reached this landmark agreement.

However, the pay agreement was reached following the worst period of industrial action since 1996 – despite the majority of our people voting against strike action in a nationwide ballot. During the year, there were just over 85,000 days lost to strikes – the bulk in October and early November, when more than 80,000 days were lost in the dispute over London weighting, even though many of our people in London continued to work. This cost us some £25m and had a major impact on our quality of service, so almost everybody lost – our people, our business and, most importantly, our customers.

Also, in the latter half of the year, as the impact of the autumn industrial action took its toll, we failed every single operational target set by Postcomm in our licence. Not only does this undermine customer confidence, it exposes us to the risk of being fined by Postcomm and paying compensation to bulk mailers and retail customers. Last year the Regulator fined us £7.5m for failing to meet the targets for two First Class business mail services. In the light of our recent poor quality of service performance, the prospect of fines, that will not benefit our customers or the Company, only underlines how vital it is for us to complete the operational changes that will bring efficiency savings and better services to customers.

After many months of discussion, Royal Mail agreed with Postcomm a three-year price control, allowing a modest 1p rise in basic First and Second Class postage in May 2003, the first rises in basic postage for three years. Over the past year, letter mail volumes have increased by 1.6%, whilst mail prices have increased by approximately 3% in the first year of the price control. This tariff increase has generated some £200m, but the RPI –1% formula applying in the coming year will see Royal Mail's basket of prices falling in real terms, underlying the need to make further efficiencies and cost savings in the year ahead, particularly because we need to find £340m more to fund the 14.5% pay increase for frontline people within the letters business.

Our challenge next year is to address our loss making business Parcelforce Worldwide. Although it has halved its losses over the year to some £100m, Parcelforce Worldwide needs to reduce its cost base significantly if it is to break even at an operating level.

The Company has made good progress but there is still a way to go before we are generating sustainable profits, at acceptable levels of margin, and healthy cash flows.

Pensions

Royal Mail operates the 5th largest UK occupational pension scheme, with asset values of some £12bn at March 2003, the date of the most recent triennial actuarial valuation, a fall of some £5bn since the previous valuation in March 2000. A recovery in the scheme's asset values to £15.1bn at March 2004 is offset by an equivalent increase in the scheme's liabilities, as assessed by the actuaries. The scheme has 180,000 members and 250,000 pensioners. Due to its size, even minor changes to assumptions used to calculate pension costs and liabilities, and the mere fact that asset values are dependent on the UK equity markets, mean that there can be large volatility in the pension costs recorded in the profit and loss account.

The Group continues to account for pension costs under SSAP 24 Accounting for pension costs. The 2004 charges/deficits are based on the recent full triennial valuation as at March 2003, whilst the 2003 comparatives are based on the March 2000 triennial valuation.

The latest valuation highlights a movement from a surplus to a substantial deficit due principally to increased life expectancy of employees, compounded by lower discount rates which increase the liabilities of the Plan.

Regular pension costs of £218m (2003 £280m) have decreased due to lower pensionable payroll costs and changes in underlying assumptions. The pension deficit net cost of £132m consists of £188m in respect of recognising the accounting deficit over 12 years – the average remaining service lives of employees – offset by notional interest on the pension asset of £56m. This compares to a surplus in 2003 of £246m (including £45m notional interest credit) based upon the March 2000 triennial valuation. Charges relating to redundancy provisions of £58m (2003 £159m) relate to pension costs associated with implementing the Group-wide Renewal Plan.

The calculations to determine the funding of the pension schemes do not rely on the same assumptions that are used to generate the SSAP 24 charge to the profit and loss account. More prudent actuarial assumptions are used by the Trustees and independent Plan actuary, and using the latest valuation this has confirmed a cash funding shortfall of £2.5bn, which requires an initial cash contribution of £132m, substantially higher than the £100m anticipated at the time of publishing last year's accounts.

The accounting standard, FRS 17 Retirement benefits, introduces radical changes to accounting for pensions and similar benefits in the UK. 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 impacts are disclosed in note 18 to the accounts. This is further complicated because the Company plans to adopt International Financial Reporting Standards (for pensions accounting these are expected to be similar to FRS 17), which means that the FRS 17 disclosures will continue to be made next year, with March 2006 being the first year in which all pension costs and related information will be reported in accordance with the new international standards.

Results and dividends

The profit after taxation for the year was £949m (2003 £575m loss). The Directors do not recommend a dividend (2003 nil dividend). The movements in reserves are shown in note 17 to the accounts.

Political and charitable donations

During the year the Company made charitable donations amounting to £0.6m (2003 £0.3m). No political contributions were made.

Directors' Report (continued)

Policy on the payment of suppliers

The Company's policy is to use its purchasing power fairly. Payment terms are agreed in advance for all major contracts. For lower value transactions, the standard payment terms, printed on the purchase order apply. It is Company policy to make payments within 45 days of receiving a valid invoice. The Company has sought to comply with the DTI's Better Payment Practice Code. Copies of this can be obtained from the DTI.

The number of day's purchases in creditors at the balance sheet date was 15 (2003 15 days).

