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Royal Mail Holdings plc

Report and Accounts
Year ended 30 March 2008

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Royal Mail Group is unique in reaching everyone in the UK through its mails, Post Office and parcels businesses - which directly employ over 181,000 people in the UK.

Every working day Royal Mail processes and delivers over 80 million items to 28 million addresses for prices that are amongst the lowest in Europe; each week we serve over 24 million customers through our network of 13,852 Post Office branches and each year our domestic and European parcels businesses - General Logistics Systems and Parcelforce Worldwide - handle some 390 million parcels.

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Royal Mail Holdings plc

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Chairman and Chief Executive's Statement

It has been a year of tough challenges and achievements involving a groundbreaking agreement with our people allowing the modernisation of Royal Mail to proceed and changes to the Pension Plan put in place The Group made an operating profit before exceptionals of £162million which while down a third on the previous year was ahead of expectations and was against the backdrop of a 3 2% year on year decline in the overall UK mails market volumes and an increase in the proportion of mail carried by rival operators Daunting challenges remain but the Group is now implementing plans to modernise the Letters business and ensure the Post Office branch network has a sustainable future Royal Mail s quality of service had been at or above target levels in the first quarter of 2007-08 but fell as a result of industrial action last summer and autumn Despite the effects of industrial action the large majority of mail was back to being delivered at above target levels by the year end

Key elements of the year were:

- Landmark agreements with our people on pay, pensions and modernisation, enabling Royal Mail to launch the second phase of modernisation of the Letters operations - through automation - using the investment provided by the Shareholder in the form of commercial loans agreed in March 2007
- Reform of the Pension Plan to help the Company continue meeting the huge cash cost – of over £800million in the year - of both ongoing and deficit contributions, while providing the best pension benefits Royal Mail can afford for its people
- The launch of new products and services for customers including Tracked™ which allows the movement of parcels and packets through the Royal Mail network to be tracked and Online Business Account which enables business customers to handle their accounts electronically instead of by dockets More new services are planned as the Company strengthens further its focus on customer service
- The first steps in the roll-out of new technology and equipment in delivery offices and mail centres – making the job better for our people improving the business's efficiency and, above all providing the foundation and capability for new products and services for customers
- The launch of more new services and products by the Post Office to bring in new revenue and customers and help support the branch network
- Strong revenue growth by Parcelforce Worldwide and GLS, the Group s UK and European parcels businesses, both of which operate in highly competitive markets GLS is now by far the biggest contributor to Group profit

Financial Performance

The biggest change in performance across the Group was the move from profitability to loss by the Royal Mail Letters business which made a £3million operating loss on its £6 8billion revenue - down on the previous year despite the annual price increase in April 2007 The fall in mail volumes continued downtrading by Royal Mail customers to lower priced products, and the increasing impact of competition resulted in Group operating profit falling by almost a third from £233million to £162million If the impact of the Social Network Payment (which supports loss-making Post Office branches) is taken out of the picture, Group operating profit in 2007-08 was less than half the comparable figure in the previous year The huge cost of servicing the Pension Plan continues to bear heavily on the Company and has again had a huge impact on the operating profit

	External revenue		**Operating profit/(loss)***	
Business unit performance	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Royal Mail	**6,830**	6,857	**(3)**	136
General Logistics Systems	**1,232**	1 082	**114**	115
Parcelforce Worldwide	**379**	337	**8**	7
Post Office Limited	**911**	868	**(34)**	(108)
Other businesses	**36**	35	**77**	83
Group	**9,388**	9 179	**162**	233

* Operating profit/(loss) is before exceptional items For 2006-07 the results by business unit have been restated for the impact of the new subsidiary Royal Mail Estates Limited - there is no impact at Group level

Chairman and Chief Executive's Statement (continued)

- Group revenue rose by just over £200million, largely driven by increased sales by GLS and Parcelforce Worldwide but also because the 2007-08 accounts include the full £150million Social Network Payment to support loss-making Post Office branches while in 2006-07 only half of this payment, £75million was included as revenue
- Revenue in Royal Mail Letters fell by £27million The overall mail market declined again and volumes handled by Royal Mail fell 3 2% - more than the 2 3% volume fall in the Letters business the previous year The average daily mail bag now contains 80 million letters it was 83 million in 2006-07 so Royal Mail is handling on average three million fewer letters a day
- Royal Mail regulated prices rose in April 2007 by around 5% on average However, there was continued downtrading in 2007-08 by customers for example from First Class to Second, or from premium business mail services to less expensive ones This trend, together with volume falls, meant that overall revenue in the Letters business declined for the second year running
- The Universal Service made an estimated loss - for the first time - of around £100million with the overall price controlled area of the business making an estimated loss of around £200million
- Post Office Limited's revenue increased but when the additional impact in 2007-08 of the Social Network Payment is removed the underlying trend was downwards There was less income overall from traditional business but this was partly offset by growth in sales of new products and services
- GLS grew its revenues through higher parcel volumes with particularly strong growth in Eastern Europe as well as from the acquisition of ABX Belgium There was also a beneficial impact in the accounts from the strengthening of the euro against Sterling Profit fell by £1million however but this was again a strong performance by GLS as it operated in a difficult and highly competitive market and had to make significant network changes to deal with recently changed road speed laws in France
- Parcelforce Worldwide grew its revenue in a market where competitive pressures got even tougher, and also increased its profit and maintained its operating margin Quality of service improved further to 96 5% for the year - an impressive performance in a crowded marketplace

Pension Fund Reform

A series of changes to the Pension Plan began to take effect on 1 April 2008 after intensive talks with the unions and other employee representatives that began a year earlier, and a formal consultation with every pension scheme member The length of time taken over talks and consultation reflected the Company's determination to listen carefully to the representations it received and as a result a number of significant amendments were made to the original proposals first tabled in the early summer of 2007 The changes to the fund were agreed by the Pension Trustee in March 2008 They encompass

- The Plan closed to new members from 31 March 2008
- All pensions and benefits earned before 1 April 2008 are still linked to final salary at the time of retirement
- From 1 April 2008 defined benefits building up for employee members of the Plan are earned on a Career Salary basis
- A new defined contribution plan will be launched in April 2009
- New recruits joining the Company from 31 March 2008 will be able to begin paying contributions to the new plan after they have worked for the Company for a year
- Employees can continue to take their pension on reaching 60 but the normal retirement age will increase to 65 for benefits earned from 1 April 2010
- From 1 April 2010 it will be possible to draw pension earned before the change to normal retirement age at 60 and continue working while still contributing into the Pension Plan until the maximum level of benefits has been reached

The action taken to reform the Pension Plan together with the establishment of a £1billion escrow account for the sole benefit of the Plan if needed has enabled the Group to have an achievable funding programme based on the last actuarial valuation of the deficit of £3 4billion in March 2006 However our estimates indicate that the actuarial deficit has since increased significantly due to market changes, further underlining how pensions remain a significant and volatile risk to the Group The continuing heavy cash calls on the Company - more than £800million in 2007-08 - to service the Plan and pay the deficit - demonstrates again how crucial it is for the Company to succeed in modernising the Letters business and provide a sustainable future for the Post Office network The Pension Plan deficit fell in accounting terms from £5 0billion to £2 9billion

Royal Mail Holdings plc

Chairman and Chief Executive's Statement (continued)

Royal Mail – modernisation underway

The landmark agreement on pay, pensions and modernisation reached with the CWU in the autumn of 2007 has opened the door for the roll-out of a far-reaching modernisation plan for Royal Mail on which its future hangs The technology we are now deploying is tried and tested so we know it can be effective The task facing everyone in the Letters business is to make it work for Royal Mail and crucially our customers

The work underway includes

- The deployment of the first of a new range of sorting equipment to deal with "flats", the A4 sized magazine, catalogues and brochures which make up around one in six items of the typical daily mail bag
- Successful trials for hand-held keypads that allow postmen and women to record customers' confirmation of the delivery of packets, and other mail such as Special Delivery – a huge improvement on the traditional paper-based method
- Contracts have been placed for a wide array of sorting equipment including upgrades for existing Integrated Mail Processors (IMPs), and replacements for existing automated mail sorters By March 2008 the codemark printers that print machine-readable instructions on mail to speed its sortation had all been replaced In addition, to date, 21 IMPs have been upgraded
- We have ordered 400 walk-sequencing machines the first of which will be delivered to the network this summer under a deployment programme that will last around two years Trials have been successful both operationally and from the perspective of delivery postmen and women who have been pleased at the machines capability in sorting mail down to the route they follow on a round vastly reducing the need to sort the mail manually

The new technology will we are confident, improve efficiency and cut costs But we are very clear that one of the greatest benefits of modernisation is the foundation it provides from which to launch new products and services for customers so meeting their needs and expectations and improving Royal Mail s competitive edge in a market where competition is rapidly increasing We will be launching further new products and services this current year with the aim both of providing customers with innovative solutions while at the same time making it easier for them to do business with Royal Mail

Our strategy for the Letters business is to implement programmes that will provide a more efficient operation improve Royal Mail's ability to compete and crucially have products and services that both satisfy and excite customers large and small We are aiming at delivering a hitherto unseen degree of flexibility and responsiveness by Royal Mail

Post Office Limited – creating a sustainable network

Among the most difficult challenges of the year has been the implementation of the Government's decision to close up to 2,500 Post Office branches The closure of any branch is always difficult as every outlet is appreciated by its customers and subpostmasters are rightly regarded as key members of the communities they serve

The Network Change programme, therefore, which is reducing the size of the branch network in line with the funding provided from the Shareholder is a major challenge for the business We are seeking to implement the programme as sensitively as possible, and create the most accessible network within the customer access criteria determined by the Government There have been more than 75 000 responses to the programme by the end of March 2008, around the halfway mark, and the high level of feedback from customers shows the attachment communities feel to their local branches despite the fact that some four million fewer people have been visiting a Post Office branch each week compared to three years ago

That reduction has been spurred by a further decline in traditional products and services on offer in our branches or in the case of the TV Licence the ending of the service altogether Card Account transactions went down in 2007-08 and more motorists renewed their car tax online rather than at a Post Office counter

However, declines in traditional revenue were partly offset by income from new services we have introduced with new products launched in 2007-08 We are now

- Selling one in 50 of all car insurance policies in the UK
- Issuing one in every 40 new credit cards in the UK,
- Insuring one in every 200 homes in the UK, and
- Handling savings from almost half a million savers

The business s stretching goal remains – to create a network that has long-term sustainability We are investing in our Crown office network to improve their attractiveness to customers, and have agreed a new remuneration package for subpostmasters giving them greater rewards for achieving product sales, we are cutting our overheads and reducing back office costs for the computer system that links the network, and we will continue to develop new products and services

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Chairman and Chief Executive's Statement (continued)

Many achievements - but many challenges remain

The Group began its journey of transformation in 2002 when change on the scale we have already achieved was regarded by many as unthinkable and unachievable At that time, we were failing quality of service targets repeatedly, the Company was losing more than £1million a day and without change, our chances of succeeding in a changing and opening market were non-existent

We ve demonstrated we can deliver consistent target-beating quality of service the Group is profitable and has the funding in place to modernise strategies are underway to achieve a transformation of the Letters business and to create a sustainable Post Office network, and we have a determination to succeed, spurred on by the hurdles we have already overcome

Daunting challenges remain

- Our tender for the new contract for the Card Account handling benefit and pension payments for many of the most vulnerable people in society from April 2010 is currently being considered in competition with other bids and it is vital for the future health of the Post Office network that we succeed in winning the work.
- Modernising Royal Mail to make it much more efficient while providing flexible and responsive products and services to our customers is a challenge in its own right but to meet it in a market where mail volumes are now falling and with heavy cash calls on the business from its pension fund will be very stretching indeed
- Online shopping has provided opportunities across our business but it has also created more competition at the delivery end affecting not just the Royal Mail Letters business but Parcelforce Worldwide and GLS
- The costs of funding the new technology that is now being rolled out to the Letters business will increasingly be felt as the Shareholder's financing package comprises loans at commercial rates that do of course have to be repaid from our earnings

We are contributing to the independent review of the impact to date of competition on the UK postal service The key issue will be the preservation of the one-price-goes-anywhere Universal Service which in 2007-08 is estimated to have lost around £100million – the first time there has been a loss in this vital bedrock of the postal service which is a powerful benefit to the UK economy and every user of the postal service The question begging an answer is how to preserve and nurture the Universal Service when the only business with a commitment to delivering it – Royal Mail Letters – is now loss-making The Letters business has traditionally relied on profit from business mail - the only part of the market to face competition from other operators - to underpin the Universal Service, which is used by social customers to send personal letters birthday cards and Christmas greetings, by businesses, large and small, and Government, both local and central We are very clear that the answer, in part at least, has got to involve regulation reduced to a minimum so that Royal Mail has the freedom to compete fully in both the postal and wider communications market - while having the right amount of protection for social customers and small and medium sized businesses (SMEs) who are finding that other mail carriers have no interest in competing for their letters and cards, when stamped mail loses on average 6p a letter

Our overall vision through this review is to achieve a high quality efficient and profitable Universal Service with a Price Control focused on our social customers and SMEs and forming the backbone of an innovative fully competitive business mail market - provided by an efficient transformed integrated and lightly regulated Royal Mail competing with a variety of rivals, both wholesale and end-to-end Central to achieving this vision is the need to continue to take and execute the often difficult decisions that will turn Royal Mail Group into a world class postal services company

GRO	GRO
Allan Leighton	**Adam Crozier**
Chairman	Chief Executive
19 May 2008	19 May 2008

All references to operating profit/(loss) are before exceptional items

Royal Mail Holdings plc

Annual Review 2007-08

This has been a year of huge significance for the future of the Company A groundbreaking deal was agreed on modernisation of the Letters business and reform of the Pension Plan New products and services were launched and the Company continued working to reduce its environmental impact while investing in the health and wellbeing of its people There were also remarkable achievements by individual employees who demonstrated again our people's dedication and service to the communities in which they live and work The difficult Network Change programme crucial to creating a sustainable Post Office got underway as we began to implement the Government decision to reduce the size of the branch network in line with the available funding

Giving back to the community

Simon Illingworth was named Royal Mail s "Postman of the Year" at the business' 2008 1st Class People Awards Thousands of customers put forward their postman or woman for an "unsung hero" accolade Simon had run more than 20 marathons to raise £7,000 for charity and awareness of testicular cancer having been being diagnosed with the disease himself

More than 12 000 people across the Company took part in fundraising activities in 2007-08 while individuals themselves dipped into their own pockets to support charities with 50 000 of our people - more than one in every four - making payroll donations directly from their wages It means our people contributed at the rate of almost £300 every hour of every day and the large number of payroll donors across the Group compares to just 4% of the overall working population who contribute to charities via payroll giving The Company s encouragement for payroll giving and its people's generosity were recognised with prizes and accolades at the Institute of Fundraising s National Payroll Giving Awards in October 2007

A three year partnership – the first of its kind for Royal Mail - between the Company and Help the Hospices raised £2 million for the charity - double the target of £1 million More than 10 000 employees took part in fundraising activities - a tremendous level of support - and nearly 6 000 gave payroll donations

There were further improvements in attendance at Royal Mail last year with absence rates having fallen by more than 20% over the last five years Initiatives in 2007-08 which had helped drive the improvement included campaigns focusing on health promotion such as advice on diet and nutrition There were health fairs in a number of workplaces a health bus toured many of our offices and centres while an internet facility was set up to provide health and lifestyle advice online

Royal Mail also began a four year partnership with Access to Work and Jobcentre Plus, to encourage the employment of disabled people to build on our existing efforts to welcome applications from all sections of the community and nurture diversity in our workforce

Working towards a better environment

The Company has set itself the goal of operating in a carbon neutral way by 2015 In 2007-08, the Letters business took delivery of 140 double-deck trailers each with the capacity to hold 50 per cent more mail than conventional trailers We are seeking, through these trailers, to reduce carbon emissions by cutting road mileage annually by the equivalent of twice the circumference of the earth

The Company has also developed an online calculator so that any employee can easily calculate their environmental impact and make donations to the Woodland Trust to allow the charity to plant trees to offset carbon emissions The online calculator has been gifted to the Woodland Trust, which has called on other companies to follow Royal Mail's lead

A further initiative in the Letters business has involved the provision of telemetry technology in around 8,000 vehicles with training in its use for the drivers The equipment tracks the vehicles movements fuel consumption speed and braking patterns so that the best routes can be chosen in tandem with the best way of driving the vehicle, to minimise its carbon output Royal Mail is aiming to cut its fuel usage by 2 5 million litres of diesel a year through use of the technology as well as reducing the number of vehicles it has on the road

Technology leads new product development

Despite the decline in overall mail volumes, Royal Mail saw further growth in its delivery of goods ordered online Christmas 2007 saw Royal Mail deliver a record c 120 million items which had been ordered online In July 2007 the business handled orders for 600,000 copies of JK Rowling s Harry Potter and the Deathly Hallows – a copy for one in every 43 homes in the UK

New technical developments also improved the service for online shoppers – Royal Mail's Tracked™ service allows customers to track the progress of their order online while the Safeplace service was launched allowing shoppers to specify a safe place at their address – for example, a garden shed – where a package can be left safely if nobody is at home to take personal delivery

Royal Mail also launched a number of initiatives designed to strengthen the effectiveness of direct mail as a key advertising and marketing medium Sensational" mail allows companies to build on the visual impact of direct mail by incorporating other features that engage senses other than eyesight For example a mailshot can include a relevant aroma or taste about a product or service to heighten the impact when the mail is opened

A partnership with Sony DADC allows advertisers and marketers to include in their mailing a CD which is personalised for the recipient of the mail The combination of traditional post with digital technology allows companies to communicate with a wide range of their customers but in a personal tailored way for each of them

As part of its investment in data services, Royal Mail has also launched a new source of expert advice on direct mail aimed at improving the effectiveness of direct mail campaigns

Royal Mail Holdings plc

Annual Review 2007-08 (continued)

Celebrations through stamps

Royal Mail's Special Stamps issues in 2007-08 covered a diverse range of subjects The enthusiasm for Harry Potter was celebrated in a set of stamps which featured illustrations from the series of books which have captured the imagination of children and many adults for a decade

Another set of stamps with a literary theme paid tribute to Ian Fleming s fictional secret agent James Bond, showcasing book jackets from the novels including titles such as Dr No and Casino Royale

Arnold Machin s iconic image of the Queen which has appeared on more than 175 billion stamps has been famously unchanged since its introduction in 1967 A miniature sheet was issued in June 2007 to celebrate this timeless, masterwork of modern art and it included a picture of Machin himself on one of the stamps

Ten rare British birds featured on the first of a series of stamps showing how endangered UK species are benefiting from conservation work The set featured the corncrake the white-tailed eagle and the avocet, the emblem of the Royal Society for the Preservation of Birds The next issue available from May, will feature six of the best-loved Cathedrals in the UK

Building a new Post Office - "The People's Post Office"

Just over three years after launching its financial services partnership with the Bank of Ireland the Post Office has served its one millionth customer – in May 2007 - and has continued to grow During the year the number of customers increased further by over one third, making the Post Office one of the fastest growing financial service providers in the UK The achievement means that the Post Office