Directors and their interests

The following have served as Directors of the Company during the year ended 28 March 2004 and up to the date of approval of these accounts:

Allan Leighton (Chairman)

Paul Bateson
David Burden
Marisa Cassoni
Adam Crozier
Vanessa Leeson
Tony McCarthy
David Mills
Paul Rich
Elmar Toime

Kevin Williams was a director until his resignation on 17 September 2003. Jerry Cope also resigned from the Board on 14 November 2003. Rosemary Thorne left the Board on 25 March 2004 at the end of her appointed term as Non Executive Director.

No Director has a beneficial interest in the share capital of the Company.

People

The Company employs around 200,000 people. Our people are our strategic strength and competitive advantage.

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

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

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.

In 2002, our Chairman created a programme to make Royal Mail Group a 'Great Place to Work' and made it the number one priority for everyone across the business. This was emphasised by the appointment of a Director of People & Organisational Development to the Holdings and Management Boards and has been followed by the transformation of the People & Organisational Development function to ensure people considerations will be at the heart of all major business decisions.

Our people strategy will ensure we realise our potential as an organisation through the strength of our people by developing a high-performing, sustainable culture where everyone feels involved and valued. It focuses on seven key areas:

Directors' Report (continued)

- defining, recruiting and developing the core capabilities we need to thrive in a competitive, deregulated market;
- developing a high-performance culture in which everyone understands their contribution and is motivated to achieve their full potential;
- creating interesting, meaningful jobs with more flexible working patterns;
- building a fluid, innovative and adaptive organisation to improve our response to environmental and market changes;
- identifying and developing in all our people a set of core behaviours that determine how we treat each other, our customers and our shareholders;
- recruiting, attracting and developing the leadership and management capability we need to deliver our goals; and
- enhancing our ability to attract and retain the talent required to compete successfully.

Our intention is to underpin our people strategy with a measurement system that will objectively demonstrate the value of our people and their contribution to the success of our business.

Currently, our key mechanism for monitoring our progress towards becoming a 'Great Place to Work' is the Employee Opinion Survey, launched in January 2003. This is administered annually, on a rolling basis, across all employees. Comments from this survey have resulted in significant improvements at a local level across our business.

Corporate Social Responsibility
The Company is committed to carrying out its activities in a socially responsible manner in respect of the environment, employees, customers and local communities. A Corporate and Social Responsibility (CSR) Governance Committee has been established which reports to the Board of Royal Mail Holdings plc (the Company's immediate and ultimate parent company) and publishes an annual report of its activities. Last year's report won the Association of Certified Chartered Accountants Best First Time Environmental Report Award, a significant recognition of progress in this area. Further details of our CSR governance structure and activities will be available in our 2004 CSR Report, due to be published in September 2004.

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

Going concern
After analysis of the financial resources available and cash flow projections for the Company, 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

Jonathan Evans
Secretary
London
28 May 2004

Royal Mail Group 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 and of the profit or loss of the Company for that period.

In preparing those accounts the 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 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 Company are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Royal Mail Group plc

Independent Auditors' Report to the members of Royal Mail Group plc

We have audited the Company's financial statements for the year ended 28 March 2004, which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, accounting policies and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

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 auditors' 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 Company is not disclosed.

We read the Directors' Report and 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 Company'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 as at 28 March 2004 and of the profit of the Company 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 2004

Accounting policies

The following accounting policies apply throughout the Company:

Financial year
The financial year ends on the last Sunday in March and accordingly, these accounts are made up to the 52 weeks ended 28 March 2004 (52 weeks ended 30 March 2003).

Basis of preparation
The accounts on pages 8 to 28 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 investments in Government gilt-edged securities as described in the Current Asset Investments accounting policy.

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

These accounts have been prepared in accordance with the current accounting standard SSAP 24 Accounting for pension costs. The Company has also adopted the transitional arrangements of the latest pensions accounting standard, FRS 17 Retirement benefits.

No cash flow statement has been presented as the Company is a wholly-owned subsidiary of a company which has presented a consolidated cash flow statement within its Group accounts.

Royal Mail Group plc is exposed to the risk of being fined by its industry regulator and of being required to pay compensation to certain customers, as a result of failing to meet operational targets set by the regulator in the Company's licence. The amount of such fines and compensation will be determined by the regulator after further representations from the Company and no further information is being disclosed on the grounds that it can be expected to prejudice the outcome of that process.

Interbusiness trading
The Company operates through business units that make use of the services of other companies within the Group 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.

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.

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

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 and remaining lives are:

	Average remaining lives	Range of asset lives
Land and buildings:		
freehold land	*not depreciated*	not depreciated
freehold buildings	*14 years*	up to 50 years
leasehold land and buildings	*9 years*	shorter of the period of the lease, 50 years or the estimated remaining useful life
Plant and machinery	*5 years*	3 – 15 years
Motor vehicles and trailers	*3 years*	1 – 12 years
Fixtures and equipment	*2 years*	2 – 15 years

Accounting policies (continued)

Impairment reviews of fixed assets are performed where there is an indication of impairment as defined by FRS 11 Impairment of fixed assets and goodwill. Further details on tangible fixed assets can be found in note 8 to the accounts.