- sells one in 50 of all car insurance policies in the UK
- issues one in every 40 credit cards in the UK
- insures one in every 200 homes in the UK , and
- has almost half a million savings customers

The portfolio of financial services grew further in 2007-08 with the launch of a Post Office mortgage, which quickly established a reputation as one of the best rates available in the housing market, while other new services launched in 2007-08 included life cover for the over 50s and PayOut, which enables payments to be made using barcoded letters or text messages, avoiding the need to issue cheques

The MoneyGram service, which customers can use to send cash swiftly and securely abroad was extended to every branch in the network Growing numbers of people took out a Post Office insurance policy to cover their car van or home with the number of active policies exceeding 600,000

The Post Office s commitment to providing free access to cash was underlined by the installation in December 2007 of the business' one thousandth fee-free ATM More cash machines are being added every week to the network of branches with the aim of making the Post Office with its banking partner the Bank of Ireland one of the biggest providers of cash machines nationwide

A television advertising campaign featuring a number of celebrities including Joan Collins and the boy band Westlife helped raise awareness of the wide range of services available in "The People's Post Office " These have included the launch of the broadband service designed to appeal to a wide range of customers including older people who may not have been online before but are seeking the re-assurance of the trusted Post Office brand as well as those customers who want to pay for the service in cash at a Post Office branch rather than set up a standing order

The Post Office s Christmas Savings Club was launched in January 2008 to provide savers with a simple and safe way to save for the festive season From February 2008, the Post Office offered a pet insurance scheme to its customers

Parcelforce Worldwide

Parcelforce Worldwide's impressive underlying growth in revenue and volume of over 10% outpaced the UK express parcels market in 2007-08, with a key driver behind the increase coming from high quality of service which improved on the previous year's performance Quality over the Christmas period was excellent when processed volumes hit an all time record of 325,000 on 18 December 2007

The business also helped reduce its environmental impact with a carbon offsetting scheme allowing customers despatching goods online to make a donation via the Woodland Trust With around 25% of online retail users using the scheme it demonstrates both the business's commitment to reducing its carbon footprint as well as the appetite among customers to support effective environmental programmes

A comprehensive review of service was conducted during 2007-08, resulting in plans for additional service developments The business is aiming to announce in the summer of 2008 the first two of a number of initiatives to drive further growth

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Annual Review 2007-08 (continued)

General Logistics Systems

Royal Mail s European operation General Logistics Systems (GLS), continued to grow and develop its operations as the "Quality leader in European parcels logistics" GLS provides reliable, high quality parcel services, logistics and express services throughout Europe

Through its own start-up companies acquisitions and its network partners GLS has created a strong European network providing customers with services in 36 European states In August 2007, GLS Romania was established and a new franchise area was acquired in Milan in October 2007 - increasing the number of GLS managed depots in Italy to 26 In March 2008, new global partnership agreements were signed with MNG Cargo in Turkey and GATI in India

In addition to the investments in the physical network, the continuing development of information technology remains an area of specific focus GLS's European parcel shops where private or commercial customers can take parcels for delivery, increased by more than 1 000 to 6,362 outlets

GLS's network now comprises 32 central transhipment points and 655 depots, providing services through wholly owned and partner companies in 36 European states A workforce of over 13 000 people and nearly 18 000 vehicles deliver 335 million parcels annually for 220 000 customers throughout Europe, generating £1,232m of revenue in the last year

Royal Mail Holdings plc

Operating and Financial Review

Introduction

Royal Mail Holdings plc (the Company) is a public limited company wholly owned by the UK Government It became a plc on 26 March 2001 The framework for change was the Postal Services Act 2000 that created a commercially focused company with a more strategic relationship with the Government The Postal Services Act also established a new regulatory regime with an independent Regulator Postcomm, and a reformed consumer body, Postwatch Royal Mail Holdings plc together with its subsidiaries, associates and joint ventures comprise 'the Group'

The Group has over 370 years experience of providing the public with postal services - through our trusted brands we reach everyone every working day in mail, parcels and express services and through our Post Office branches

Our market place continues to change rapidly as a result of declining volumes and strengthening competition in the UK mails market since its full liberalisation in January 2006 We are engaging with the Government review of the UK postal services market and progressing transformation plans throughout the business Our vision for the future of the postal services market provides significant benefits for all types of customers and competitors We continue to provide services to meet our challenges – from a range of Post Office financial services including savings and insurance products to broadband electronic 'stamps' online shopping fulfilment and mail-related data tools such as online electronic pricing news and product information to help companies improve their marketing performance

Our continued aim is to put the customer at the heart of everything we do by

- being the UK's lowest cost operator delivering market leading quality of service,
- be the most trusted provider of essential services to every person in the land
- our unique reach to every address in the UK,
- enhancing our trusted brands
- becoming easier to do business with, and
- maximising profitable revenue and volume by meeting customer needs through innovation and efficiency

Performance Highlights

In the following analysis all references to operating profit are before exceptional items

Financial Highlights

Summary of Results £m unless stated otherwise	2008	2007
External Revenue	**9,388**	9 179
Operating Profit	**162**	233
Return on Sales (%)*	**1 7%**	2 5%
ColleagueShare costs	**(277)**	-
Other exceptional items	**(106)**	(125)
Net exceptional items	**(383)**	(125)
(Loss)/profit before financing and taxation	**(221)**	108
Net finance income	**13**	6
Net pensions interest	**131**	199
(Loss)/profit before taxation	**(77)**	313
Taxation credit/(charge)	**212**	(27)
Profit after taxation	**135**	286

*before exceptional items

Key Non-Financial Highlights

Area	Key Performance Indicators (KPIs)	2008	2007
Customer Service	1st Class Stamp & Meter Quality of Service	**85 2%**	94 0%
	No of Complaints (millions)	**1 44**	1 41
	Post Office Limited Customer Satisfaction Index	**99 8%**	95 1%
Great Place to Work	Engagement Index ^	**54%**	-
	Employee Survey ^ ("Great Place to Work)	-	66%
	RIDDOR Accidents/1000 staff	**26 9**	26 1
	Sick Absence	**4 9%**	4 8%
Good Corporate Citizen	CO_2 Emissions/1000 items#	**18 0**	18 7
	Charitable Donations (£m)	**1 8**	1 2

^ In April 2007 the Engagement Index based on the Have Your Say Employee Survey replaced the Great Place to Work Employee Survey as a key non-financial KPI

#represents preceding year

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Operating and Financial Review (continued)

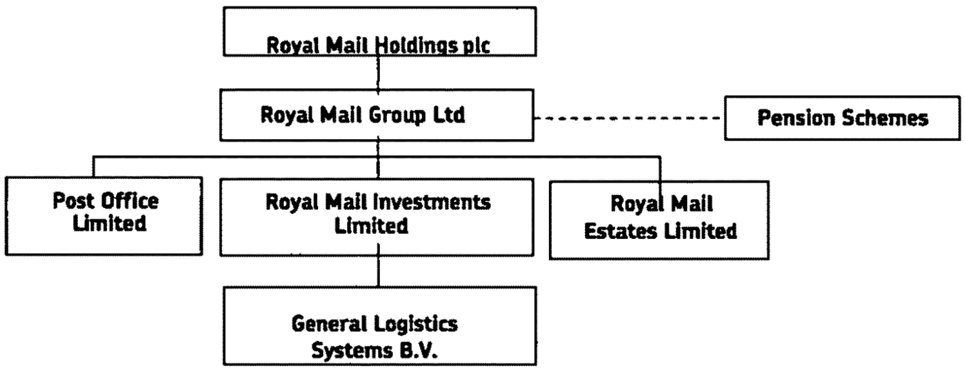
Governance

The EU Accounts Modernisation Directive (AMD) applies for all medium and large EU companies including listed companies and requires a mandatory inclusion to the existing Directors' Report to provide an enhanced review of a company's business

The Directive states that the review should provide a balanced and comprehensive analysis of the development, performance and position of the company's business including the principal risks and uncertainties facing the organisation The analysis should include both financial and, where appropriate, non-financial KPIs relevant to the particular business including information relating to environmental and employee matters It is recognised that to the extent that this information appears in the Operating and Financial Review (OFR) it is incorporated by reference into the Directors Report

Legal Structure

Royal Mail Holdings plc is directly owned by HM Government and is the ultimate parent company of the Group The Group primarily operates within the United Kingdom having a number of subsidiaries joint ventures, and associates, but also has presence in most European countries, mainly through General Logistics Systems B V Its basic legal structure is as follows



[1] The Royal Mail and Parcelforce Worldwide business units included in Royal Mail Group Ltd are not separate legal entities

Further details on the principal subsidiaries are provided in note 29 to the accounts

Our Operating Units

The Group is organised into four principal operating units

Royal Mail

Royal Mail processes and delivers over 80 million letters and packages to 28 million addresses every working day in line with its unique Universal Service Obligation (USO) It is also responsible for designing and producing the UK s stamps and philatelic products

General Logistics Systems B.V. (GLS)

GLS is a pan-European company providing reliable, high quality parcel services, logistics and express services throughout Europe

Parcelforce Worldwide

Parcelforce Worldwide is a leading provider of collection and delivery services for urgent packages and parcels within the UK and throughout the world, providing both business and private addresses with a range of timed delivery options

Post Office Limited

The Post Office's national network of branches is at the heart of communities across the country They provide a trusted access point for everyday products, services and information in postal services, financial services, travel, banking, telephony, bill payments, Government information, retail and the secure transportation of cash Post Office Limited owns the Group's investments in Midasgrange Limited (50% associate, financial services) and First Rate Exchange Services Holdings Limited (50% joint venture Bureau de Change services)

Other

Further details are provided under the operating unit facts and figures section

Our Pension Schemes

Royal Mail Group Ltd is the sponsoring employer for the Royal Mail Pension Plan and Royal Mail Senior Executives Pension Plan (both defined benefit schemes) and for the Royal Mail Retirement Savings Plan (a defined contribution scheme) Based on assets the Royal Mail Pension Plan is the fourth largest pension scheme in the UK

The assets and liabilities of the defined benefit schemes, as measured under accounting standards, are reported as a net pension deficit in the Group balance sheet The gross assets and liabilities and the net deficit are significantly larger than any of the Group's other assets and liabilities This results in the Group being one of the most exposed UK corporates to pension scheme volatility, particularly with respect to movements in equity values and bond rates

Operating and Financial Review (continued)

Operating Unit Facts and Figures

Unit and % of Group External Revenue	No. of Employees	Region	Revenue* (£m) Profit/(loss)* (£m) Margin (%)	Facts and Figures	Vision
Royal Mail **72 8% of Group External Revenue**	164,995	UK	**Revenue** £6,830m **Loss** (£3m) **Margin** (0 04%)	• 115,400 pillar boxes, • 69 mail centres • 1 400 delivery offices • 30,800 vehicles • 29 900 bicycles • Over 80 million items handled every working day • Deliver to 28 million addresses a day, • 1st Class Retail Quality of Service – 85 2%, and • 2nd Class Retail Quality of Service – 95 7%	to be 'demonstrably the best and most trusted postal services company in the world'
GLS **13.1% of Group External Revenue**	13 135	Europe	**Revenue** £1,232m **Profit** £114m **Margin** 9 3%	• 32 hubs • 655 depots, • 17 800 vehicles • 220,000 customers • Over 1 million parcels handled every working day • 21 Subsidiaries, and • Covers 36 states in Europe	to be the best European B2B parcel logistics & express system with global reach
Parcelforce Worldwide **4 0% of Group External Revenue**	4 464	UK	**Revenue** £379m **Profit** £8m **Margin** 2 1%	• 2 hubs (1 national 1 international) • 47 depots, • 1,800 vehicles, • 207 000 parcels delivered every day 289,000 every day in December and • Parcelforce 24 Quality of Service – 96 5% delivered on time and with electronic proof of delivery	to be the UK's most reliable high value express carrier
Post Office Limited **9 7% of Group External Revenue**	9,163	UK	**Revenue** £911m **Loss** (£34m) **Margin** (3 7%)	• Equivalent 15p in every £1 transacted in the UK is handled through the Post Office network • 13 852 branches including 393 Crown Offices • Over 30,000 customer facing positions – including those employed by Post Office Limited by subpostmasters and/or by franchisees • Over 24 million customers making over 37 million visits a week, conducting almost 63 million transactions • UK's leading supplier of foreign currency, and • 99 8% of customers satisfied with their branch	'be at the heart of customers thinking by becoming the most trusted provider of essential services to every person in the land' and focusing on 'a successful commercial business with a social purpose – one that is actively on the side of customers'

* Revenue is for subsidiaries only profit/(loss) is before exceptional items

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Operating and Financial Review (continued)

Unit and % of Group External Revenue	No. of Employees	Region	Revenue* (£m) Profit/(loss)* (£m) Margin (%)	Facts and Figures
Other **0 4% of Group External Revenue**	2,654 in wholly owned subsidiaries 4 313 in part owned subsidiaries	UK	**Revenue** £36m **Profit** £77m	**Including** • **Our Group Property unit** - including Royal Mail Estates Limited (100% subsidiary) • **PostCap Guernsey Limited** - captive insurers (100% subsidiary), • **iRed Redefining Document Management Ltd** – end to end document management operation (100% subsidiary) • **Romec Limited** - facilities management operation (51% subsidiary), • **NDC 2000 Limited** - building engineering services operation (51% subsidiary), • **Quadrant Catering Limited** - catering services (51% associate) • **Camelot Group plc** – UK National Lottery operator (20% associate), and • **Central shared services for the UK and corporate centre** – not a revenue or profit centre

*Revenue is for subsidiaries only profit/(loss) is before exceptional items

Funding

Royal Mail Group Ltd

Royal Mail Group Ltd made a loss in 2007-08, after bearing losses relating to stamped mail and carrying out its Universal Service Obligation In addition it has been facing considerable cash requirements with respect to its proposed investment in plant and equipment and funding its pension deficit at a time when the market has been opened up to full competition On 23 March 2007 a funding package totalling £1 2bn up until 2016 was completed with Government

The European Commission is continuing its investigation under the EC Treaty's rules on State Aid into a series of funding measures taken by the United Kingdom Government in its capacity as Shareholder in favour of Royal Mail between 2001 and 2007, including the funding agreement completed on 23 March 2007 In its response to the EC in relation to this investigation the United Kingdom Government has stated that it believes that the measures being investigated by the EC were concluded on commercial terms

Post Office Limited

Following a consultation process on 17 May 2007 the Secretary of State for Trade and Industry (now Secretary of State for Business Enterprise and Regulatory Reform) announced (i) a funding package for Post Office Limited up to March 2011, (ii) a closure programme involving the compulsory compensated closure of up to 2,500 Post Office branches and (iii) the imposition of certain access criteria designed to ensure the continued maintenance of a national network of Post Office branches As part of the funding package the Group received £313m during the year under the Industrial Development Act 1982, to compensate Post Office Limited for the other net costs of providing certain specified "services of general economic interest" An additional £150m (2007 £75m) was paid to Post Office Limited during the year to fund the maintenance of a rural network of post offices, which was recorded within revenue as a Social Network Payment – in the prior year an additional £75m of such costs were borne by the Group from reserves

Both of the above payments made during 2007-08 were in accordance with approval received from the European Commission under relevant State Aid rules

Royal Mail Holdings plc

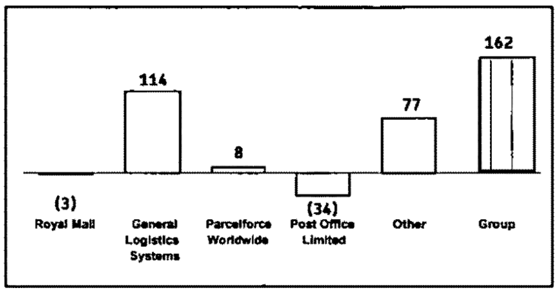
Operating and Financial Review (continued)

Group Financial Analysis

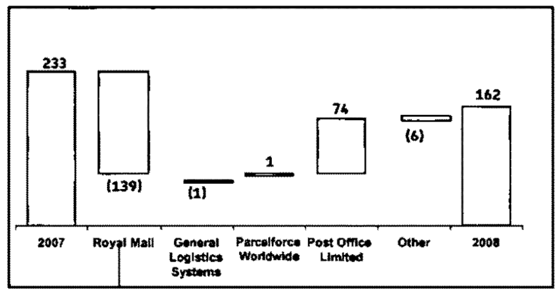
In the following analysis, all references to operating profit are before exceptional items The 2006-07 operating profit has been restated for each UK operating business unit due to the impact of the new subsidiary Royal Mail Estates Limited, as explained in note 3 There is no impact on the Group operating profit As 2007-08 is a 53 week period and 2006-07 was a 52 week period where relevant revenue and costs have been restated to make them more comparable

This year we report an operating profit of £162m compared to £233m for 2006-07, a fall of £71m (30 4%) driven by the worsening performance of Royal Mail Although Post Office Limited's position has improved, this is wholly attributable to the additional £75m from Government for the Social Network Payment (SNP) compared to last year

Operating profit/(loss) by business unit - £m



Operating profit/(loss) growth/(decline) by business unit - £m



External Revenue

Group external revenue increased by £209m (2 3%), from £9,179m to £9,388m driven by increases in GLS Post Office Limited Parcelforce Worldwide and Other businesses offset by a decline in Royal Mail despite the impact of the additional week The 53rd week this year has increased Group revenue by £113m, therefore underlying revenue growth is 1 0%

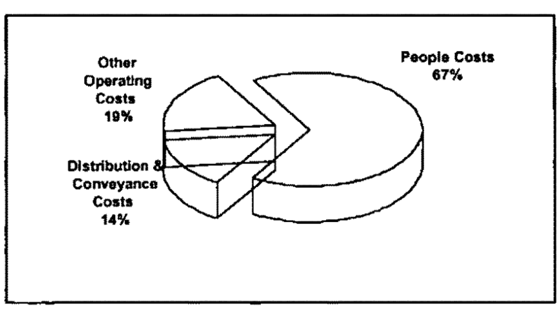
Royal Mail revenue declined by £27m (0 4%) even with an average price increase on regulated products in April 2007 of around 5% Declining market volumes, increased losses to competition and customers continuing to downtrade to cheaper products have led to this decline with the only growth area for revenue being Downstream Access, i e increasing competition

General Logistics Systems increased its revenue by £150m (13 9%) from £1,082m to £1 232m driven by volume growth in domestic and export parcels - this includes the impact of acquisitions - and the strengthening of the euro Parcelforce Worldwide increased its revenue by £42m (12 5%) from £337m to £379m, through higher volumes particularly in regional and international sales Post Office Limited showed a revenue increase of £43m (5 0%) from £868m to £911m, although without the £150m (2007 £75m) SNP received from Government, there was an underlying decline in revenue of £32m to £761m This reduction is due to the revenue decline in Government and financial services exceeding the growth in revenue from the telephony products stream

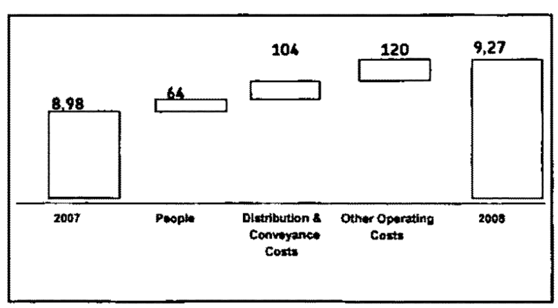
Costs (excluding exceptional items)

Total costs of £9 273m have increased from £8 985m by £288m (3 2%) The additional week this year has increased Group costs by £112m, therefore the underlying increase is 2 0%

Cost by type - %



Cost growth by type - £m



People costs of £6 209m represent 67% of the Group s cost base and have increased year on year by £64m (1 0%) - this includes the impact of the 53rd week The majority of front line staff received an increase of 5 4% on basic pay and weekday overtime from 1 October 2007 After adjusting for the impact of the additional week, people costs actually reduced year on year reflecting efficiencies delivered to absorb the impact of the pay award

Distribution and conveyance costs of £1 341m, representing 14% of the Group's cost base, have increased by £104m (8 4%) This is driven mainly by GLS (including acquisitions) and Parcelforce Worldwide and their associated costs of volume growth

Other operating costs of £1,723m representing 19% of the Group's cost base, have increased by £120m (7 5%) This includes increases in depreciation and IT costs linked to the phased roll-out of our major capital investment programme as part of our transformation plans, primarily within Royal Mail

Royal Mail Holdings plc

Operating and Financial Review (continued)

Pensions

Pension charges within operating profit	2008 £m	2007 £m
Within operating profit before exceptionals	**701**	722
Within exceptionals (relating to redundancy)	**42**	51
Within operating profit	**743**	773

Pension costs (pre-exceptionals) have reduced by 2 9% from £722m to £701m The £21m reduction principally relates to past service costs of £16m included in 2007

The balance sheet pension deficit has decreased from £4,985m in March 2007 to £2,923m The decrease in the deficit of £2 062m principally relates to an actuarial gain of £1,798m and net pensions interest of £131m

The actuarial gain arose due to changes in market conditions giving rise to an increase in the assumed real discount rate, although this has been partly offset by a lower than expected return on the assets in line with general market returns This gain is recorded in the statement of recognised income and expense

The net pensions interest reflects the long-term expected rate of return on the schemes' assets less the unwinding of the discount on the schemes' liabilities Although liabilities are higher than assets the expected rate of return on these assets (biased toward equities) was substantially higher than the discount rate for liabilities (high quality corporate bond rate) resulting in a net interest credit This interest is recorded in the income statement after (loss)/profit before financing and taxation

As part of the recent funding package the Group established £1bn of investments in escrow shortly before the 2007 year end as security for the Royal Mail Pension Plan, in support of the 17 year deficit recovery period from 31 March 2006

Pension cash funding. Group contributions	2008 £m	2007 £m
Regular pension contributions	**550**	543
Funding of pension deficit	**284**	243
Payments relating to redundancy	**36**	74
Prepayment of 2008-09 regular pension contributions	**50**	-
Net cash payments	**920**	860

Regular pension contributions increased by 1 3% from £543m to £550m The regular rate of employer contributions for the Royal Mail Pension Plan has remained at 20 0% of pensionable pay, effective from the beginning of the previous year The regular rate of employee contributions for the Royal Mail Pension Plan remains unchanged at 6 0%

Deficit recovery payments by the Group increased by £41m (16 9%) principally arising as a result of the latest full actuarial valuation of the Royal Mail Pension Plan The Group had been contributing an average of some £140m per year to fund the deficit in the Royal Mail Pension Plan This increased significantly last year, and further again this year to over £260m per annum for the remaining 16 years from the beginning of 2007-08 There have been no employee deficit contributions

Share of Profits in Joint Ventures and Associates

The Group's share of profits in joint ventures and associates of £47m (2007 £39m) comprises profits from Post Office Limited s Bureau de Change joint venture (First Rate Exchange Services Holdings Limited), Camelot Group plc associate - UK National Lottery operator Quadrant Catering Limited our catering associate, Post Office Limited's financial services associate (Midasgrange Limited) and G3 Worldwide (Spring) N V our international mail distribution associate

Net Exceptional Items

Net exceptional items of £383m (2007 £125m) comprise operating exceptionals of £441m (2007 £243m) offset in part by profits from property disposals of £58m (2007 £118m with £74m arising from the disposal of a property group) Operating exceptional costs include £277m for ColleagueShare costs (2007 £nil) £165m for redundancy (2007 £180m), a £141m exceptional charge for subpostmasters' compensation (2007 £nil), £97m for impairments (2007 £64m) £43m for Agency Network Change programme and WH Smith project costs (2007 £nil) £10m exceptional property charges (2007 £1m credit) with other Group restructuring costs amounting to £21m (2007 £nil) This was offset in part by Government grant income of £313m (2007 £nil) received to compensate Post Office Limited for providing certain specified 'services of general economic interest"

ColleagueShare Scheme

On 17 May 2007 the Group introduced a phantom share scheme, ColleagueShares all associated costs for the year have been treated as an operating exceptional item The value of ColleagueShares is based on a Group share plan valuation model which is updated regularly This has generated a discounted charge to the income statement of £116m for 2007-08 Fully eligible employees have been allocated 408 notional shares in the Company with part time staff holding a proportion of this amount Further allocations will be made over the next two years ColleagueShares will be sold back to the Company by 2012 and each fully eligible employee has the opportunity to receive up to £3,700 from the sale of the phantom shares A related stakeholder dividend for the year totalling £161m represents a payment of up to £800 to each eligible employee in recognition of meeting certain Group and business unit targets This is payable in 2008-09

Net Finance Income

Net finance income of £13m (2007 £6m) comprises finance income of £84m (2007 £62m), offset by finance costs of £71m (2007 £56m) The increase in finance income of £22m is mainly due to higher average investment volumes and higher average investment rates The increase in finance costs of £15m is mainly due to higher commitment, arrangement and advisor fees on the Royal Mail Group Ltd loan facilities from Government and higher average borrowing rates, partially offset by lower average borrowing volumes

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Operating and Financial Review (continued)

Net pensions interest

Net pensions interest of £131m (2007 £199m), a non-cash item for the Group has decreased by £68m as a result of expected returns on Plan assets increasing by less than the interest on Plan liabilities as a result of the increase in the discount rate

Taxation

The taxation credit in the income statement of £212m comprises £25m current tax receivable with respect to UK operations, a £29m current tax charge on overseas profits, a UK deferred tax credit of £226m and an overseas deferred tax charge of £10m A tax charge of £18m was taken directly to equity Last year a taxation charge of £27m was recorded comprising £45m current tax charge with respect to UK operations a £31m current tax charge on overseas profits a £59m UK deferred tax credit and a £10m overseas deferred tax charge with a credit of £27m being taken directly to equity The tax credit reported in relation to the pre-tax loss is mainly due to the increased amount of deferred tax asset recognised

Cash Flow

The following table is a summary of the Group cash flow statement

Summary of cash flows	**2008 £m**	2007 £m
Cash inflow from operations	**483**	117
Dividends from joint ventures and associates	**36**	39
Property plant & equipment intangibles purchases and disposal proceeds	**(259)**	(173)
Acquisition and sale of financial assets	**(61)**	(318)
Proceeds from issue of ordinary shares	-	430
Net drawdown/(repayment) of borrowings and financing	**33**	(64)
Tax interest and other	**(23)**	4
Net cash inflow	**209**	35

Cash inflow from operations is £483m (2007 £117m) which comprises

- Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) inflows of £351m (2007 £392m),
- Government grant income of £313m (2007 £nil) to compensate Post Office Limited for providing certain specified 'services of general economic interest"
- Payments relating to exceptional items of £188m (2007 £192m), comprising restructuring costs of £152m (2007 £118m) and pension top ups of £36m (2007 £74m),
- Share in Success payments of £nil (2007 £90m), and
- Working capital inflows of £7m (2007 £7m)

Dividends received from joint ventures and associates of £36m (2007 £39m) are from First Rate Exchange Services Holdings Limited £24m (2007 £23m) Quadrant Catering Limited, £5m (2007 £10m) and Camelot Group plc, £7m (2007 £6m)

Property plant & equipment, intangibles purchases and disposal proceeds of £259m outflow (2007 £173m) comprises £330m (2007 £309m) of expenditure, including motor vehicles of £67m (2007 £75m), plant and equipment £108m (2007 £84m), £88m (2007 £85m) for property improvements and the remaining £67m (2007 £65m) on software This analysis includes £36m (2007 £52m) in respect of GLS projects The expenditure was offset by inflows of £71m (2007 £65m) mainly from surplus property disposals and £nil (2007 £71m) relating to the sale of a property group

Acquisition and sale of financial assets of £61m outflow (2007 £318m) represents the net purchase of investments made by the Group from cash and cash equivalent resources It principally relates to interest of £57m on the investments in escrow, provided as security for the Royal Mail Pension Plan The comparative figure for 2007 represents the investment of £1bn in escrow partially funded by the realisation of other investments

During the prior year five ordinary shares in the Company were issued to the Secretary of State for Trade and Industry under section 63(1) of the Postal Services Act 2000 The consideration of £430m was used to fund ongoing cash and funding requirements for Post Office Limited, including repayment of advances from Royal Mail Group Ltd

Net drawdown/(repayment) of borrowings and financing of £33m inflow (2007 £64m outflow) largely comprises £55m cash received (2007 £nil) on sale and leasebacks offset by £20m (2007 £60m) net repayment of the Department of Business Enterprise and Regulatory Reform (BERR) loans to Post Office Limited

Provisions

Provisions at the end of March 2008 were £411m (2007 £111m) The £300m net increase comprises new provisions relating to ColleagueShares, restructuring and onerous property contracts of £478m offset by cash spend of £149m and transfers to short-term pension creditors of £29m

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Royal Mail Holdings plc

Operating and Financial Review (continued)

Group Strategy and Key Performance Indicators (KPIs)

Our success is measured by the four areas central to our operating units objectives These key strategies and objectives are communicated widely across the Group embedded into its day-to-day activities and measured on a timely basis by appropriate KPIs and monitored by the Royal Mail Holdings plc Board and its sub Committees as highlighted below

Customer Service	Great Place to Work	Profitability and Cash Flow	Good Corporate Citizen
Our customers are at the heart of everything we do The key to winning and keeping customers is to provide a consistently high quality of service This has been the top priority of everyone in the business and is at the heart of our strategy moving forward That means • delivering a high quality of service and mails integrity • developing products that match the needs of our customers and • becoming easier to do business with	This initiative established in 2003 works on the basis that we can only move forward and succeed as a business if we involve our people in making change happen The initiative has undergone a refresh to keep aligned to our long term strategy and ensure maximum benefit to our people	Funding from Government on commercial terms has been secured enabling the Group (excluding Post Office Limited) to support the capital investment programme which addresses the historic underinvestment in the Letters business Post Office Limited and Government have agreed a long-term funding package which will maintain a national network and put Post Office Limited on a sustainable footing Continuing to develop more efficient ways of working will empower us to succeed in a competitive marketplace, allowing us to maintain sustainable profitability and cash flow to eventually generate a return for our stakeholders	Corporate Social Responsibility (CSR) is doing the right thing for our people, our business and the communities we operate in, as our • customers want to buy from companies that share their values • colleagues want to work for companies that provide a healthy and safe environment and whose values align to theirs, and • communities want companies that create the incomes, the jobs and contribute to the cohesion that builds the neighbourhoods where people want to live and work
Customer	**People**	**Financial**	**Environmental**
Quality of Service targets	Employee Survey	Turnover	CO_2 Emissions/1000 items
Number of Complaints	**Health & Safety**	Operating profit*	**Social & Community**
Customer Satisfaction Index	RIDDORs (reportable accidents)/1000 staff Sick Absence	Return on sales* Return On Total operating Assets# Operating cash flow	Charitable Donations

*before exceptional items

#*as defined in the Directors Remuneration Report*

With the exception of the Employee Survey, no change has been made to the sources of data or calculation methods used for the KPIs above

Operating and Financial Review (continued)

Treasury Management

The Group operates a central Treasury function that manages £1 1bn of financial asset investments (substantially all of which are now held in escrow in favour of the pension fund trustees) and £1 4bn of cash and cash equivalent investments (including £933m cash in the Post Office network funded mainly by a Government loan facility) in accordance with investment restrictions set by the Government It also manages £847m of financial liabilities and acts as internal banker for the Group's business units The Group finances its operations largely through cash generated from its operations borrowings and grants

Group Treasury derives its authority from the Royal Mail Holdings plc Board, and provides quarterly monitoring reports for their review It only has the authority to undertake financial transactions relating to the management of the underlying business risks it does not engage in speculative transactions and does not operate as a profit centre All strategies are risk averse, and the treasury policy has remained substantially unchanged during the year The principal financial instruments are Treasury bills, Government gilt edged securities, deposits and long and short term borrowings

At the balance sheet date the Group is financed from the following facilities provided by BERR

Borrower	Purpose	Facility end date	Facility £m	Utilised £m	Average loan maturity date
Royal Mail Group Ltd	Acquisition funding	2021-2025	500	500	2023
Royal Mail Group Ltd	Capital Expenditure and Restructuring	2014	600	Nil	-
Royal Mail Group Ltd	General Purpose / Working Capital	2014	300	Nil	-
Royal Mail Group Ltd	General Purpose / Working Capital	*	300	Nil	-
Post Office Limited	Network cash repayable on demand	2010^	1 150	280	2008

*Expires on the later of 2016 and the release of the pension escrow investments This Royal Mail Group Ltd facility is subordinate to all other creditors

^On 18 April 2008, the facility was extended until March 2011

The terms of the Government borrowing facility and the associated Framework Agreement impose strict constraints on the separation of cash funds within the Group and the purposes for which they can be used

The principal treasury risks arising from the Group s activities are currency, counterparty, commodity (fuel) and liquidity risk. These are managed as follows

- the Group is exposed to foreign currency risk due to trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in the UK revaluation of the currency balances held to operate the Bureau de Change services within Post Office Limited and various sales and purchase contracts denominated in foreign currency Hedging programmes managed by Group Treasury mitigate these risks Where possible exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward contracts

- the Group's obligation to pay overseas postal operators is denominated in Special Drawing Rights (SDRs) - a basket currency comprising of US Dollar (US$), Japanese Yen Sterling and euro The Group has a policy of matching receipts and payments for individual currencies where possible and then hedging any material net exposure The policy is that up to 80% of the forecast net exposure is hedged with agreement of the internal business unit Group Treasury operates a rolling 18-month programme which is subsequently reviewed on a quarterly basis There has been no external hedge in place throughout the financial year 2007-08 due to there being no material net exposure,

- Bureau de Change balances are grouped into baskets of closely correlated currencies Each currency basket (e g US$ or euro) is then sold forward, up to 100% of the exposure, creating a liability to match the underlying asset,

- significant foreign currency risk arising from capital purchase contracts primarily in euro may be hedged up to 100% depending upon the reliability of the forecast of the underlying cash flows

- the Group does not hedge the translation exposure created by the net assets of its overseas subsidiaries,

- the Group is exposed to fuel risk arising from operating one of the largest vehicle fleets in Europe and a jet fuel risk from the purchasing of air freight services The Group s fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets The strategy operates within the parameters set by the Board which allow the use of over-the-counter derivative products to manage up to 100% of these exposures,

- the Group actively manages its liquidity risk through regular reviews of plan and budget projections against all available sources of funding The projected headroom on these sources of financing is assessed regularly for adequacy, and

- counterparty risk is managed by limiting aggregate exposure to any individual counterparty based on their financial strength

These exposures are reviewed regularly and adjusted as appropriate

The policies for financial assets - investments and derivative financial instruments - are shown in note 2

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Operating and Financial Review (continued)

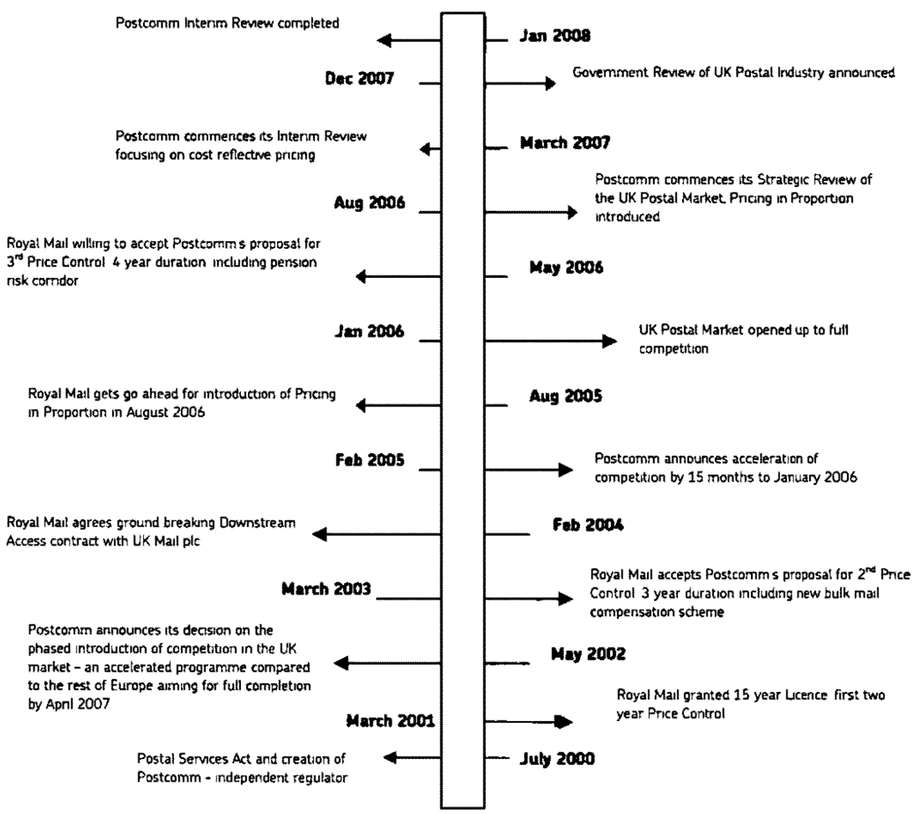
Business Environment

Regulation

Until the last few years Royal Mail had a monopoly status in the UK letters industry However in 2000 the Postal Services Act created an independent postal Regulator – Postcomm – and allowed Royal Mail to have greater commercial freedom Postcomm regulates the prices of nearly 90% of Royal Mail's letters business controls the terms and conditions for nearly all its services sets the quality of service targets and determines compensation arrangements

Post Office Limited is increasingly subject to regulation in financial services (Financial Services Authority) and in telephony (Ofcom) Post Office Limited is an appointed representative of the Governor and Company of the Bank of Ireland, which in turn is regulated directly by both the Irish Financial Regulator and Financial Services Authority (FSA) for conduct in the UK

It is the Group's policy to be fully compliant with the regulatory framework in which we operate During 2007-08 we continued to strengthen our compliance activities working in close liaison with our Regulators



Competition

The Group's business units now all operate in a competitive marketplace Parcelforce Worldwide and GLS have been operating in an open market since their inception These units have demonstrated their ability to perform in a non-regulated and competitive environment, which is reflected in their annual results