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 to the profit and loss account over the lease term.

Fixed asset investments
Investments in subsidiaries, joint ventures and associates within the Company's accounts are stated at cost less provision for impairment and at net asset value for internally formed companies.

Stocks
Stocks include uniforms, bicycles and stationery. All stocks are carried at the lower of cost and net realisable value.

Current asset investments
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. The 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. Other current asset investments mainly comprise short-term deposits with the National Loans Fund or Local Authorities, all of which are held at historic cost.

Further details on current asset investments can be found in note 11 to the accounts.

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 assets and liabilities are not discounted. Further details of deferred tax can be found in notes 7 and 15 of the accounts.

Pensions and other post-retirement benefits
Membership of occupational pension schemes is open to most permanent UK employees of the Company. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme.

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 prepayment in the balance sheet. Further details on pensions and other retirement benefits can be found in note 18 to the accounts.

Accounting policies (continued)

Research and development
Expenditure on research and development is written off in the year in which it is incurred. Further details can be found in *note 3 to the accounts.*

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.

Financial instruments
The Company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The Company'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 Company'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.

Royal Mail Group plc

Profit and loss account

for the years ended 28 March 2004 and 30 March 2003

	Notes	2004 Total £m	2003 Total £m
Turnover	1	**6,852**	6,528
Costs:		**5,902**	(7,226)
Staff costs	2/4	**(4,475)**	(4,630)
Depreciation and amortisation	3	**(168)**	(194)
Impairment	3/4	**(1)**	(2)
Other operating charges	3/4	**(1,258)**	(2,400)
Operating profit/(loss)	3	**950**	(698)
Impairment of investment in associates	4	**-**	(7)
Net profit on disposal of tangible fixed assets	4	**58**	15
(Loss)/profit on disposal of subsidiary undertaking	4	**(3)**	2
Profit/(loss) on ordinary activities		**1,005**	(688)
Income from investments		**9**	4
Net interest receivable	6	**22**	44
Profit/(loss) on ordinary activities before taxation		**1,036**	(640)
Taxation	7	**(87)**	65
Profit/(loss) retained for the financial year	17	**949**	(575)

Royal Mail Group plc

Statement of total recognised gains and losses

for the years ended 28 March 2004 and 30 March 2003

	Note	2004 £m	2003 £m
Profit/(loss) for the financial year		**949**	(575)
Revaluation of investment in subsidiary undertakings	9	**139**	2
Amounts transferred to subsidiary undertakings	17	**(1,121)**	-
Total recognised losses for the financial year		**(33)**	(573)

Reconciliation of movements in shareholders' funds

	Note	*2004* £m	2003 £m
Opening shareholders' funds	17	**2,179**	2,752
Total recognised losses for the financial year (see above)		**(33)**	(573)
Closing shareholders' funds	17	**2,146**	2,179

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

Royal Mail Group plc

Balance sheet

at 28 March 2004 and 30 March 2003

	Notes	2004 £m	2003 £m
Fixed assets			
Tangible assets	8	**1,444**	1,542
Investments	9	**182**	44
Total fixed assets		**1,626**	1,586
Current assets			
Stocks		**15**	17
Debtors - receivable within one year	10	**807**	1,030
Debtors - receivable beyond one year	10	**1,473**	2,212
Investments	11	**952**	1,250
Cash at bank and in hand		**8**	20
		3,255	4,529
Creditors - amounts falling due within one year	13	**(1,304)**	(1,153)
Net current assets		**1,951**	3,376
Total assets less current liabilities		**3,577**	4,962
Creditors - amounts falling due after more than one year	13	**(892)**	(1,903)
Provisions for liabilities and charges	15	**(539)**	(880)
Net assets		**2,146**	2,179
Capital and reserves			
Called up share capital	16	**-**	-
Share premium	17	**3,784**	3,784
Revaluation reserve	17	**141**	2
Profit and loss account	17	**(2,544)**	(3,460)
Mails Reserve	17	**765**	1,853
Shareholders' funds		**2,146**	2,179

The accounts on pages 8 to 28 were approved by the Board on 28 May 2004 and signed on its behalf by:

Adam Crozier

Marisa Cassoni

Notes to the accounts

1 *Turnover*

Turnover, all from continuing operations, comprises the value of services provided, excluding VAT, from the Company's principal area of activity of providing a nationwide and international distribution service, principally of mails and parcels. The Company operates wholly within the United Kingdom.

2 Staff costs

	2004	2003
	£m	£m
Wages and salaries	**3,786**	4,182
Social security costs	**281**	255
Pension costs (see note 18)	**408**	193
Total	**4,475**	4,630

Staff costs include £66m (£8m wages and salaries and £58m pension costs), which is included in exceptional items (2003 £486m, £327m and £159m, respectively).