Post Office Limited due to a reduction in income from benefit payments and a significant and continuing decrease in Government use has developed revenue streams from financial services products (including car and home insurance a 'two-in-one credit card and range of savings products) and its HomePhone and broadband services These products are in direct competition with services offered by banks, insurance and telephony companies, as are many of the services it continues to offer e g bill payments, renewal of car tax discs and travel services

Royal Mail s operating environment has gradually been opened up to competition since February 2004 with the letters market fully liberalised in January 2006 well in advance of the rest of Europe Competitors are now able to offer customers the opportunity of end-to-end service for the collection, sorting and delivery of their mail

Operating and Financial Review (continued)

Major Regulatory Activity in 2007-08

In November 2007 the Group responded to Postcomm's Strategy Review "Emerging Themes" and believes that four key regulatory principles need to be addressed which will result in a truly competitive industry whereby all stakeholders benefit

- Realign prices to underlying costs - to create transparency for business customers and to ensure that competition is sustainable Some competitors in the UK are basing their entry strategies on unsustainable business models that target the historical cross-subsidies in Royal Mail s pricing structure but cross-subsidies are fundamentally incompatible with an effectively functioning competitive market Royal Mail believes it should be allowed to remove these cross-subsidies, so that customers face the right pricing signals and competitor models going forward are based on efficiency
- A narrower range of universal service products - focused on the needs of all social customers and fully funded through stamp prices Business customers tell us they do not need the protection that the Universal Service Obligation (USO) provides - Postcomm describes many of these customers as "non-captive" and we agree given the ample choice they have across mail and other communications providers The USO should therefore be refocused on stamped mail only, and prices should reflect the true costs of this provision,
- Full retail deregulation of business products - the explosion in access competition representing 40% of bulk mail this year is encouraging business customers to demand more commercial and innovative responses from Royal Mail However, Royal Mail is prevented from responding rapidly by regulatory requirements such as an involved process for changing terms and conditions Royal Mail envisages a near term future in which the intense competition in the business mail market replaces the need for regulation and
- Continued operational integration of the postal network - we have put in place measures to ensure that competitors and customers have access to our network on fair and reasonable terms Separation of the postal network would create confusion for customers introduce complex and costly interfaces endanger quality of service and put at risk delivery of the transformation programme

In March 2007, Postcomm commenced an Interim Review Royal Mail has asked Postcomm to consider the following pricing proposals in this review all of which are consistent with realigning prices to costs and entirely driven by the need to react to both the volume erosion and significant downtrading that has been evident for the last eighteen months

- Reducing the headroom between Downstream Access (DSA) and the equivalent retail prices from a high level set to encourage competition, to a level which reflects the underlying upstream costs because entry has been significantly higher than the Price Control assumptions
- Allowing Royal Mail's retail business to price its non-USO bulk mail products by zone thereby making prices of cheap to deliver areas lower by up to 5% and prices of expensive to deliver areas higher by up to 5% This does not change the price of the "one price goes anywhere" stamp
- Allowing Royal Mail to further rebalance its prices so that it has the flexibility it needs to keep up with the pace of change in the postal sector, and
- Providing dispensation to Royal Mail with respect to bulk mail compensation and C factor adjustments if they are directly linked to service failures relating to industrial action over Royal Mail s transformation plan

In January 2008, Postcomm confirmed the following decisions with respect to its Interim Review

- Its rejection of a change to the headroom between DSA and equivalent retail prices
- Its rejection of Royal Mail's retail zonal application and
- Its agreement to increase the level of rebalancing

Royal Mail continues to work with Postcomm on industrial action dispensation

In December 2007, BERR announced a review of the UK postal services market to examine the impacts of liberalisation of UK postal services, trends in the future market development and the likely impact of this on Royal Mail alternative carriers and consumers Royal Mail has submitted its first response to this review in March 2008 followed by its second response in May 2008

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a key component in supporting the business to be recognised as a responsible organisation that seeks to optimise the beneficial impacts inherent in our business and reduce the negative impacts Through improving our CSR performance and ensuring it is integrated into the way we work, we can make ourselves more productive and competitive We are working to reduce the number of accidents, reduce our production of CO_2 and make our people healthier We recognise that the route to achieving and sustaining our goals is through our people and our relationship with customers, business partners suppliers, communities and other stakeholders

A more comprehensive overview of our CSR will be found in the annual Corporate Social Responsibility report to be published later in the year

Royal Mail Holdings plc

Operating and Financial Review (continued)

Key Relationships

The Group has several key relationships that are critical to its day-to-day activities and its overall success

People - Our people are the lifeblood of the organisation and brands Without their continued support and dedication it will be impossible to function on a day-to-day basis and embrace the change within our markets Training, diversity, flexible resourcing and making the business a great place to work are some of the ways we continue to improve this relationship

Unions - The Communications Workers Union (CWU) represents non-managerial staff with Unite the Union - Communication and Managers' Association (CMA) sector representing managerial staff The Group s policy is to work with the CWU and CMA to engage staff in the development and execution of business decisions

Pension trustees - Our pension trustee board for the main pension plan comprises an independent chairman plus 10 people including employees, union representatives, a pensioner and independent members They take external professional advice, from Sacker & Partners LLP (legal) Watson Wyatt Limited (actuary) KPMG LLP (auditors) and PricewaterhouseCoopers LLP (financial) They are responsible for obtaining regular actuarial valuations of the plan to satisfy the statutory funding objective, which involves reaching agreement with Royal Mail Group on the statement of funding principles, the recovery plan and the schedule of contributions There is a separate trustee board for the senior executives pension plan which comprises the chairman plus 5 individuals including employees pensioners and an independent member

Customers - The Group s businesses and brands are used or recognised by almost everyone in the UK - from the largest of companies to individuals However, the 30 largest customers generate c 15% of Royal Mail s turnover and consequently the business is reliant on a small customer base As competition increases the Group will have to continue to simplify ways of doing business and design products around customers' needs Customers are offered standard terms and conditions for the markets and countries in which the Group operate

Subpostmasters - The vast majority of Post Office Limited s 13,852 Post Office branches are operated by subpostmasters and franchise partners The National Federation of Subpostmasters (NFSP) directly represents the interests of their members currently the membership stands at 9 297 As a consequence of this direct representation the NFSP indirectly influences all other agents through the representations and negotiations conducted on behalf of the majority of subpostmasters Post Office Limited conducts annual remuneration negotiations with the NFSP whilst also working closely with them on the many agent related aspects of Post Office Limited's Forward four2eleven strategy, designed to deliver a viable physical network by 2010-11

There are several major retailers who are also significant partners operating between them around 2,000 branches across the country Post Office Limited liaises closely with these companies to maintain successful working relationships It is through the effective partnership with the NFSP and these various retail organisations that the business takes into account the interests of all agents whilst seeking to support the development and achievement of their sales potential and importantly the longer-term viability of the network

Suppliers - The Group has a wide range of suppliers with its primary reliance on those relating to outsourcing of non-core services, such as IT support It works in partnership with its suppliers to ensure the right products and services are delivered at the right time at competitive costs A central purchasing team monitors compliance to Group policy in awarding contracts or new business and adheres to agreed credit terms

The consumer body Postwatch - Postwatch's role is to act as a consumer advocate in postal matters Its public views on the effect of Royal Mail s policies and management actions on customers can have an impact on Royal Mail's reputation, regardless of the quality of service achieved

The Regulator: Postcomm - Nearly 90% of Royal Mail Letters' revenues are price-controlled and the Price Control is set periodically by Postcomm in the form of a cap on the average price of a basket of products The price increases or reductions allowed by Postcomm through the Price Control have a very material impact on the likely levels of cash flow the Company can generate Postcomm also investigates compliance with Licence conditions and has broad powers to publicly reprimand or fine Royal Mail if it finds it in breach of those conditions

Shareholder - The Company is a plc 100% owned by the Government The Shareholder Executive (within BERR) manages the shareholder relationship with the Company as a commercial shareholder While management of the Group therefore lies with the Company's Board of Directors, the Shareholder is kept up-to-date through quarterly performance reviews and is asked to approve the Group's strategic plan Any new funding required by the Group (apart from short term borrowings of less than one year) can only be approved by Government if it meets commercial principles

Royal Mail Holdings plc

Operating and Financial Review (continued)

Segmental Analysis – Revenue and Profitability

In the following analysis, all references to operating profit are before exceptional items The 2006-07 operating profit has been restated for each UK operating business unit due to the impact of the new subsidiary Royal Mail Estates Limited, as explained in note 3 There is no impact on the Group operating profit

Group external revenue of £9,388m (2007 £9,179m) and operating profit before exceptionals of £162m (2007 £233m) are made up as follows

	External revenue		**Operating profit/(loss)**	
Business unit performance	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Royal Mail	**6,830**	6,857	**(3)**	136
General Logistics Systems	**1,232**	1 082	**114**	115
Parcelforce Worldwide	**379**	337	**8**	7
Post Office Limited	**911**	868	**(34)**	(108)
Other businesses	**36**	35	**77**	83
Group	**9,388**	9,179	**162**	233

A further analysis of results, by business unit is shown below

Royal Mail	**2008 £m**	2007 £m
External revenue	**6,830**	6 857
Operating (loss)/profit before exceptionals	**(3)**	136

External Revenue fell by £27m to £6 830m, despite this year being 53 weeks long and an average price increase on regulated products in April 2007 of around 5% A reduction in mail volumes offset the benefit of the price rise together with increasing losses to competition and customers switching further to lower priced products For the Addressed Inland products market, volumes declined 3 2% after adjusting for the 53rd week

Profitability continued to decline from an operating profit of £136m to an operating loss of £3m driven by decreasing revenues through continued market decline and increased operating costs as a result of the additional 53rd week. The business has however made progress on its strategic initiatives aimed at creating a more modern and efficient operation, delivering efficiencies to largely absorb the impact of inflation and additional investment costs

General Logistics Systems	**2008 £m**	2007 £m
External revenue	**1,232**	1,082
Operating profit before exceptionals	**114**	115

External revenue rose by £150m (13 9%) from £1,082m to £1,232m including a £45m positive impact as a result of the strengthening of the euro The underlying growth of £105m (9 7%) results from higher domestic and export parcel volumes and the impact of the acquisition of ABX Belgium (completed 31 December 2006) Growth rates continued to be particularly strong in Eastern Europe

Operating profit decreased by £1m (0 8%), from £115m last year to £114m This represents a good performance in light of the challenging market conditions and also significant network and operational changes implemented to adapt the depot network to the recently amended speed limit law in France

Parcelforce Worldwide	**2008 £m**	2007 £m
External revenue	**379**	337
Operating profit before exceptionals	**8**	7

External revenue rose by £42m (12 5%) with volume growth of 12 2% (10 4% after adjusting for the 53rd week) The majority of this growth was attributable to increases in UK regional sales and international import volumes The average unit price has remained largely flat year on year, principally due to increased price pressures across both domestic and international markets

Revenue growth has been underpinned by the continued focus on customer service and quality of service Quality of service for the year has improved by 0 3% to 96 5%, whilst carrying significant extra volume in the network The emphasis on customer service has led during the year to a 4 4% improvement in first time deliveries

Operating profit of £8m has grown by 10 9% Inflationary cost pressures have been more than offset by the strong revenue growth and improvements in operating efficiencies

Operating and Financial Review (continued)

Post Office Limited	2008 £m	2007 £m
Turnover	**761**	793
Social Network Payment	**150**	75
External revenue	**911**	868
Operating loss before exceptionals	**(34)**	(108)
Underlying operating loss before exceptionals	**(184)**	(183)

Revenue shows an increase of £43m (5 0%) over the prior year, however 2008 includes an additional £75m compared to last year for the Social Network Payment (SNP) from Government This SNP has been recognised as revenue and relates to a Government grant to match the related loss during the year of providing the network of public post offices that the Secretary of State for BERR considers appropriate and which would otherwise not be provided

Underlying trading revenue decreased by £32m (4 0%) mainly due to reduced Card Account transactions, loss of remaining TV Licensing work from the BBC and migration of motoring volumes to the DVLA web application These decreases have been partly offset by increases in Post Office Limited's new commercial products of which HomePhone revenue (now including broadband) is higher than last year The business also continues to expand its presence in the fiercely competitive financial services sector

Overall expenditure has decreased year on year in line with transformation plans Increases in subpostmasters costs were offset by decreases in staff costs as expected Improved performance of Post Office Limited's joint venture (First Rate Exchange Service Holdings Limited) and associate (Midasgrange Limited) also offset the revenue decline, ensuring the underlying operating loss was virtually flat year on year adjusting for the 53rd week

Other businesses	2008 £m	2007 £m
External revenue	**36**	35
Operating profit before exceptionals	**77**	83

External revenue from other subsidiaries has increased slightly to £36m (2007 £35m) and includes the consolidation of Romec Services Limited Operating profit includes the impact of revenue between segments (refer to note 3) and is largely attributable to the activities of Royal Mail Estates Limited The decline in operating profit year on year of £6m is driven by start-up losses of the new subsidiary iRed Redefining Document Management Ltd

Principal Risks and Uncertainties

The Group uses a business-wide framework for the identification, assessment, treatment, monitoring and reporting of risk. The process helps support business objectives by linking into business strategy identifying and reacting to emerging risks, and developing cost effective solutions to the management of risk

The following Group-level risks have been identified and are being managed to support the long-term sustainability of the Group The impact of some of these risks could be impairment to the value of the Group s brands - Royal Mail GLS Parcelforce Worldwide and Post Office which are some of the most well known and trusted brands in the UK, and major intangible assets of the Group

The financial restructuring package agreed with the Government needs to be managed effectively

The business has agreed a financial restructuring package that will allow it to restructure the business, invest in new equipment and address the pension fund deficit that has a major impact on Group profit and balance sheet Effective management of this package is crucial for the business to remain within the agreed financial restructuring parameters and to avoid potential sanctions or penalties that could ensue

Ineffective investment in the operational network could affect productivity levels and our ability to compete effectively

The business is embarking on a major investment programme to replace equipment and technology that is nearing the end of its life cycle The investment programme needs to be deployed effectively and future ongoing investment in the Group's operational network maintained to ensure the Group s ability to compete effectively in the open market

The Group has a large pension fund deficit that requires funding

The Group's pension fund deficit is being funded in line with a schedule of contributions agreed with the pension fund trustees Future pension risk has been mitigated in part by the closure to new employees of the final salary pension scheme and other measures introduced as part of the pension reform commencing 1 April 2008 There remain uncertainties over the impact of fluctuations in the equity and debt markets affecting the value of the funds' assets and liabilities and the ability of the business to achieve the required levels of profitability and maintain our contributions at the agreed level

Weakness in the UK economy or recession is likely to have a detrimental impact on the Group's profits

Ongoing changes in the global economy pose challenges and opportunities for the UK and all advanced economies Historically there has been a correlation between the state of the UK economy and level of mails revenue Economic weakness or recession will have a direct impact on mail volumes and consequently on Group profit

The Government is the Company's only shareholder and the Group may be affected by any future change in Government policy

The influence of public policy considerations on Government may adversely affect the Group's ability to promote an effective business strategy This is particularly significant for Post Office Limited which is required to run our branch network as a commercial business and is reliant on Government support for loss making branches

Operating and Financial Review (continued)

Group revenues and profit are subject to several uncertainties
The postal market has evolved rapidly as a result of liberalisation Competitors are aggressively targeting business customers Additionally business customers are downtrading using less profitable products In addition overall mail market volumes are declining Technological innovation is increasing customers can now switch to alternative offerings and information can be sent or made available faster and, in many cases at a lower cost than traditional mail services If technological substitution continues market volumes will decrease further

Furthermore Royal Mail s regulatory regime impacts the business s profitability in two key areas

- The Universal Service Obligation (USO) requires Royal Mail to maintain a national collection and delivery network The USO results in Royal Mail incurring a higher fixed cost base than our competitors Royal Mail has some of the cheapest stamp prices in Europe, as historically business mail has subsidised the losses made on stamped mail Unless the applicable regulatory restraints permit Royal Mail to recover from this imbalance, there is a risk that Royal Mail will always lose money on stamped mail, whilst competitors procure more profitable products such as business mail The USO does however ensure that Royal Mail has the largest distribution network in the country - which may present future opportunities, and
- Royal Mail s prices for most of its letters products are determined by Price Control reviews and negotiation with Postcomm which can reduce our flexibility and profitability, leading to uncertainty over how the future Licence and regulatory regime will affect Royal Mail

The Group is subject to regulatory restrictions on our operations and the risk of penalties for non-compliance
Royal Mail s postal operator s Licence contains material restrictions on the operation of the business These include

- Obligations over the delivery and collection of mail,
- Restrictions over the freedom to set prices and
- Obligations to give competitors access to our network

If Royal Mail breaches certain postal operator's Licence conditions or other regulatory requirements it may be subject to financial penalties In addition to our postal operator's Licence the Group is also subject to oversight by other regulators This affects Post Office Limited which has to satisfy the FSA's requirements as an appointed representative of The Governor and Company of the Bank of Ireland who are regulated by the FSA in respect of investment, mortgage and insurance intermediation activity in the UK It is also subject to anti-money laundering regulations issued under the Proceeds of Crime Act 2002 and enforced by HM Revenue and Customs Post Office Limited is also licensed as a telephone service provider by Ofcom who require service providers to issue and adhere to Codes of Practice

Without a continued change of culture within the organisation future development may be affected
The business has undergone, and will continue to undergo, a significant amount of change Additionally the changing and uncertain postal market place, the impact of competition and regulation and increased customer expectations place major challenges on all employees to adapt and improve productivity to levels that will allow the business to compete effectively

These challenges need to be met by ongoing cultural change within the organisation Without a flexible efficient and co-operative culture, Royal Mail could become loss making as mail volumes decline and labour rates increase Significant industrial action could have a major detrimental effect on the Group's reputation and profits

The Group's business activities are time critical and if key infrastructure facilities were disrupted it could have an impact on results
The business is subject to a number of operational risks to its nationwide delivery and retail outlet networks including natural disasters fire flood explosion possibility of work stoppages or civil unrest, transport infrastructure disruption, power failures unavailability of key supplies, breakdown or failure of equipment health pandemics terrorism and the normal hazards associated with running a complex infrastructure A major disruption could have an adverse impact on customer services as well as business and operating results

The Group may be affected by future environmental and related fiscal measures
The Group operates a large vehicle fleet and a substantial property portfolio that consume large amounts of energy Although the Group is disposing of surplus property and is deploying a Carbon Management Programme, it may be affected by future environmental measures and adverse fiscal impact from increased energy costs and "green" taxation The increasing awareness and focus on environmental issues may also impact on the Group's current product and service offerings

The Group operates a substantial treasury operation and is exposed to foreign currency risk and fuel price risk
The Group is exposed to foreign currency risk and fuel price risk The former is due to trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in the UK, revaluation of currency balances held to operate the Bureau de Change services and various sales and purchase contracts denominated in foreign currency The fuel price risk arises from operating a large vehicle fleet and on jet fuel risk from purchasing air freight services If the treasury strategy is inappropriate to cover the Group's exposures, this could result in funds not being readily available when required or a negative impact on profit due to increased costs

The Group is subject to changes in both domestic and European regulation and legislation, which could expose it to possible additional costs
Various changes to European or domestic law will have a direct impact on the Group such as the European Working Time Directive, speed restrictions on the Group's vehicles and increased liberalisation of the market for postal service providers Any future changes may have a material impact on the Group and its individual business units

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Operating and Financial Review (continued)

Summary

The Group has produced a robust financial performance with operations remaining profitable before exceptional items and cash generative even with difficult trading conditions and challenges experienced during the year Despite continued efficiency improvements the Letters business made a loss as revenues have continued to fall with core market decline, increased losses to competition and customers downtrading further to cheaper products Post Office Limited's underlying performance is broadly flat largely due to losses in traditional income streams which have been partially mitigated by new commercial product revenues and cost savings Both of our parcels businesses, GLS and Parcelforce Worldwide, have improved their revenue performance, with strong growth underpinning solid profits in highly competitive markets this year

Our main achievement is to have secured landmark agreements on pay, pensions and modernisation for the business - we are now well placed to press ahead with the vital investment in Royal Mail Letters to improve our efficiency and productivity With the full support of our people, our strategy to modernise and transform the Letters business - with investment in both our people and technology - will provide the platform for new and more flexible products and services for our customers, who remain at the heart of everything we do

GRO

Ian Duncan

Group Finance Director

19 May 2008

Understanding the Operating and Financial Review

Statement of compliance

This OFR is intended to develop the Group's narrative reporting to meet many of the recommendations of the Accounting Standards Board's 'Reporting Statement of Best Practice on the OFR' This OFR ensures compliance with the legal requirement under the Companies Act to provide a Business Review and is referenced from the Directors' Report

We will continue to review the narrative disclosures we provide in the annual Report and Accounts to ensure that the disclosures provided meet the requirements of our stakeholders

Cautionary statement

The OFR focuses on matters that are relevant to the interest of the Shareholder of the Company The purpose of the OFR is to assist the Shareholder of the Company in assessing the strategies adopted by the Company and the potential for those strategies to succeed It should not be relied on by any other party or for any other purpose

Where this OFR contains forward looking statements these are made by the Directors in good faith based on the information available to them at the time of their approval of this report These statements should be treated with appropriate caution due to the inherent uncertainties underlying any such forward looking information

Royal Mail Holdings plc Board

Non Executive Chairman

ALLAN LEIGHTON (55) joined the Board in April 2001 as a Non Executive Director, becoming Chairman in March 2002 He is also a Director of Post Office Limited, and a member of the GLS Supervisory Board Allan 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 is currently President and Deputy Chairman of Loblaw Companies Ltd Deputy Chairman of George Weston Limited and Selfridges and Co Ltd, as well as a Non Executive Director of BSkyB

Non Executive Directors

DAVID FISH (59) joined the Board in January 2003 He is Chairman of the Remuneration Committee, and a member of the Nomination Committee David was a member of the Mars Inc Operating Board from 1994 to 2001 and Joint President of Masterfoods Europe President of Snackfoods Europe and held European Vice-President positions in marketing and personnel He has also been Chairman of Christian Salvesen and is currently Executive Chairman of United Biscuits Topco Limited

RICHARD HANDOVER CBE (62) joined the Board in January 2003 He is the Senior Independent Director and is Chairman of the Nomination Committee, and a member of the Remuneration Committee and the Audit and Risk Committee Richard was Chairman of WH Smith plc until January 2005 and is currently Non Executive Chairman of Alexon Group plc

BARONESS MARGARET PROSSER OBE (70) joined the Board in November 2004 and is a member of the Nomination Committee Audit and Risk Committee and Remuneration Committee Margaret has been a Member of the House of Lords since 2004 She is a Non Executive Director of the Trade Union Funds Managers and has been Chair of the Women and Work Commission since July 2004 She is also Deputy Chair of the Commission for Equality and Human Rights

HELEN WEIR CBE (45) joined the Board in January 2006 and is Chair of the Audit and Risk Committee Helen is Group Executive Director at Lloyds TSB plc with responsibility for UK Retail Banking, having joined as Group Finance Director in 2004 Prior to that she was Group Finance Director of Kingfisher plc She is a member of the Said Business School Advisory Board and previously sat on the Accounting Standards Board Helen is a Fellow of the Chartered Institute of Management Accountants

Executive Directors

ADAM CROZIER (44) joined the Company in February 2003 He is Group Chief Executive, and leads the Group Executive Team, and is the Company's Shareholder representative on the Board of Camelot Group plc Adam is a Non-Executive Director of Debenhams plc and Chairman of the Employers Forum on Disability He was Chief Executive of the Football Association from 2000-2003 Between 1988 and 1999 he held a number of senior roles at Saatchi and Saatchi Advertising, including that of Joint Chief Executive from 1995

ALAN COOK CBE (54) joined the Company in March 2006 as Managing Director of Post Office Limited having been a Non-Executive Director since February 2005 He is a member of the Group Executive Team Chairman of Post Office Financial Services and First Rate Exchange Services Holdings Limited Alan was previously Chief Executive of National Savings and Investments, prior to which he had been Chief Operating Officer of the Prudential Assurance Company Alan is also on the Council of the Institute of Financial Services, and on the board of the Financial Ombudsman Service

IAN DUNCAN (47) was appointed as Group Finance Director in September 2006 and is a member of the Group Executive Team and the GLS Supervisory Board He joined from Westinghouse Electric Company based in the USA, where he had been Chief Financial Officer since 1999 Prior to joining Westinghouse Ian was Corporate Finance Director at British Nuclear Fuels plc and before that in corporate finance with Dresdner Kleinwort Benson Ltd and Lloyds Merchant Bank Ltd Ian started his career with Deloitte & Touche in London, and is a member of the Institute of Chartered Accountants of England and Wales

MARK HIGSON (52) joined the Company in November 2007 as Managing Director of the Letters Business and is a member of the Group Executive Team Mark was previously divisional Chief Executive and Group Operations Director of BPB plc Prior to that, he held senior positions at Courtaulds Plc, including CEO at its UK Coatings division He has also worked at HJ Heinz and British Aerospace

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Royal Mail Holdings plc

Royal Mail Holdings plc Board (continued)

Company Secretary

JONATHAN EVANS OBE (56) joined the Company directly from university in 1974 and has been Company Secretary since 1999, having held a wide range of management positions throughout the Group He is a member of the Group Executive Team Secretary to the Audit and Risk, Remuneration and Nomination Committees, a Trustee Director of the Royal Mail Pension Plan, Chairman of the Royal Mail Senior Executives Pension Plan and a member of the GLS Supervisory Board

Directors who left during the year

IAN GRIFFITHS 30 April 2007

DAVID BURDEN 31 July 2007

SIR MICHAEL HODGKINSON 31 August 2007

JOHN NEILL 31 August 2007

TONY McCARTHY 7 December 2007

STEPHEN CARTER 8 January 2008 (appointed 1 September 2007)

Royal Mail Holdings plc

Directors' Report

The Directors present the Group accounts for Royal Mail Holdings plc These accounts relate to the 53 weeks ended 30 March 2008 (2007 52 weeks ended 25 March 2007)

Principal activities
The Group provides 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

Review of the business and future developments
A review of the Group's business and future developments is presented in the Chairman and Chief Executive's Statement Annual Review and the Operating and Financial Review

Results and dividends
The loss before taxation amounted to £77m (2007 £313m profit) After taxation the profit was £135m (2007 £286m) Of the profit after taxation, £nil (2007 £nil) is attributable to minority interests The Directors do not recommend a dividend (2007 nil dividend)

Political and charitable contributions
During the year the Group made charitable contributions of £2m (2007 £1m) No political contributions were made in the year (2007 £nil)

Research and development
Research and development expenditure during the year amounted to £1m (2007 £1m)

Policy on the payment of suppliers
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, the standard payment terms of the supplier apply It is the Company s policy to abide with the agreed terms The Company and its principal operating subsidiaries in the UK have sought to comply with the Department for Business Enterprise and Regulatory Reform (BERR) Better Payment Practice Code Copies of this can be obtained from the BERR As the Company is a non-operating company, the creditor days are zero The creditor days of the operating subsidiaries are set out in their accounts

Land and buildings
The net book value of the Group s land and buildings, based upon a historic cost accounting policy and excluding fit-out, is £669m (2007 £667m) In the opinion of the Directors, the aggregate market value of the Company's land and buildings exceeds this net book value by £713m (2007 £798m)

Financial instruments
Details of financial instruments and financial risk management objectives and policies are shown in note 24 and note 23 respectively

Directors and their interests
The Directors of the Company and details of changes during the year are given on pages 27 and 28 The Secretary of State appoints the Chairman, all other Directors are appointed by the Company with the Secretary of State's consent

HM Government is the Company s sole Shareholder and accordingly the Directors have no interest in shares of the Company

Audit information
The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Qualifying third party indemnity provisions for Directors
A partial qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006) was and remains in force for the benefit of all the Directors of the Company and former Directors who held office during the year The indemnity is granted under article 129 of the Company's Articles of Association The indemnity is partial in that it does not allow the Company to cover the costs of an unsuccessful defence of a third party claim

People
The Group employs over 181,000 people (2007 almost 185 000) in our UK wholly owned subsidiaries An analysis of the Group headcount is shown in note 4 to the accounts Our people are our strategic strength and competitive advantage

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

We actively encourage continuous training and skill development for all our people to ensure achievement of corporate and individual objectives Management development and training programmes have been designed to attract and retain the best The Group 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

Royal Mail Holdings plc

Directors' Report (continued)

In 2003, the Chairman created a programme to make Royal Mail Group a Great Place to Work and made it a priority for everyone across the business The purpose of the programme is to encourage people to contribute to improving their working environment, to equip them with the skills they need to develop pride in and understanding of the business and to drive respect for colleagues - in short to ensure people considerations are at the heart of all major business decisions The programme is ongoing and will remain an integral part of our people strategy

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

- creating interesting meaningful jobs with more flexible working patterns
- identifying and developing for all our people a set of core behaviours that determine how we treat each other, our customers and our Shareholder
- building a fluid innovative and adaptive organisation to improve our response to environmental and market changes
- developing a high-performance culture in which everyone understands their contribution and is motivated to achieve their full potential
- defining recruiting and developing the core capabilities we need to thrive in a competitive deregulated market,
- 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 the way we monitor our progress towards becoming a Great Place to Work is by using *Have Your Say* our employee opinion survey launched in January 2003 This is carried out on a rolling basis across all employees and the results are reviewed monthly right through the business - from local level up to Board level

Corporate Social Responsibility
The Group 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 reports to the Board which publishes an annual report of its activities Further details of our CSR governance structure and activities will be available in our 2008 CSR Report, due to be published later in the year

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

Going concern
After analysis of the financial resources available and cash flow projections for the Group, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis Further details are provided under funding in note 2 to the accounts

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

Company Secretary

19 May 2008

Corporate Governance

Statement by the Directors on compliance with the Combined Code

The Board is committed to high standards of Corporate Governance and supports the Combined Code on Corporate Governance (the Code) published in July 2003 and revised in June 2006 The Company has fully complied with the Code during the year The following statement is intended to explain our governance policies and practices in light of the Code principles and provisions in so far as they are appropriate to a public company with a single Shareholder, and to provide insight into how the Board and management run the business for the benefit of the Shareholder

The Board

The Board is responsible for setting the objectives and strategy of the Group and for monitoring performance At the end of the year, the Board comprised a Non Executive Chairman four Executive Directors and four Non Executive Directors At that date there were one executive and two non-executive Director vacancies The biographies of each of the Directors, setting out their current roles, commitments and previous experience are on pages 27 and 28 The Board usually meets monthly, and has defined those matters that are reserved exclusively for its consideration These include the approval of strategic plans, financial statements acquisitions and disposals major contracts projects, and capital expenditure It delegates responsibilities to the Board Committees detailed below For each scheduled meeting of the Board the Company Secretary, on behalf of the Chairman collates and circulates the papers aiming to allow sufficient time for the Directors to review the information provided The Board is confident that all its members have the knowledge talent and experience to perform the functions required of a Director of the business Executive Directors have rolling 12-month contracts and Non Executive Directors are generally appointed for three-year terms

The Board considers that each of the Non Executive Directors is independent This means that in the view of the Board, they have no links to the Executive Directors and other managers, and no business or other relationship with the Company that could interfere with their judgement. During the year Richard Handover replaced Sir Mike Hodgkinson as Senior Independent Director There is also a clear division of responsibilities between the Chairman and the Chief Executive Performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis This is led by the Senior Independent Director with the support of the Company Secretary The evaluation is conducted by way of a formal questionnaire that enables Directors perspectives on the effectiveness of the Board and its Committees to be fed back to the full Board Performance evaluations of Board Committees are conducted by the Chairmen of the respective Board Committees The Non Executive Directors led by the Senior Independent Director review the performance of the Chairman and the Executive Directors The Executive Directors, led by the Group Chief Executive, review the performance of the Non Executive Directors

Directors may take independent professional advice in the furtherance of their duties at the Groups expense All Directors have access to the advice and services of the Company Secretary the appointment and removal of whom is a matter for the Board as a whole

All Directors appointed by the Board are required by the Company's Articles of Association to be elected by the Shareholder at the first AGM after their appointment On appointment, the Directors take part in an induction programme in which they receive information about the Group, the role of the Board and matters reserved for its decision, the role of the principal Board Committees, the Group's Corporate Governance arrangements and the latest financial information about the Group This is supplemented by visits to key business locations The Group engages in two-way communication with the Shareholder to discuss information on its strategy, performance and policies The Board receives feedback on these meetings from the Directors attending them

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Corporate Governance (continued)

Number of meetings
During the year, the Directors attended the following number of meetings of the Board and its main Committees with the maximum number that each could have attended shown in brackets

	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings during the year	**12**	**5**	**9**	**9**
Non Executive Chairman				
Allan Leighton	11 (12)			
Executive				
Adam Crozier	12 (12)			
Alan Cook	12 (12)			
Ian Duncan	12 (12)			
Mark Higson	5 (5)			
Non Executive				
David Fish	11 (12)		9 (9)	9 (9)
Richard Handover	10 (12)	3 (3)	7 (9)	9 (9)
Baroness Margaret Prosser	10 (12)	4 (5)	5 (6)	8 (9)
Helen Weir	9 (12)	5 (5)		
Former Directors				
David Burden	4 (4)			
Ian Griffiths	0 (1)			
Tony McCarthy	8 (9)			
Sir Mike Hodgkinson	5 (5)		3 (3)	
John Neill	3 (5)	2 (2)		
Stephen Carter	3 (4)			

Outside appointments
The Board believes that there are significant benefits to both the Group and the individual from Executive Directors accepting Non Executive Directorships of companies outside of the Group The Board's policy is normally to limit Executive Directors to one Non Executive Directorship, for which the Director may retain the fees (see the Directors' Remuneration Report on page 42 for details)

Board Committees
The following Committees deal with specific aspects of the Group's governance The full terms of reference for each of the principal Committees are available on the Company's website (www royalmailgroup com) or on written request from the Company Secretary The details of Committee membership shown are as at 30 March 2008

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Corporate Governance (continued)

Group Executive Team

Chair	Adam Crozier
Membership	Alan Cook (Managing Director Post Office Limited), Robin Dargue (Chief Information Officer) Ian Duncan (Group Finance Director) Jonathan Evans (Company Secretary), Mary Fagan (Group Corporate and Government Affairs Director) Mark Higson (Managing Director Letters) Alex Smith (Group Director of Strategy) and David Smith (Managing Director Parcelforce Worldwide)
Role	The Committee's responsibilities include ▪ to develop and monitor deployment of the Group s strategy annual operating plans and budgets ▪ to review operational activities, and set policies where these are not reserved to the Board and ▪ to allocate resources, both people and financial across the Group The Holdings Board has delegated authority to the Investment Committees of the Group Executive Team to make investment decisions of up to £20m

Audit and Risk Committee

Chair	Helen Weir
Membership	Richard Handover, Baroness Margaret Prosser The Board is confident that the collective experience of the Audit and Risk Committee members enables them, as a group, to act as an effective Audit and Risk Committee The Committee also has access to the financial expertise of the Group and its auditors and can seek further professional advice at the Company s expense if required
Role	The Committee which is assisted by the Corporate Risk Management Committee provides a forum for reporting by both internal and external auditors and is responsible for a wide range of matters including ▪ to monitor the integrity of the financial statements of the Group, ▪ to review the Group's internal financial control system and, unless addressed by the Corporate Risk Management Committee or by the Board itself, internal control and risk management systems, ▪ to monitor and review the effectiveness of the Group s Internal Audit function ▪ to recommend to the Board for Shareholder approval the appointment of the external auditors and to approve their remuneration and terms of engagement, ▪ to monitor and review the external auditors' independence, objectivity and the effectiveness of the audit process ▪ to develop and implement policy on the engagement of the external auditors to supply non-audit services and ▪ where the Committee's monitoring and review activities reveal cause for concern or scope for improvement to make recommendations to the Board or management on action needed to address the issue

Audit & Risk Committee report
See Internal control on page 36

Non-audit services provided by the external auditors
In some cases the nature of advice required makes it more timely and cost effective to select the external auditors who already have a good understanding of the Group In order to maintain the objectivity and independence of the external auditors, the Committee has determined what work can be provided by the external auditors and the approval processes associated with them The Committee monitors the level of non-audit fees paid to the external auditors

Royal Mail Holdings plc

Corporate Governance (continued)

Remuneration Committee

Chair	David Fish
Membership	Richard Handover Baroness Margaret Prosser
Role	The Committee's responsibilities include ▪ to determine and recommend for the Board's approval the framework for the remuneration of the senior executives of the Group ▪ to determine the individual remuneration arrangements for the Chairman the Executive Directors and the Company Secretary subject where necessary to the consent of the Secretary of State, and ▪ to agree the targets for any performance-related incentive schemes applicable to senior executives

Remuneration Committee Report
See page 37

Nomination Committee

Chair	Richard Handover
Membership	David Fish, Baroness Margaret Prosser
Role	The Committee's responsibilities include ▪ to lead a formal, rigorous and transparent process for appointments to the Board of the Company, to the boards of subsidiaries and to other senior executive positions, ▪ to advise the Board on succession planning for the positions of Chairman, Chief Executive and all other Board appointments and other senior appointments, and ▪ to keep under review the balance of Board membership to ensure that it has the required mix of skills knowledge and experience

Nomination Committee Report
The Committee met nine times during the year The Committee s main focus was on the selection and recruitment of Non-Executive and Executive Directors and other senior executives The Committee took external advice from executive search consultants, and considered internal candidates where appropriate All Board appointments require the consent of the Shareholder representatives of whom were involved in the selection, giving input to the Committee

In addition to the principal Committees above there are also the following Committees

Corporate and Social Responsibility Governance Committee

Chair	Adam Crozier
Membership	Group Director of People and Organisational Development, Managing Directors of business units Director of Corporate and Social Responsibility, Head of Environment, Head of Health Head of Safety and other senior executives from across the Group
Role	The Committee's responsibilities include ▪ to provide an overview of the social environmental and ethical impacts of the Group s activities, and ▪ to make recommendations on Corporate and Social Responsibility standards and policies

Corporate and Social Responsibility Committee Report
The Committee is chaired by the Group Chief Executive and met on four occasions during the year The principal activity of the Committee was to undertake a thorough review of the Group s CSR Strategy Engagement & Inclusion and Social policies