Staff numbers, calculated on a headcount basis and including part-time employees were:

	Period end employees		**Average employees**	
	2004	2003	**2004**	2003
Mails and Parcels	**189,221**	198,552	**194,606**	202,134
Counter Services	**13,115**	14,260	**13,590**	14,568
Total Employees	**202,336**	212,812	**208,196**	216,702

Included in the average number of employees are 13,590 (2003 14,568) who are seconded to subsidiary undertakings and whose costs are borne by those companies.

3 Operating profit/(loss)

	2004	2003
	£m	£m
Operating profit/(loss) is stated after charging:		
Depreciation:	**168**	194
Depreciation of owned tangible fixed assets	**144**	194
Depreciation of tangible fixed assets held under finance leases and hire purchase agreements	**24**	-
Exceptional impairment write-down: tangible fixed assets	**1**	2
Research and development expenditure	**3**	5
Operating lease charges:	**190**	178
Land and buildings	**110**	89
Vehicles and equipment	**80**	89
Regulatory body costs:	**17**	16
Postcomm	**7**	6
Postwatch	**10**	10

3 Operating profit (continued)

Auditors' remuneration amounted to £837,000 (2003 £868,000) for the audit of the statutory accounts and £502,000 (£323,000) for the audit of the regulatory accounts. Remuneration for non-audit services amounted to £738,000 (2003 £1,402,000). These amounts include the costs incurred in respect of all subsidiaries of Royal Mail Holdings plc, with the exception of the overseas' subsidiaries and Post Office Limited, as these costs were incurred centrally and not recharged.

4 Exceptional Items

The operating profit includes a net credit for operating exceptional items of £864m (2003 net debit of £874m). This comprises impairments of tangible and intangible fixed assets of £1m (2003 £2m), £17m of costs relating to onerous contracts for surplus leasehold properties (2003 £18m), £11m charges relating to the Group-wide Renewal Plan (2003 £495m), £41m write-off of loans to subsidiary undertakings (2003 £nil) and a £934m write-back of an amount relating to the support for the negative net assets in Post Office Limited (2003 £359m charge). The £11m charges comprise a £66m charge in respect of employee-related costs and a £55m release in respect of other operating costs.

The £55m of non-operating exceptional profit (2003 £10m) comprises £58m profit associated with the sale of a number of properties (2003 £15m), £nil for the impairment of goodwill in associates (2003 £7m) and a £3m loss relating to business disposals (2003 £2m profit), in this instance the outsourcing of IT operations and the associated disposal of CSC Business Systems Limited (formerly RM Business Systems Limited).

5 Directors emoluments

The Directors received the following emoluments:

	2004	As restated 2003
	£000	£000
Total emoluments, excluding pension contributions	**1,065**	170
Company contributions to defined benefit pension schemes	**147**	26

The Directors have requested the Remuneration Committee to award 50% of their 2003-04 performance-related personal annual bonus into the Company's Long-Term Incentive Plan (LTIP). This Bonus Award amount is excluded from the total emoluments above. Prior year amounts have been restated to remove the element of the performance-related bonus deferred into the LTIP.

Directors accruing pension entitlements during the period under:

	2004	As restated 2003
	Number	Number
Defined benefit schemes	**5**	5
Defined contribution schemes	**-**	-

The comparative amounts for 2003 include emoluments for all Directors of Royal Mail Group plc. These have been restated to exclude the emoluments of 7 Directors who are also Directors of Royal Mail Holdings plc and whose emoluments are included in the accounts of that company. They receive no remuneration in respect of their services to Royal Mail Group plc.

These comparative amounts reflect the fact that the emoluments relate only to Directors appointed in the last quarter of 2002-03.

5 Directors emoluments (continued)

The highest paid Director received the following emoluments:

	2004	As restated 2003
	£000	£000
Aggregate emoluments excluding pension contributions	**281**	48
Company contributions to defined benefit pension schemes	**24**	4
Transfer value of accrued pension benefits	**2,288**	17

The emoluments of the highest paid director include a payment of £192,332 as compensation for loss of office.

6 Net interest receivable

	2004	2003
	£m	£m
Interest receivable on investments	**52**	79
Interest payable on bank loans and overdrafts	**(30)**	(35)
Total net interest receivable	**22**	44

7 Taxation

(a) Tax on profit/(loss) on ordinary activities

The tax charge/(credit) is made up as follows:

Current tax	**2004 £m**	2003 £m
Amount payable in respect of group relief	**4**	-
Tax over provided in previous years	**(2)**	(15)
Total current tax (see table below)	**2**	(15)
Total deferred tax (note 15)	**85**	(50)
Total taxation	**87**	(65)

7 Taxation (continued)

(b) Factors affecting the current tax charge/(credit)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2003 30%). The differences are explained below:

	2004 £m	2003 £m
Profit/(loss) on ordinary activities before tax	**1,036**	(640)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003 30%)	**311**	(192)
Deferred relief for asset depreciation and impairment	**30**	41
Deferred/(accelerated) relief for pension contributions	**48**	(168)
Provisions not deductible until incurred	**(92)**	89
Unrelieved provisions for bad debts from subsidiaries	**(256)**	122
Adjustment in respect of prior period	**(2)**	(15)
Utilisation of prior year losses	**(41)**	-
Losses not utilised	**-**	88
Other	**4**	20
Total current tax (see table above)	**2**	(15)

Pension contributions qualify for tax relief in the year in which they are paid. Charges to the profit and loss account in respect of pensions exceeded contributions paid in the year.

(c) Factors that may affect future tax charges

The Company has access to capital losses carried forward, the tax effect of which is approximately £11m (2003 £11m). Most of these losses reside in Royal Mail Holdings plc but they may be set-off in future years against the capital gains of the Company. The Company has rolled over capital gains, the tax effect of which totals £80m (2003 £68m). It is expected that gains on tangible fixed assets sold in the year will be fully rolled over in due course.

(d) Tax charge on non-operating exceptional items

The tax charge/(credit) on non-operating exceptional items were:

	2004 £m	2003 £m
Disposal of CSC Business Systems Limited	**39**	-
Disposal of tangible fixed assets	**(6)**	-
Total tax charge on non-operating exceptional items	**33**	-

8 Tangible fixed assets

COST	Land and Buildings: Freehold £m	Land and Buildings: Long leasehold £m	Land and Buildings: Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
At 31 March 2003	1,377	221	375	197	632	182	2,984
Reclassification	49	3	(48)	-	-	(4)	-
Additions	7	-	76	4	46	6	139
Disposals	(59)	(1)	(20)	(67)	(43)	(4)	(194)
Group disposals	(10)	-	(1)	-	-	-	(11)
Disposal of business	(17)	-	-	-	-	(73)	(90)
At 28 March 2004	**1,347**	**223**	**382**	**134**	**635**	**107**	**2,828**
ACCUMULATED DEPRECIATION							
At 31 March 2003	614	114	119	125	318	152	1,442
Reclassification	1	2	(3)	-	(1)	1	-
Charge for the year	44	9	32	17	62	4	168
Impairment	-	-	1	-	-	-	1
Disposals	(38)	(1)	(21)	(59)	(43)	(4)	(166)
Disposal of business	(8)	-	-	-	-	(53)	(61)
At 28 March 2004	**613**	**124**	**128**	**83**	**336**	**100**	**1,384**
NET BOOK AMOUNT							
At 28 March 2004	**734**	**99**	**254**	**51**	**299**	**7**	**1,444**
At 31 March 2003	763	107	256	72	314	30	1,542

Depreciation rates are disclosed within the accounting policies. No depreciation is provided on freehold land, which represents £147m (2003 £142m) of the total cost of freehold properties. The net book value of the Company's tangible fixed assets held under hire purchase contracts and finance leases amount to £86m (2003 £110m).

9 *Fixed asset investments*

	Subsidiary undertakings					
	Cost £m	Revaluation £m	Total £m	*Associates/* joint ventures £m	Financial investments £m	Total £m
At 31 March 2003	14	2	16	27	1	44
Revaluation	-	139	139	-	-	139
Disposals	-	-	-	-	(1)	(1)
At 28 March 2004	**14**	**141**	**155**	**27**	**-**	**182**

The investments in internally formed subsidiary undertakings have been revalued at net asset value. The £139m (2003 *£nil) comprises £129m for Post Office Limited and £10m for Royal Mail Enterprises Limited. Financial investments are* Local Authority deposits that have a maturity date in excess of 12 months at the date of purchase.

Details of principal subsidiary undertakings, joint ventures and associates are given in note 22.

10 Debtors

	2004 £m	2003 £m
Receivable within one year:		
Trade debtors	**547**	518
Pension prepayment	**125**	360
Amounts owed by subsidiary undertakings	**37**	44
Other prepayments and accrued income	**98**	108
Total	**807**	1,030

	2004 £m	2003 £m
Receivable beyond one year:		
Pension prepayment	**770**	707
Amounts owed by subsidiary undertakings	**689**	1,500
Other	**14**	5
Total	**1,473**	2,212

The pension prepayment beyond one year relates to the cumulative excess of the amounts funded in the Company's defined benefit schemes over the amounts charged to the profit and loss account. The amount within one year represents prepaid contributions.

Other long-term debtors mainly represent amounts payable from employees in respect of the home computing initiative launched in November 2003.

11 Current asset investments

	2004 £m	2003 £m
Government gilt-edged securities	**131**	253
Government short-term deposits (National Loans Fund)	**583**	913
Other deposits	**238**	84
Total	**952**	1,250

In accordance with the relevant accounting policy, 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 £4m (2003 £1m).

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 (DTI). The balance of investments are restricted in their use to that permissible by the section 72 order, which created the Mails Reserve (note 17).

12 Creditors - amounts falling due within one year

	2004 £m	2003 £m
Loans (note 14)	**-**	50
Trade creditors and accruals	**994**	738
Advanced customer payments	**213**	238
Amounts due to subsidiary undertakings	**13**	41
Corporation tax	**4**	-
Other taxation and social security	**80**	86
Total	**1,304**	1,153

13 Creditors – *amounts falling due after more than one year*

	2004 £m	2003 £m
Loans (note 14)	**500**	500
Amounts due to subsidiary undertakings	**382**	1,336
Other	**10**	67
Total	**892**	1,903

Other long-term creditors represent amounts payable to the leasing company in respect of the home computing initiative, launched in November 2003.