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Corporate Governance (continued)

Pensions Committee

Chair	Ian Duncan
Membership	Doug Evans Jon Millidge
Role	The Committee's responsibilities include ▪ to review funding benefits, scheme structure and strategic developments impacting on the Group's occupational pension schemes and ▪ to represent the Group in discussions with the Trustees of the Group's occupational pension schemes

Internal control

Overview

The Directors are responsible for the Group's system of risk management and internal control 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

The Group's approach to internal control is based on the underlying principle of line management accountability for control and risk management 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, including financial operational, compliance risks and risks to reputation The Board regularly reviews this process The process has been in place throughout the year and up to the date of approval of these accounts The responsibility for joint ventures and associates rests, on the whole, with the senior management of those operations The Company monitors its investments and exerts influence through Board representations

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 Chair of the Audit and Risk Committee on the outcome of Audit and Risk Committee meetings

Audit and Risk Committee

The Committee reports to the Board and meets as a minimum on a quarterly basis to monitor and review the effectiveness of the risk management processes and the control environment The Committee reviews the scope of work, authority and resources of the Internal Audit and Risk Management function The Audit and Risk Committee regularly reviews the Group risk profile

Key control processes

The key control processes are ongoing and include the following

- the business units have authority to manage within the limits set by the Board and within the scope of reserved powers The Group's Code of Business Standards sets the principles of professionalism and integrity for our people,
- discussion and approval by the Board of the strategic direction, plans and objectives of the Group and each operating company and the risks to achieving them,
- reviews and approval by the Board of budgets and forecasts,
- monthly reviews of performance by reference to key performance indicators updated forecasts and information on the key risk areas,
- at least quarterly reviews by the Audit and Risk Committee of the scope and results of internal audit work across the Group The scope of the work covers all key activities of the Group and concentrates on higher risk areas,
- reviews of the scope of the work of the external auditors by the Audit and Risk Committee and any significant issues arising,
- reviews by the Audit and Risk Committee of accounting policies and delegated authority levels and
- consideration by the Board of the major risks facing the Group and procedures to manage them

Risk Management process

The process consists of formal identification by management at each level of the Group of the key risks to achieving their business objectives and the controls in place to manage them The likelihood and potential impact of each risk is evaluated The process also includes

- bi-annual certification by management that they are responsible for managing the risks to their business objectives and that the internal controls are such that they provide reasonable but not absolute assurance that the risks are appropriately identified, evaluated and managed and
- independent assurance by Internal Audit as to the existence and effectiveness of the risk management activities described by management

The system of risk management and internal control is embedded into the operations of the Group, and the actions taken to mitigate any weaknesses are carefully monitored

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Royal Mail Holdings plc

Directors' Remuneration Report

This Report provides the information required by the Directors' Remuneration Report Regulations 2002 (the Regulations) The Company's remuneration policy follows the Combined Code and best practice in other UK organisations The Royal Mail Group strategic plan requires fundamental change to make sure that customers are given high quality services which are good value for money The Board believes that to achieve this it is necessary to have people of the right calibre who are given incentives to produce results which benefit customers and the Shareholder

The parts of this Report that have been audited are

- Directors' emoluments with respect to 2007-08,
- Performance-related annual bonuses outturn for 2007-08,
- Company Awards and Bonus Awards under Long Term Incentive Plans (LTIP) and
- Pensions

Directors' emoluments with respect to 2007-08

			Annual performance bonus						Total excluding LTIP, pensions and pension supplement	
	Current annual salary/fees	Salary/ fees	Performance-related bonus including ColleagueShare	Waived into LTIP*	Annual performance bonus payable in June	Waived bonus from prior years	Benefits	Compensation for loss of office	2008	2007
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Non Executive Chairman										
Allan Leighton	20	20	180	-	180	-	-	-	**200**	200
Executive										
Adam Crozier	633	633	381	(191)	190	-	20	-	**843**	859
Alan Cook	257	257	142	(70)	72	-	18	-	**347**	346
Ian Duncan	300	300	142	(70)	72	-	88	-	**460**	364[7]
Mark Higson [1]	420	170	82	(41)	41	-	6	-	**217**	-
Non Executive										
David Fish	45	45	-	-	-	-	-	-	**45**	45
Richard Handover	60	48	-	-	-	-	-	-	**48**	45
Baroness Margaret Prosser	45	43	-	-	-	-	-	-	**43**	40
Helen Weir	43	43	-	-	-	-	-	-	**43**	38
Former Directors										
David Burden [2]	-	94	-	-	-	-	4	-	**98**	370
Ian Griffiths [3]	-	42	-	-	-	-	1	500	**543**	813
Tony McCarthy [4]	-	236	-	-	-	-	14	-	**250**	459
Stephen Carter [5]	-	11	-	-	-	-	-	-	**11**	-
Sir Michael Hodgkinson [6]	-	34	-	-	-	-	-	-	**34**	83
John Neill [6]	-	15	-	-	-	-	-	-	**15**	35
Bob Wigley	-	-	-	-	-	-	-	-	**-**	25
Total 2008	**1,823**	**1,991**	**927**	**(372)**	**555**	**-**	**151**	**500**	**3,197**	-
Total 2007	2 628	2 513	1 513	(609)	904	18	287	-		3 722

* The annual performance bonus waived into LTIP is explained on page 40

1 Mark Higson joined the Board on 5 November 2007

2 David Burden left the Board on 31 July 2007

3 Ian Griffiths left the Board on 30 April 2007

4 Tony McCarthy left the Board on 7 December 2007

5 Stephen Carter joined the Board on 1 September 2007 and left on 8 January 2008

6 Sir Michael Hodgkinson and John Neill left the Board on 31 August 2007

7 Ian Duncan joined the Board on 1 September 2006 therefore this represents pro-rated payment for the year

As noted above there has been a number of changes to the Board 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 and the amount deferred into LTIP that is not paid until the LTIP matures

Royal Mail Holdings plc

Directors' Remuneration Report (continued)

In addition some Directors receive supplements in lieu of pension contributions (see page 42)

	Cash supplement in lieu of pension (see page 42)		Total emoluments excluding LTIP and pensions	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Adam Crozier[1]	**208**	140	**1,051**	999
Alan Cook	**105**	100	**452**	446
Ian Duncan	**75**	45	**535**	409
Mark Higson	**68**	-	**285**	-
Ian Griffiths	**13**	157	**556**	970
	469	442		

[1] Adam Crozier elected with effect from August 2006 to take his pension provision above the earnings cap as a cash supplement

The total Directors' remuneration, excluding pensions and Long-Term Incentive Plan and including cash supplement in lieu of pension, is £3,666,000 (2007 £4,164 000)

These payments are consistent with the policy of the Remuneration Committee The following sections describe the Committee, its general policy and the main elements of remuneration

Remuneration Policy

The Remuneration Committee

The Board retains overall accountability for the framework and costs of executive remuneration and the terms of the service contracts offered to all Executive Directors These also require the consent of the Secretary of State for Business, Enterprise and Regulatory Reform The Secretary of State also gives consent for the remuneration arrangements for Non Executive Directors The Remuneration Committee s role is to develop the remuneration policy for Executive Directors and their immediate reports and specifically to make recommendations on their salary, benefits, bonuses and other terms and conditions of employment The Committee also recommends appropriate compensation on the ending of employment, giving careful consideration to the circumstances of the particular case and the ability of the individual to mitigate

The Remuneration Committee is made up wholly of independent Non Executive Directors Membership of the Committee is given on page 34 The Chief Executive, Adam Crozier, and the Group Director People & Organisational Development, may attend these meetings by invitation and are not present at the discussion of their own remuneration

Advice to the Remuneration Committee

The Committee calls for information and advice from inside and outside the Group It takes advice from those independent professional organisations that are best able to assist it on the particular topic under discussion

During 2007-08 advice on the performance of key executives was given by the Chairman and the Chief Executive Information on the external marketplace was given by Monks Partnership (a trading name of PriceWaterhouseCoopers), Deloitte & Touche LLP, Hay Management Consultants and Watson Wyatt Limited Internal support is primarily provided by the Group Director People & Organisational Development, and from the Company Secretary, Jonathan Evans Other advice and information has been provided by specialists from the People & Organisational Development and Finance Departments

During the year, advice was given to the Company by Watson Wyatt Limited on pensions and actuarial matters

Remuneration policy

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 market place, who will deliver success for the Shareholder and high levels of customer service, safety and environmental performance
- a significant proportion of the remuneration package should be dependent on performance - both short and long-term and
- the system of remuneration should bring together the interests of senior executives, customers and the Shareholder

The policy for senior executives takes into account pay and employment conditions elsewhere in the Group

The Committee regularly reviews the package and its competitiveness against appropriate marketplaces The Committee aims to ensure that the package is proportionate and effective and that it follows accepted best practice

The main components of remuneration

The main components for Executive Directors are basic salary, an annual performance-related bonus, a Long-Term Incentive Plan (LTIP) pension and other benefits The Committee believes that there should be a particular emphasis on performance-related elements

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Royal Mail Holdings plc

Directors' Remuneration Report (continued)

Base salaries

The Committee believes that base salaries should be set at levels that are sufficient to recruit and retain high calibre executives In making its judgement the Committee considers information from several sources so that a fair comparison can be made with enterprises of a similar size and complexity to Royal Mail This data is provided by independent consultancies, usually based on the published annual reports of other organisations Increases are recommended where the Committee believes that it is necessary to reflect contribution increased individual responsibilities and market levels The Secretary of State's consent is required for all material changes to Directors' remuneration

There was no increase to base salaries for Executive Directors for 2007-08 For 2006-07 the increase was 2 9%

Performance-related, annual bonus 2007-08

For 2007-08 the annual bonus plan followed the model of the previous year, which included the following weightings

- all Business roles had a weighting of 30% on Group performance and 70% Business performance This applied to the Managing Directors of Letters and Post Office Limited and
- all Group roles had a weighting of 90% on Group performance and a further 10% weighting given to Post Office Limited s performance in view of the importance of supporting the recovery of that business

The following tables show the make up of the annual bonus plan as percentages of annual salary

Maximum levels	Profit	Service Quality	Total
Chief Executive	70%	30%	**100%**
Other Executive Directors	56%	24%	**80%**

On-target levels	Profit	Service Quality	Total
Chief Executive	36%	24%	**60%**
Other Executive Directors	29%	19%	**48%**

Threshold levels	Profit	Service Quality	Total
Chief Executive	15%	15%	**30%**
Other Executive Directors	12%	12%	**24%**

The financial target was based on Group profit.

The Service Quality measures were

- Retail First Class
- Retail Second Class
- Bulk First Class,
- Bulk Second Class
- Bulk Third Class,
- Special Delivery,
- Parcelforce 24,
- A Post Office Limited Customer Service Effectiveness measure, and
- A Post Office Limited measure of new products sold

Executive Directors also participate in the ColleagueShare plan on the same terms as all other eligible employees This is explained in note 2 on page 53

Long-Term Incentive Plans

A three-year LTIP was in place for 2005-06 to 2007-08 and a further three-year plan covers the period 2007-08 to 2009-10 This arrangement will allow the last plan to come to an end at the same time as the next Postcomm price control review Half of the awards for 2007-08 are attributed to the 2005-06 to 2007-08 plan and the remaining half to the 2007-08 to 2009-10 plan

Performance is measured by Return on Total operating Assets (ROTA)

For the three years 2005-06 to 2007-08 the principles of the plan were as follows

(a) Annual Company Performance Awards which accrue on a sliding scale above a threshold level of performance and begin at 12 5% of annual base salary For on-target performance, the Company Award is 25% of annual base salary and for exceptional performance this rises to a maximum of 37 5%

Royal Mail Holdings plc

Directors' Remuneration Report (continued)

(b) Bonus Awards A Bonus Award can be made each year by the Remuneration Committee These are only made in situations where the Director waives a proportion of their annual bonus Bonus awards do not exceed the amount waived A Director has the discretion to waive a maximum of one half of any annual bonus up to the on-target level If a bonus above on-target would otherwise be payable then three quarters of this additional amount will be compulsorily waived

(c) A Multiplying factor Company and Bonus Awards may be increased by a factor that measures ROTA across the plan If the on-target level is achieved for the relevant period then each of the Company Awards and Bonus Awards to which it applies may be increased by an additional one third In the case of exceptional performance, then up to a maximum addition of 100% can be added

Payments under the plan will be made in June 2008

The 2007-08 to 2009-10 LTIP has the same principles as the previous LTIP

The Company and Bonus Awards for 2007-08 are effectively shared equally between the two plans

The performance targets for the last two years of the 2007-08 to 2009-10 plan are still under discussion with the Government

Company Awards
These are measured against an annual ROTA target ROTA incentivises the productive value of the business and emphasises the need to make efficient use of all operational assets It covers the need to make a proper return both on any new investments that are made and on the existing asset base

For 2005-06 the ROTA target was 11 2% and the Company's achievement was 13 7%, 22% above the target and above the stretch of 13 4% This resulted in Company Awards of 37 5% For 2006-07 the ROTA target was 4 2% with a stretch of 7 1% A ROTA of 5 4% was achieved but the Remuneration Committee exercised its discretion to cap this at the on-target level of 4 2%, resulting in a Company Award of 25%

For 2007-08 the following table against annual ROTA applied

Royal Mail ROTA achievement	Percentage of Base Salary
2 1%	25%
5 1%	37 5%

The outturn achievement was 3 9% resulting in a Company Award of 32 5%

Bonus Awards
As described above a Director may waive a maximum of one half of any annual bonus up to the on-target level and must waive three quarters of any bonus earned above the on-target level If a proportion of annual bonus is waived then a Bonus Award may be made within the LTIP, not exceeding that value

Multiplying Factor
The Multiplying Factor is dependent upon cumulative ROTA over 2005-06 to 2007-08

The cumulative ROTA works as follows Targets for the end of the third year are 15 9% at the threshold level, 17 4% at the on-target level and 25 7% at the maximum To ensure consistency of performance there are intermediate targets at March 2007 of 13 6% at the threshold level 15 1% at the on-target level and 20 3% at the maximum As the on-target level of cumulative ROTA was exceeded at the end of March 2007, the percentage multiplier at that position on the performance scale was applied to the awards made so far The cumulative ROTA for the preceding 2 years was 19 0% and gave a multiplier of 1 84 Across the whole of the three-year period, the cumulative ROTA achieved was 22 6% and this gave a multiplier of 1 75, which was applied to Company and Bonus Awards for 2007-08

Benefits
Benefits include the provision of a company car, health insurance, relocation costs or 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 pays a cash supplement to Directors whose contributions to the Company scheme are restricted by the scheme-specific earnings cap The Company continues to apply the scheme-specific earnings cap indexed by inflation each year, as a constraint on the amount of salary that is pensionable through the Company scheme

Following a review of its pension arrangements the Company has introduced changes to its pension provision for all employees including Executive Directors with effect from 1 April 2008 From 1 April 2008 the defined benefit pension plans have been closed to new members and pension for future service accrues on a career salary basis Furthermore from 1 April 2010 the normal retirement age under the plans increase to age 65 and the earliest age for receipt of a reduced pension will be 55

Royal Mail Holdings plc

Directors' Remuneration Report (continued)

Fixed and performance-related elements of Executive Directors' remuneration (excluding pensions)
For 2007-08, 33% of Directors potential annual earnings related to fixed elements whilst 67% related to annualised performance elements for the Group Chief Executive 30% was fixed and 70% was variable The element of remuneration at risk to performance is that available through the Long-Term Incentive Plan and the performance-related annual bonus

Service contracts
The Committee's policy is that Executive Directors appointed to the Board are offered notice periods of one year The Committee has a defined policy on compensation and mitigation to be applied in the event of a Director s contract being prematurely terminated In such circumstances, steps would be taken to ensure that poor performance is not rewarded

The rolling service contracts and letters of appointment of the Directors include the following terms as at 30 March 2008

	Date of contract	Expiry date of current service contract	Unexpired term (months)
Non Executive Chairman			
Allan Leighton	25 March 2008	25 March 2009	12
Executive Directors			
Adam Crozier	1 February 2003		12
Alan Cook	1 March 2006		12
Ian Duncan	1 September 2006		12
Mark Higson	5 November 2007		12

The Non Executive Directors do not have service contracts The dates of the current Non Executive Director appointments are as follows

Non Executive Directors			
David Fish	1 January 2003	30 September 2008	6
Richard Handover	1 January 2003	30 September 2008	6
Baroness Margaret Prosser	1 November 2004	31 October 2010	31
Helen Weir	1 January 2006	31 December 2008	9

All Executive Directors have a contracted 12-month notice period from the Company, the Director must give six-months notice The compensation for loss of office is a payment of 12-months basic salary which may be subject to mitigation David Burden retired from the Company with effect from 31 July 2007

Non Executive Directors
The Company is committed for the full term of appointments for Non Executive Directors, including the Chairman The fees paid to the Non Executive Directors are determined by the Executive Directors and approved by the Secretary of State Independent market surveys are consulted in determining them Fees comprise a basic fee for Board membership and as appropriate additional fees for the membership or chairmanship of the Audit and Risk Remuneration and Nomination Committees, and for the Senior Independent Director Details of the fees are given below

Performance-related, annual bonuses outturn for 2007-08
The details of the bonus plan are given on page 40 Bonuses awarded for 2007-08 have suffered due to the period of industrial action although financial performance has been better than budget The Remuneration Committee also disallowed any short-term financial benefits from the delays in implementing planned projects that were a result of industrial action In the case of Adam Crozier the bonus awarded was 60 1% of the maximum For Ian Duncan it was 58 9% for Alan Cook 68 7% and for Mark Higson 61 5% As the Company had exceeded its financial target it was decided to award the non-executive Chairman a bonus of £180,000

Ian Griffiths and Tony McCarthy were made no awards in respect of their part-year service during 2007-08

Adam Crozier, Alan Cook and Ian Duncan were awarded £800 ColleagueShare stakeholder dividend for the year Mark Higson was awarded a pro-rata amount of £317

Royal Mail Holdings plc

Directors' Remuneration Report (continued)

Company Awards and Bonus Awards under the Long Term Incentive Plans

The Remuneration Committee policy is that a high proportion of total remuneration is at risk to performance

Awards made under the 2005-06 to 2007-08 plan are not payable until June 2008, except in the case of leavers in good standing Awards for the second plan are payable in June 2010

	Company and Bonus Awards held at 26 March 2007 £000	Awards paid and waived in 2007-08 £000	Bonus Awards in respect of 2007-08 for 2005-08 plan £000	Company Awards in respect of 2007-08 for 2005-08 plan £000	Bonus Awards in respect of 2007-08 for 2007-10 plan £000	Company Awards in respect of 2007-08 for 2007-10 plan £000	Enhancement of Awards for 2005-08 plan from application of multiplier £000	Total LTIP at 30 March 2008 £000	LTIP for payment in 2008-09 £000	LTIP for payment in 2010-11 £000
Executive										
Adam Crozier	1 645	-	96	103	95	103	149	2 191	1 993	198
Alan Cook	305	-	35	42	35	42	58	517	440	77
Ian Duncan	180	-	35	49	35	49	63	411	327	84
Mark Higson	-	-	21	27	20	27	36	131	84	47
Tony McCarthy	794	(794)[2]	-	-	-	-	-	-	-	-
David Burden	652	(652)[1]	-	-	-	-	-	-	-	-

Ian Griffiths, David Burden and Tony McCarthy were made no awards in respect of their part-year service during 2007-08 Ian Griffiths was made no LTIP award for service in 2006-07

[1] David Burden waived the Long Term Incentive Plan payment and the Company decided at its discretion to make a pension contribution payment for David Burden of £652 277 This is of equal value to the payment waived and does not therefore represent any additional cost to the Company

[2] Tony McCarthy was paid his award during the year

Non Executive Directors

The fees of the Chairman and the Non Executive Directors are agreed with the Secretary of State, and are currently £20 000 per annum and £30,000 per annum respectively

Sir Michael Hodgkinson received additional fees of £15 625 (2007 £37 500) for his position as Chairman of Post Office Limited The annual fee for committee membership is £5,000, £10 000 for chairmanship and £12,500 in the case of the chairman of the Audit and Risk Committee The annual fee for the Senior Independent Director is £10,000

Executive Directors' outside appointments

The Executive Directors may retain fees from their Directorships The annual fees due to Executive Directors in respect of their Non Executive Directorships are shown in the table below

	Directorship	2008 £000	2007 £000
Adam Crozier	Debenhams plc	45	40
Alan Cook	Financial Ombudsman Service	20	-
Ian Griffiths	Ultra Electronics Holdings plc	35	34

Pensions

The Group previously offered its most senior people membership of the Royal Mail Senior Executives Pension Plan (the Plan), which is now closed to new members Details of the Plan are set out in note 25 to the accounts The Plan is a funded, Inland Revenue-registered final salary occupational pension scheme The Plan provides for a pension on a final salary basis for service up to 31 March 2008 and for subsequent service on a career salary basis The pension is payable from normal retirement age (currently age 60) and is subject to the maximum pensionable service and the scheme-specific earnings cap Pensions in payment are increased annually in line with Retail Prices Index (RPI) subject in some cases to a cap of 5% Pensions are also payable to dependants on the death of the member and a lump sum is payable if death in service occurs

For senior executives whose membership of the Plan is restricted by the earnings cap pension provision is made by a combination of the Company scheme and a cash pension supplement or its equivalent Ian Duncan and Adam Crozier receive a cash supplement of 40% of base pay above the earnings cap Alan Cook and Mark Higson are not members of the Plan and receive a cash supplement of 40% of base pay The Company has made provision for retirement pension arrangements at a rate of 40% of base pay above the earnings cap for David Burden, and this provision was used to buy an additional pension on his retirement from the Company A reserve has been established for the additional pension for Tony McCarthy to provide the total retirement pension, including his previous employer's pension scheme, of two-thirds of base pay at normal retirement age During the year the provision for David Burden was released and the total provision at the year-end for Tony McCarthy was £1m (2007 £1m)

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Royal Mail Holdings plc

Directors' Remuneration Report (continued)

The following table is designed to indicate the increase in the value of 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

The pension entitlements of the Directors at the year end were

	Age at Year end	Accumulated accrued benefit at 30 March 2008 £000	Increase in accrued benefits during the period £000	Increase in accrued benefits during the period (net of inflation) £000	Transfer value of increase before inflation less Directors' contributions £000
Executive Directors					
Adam Crozier	44	71	6	4	54
David Burden [1]	61	18	2	2	41
Ian Duncan	47	6	4	4	63
Ian Griffiths [2]	-	-	-	-	-
Tony McCarthy [3]	51	64	6	6	117

The following table 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

	Age at Year end	Transfer value at 25 March 2007 or at date of appointment to Board if later £000	Plus transfers-in received £000	Sub total £000	Transfer value at 30 March 2008 £000	Movement in the period less Directors' contributions £000
Executive Directors						
Adam Crozier	44	796	-	796	1 156	354
David Burden [1]	61	335	-	335	396	58
Ian Duncan	47	28	-	28	109	74
Ian Griffiths [2]	-	74	-	74	-	-
Tony McCarthy [3]	51	1,068	-	1,068	1 442	365

The transfer values disclosed represent a potential liability of the pension plan 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

[1] David Burden retired on 31 July 2007 and started drawing his pension

[2] Ian Griffiths left the Board on 30 April 2007 elected to transfer his pension benefits before the year-end and no longer has any accrued benefits under the plan

[3] Tony McCarthy left the Board on 7 December 2007

By Order of the Board

GRO

Jonathan Evans

Company Secretary

19 May 2008

Statement of Directors' responsibilities in relation to the Group financial statements

The Directors are responsible for preparing the Annual Report and the Group financial statements, in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) as adopted by the European Union

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period

In preparing those Group financial statements the Directors are required to

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies Changes in Accounting Estimates and Errors and then apply them consistently,
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Group's financial position and financial performance, and
- state that the Group has complied with IFRSs subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

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Royal Mail Holdings plc

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

We have audited the Group financial statements of Royal Mail Holdings plc for the year ended 30 March 2008 which comprise the Group income statement Group statement of recognised income and expense Group balance sheet Group cash flow statement and the related notes 1 to 29 These Group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of Royal Mail Holdings plc for the year ended 30 March 2008 and on the information in the Directors Remuneration Report that is described as having been 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 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 responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors Responsibilities

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether, in our opinion, the information given in the Directors Report is consistent with the Group financial statements The information given in the Directors' Report includes that specific information presented in the Group Operating and Financial Review that is cross referred from the Review of the business and future developments' section of the Directors' Report

In addition we report to you if in our opinion we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors remuneration and other transactions is not disclosed

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group s corporate governance procedures or its risk and control procedures

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements The other information comprises only the Chairman and Chief Executive's Statement the Annual Review, the Operating and Financial Review, the Directors' Report the Corporate Governance statement, the Internal Control statement the unaudited part of the Directors' Remuneration Report and the Statement of Directors Responsibilities We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group 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 Group 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 Group financial statements

Opinion
In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union of the state of the Group s affairs as at 30 March 2008 and of its profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and
- The information given in the Directors Report is consistent with the Group financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
19 May 2008

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Royal Mail Holdings plc

Group income statement for the 53 weeks ended 30 March 2008 and 52 weeks ended 25 March 2007

	Notes	2008 £m	2007 £m
Continuing operations			
Turnover		**9,238**	9,104
Social Network Payment		**150**	75
Revenue		**9,388**	9,179
People costs excluding ColleagueShare and restructuring costs		**(6,209)**	(6 145)
Royal Mail Group people			
Wages and salaries		**(4,550)**	(4,511)
Pensions	5(a)	**(701)**	(722)
Social security		**(319)**	(320)
Subpostmasters		**(550)**	(534)
Temporary resource		**(89)**	(58)
Distribution and conveyance operating costs	5(b)	**(1,341)**	(1 237)
Other operating costs	5(c)	**(1,723)**	(1,603)
Share of post tax profit from joint ventures and associates	14	**47**	39
Operating profit before exceptional items		**162**	233
Operating exceptional items	7	**(441)**	(243)
Government grant income		**313**	-
ColleagueShare costs		**(277)**	-
Other restructuring costs		**(477)**	(243)
Operating loss		**(279)**	(10)
Profit on disposal of property group		**-**	74
Profit on disposal of property, plant and equipment		**58**	44
(Loss)/profit before financing and taxation		**(221)**	108
Finance costs	8	**(71)**	(56)
Finance income	8	**84**	62
Net pensions interest	25(c)	**131**	199
(Loss)/profit before taxation		**(77)**	313
Taxation credit/(charge)	9	**212**	(27)
Profit for the financial year from continuing operations		**135**	286
Profit attributable to			
Equity holder of the parent company		**135**	286
Minority interest		**-**	-

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Royal Mail Holdings plc

Group statement of recognised income and expense for the 53 weeks ended 30 March 2008 and 52 weeks ended 25 March 2007

	Notes	2008 £m	2007 £m
Translation differences on foreign currency net investments	27	**63**	(2)
Actuarial gains on defined benefit schemes	25/27	**1,798**	340
Gains/(losses) on cash flow hedges deferred into equity	24/27	**36**	(9)
(Gains)/losses on cash flow hedges released from equity to income	24/27	**(3)**	4
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	24/27	**(1)**	-
Taxation on items taken directly to equity	9/27	**(18)**	27
Gains on financial assets deferred into equity	27	**13**	-
Net income recognised directly in equity		**1,888**	360
Profit for the financial year from continuing operations	27	**135**	286
Total recognised income for the period		**2,023**	646
Attributable to			
Equity holder of the parent company		**2,023**	646
Minority interest	27	**-**	-

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Royal Mail Holdings plc

Group balance sheet at 30 March 2008 and 25 March 2007

	Notes	2008 £m	2007 £m
Non-current assets			
Property plant and equipment	10	**1,671**	1,619
Goodwill	11	**173**	143
Intangible assets	12	**67**	64
Investments in joint ventures and associates	14	**136**	114
Financial assets - pension escrow investments	24	**1,070**	1,000
- derivatives	24	**8**	-
Other receivables		**1**	4
Deferred tax assets	9	**608**	403
		3,734	3 347
Non-current assets held for sale	15	**1**	7
Current assets			
Inventories	16	**33**	26
Trade and other receivables	17	**1,114**	1 031
Financial assets - investments	24	**21**	17
- derivatives	24	**24**	-
Cash and cash equivalents	18/24	**1,427**	1 196
		2,619	2,270
Total assets		**6,354**	5 624
Current liabilities			
Trade and other payables	21	**(2,354)**	(1 924)
Financial liabilities - interest bearing loans and borrowings	19/24	**(289)**	(301)
- obligations under finance lease and hire purchase contracts	19/24	**(10)**	-
- derivatives	19/24	**(3)**	(7)
Income tax payable		**(15)**	(29)
Provisions	20	**(248)**	(69)
		(2,919)	(2,330)
Non-current liabilities			
Financial liabilities - interest bearing loans and borrowings	19/24	**(502)**	(502)
- obligations under finance lease and hire purchase contracts	19/24	**(43)**	(1)
Provisions	20	**(163)**	(42)
Retirement benefit obligation - pension deficit	25	**(2,923)**	(4,985)
Other payables	22	**(40)**	(25)
Deferred tax liabilities	9	**(5)**	(3)
		(3,676)	(5 558)
Total liabilities		**(6,595)**	(7,888)
Net liabilities		**(241)**	(2,264)
Equity			
Share capital	26	**-**	-
Share premium	27	**430**	430
Retained earnings	27	**(863)**	(2,775)
Reserves	27	**189**	78
Equity attributable to equity holder of parent company		**(244)**	(2,267)
Minority interest	27	**3**	3
Total equity		**(241)**	(2 264)

The accounts on pages 46 to 96 were approved by the Board of Directors on 19 May 2008 and signed on its behalf by

GRO

Adam Crozier

GRO

Ian Duncan

Royal Mail Holdings plc

Group cash flow statement for the 53 weeks ended 30 March 2008 and 52 weeks ended 25 March 2007

	Notes	2008 £m	2007 £m
Cash flow from operating activities			
Operating profit before exceptional items		**162**	233
Add back			
Depreciation and amortisation	5	**236**	198
Share of post tax profit from joint ventures and associates	14	**(47)**	(39)
		351	392
Working capital and other non-cash movements		**7**	7
(Increase)/decrease in inventories	16	**(7)**	1
(Increase)/decrease in receivables		**(52)**	42
Increase/(decrease) in payables		**86**	(49)
Decrease in client debtors	17	**-**	17
Increase in client creditors	21	**123**	55
Net decrease in retirement benefit obligation		**(133)**	(64)
Net increase in derivative (assets)/liabilities		**(4)**	2
(Decrease)/increase in non-exceptional provisions		**(6)**	4
Other movements		**-**	(1)
Receipt of Government grant		**313**	-
Cash payments in respect of operating exceptional items (see note (a) below)		**(188)**	(282)
Share in Success		**-**	(90)
Other		**(188)**	(192)
Cash inflow from operations		**483**	117
Income tax (paid)/recovered		**(33)**	13
Net cash inflow from operating activities		**450**	130
Cash flows from investing activities			
Dividends received from joint ventures and associates	14	**36**	39
Finance income received		**82**	67
Proceeds from sale of property group		**-**	71
Proceeds from sale of property plant and equipment		**71**	65
Purchase of property plant and equipment		**(263)**	(244)
Investment in associate	14	**(10)**	-
Acquisition of businesses net of cash acquired	13	**(5)**	(17)
Purchase of intangible assets		**(67)**	(65)
Payment of deferred consideration in respect of prior years acquisitions		**-**	(3)
Net purchase of financial assets investments (non-current)	24	**(57)**	(995)
Net movement in financial assets investments (current)	24	**(4)**	677
Net cash outflow from investing activities		**(217)**	(405)
Net cash inflow/(outflow) before financing activities		**233**	(275)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**-**	430
Finance costs paid		**(57)**	(55)
Payment of capital element of obligations under finance lease contracts		**(3)**	(1)
Cash received on sale and leasebacks		**55**	-
New loans		**2**	-
Repayment of borrowings		**(21)**	(63)
Dividend paid to minority interest		**-**	(1)
Net cash (outflow)/inflow from financing activities		**(24)**	310
Net increase in cash and cash equivalents		**209**	35
Effect of exchange rates on cash and cash equivalents		**15**	-
Cash and cash equivalents at the beginning of the period		**1,196**	1 161
Cash and cash equivalents at the end of the period	18/24	**1,420**	1 196

The £1 420m cash and cash equivalents balance is net of a £7m overdrawn bank balance relating to the General Logistics Systems (GLS) subsidiary This £7m is included in the Financial liabilities - interest bearing loans and borrowings balance of £289m in the balance sheet

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(a) Cash flows relating to operating exceptional items charged to the income statement in current and prior years

The net cash outflows relating to the above were as follows

Net cash outflow relating to	2008 £m	2007 £m
Current year operating exceptional items	**121**	114
Prior years' operating exceptional items	**67**	168
Total	**188**	282

The net cash outflow of £188m (2007 £282m) comprises £144m (2007 £118m) relating to cash utilised to settle exceptional provisions, £4m (2007 £27m) relating to current year pension redundancy liabilities £32m (2007 £47m) relating to prior year pension redundancy liabilities £8m (2007 £nil) in respect of other costs which were recorded within creditors and £nil (2007 £90m) Share in Success payment

Notes to the Group accounts

1. Authorisation of financial statements and statement of compliance with IFRSs

The Group's financial statements for the 53 weeks ended 30 March 2008 were authorised for issue by the Board on 19 May 2008 and the balance sheet was signed on the Board s behalf by Adam Crozier and Ian Duncan

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as they apply to the financial statements of the Group for the 53 weeks ended 30 March 2008 The principal accounting policies adopted by the Group are set out in note 2

2. Accounting policies

Basis of preparation and accounting
The Group comprises Royal Mail Holdings plc (the Company) - which is wholly owned by HM Government - and its subsidiaries The Company is incorporated in the United Kingdom under the Companies Act 1985 (the Act) and the accounts are produced in accordance with the Act and applicable IFRSs

The Group financial statements are presented in sterling and all values are rounded to the nearest £m except where otherwise indicated

Royal Mail Group Ltd, a wholly owned subsidiary of the Company, 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 its licence The amount of such fines and compensation will be determined by the Regulator after further representations from Royal Mail Group Ltd and no further information is being disclosed on the grounds that it can be expected to prejudice the outcome of that process

Changes in accounting policy
The accounting policies adopted are consistent with those of the previous financial year except as follows

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group in the current or prior periods In certain cases, they did however give rise to additional disclosures

- IFRS 7 *Financial Instruments Disclosures*
- IAS 1 *Amendment - Presentation of Financial Statements Capital Disclosures*
- IFRIC 9 *Reassessment of Embedded Derivatives*

IFRS 7 Financial Instruments Disclosures
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments The new disclosures are included throughout the financial statements While there has been no effect on the financial position or results comparative information has been revised where necessary

IAS 1 Amendment - Presentation of Financial Statements Capital Disclosures
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives policies and processes for managing capital These new disclosures are shown in note 23

IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows As the Group has no embedded derivative requiring separation from the host contract, the interpretation has no impact on the financial position or performance of the Group

Key sources of estimation uncertainty
The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the measurement of the defined benefit pension obligations, deferred tax and ColleagueShare plan costs Measurement of the defined benefit obligations requires certain assumptions to be made including on life expectancy, future changes in salaries, inflation and a suitable discount rate The size of these obligations and therefore the pension deficit is materially sensitive to the assumptions adopted The assumptions which have the most significant impact on the measurement of the defined benefit obligations are the real discount rate and the mortality rates A 0 1 percentage point change to the discount rate could change the liabilities by approximately £450m An additional one year on the life expectancy could increase liabilities by approximately £650m The major assumptions are disclosed in note 25 Assessment of the deferred tax asset requires an estimation of future profitability Such estimation is inherently uncertain in a market subject to various competitive pressures Should estimates of future profitability change in future years, the amount of deferred tax recognised will also change accordingly

The calculation of the ColleagueShare costs and liabilities is reliant on a number of estimates These include in particular forecasts for the potential equity value of ColleagueShares, forecasts of joiners and leavers throughout the life of the plan and judgements on when participants are likely to exercise their rights for the Company to redeem the ColleagueShares that they hold The magnitude of the costs involved is sensitive to these forecasts and assumptions

2. Accounting policies (continued)

Funding

Royal Mail Group Ltd

Royal Mail Group Ltd made a loss in 2007-08 after bearing losses relating to stamped mail and carrying out its Universal Service Obligations In addition it has been facing considerable cash requirements with respect to its proposed investment in plant and equipment and funding its pension deficit at a time when the market has been opened up to full competition On 23 March 2007, a funding package totalling £1 2bn up until 2016 was completed with Government

The European Commission is continuing its investigation under the EC Treaty's rules on State Aid into a series of funding measures taken by the United Kingdom Government in its capacity as Shareholder in favour of Royal Mail between 2001 and 2007 including the funding agreement completed on 23 March 2007 In its response to the EC in relation to this investigation the United Kingdom Government has stated that it believes that the measures being investigated by the EC were concluded on commercial terms

Post Office Limited

Post Office Limited had net liabilities as at 30 March 2008 and has operated at a loss during 2007-08 and prior years primarily because of supporting the loss-making rural network

To become viable in the longer-term, new business areas continue to be developed and grown in order to replace the lost contribution from traditional income sources and significant cost reduction programmes continue to be implemented

During the year Post Office Limited has updated its five-year strategic plan and will proceed with the implementation of a number of radical programmes which are designed to improve the profitability of the company These programmes include

- the development of new business and drive for sales growth,
- the restructuring of the network,
- bringing the crown branch segment into profit, and
- a programme of fundamental cost reduction

The future financing of this Plan is underpinned by

- rural network funding of £150m received from Government during 2007-08,
- a funding agreement with Government announced on 17 May 2007, which provided a further £313m, which was received on 31 July 2007 to compensate Post Office Limited for the other net costs of providing certain specified "services of general economic interest",
- a further equity injection of £77m received on 1 April 2008 and £75m on 15 April 2008
- the extension on 18 April 2008 of the existing working capital facility of £1 15bn to 2011 (at the balance sheet date this was to 2010), and
- State Aid approval has been received for the above funding and also for the provision of network subsidy payments of around £150m per annum in each of the three financial years 2008-09 to 2010-11 for the purposes of meeting, up to a specified limit, the net costs of maintaining certain loss-making parts of the network