14 Loans

	2004 £m	2003 £m
Amounts falling due in:		
One year or less	-	50
More than 5 years	500	500
Total	500	550

Analysis of loans and facilities

	Loan £m	Further facility £m	Total facility £m	Average interest %	Average maturity date Year
DTI loans to Royal Mail Group plc	500	1,044	1,544	5.8	2023

The Company has various borrowing facilities available to it. The undrawn committed facilities available at 28 March 2004, in respect of which all conditions precedent had been met at that date, are as follows:

	2004 £m	2003 £m
Expiring in one year or less	500	-
Expiring in more than one year but not more than two years	-	500
Expiring in more than two years	544	494
Total	1,044	994

The undrawn amounts comprise multiple loan facilities amounting to £1,544m, of which £500m had been utilised at 28 March 2004. The £500m loan is secured by way of a fixed and floating charge on various assets of the Group.

15 Provisions for liabilities and charges

	At 31 March 2003 £m	Charged in the year £m	Utilised Non-cash £m	Utilised cash £m	At 28 March 2004 £m
Mails and Parcels	870	37	(155)	(308)	444
Deferred tax	10	85	-	-	95
Total	880	122	(155)	(308)	539

The Mails and Parcels provision includes amounts relating to redundancy and other non-redundancy items for the following major change projects: Single Daily Delivery, Mail Centre Efficiency Review, Transport Review, Parcelforce Worldwide restructuring and managerial overhead reduction. During the year £28m was charged to exceptional items and £9m to other operating costs. A further £29m was utilised to write-down fixed assets and £126m transferred to creditors due within one year; the latter representing amounts payable to employees who had an agreed leaving date under voluntary redundancy but who remained in the business at the year end, together with a contractual liability now agreed to be settled in 2004-05. £360m of this provision is expected to be utilised in 2004-05 and the remainder over the following two to three years, except for £46m relating to onerous property contracts, which is expected to be utilised over a longer period. The provision includes £53m (2003 £40m) relating to onerous property contracts.

15 Provisions for liabilities and charges (continued)

The deferred tax provision comprises:

	2004 £m	2003 £m
Deferred capital allowances	24	31
Pension contributions timing differences	(250)	(326)
Provisions	98	197
Losses	33	88
Total	(95)	(10)

16 Called up share capital

	2004 £000	2003 £000
Authorised		
100,000 ordinary shares of £1 each	100	100
Total	100	100
Allotted and fully paid		
50,000 ordinary shares of £1 each	50	50
Total	50	50

17 Reserves

	Share premium £m	Revaluation Reserve £m	Profit and loss account £m	Mails Reserve £m	2004 Total £m
At 31 March 2003	3,784	2	(3,460)	1,853	**2,179**
Profit for the financial year	-	-	949	-	**949**
Amounts transferred to subsidiary undertaking	-	-	-	(1,121)	**(1,121)**
Interest added to reserves	-	-	(33)	33	-
Revaluation of investments in subsidiary	-	139	-	-	**139**
At 28 March 2004	**3,784**	**141**	**(2,544)**	**765**	**2,146**

The Mails Reserve 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. The amounts allocated to the reserve are to be applied as if they were profits available for distribution and they are to be principally used to provide financial assistance to Post Office Limited and security for loans to the Company.

During the period, £1,121m of the Mails Reserve has been utilised for the provision of financial assistance to Post Office Limited, including £450m to set up their Rural Network Reserve to provide funding for the rural network of Post Offices for three years, and £671m to cover the write-off of Post Office Limited's intercompany debt to the Company.

The £33m interest relates to income recorded in the profit and loss account, which has been earned on the assets that support the Mails Reserve.

18 Pensions

The majority of UK employees of the Group are employed by the Company although some are seconded to other companies within the Group, as detailed in note 2 to the accounts.

The Company operates pension schemes as detailed below:

Name	Eligibility	Type
Royal Mail Pension Plan (RMPP)	UK employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	UK Senior Executives	Defined benefit
Royal Mail Retirement Savings Plan (RMRSP)	UK employees	Defined contribution

The terms of the merger of the two former schemes - the Post Office Staff Superannuation Scheme (POSSS) and the Post Office Pension Scheme (POPS) - with effect from 1 April 2000, required them to be considered as separate sections of the RMPP whilst one *section remained in surplus and one remained in deficit. As both of these sections are now in deficit, this requirement falls away and the* RMPP is now dealt with as a single plan with no separate sections for overall funding and accounting requirements.

Pension charges in the profit and loss account
The Group continues to account for pension costs under SSAP 24 Accounting for pension costs, and a summary of pension charges, including those relating to redundancy provisions, is shown below:

	2004 £m	2003 £m
Regular pension costs - defined benefit schemes	**217**	279
- defined contribution schemes	**1**	1
Regular pension costs	**218**	280
Accounting deficit/(surplus) and best estimate reduction	**188**	(201)
Notional interest on pension asset	**(56)**	(45)
Charges relating to redundancy provisions	**58**	159
Total net charge included in profit before tax (note 2)	**408**	193

Pension valuations
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 2003. These were performed using an assumed rate of inflation of 2.5% for both schemes. Investment returns real were assumed to be 4.9% and 4.3% respectively. Pay *increases real were assumed to be 1.5% and 3.0% respectively and pensions, both in payment and deferred, were assumed to increase* at 2.5% for both schemes. The market value of assets at the latest actuarial assessments was £11,954m for the RMPP and £86m for the RMSEPP. The asset cover of the benefits accrued to members after allowing for future increases in earnings was 91% for the RMPP and 82% for the RMSEPP, both as at 31 March 2003. The next full valuation of both the RMPP and the RMSEPP is due to be carried out as at 31 March 2006. Key factors generating the move from surplus to deficit were investment market experience over the three years ending 31 March 2003 of some £725m, demographic changes, including increased life expectancy of members, of some £420m, and the worsening investment market conditions of some £1,350m, based upon a lower discount rate.

Accounting standards
These accounts have been produced in accordance with the current accounting standard SSAP 24. The latest pensions accounting *standard, FRS 17 Retirement benefits, has been adopted by the Group in accordance with the transitional arrangements. This is further* complicated because the Group plans to adopt international financial reporting standards (these are expected to be similar to FRS 17), which means FRS 17 disclosures will continue to be made next year, with the year to March 2006 being the first year in which all pension costs and related information are reported in accordance with the international standards.

FRS 17 disclosures

The following FRS 17 disclosures relate to the RMPP and RMSEPP plans:

a) Assumptions
The major assumptions used by the actuary were:

	At 28/03/2004 % pa	At 30/03/2003 % pa	At 31/03/02 %pa
Rate of increase in salaries	**4.10**	3.55	3.80
Rate of increase in pensions	**2.60**	2.25	2.50
Discount rate	**5.50**	5.50	6.00
Inflation assumption	**2.60**	2.25	2.50
Expected average rate of return on assets	**7.50**	7.90	7.70

18 Pensions (continued)

b) Plan assets and expected rates of return

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

At 28 March 2004

	Market value at 28 March 2004		
	RMPP £m	**RMSEPP £m**	**Long-term rate of return expected at 28 March 2004 % pa**
Equities	**12,066**	**106**	**8.00**
Bonds	**1,754**	**12**	**4.80**
Property	**1,313**	**-**	**6.40**
Other net assets	**(43)**	**6**	**3.60**
Total market value of assets	**15,090**	**124**	
Present value of Plan liabilities	**(19,438)**	**(156)**	
Deficit in scheme	**(4,348)**	**(32)**	
Related deferred tax (liability)/asset*	**-**	**-**	
Net pension liability	**(4,348)**	**(32)**	

At 30 March 2003

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

At 31 March 2002

	Market value at 31 March 2002		
	RMPP £m	RMSEPP £m	Long-term rate of return expected at 31 March 2002 % 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)	
Pension liability before deferred tax	282	(10)	
Related deferred tax (liability)/asset*	(85)	3	
Net pension asset/(liability)	197	(7)	

*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.

18 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 £m	RMSEPP £m	2004 Total £m	RMPP £m	RMSEPP £m	2003 Total £m
Analysis of amounts charged to operating profit:						
Current service cost	394	3	397	382	4	386
Total charge to operating profit	394	3	397	382	4	386
Analysis of other amounts (credited)/charged to profit and loss account:						
Gain on settlements	-	-	-	(18)	-	(18)
Loss on curtailments*	87	6	93	105	14	119
Total net operating charge	481	9	490	469	18	487

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

	RMPP £m	RMSEPP £m	2004 Total £m	RMPP £m	RMSEPP £m	2003 Total £m
Analysis of amount charged/(credited) to other finance income:						
Interest on Pension Plan liabilities	909	6	915	905	5	910
Expected return on Pension Plan assets	(950)	(6)	(956)	(1,185)	(6)	(1,191)
Net credit to other finance income	(41)	-	(41)	(280)	(1)	(281)
Total profit and loss charge before deduction for tax	440	9	449	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	(2,063)	(16)	(2,079)	4,342	28	4,370
Experience loss/(gain) on Plan liabilities	73	2	75	(22)	5	(17)
Loss on change in assumptions (financial and demographic)	1,886	24	1,910	672	4	676
Actuarial (gain)/loss recognised in STRGL	(104)	10	(94)	4,992	37	5,029

d) Movement in (deficit)/surplus

Analysis of the movement in (deficit)/surplus in the Plans during the period:	RMPP £m	RMSEPP £m	2004 Total £m	RMPP £m	RMSEPP £m	2003 Total £m
(Deficit)/surplus in Plan at beginning of period	(4,652)	(32)	(4,684)	282	(10)	272
Company contributions paid	640	19	659	247	32	279
Current service cost	(394)	(3)	(397)	(382)	(4)	(386)
Settlement gain	-	-	-	18	-	18
Curtailment loss	(87)	(6)	(93)	(105)	(14)	(119)
Other finance income	41	-	41	280	1	281
Actuarial gain/(loss)	104	(10)	94	(4,992)	(37)	(5,029)
Deficit in Plan at end of period	(4,348)	(32)	(4,380)	(4,652)	(32)	(4,684)

Royal Mail Group plc

18 Pensions (continued)

e) History of experience gains and losses

	RMPP	**RMSEPP**	**2004 Total**	RMPP	RMSEPP	2003 Total
(Gain)/loss between actual and expected return on Plan assets:						
Amount (£m)	**(2,063)**	**(16)**	**(2,079)**	4,342	28	4,370
Percentage of Plan assets at end of period	**13.7%**	**12.9%**	**13.7%**	35.9%	32.2%	35.9%
Experience loss/(gain) on Plan liabilities:						
Amount (£m)	**73**	**2**	**75**	(22)	5	(17)
Percentage of Plan liabilities at end of period	**0.4%**	**1.3%**	**0.4%**	0.1%	4..2%	0.1%
Total actuarial (gain)/loss recognised in STRGL:						
Amount (£m)	**(104)**	**10**	**(94)**	4,992	37	5,029
Percentage of Plan liabilities at end of period	**0.5%**	**6.4%**	**0.4%**	29.8%	31.1%	29.8%

f) Balance sheet presentation

Net assets	**2004 £m**	2003 £m
Net assets as stated in balance sheet	**2,146**	2,179
Pension prepayment recoverable beyond one year (SSAP 24)	**(770)**	(707)
Related deferred tax	**-**	-
Net assets excluding pension asset	**1,376**	1,472
FRS 17 pension liability	**(4,380)**	(4,684)
Net liabilities including FRS 17 pension liability	**(3,004)**	(3,212)

Reserves	**2004 £m**	2003 £m
Profit and loss reserve as stated in balance sheet	**(2,544)**	(3,460)
Pension prepayment recoverable beyond one year (SSAP 24)	**(770)**	(707)
Related deferred tax	**-**	-
Profit and loss reserve excluding amounts relating to pension asset	**(3,314)**	(4,167)
FRS 17 pension liability	**(4,380)**	(4,684)
Profit and loss reserve including amounts relating to FRS 17 pension liability	**(7,694)**	(8,851)

The long-term rates of future contributions expressed as a percentage of pay are 12.6% for the RMPP and 20.9% for the RMSEPP.

19 Commitments

Capital commitments contracted for but not provided in the accounts amount to £84m (2003 £118m). The Company is committed to the following payments on operating leases during the next 12 months:

	Land and buildings		Vehicles and equipment	
	2004 £m	2003 £m	**2004 £m**	2003 £m
For leases which expire:				
Within one year	**7**	6	**15**	11
Between one and five years	**9**	14	**46**	48
Beyond five years	**77**	68	**1**	-
Total	**93**	88	**62**	59

20 Contingent liabilities and guarantees

The Company 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 the 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 Company as a result of these guarantees.

Royal Mail Group plc, has given a guarantee to the Secretary of State for Work and Pensions, the Department for Social Development (Northern Ireland) and the Commissioners of Inland Revenue, to underwrite the performance of Post Office Limited of its obligations under the Universal Banking Contract (Post Office Card Account).

Royal Mail Group plc has also given a guarantee to Electronic Data Systems Limited to underwrite Post Office Limited's performance of its obligations under the Universal Banking Contract (Post Office Card Account).

21 Related party transactions

The Company has taken advantage of one of the exemptions conferred by FRS 8 Related party transactions, whereby certain details regarding transactions with Group companies do not have to be disclosed where Group accounts are publicly available.

22 Principal subsidiary undertakings, joint ventures and associates

	Country of incorporation	Percentage holding %	Principal activities
Subsidiary undertakings			
Post Office Limited	UK	100	Counter Services
Royal Mail Investments Limited[1]	UK	100	Holding company
General Logistics Systems International Holdings B.V.[1]	Netherlands	100	Holding company
Associates			
Camelot Group plc	UK	20	Lottery operations
Quadrant Catering Limited[2]	UK	51	Catering services
G3 Worldwide Mail N.V. (trade name 'Spring')	Netherlands	25	Mail services
Joint ventures			
Romec Limited	UK	51	Facilities management
First Rate Travel Services Holdings Limited	UK	50	Bureau de Change
Midasgrange Limited	UK	50	Financial services

[1] These are non-trading holding companies, which have investments in other operational companies that are based in Europe.

[2] The Group holds 51% of the share capital of Quadrant Catering Limited. However, the voting rights attached to the various classes of shares give the other investor operational control. Quadrant is therefore treated as an associate in the Group Accounts.

22 Principal subsidiary undertakings, joint ventures and associates (continued)

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

23 Immediate and ultimate parent undertaking

At 28 March 2004, the Directors regarded Royal Mail Holdings plc as the immediate and ultimate parent company. The results of the Company form part of the Royal Mail Holdings plc Group accounts, which are available from the Company's website (www.royalmail.com).