Whilst the Directors are satisfied with the progress that has been made it should be noted that the completion of the regeneration programmes will take several years to achieve, as anticipated in the company's five-year strategic plan Accordingly there will be a need to gain agreement with respect to the continuation of the network subsidy payment for the period beyond March 2011, as well as the replacement or extension of the working capital facilities These arrangements will need State Aid approval

Notwithstanding these uncertainties the Directors recognise that significant progress has been made in delivering its Plan and that the Funding Agreement is now in place and, after careful consideration, continue to believe that Post Office Limited will be able to meet its liabilities as they fall due in the foreseeable future Accordingly on that basis, the Directors consider that it is appropriate that these financial statements are prepared on a going concern basis

After analysis of the financial resources available and cash flow projections for the Group including consideration of the financing arrangements outlined above, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis

Basis of consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiary undertakings The financial statements of the major subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies

All intragroup balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated in full Transfer prices between business segments are set on a basis of charges reached through a negotiation with the respective businesses

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group Where the Group ceases to hold control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group held control

Minority interests represent the portion of profit/loss, gains/losses and net assets relating to subsidiaries that are not attributable to members of the Company The minority interests balance is presented separately within equity in the consolidated balance sheet, separately from parent shareholders' equity

2 Accounting policies (continued)

Investments in joint ventures and associates

The Group's investments in its joint ventures and associates are accounted for under the equity method of accounting Under the equity method the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group s share of the net assets of the joint ventures/associates less any impairment in value The income statement reflects the Group s share of post tax profits from the joint ventures/ associates

Any goodwill arising on acquisition of an associate representing the excess of the cost of the investment compared to the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is included in the carrying amount and not amortised To the extent that the net fair value of the associate s identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment a gain is recognised and added to the Group's share of the associate's profit or loss in the period in which the investment is acquired

Revenue

Revenue reported in the income statement comprises of Turnover and the Social Network Payment Turnover principally relates to the rendering of services

Royal Mail
Account revenue is derived from specific contracts and recognised when the mail delivery is complete Prepaid revenue mainly relating to stamp and meter income is recognised when the sale is made, adjusted to reflect a value of stamp and meter credits held but not used by the customer

Parcelforce Worldwide
Account revenue is derived from specific contracts and recognised when the delivery of an item is complete

Post Office Limited
Revenue is recognised when retail and financial services are provided

General Logistics Systems
Revenue is derived from specific contracts and is recognised at the time of delivery

The Social Network Payment is Government grant revenue recognised to match the related costs of providing the network of public post offices that the Secretary of State for Business, Enterprise and Regulatory Reform considers appropriate and which would otherwise not be provided

Distribution and conveyance

Distribution and conveyance costs relate to third party costs incurred in carrying mail These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers and Parcelforce Worldwide delivery operators These costs are disclosed separately on the face of the income statement.

Operating profit before exceptional items

Operating profit is the profit arising from the normal recurring operations of the business This incorporates revenue, people costs, distribution and conveyance costs, other operating costs and the Group's post tax share of profits from joint ventures and associates Operating exceptional items are separately identified

Operating exceptional items

Operating exceptional items are material items of income and expenditure arising from the operations of the business which due to the nature of the events giving rise to them require separate presentation on the face of the income statement to allow a better understanding of financial performance in the year, in comparison to prior years

ColleagueShare plan

ColleagueShare is the name for the Group's phantom share plan The plan, introduced in 2007-08, is a five-year plan spanning the accounting years from April 2007 to March 2012 and comprises both a phantom share scheme and a related stakeholder dividend worth up to £5,300 per person throughout the life of the plan The ColleagueShares represent up to a total of 20% of the projected equity value of the Group Additionally Royal Mail plans to pay a stakeholder dividend dependent on the achievement of certain targets

The costs of the plan are being charged to the income statement as an exceptional item throughout the life of the plan Any long-term liabilities arising in relation to the plan will be discounted at an appropriate high quality corporate bond rate These discounts will be unwound through the income statement during the life of the plan The Group will redeem all ColleagueShares by 2012

Operating profit

Operating profit is the profit arising from the normal, recurring operations of the business and after charging operating exceptional items defined above It excludes the non operating exceptional items for profit or loss on disposal of businesses and profit or loss on disposal of property, plant and equipment These items are not part of the normal recurring operations of the business but are material so are presented separately on the face of the income statement to allow a better understanding of financial performance in the year in comparison to prior years

Goodwill

Business combinations on or after 29 March 2004 are accounted for under IFRS 3 'Business Combinations' using the purchase method Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised in the balance sheet as goodwill and is not amortised

Royal Mail Holdings plc

2 Accounting policies (continued)

After initial recognition, goodwill is stated at cost less any accumulated impairment losses Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired

An impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use

For the purpose of such impairment reviews, goodwill is allocated to the relevant cash generating units

Goodwill arising on the acquisition of equity accounted entities is included in the cost of those entities and therefore not reported in the balance sheet as goodwill

Intangible assets

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have either a finite or indefinite useful life Those with a finite life are amortised over their useful life and those with an indefinite life are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired An impairment loss is recognised in the income statement for the amount by which the carrying value of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use

Amortisation of intangible assets with finite lives is charged annually to the income statement The useful lives of such intangible assets are in the range of 1-6 years

Research and development

Expenditure on research is written off in the year it is incurred Development costs are capitalised where they meet the criteria required under IFRSs If these criteria are not met then the costs are recognised in the income statement as they are incurred

Property, plant and equipment

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use Depreciation of property plant and equipment is provided on a straight-line basis by reference to net book value and to the remaining useful economic lives of assets and their estimated residual values The useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis The lives assigned to major categories of property, plant and equipment are

	Range of asset lives
Land and buildings	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease 50 years or the estimated remaining useful life
Plant and machinery	3-15 years
Motor vehicles and trailers	1-12 years
Fixtures and equipment	2-15 years

An individual property that the Group has identified as surplus is reclassified within 'non-current assets held for sale', a separate category on the balance sheet, when a sale is highly probable This has been determined to be when authority to market the property has been approved and the property is vacant and therefore available for immediate sale and occupation by a third party Such properties are expected to generate economic cash flow primarily by sale of the asset rather than by operational activities, and are expected generally to be disposed of within a year

For a disposal group of properties or other assets and liabilities the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations' are applied to the specific circumstances of the disposal group

Impairment reviews

Unless otherwise disclosed in these accounting policies, assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired The Group assesses at each reporting date whether such indications exist. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount which is the higher of an asset's net realisable value and its value in use

Leases

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Group, are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower at the present value of the minimum lease payments Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term The aggregate benefit of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis

Inventories

Inventories are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock Cost includes all costs in bringing each item to its present location and condition and comprises weighted average cost for supplies and materials and purchase cost for merchandise

2 Accounting policies (continued)

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any non-collectable amounts An estimate for doubtful debts is made when collection of the full amount is no longer probable Bad debts are written off when identified

Financial instruments

Financial assets within the scope of IAS 39 'Financial Instruments Recognition and Measurement' are classified as, financial assets at fair value through the income statement (held for trading) held to maturity investments, loans and receivables or available for sale financial assets as appropriate Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through the income statement or financial liabilities measured at amortised cost.

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial year end

When financial instruments are recognised initially they are measured at fair value, being the transaction price plus, in the case of financial instruments not at 'fair value through the income statement', any directly attributable transactional costs

The subsequent measurement of financial instruments depends on their classification as follows

Financial assets at fair value through the income statement (held for trading)
Financial assets are classified as held for trading if they are acquired for sale in the short term Derivatives are also classified as held for trading unless they are designated as hedging instruments Assets are carried in the balance sheet at fair value with gains or losses recognised in the income statement

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as 'held to maturity when the Group has the positive intention and ability to hold to maturity Held to maturity investments are carried at amortised cost using the effective interest rate method Gains and losses are recognised in the income statement when the investments are derecognised or impaired as well as through the amortisation process Investments intended to be held for an undefined period are not included in this classification

Loans and receivables
Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market do not qualify as trading assets and have not been designated as either 'fair value through the income statement' or available for sale Such assets are carried at amortised cost using the effective interest rate method if the time value of money is significant Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process

Available for sale financial assets
'Available for sale financial assets are non-derivative financial assets that are designated as such or are not classified in any of the three preceding categories After initial recognition, interest is taken to the income statement using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised, or until the investment is deemed to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement

Financial liabilities at fair value through the income statement (held for trading)
Derivatives liabilities are classified as held for trading unless they are designated as hedging instruments They are carried in the balance sheet at fair value with gains or losses recognised in the income statement

Financial liabilities measured at amortised cost
All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. Non-derivative financial liabilities are initially recognised at the fair value of the consideration received, less directly attributable issue costs After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest method Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less In addition, the Group uses Money Market funds as a readily available source of cash which are bought and sold on a daily basis to meet the cash requirements of the business These funds are also categorised as cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts

Cash equivalents are classified as loans and receivables financial instruments

Financial assets – pension escrow investments

Financial assets – pension escrow investments comprise short term deposits with banks conventional gilt edged securities index-linked gilt edged securities and Treasury bills

Short term deposits with banks (pension escrow investments) are classified as loans and receivables financial instruments

Conventional gilt edged securities index-linked gilt edged securities and Treasury bills are classified as available for sale financial instruments on the basis that they are quoted investments that are not held for trading and may be disposed of prior to maturity

Royal Mail Holdings plc

2. Accounting policies (continued)

Financial assets - other investments
Financial assets – other investments comprise, short term deposits (other investments) with Government local government or banks with an original maturity of three months or more and conventional gilt edged securities Short term deposits are classified as loans and receivables financial instruments Conventional gilt edged securities are classified as available for sale financial instruments on the basis that they are quoted investments that are not held for trading and may be disposed of prior to maturity

Financial liabilities - interest-bearing loans and borrowings
All loans and borrowings are classified as financial liabilities measured at amortised cost Borrowing costs are recognised as an expense when incurred

Financial liabilities - obligations under finance lease and hire purchase contracts
All obligations under finance lease and hire purchase contracts are classified as financial liabilities measured at amortised cost.

Borrowing costs are recognised as an expense when incurred

Derivative financial instruments
The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group, in line with the Group's treasury management policies Such derivative financial instruments are initially stated at fair value

For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction

In relation to cash flow hedges to hedge the foreign exchange risk of firm commitments that meet the conditions for hedge accounting the portion of the gain or loss on the hedging instrument that is determined to relate to an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement

When the hedged firm commitment results in the recognition of a non financial asset or non financial liability then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability For all other cash flow hedges the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit/loss for example when the future sale actually occurs

For derivatives that do not qualify for hedge accounting any gains or losses arising from changes in fair value are taken directly to the income statement in the period

Hedge accounting is discontinued when the hedging instrument expires or is sold terminated or exercised, or no longer qualifies for hedge accounting At that point in time any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the year

Fair value measurement of financial instruments
The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date Where there is no active market fair value is determined using valuation techniques These include using recent arm's length market transactions reference to the current market value of another instrument which is substantially the same and discounted cash flow analysis and pricing models Specifically, in the absence of quoted market prices derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date)

For the purposes of disclosing the fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates as at close of business on the balance sheet date

Derecognition of financial instruments
A financial asset or liability is derecognised when the contract that gives rise to it is settled sold cancelled or expires

2 Accounting policies (continued)

Income tax and deferred tax

The charge for current taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed It is calculated using rates that have been enacted or substantively enacted at the balance sheet date

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred income tax liabilities are recognised for all taxable temporary differences except

- initial recognition of goodwill,
- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Other than stated below, deferred tax assets are recognised for all deductible temporary differences carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences carry-forward of unused tax assets, and unused tax losses can be utilised Deferred tax assets are not recognised in respect of

- deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss and
- deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference will be utilised

The carrying amount of deferred tax assets is reviewed at each balance sheet date and increased or reduced to the extent that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date Deferred tax balances are not discounted

Current and deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity Otherwise it is recognised in the income statement

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate

Pensions and other post-retirement benefits

The pension plans' assets for the defined benefit schemes are measured at fair value Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and with appropriate updates and accounting adjustments at each balance sheet date form the basis of the deficit disclosed All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme

For defined benefit schemes, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs The net difference between the interest costs and the expected return on plan assets is recognised as net pensions interest in the income statement Actuarial gains and losses are recognised immediately in the statement of recognised income and expense (SORIE) Any deferred tax movement associated with the actuarial gains and losses is also recognised in the SORIE

For defined contribution schemes, the Group s contributions are charged to operating profit within people costs in the period to which the contributions relate Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits

2. Accounting policies (continued)

Foreign currencies

The functional and presentational currency of Royal Mail Holdings plc is sterling (£) The functional currency of the overseas subsidiaries in Europe is mainly the euro (€)

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date The trading results of foreign operations are translated at the average rates of exchange for the reporting period being a reasonable approximation to the actual transaction rate The exchange differences arising on the translation, since the date of transition to IFRSs are taken directly to the Foreign Currency Translation Reserve in equity

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date Currently hedge accounting is not claimed for any monetary assets and liabilities All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation These are taken directly to equity until the disposal of the net investment occurs at which time they are recognised in profit or loss

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined

Contingent liabilities and financial guarantee contracts

Financial guarantee contracts are initially measured at fair value and subsequently at the higher of amounts under IAS 37 or the amounts initially recognised less when appropriate cumulative amortisation recognised in accordance with IAS 18 'Revenue

Contingent liabilities are not disclosed if the possibility of losses occurring is considered to be remote

Government grants

Government grants of a revenue nature are credited to the income statement and are shown separately to the expenditure to which they relate

Segment information

The Group's primary reporting format is by business segments and its secondary format is by geographical segments The business segments are organised and managed separately according to the nature of the products and services provided with each segment representing a business unit that offers different products and serves largely different markets The five business segments are

Royal Mail Delivers letters to all addresses in the United Kingdom Royal Mail offers a number of products to both business and domestic users

Parcelforce Worldwide The parcels business unit operating within the UK

Post Office Limited A limited company responsible for the network of Post Office branches offering a series of retail services

General Logistics Systems The European parcels business which, via its subsidiaries and partners offers its services in 36 European states

Other businesses Includes PostCap Guernsey Limited and iRed Redefining Document Management Ltd, both wholly owned subsidiaries, Romec Limited, and NDC 2000 Limited, both part owned subsidiaries investments in the following associates – Quadrant Catering Limited, Camelot Group plc and Camelot International Services Limited, and our Group Property unit The Group Property unit includes Royal Mail Estates Limited, a wholly owned subsidiary

Transfer prices between business segments are set on a basis of charges reached through negotiation with the respective businesses

The two geographical segments are UK operations and European operations The latter consists of the GLS business segment The former includes the other four business segments plus Corporate representing central shared services for the UK and the corporate centre Corporate is not a revenue or profit centre but incurs certain costs on behalf of the business segments which are passed on and manages certain assets and liabilities of the Group

2 Accounting policies (continued)

Accounting standards and interpretations not applied

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued accounting standards and interpretations with an effective date for accounting periods beginning on or after the date of these financial statements Of these the Group has not applied the following

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
IAS 32 & IAS 1	Amendments to IAS 32 Financial Instruments Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 – The Limit on Defined Benefit Asset Minimum Funding Requirements and their interaction	1 January 2008

IFRS 2 Vesting Conditions and Cancellations
The amendment to IFRS 2 deals with vesting conditions and cancellations for shares Although the Group operates the Colleagueshare phantom share scheme (see policy note above) this does not constitute a share based payment arrangement under IFRS 2 Consequently the Group has no share based payment arrangements, and therefore, this amendment will have no impact on the financial position or performance of the Group

IFRS 3 Business Combinations
The Group does not anticipate early adopting the revised IFRS 3 and so will apply it prospectively to all business combinations on or after 29 March 2010 Whilst it is not possible to estimate the outcome of adoption, the key features of the revised IFRS 3 include a requirement for acquisition-related costs to be expensed and not included in the purchase price, and for contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill) The standard also changes the treatment of non-controlling interest (formerly minority interests) with an option to recognise these at full fair value as at the acquisition date and a requirement for previously held non-controlling interests to be fair valued as at the date control is obtained, with gains and losses recognised in the income statement

IFRS 8 Operating Segments
This standard requires disclosure of information about the Group s operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments It is anticipated that the operating segments will be the same as the business segments previously reported under IAS 14 It is expected that this new standard will be adopted with a commencement date of 30 March 2009 and will have no impact on the financial position or performance of the Group

IAS 1 Presentation of Financial Statements
This revised standard sets overall requirements for the presentation of financial statements guidelines for their structure and minimum requirements for their content It does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs Hence it is expected that this new standard which will be adopted with a commencement date of 30 March 2009, will have no impact on the financial position or performance of the Group

IAS 23 Borrowing Costs
This standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale It is expected that this new standard will have no impact on the financial position or performance of the Group although the standard will be adopted with a commencement date of 30 March 2009

2 Accounting policies (continued)

IAS 27 Consolidated and Separate Financial Statements
IAS 27 revised is effective for annual periods beginning on or after 1 July 2009, with earlier application only permitted when the revised IFRS 3 is applied The revised standard applies retrospectively with some exceptions IAS 27 revised no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of the non-controlling equity investment in the subsidiary A partial disposal of equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to any gain or loss Where there is loss of control of a subsidiary, any retained interest will have to be remeasured to fair value, which will impact the gain or loss recognised on disposal It is expected that retrospective application of this standard will have no impact on the financial position or performance of the Group although the standard will be adopted with a commencement date of 29 March 2010

IAS 32 & IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
The amendments to IAS 32 & IAS 1 require that puttable financial instruments and instruments that impose an obligation to deliver to another party a pro-rata share of net assets on liquidation are classified as equity provided that they have particular features and meet specific conditions It is expected that these amendments will be adopted with a commencement date of 30 March 2009 and will have no impact on the financial position or performance of the Group

IFRIC 12 Service Concession Arrangements
This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements No members of the Group are operators in this regard and hence the interpretation will have no impact on the Group

IFRIC 13 Customer Loyalty Programmes
The Group has no schemes involving customer loyalty awards hence there will be no impact on the Group's financial statements when this IFRIC is adopted

IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 on Employee Benefits It is expected that at present, this interpretation will have no impact on the financial position or performance of the Group as the Group has an absolute right to any assets left over after benefits have been secured

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's primary financial statements Certain of the above standards will require amendment to disclosures in the period of initial application

Royal Mail Holdings plc

3 Segment information

Analysis of segment revenue and segment result by class of business and geographic area

53 weeks to 30 March 2008	**UK operations**					**European operations**	
Segment revenue	**Royal Mail**	**Parcelforce Worldwide**	**Post Office Limited**	**Other businesses**	**Total**	**General Logistics Systems**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
External revenue	**6,830**	**379**	**911**	**36**	**8,156**	**1,232**	**9,388**
Revenue between segments	**106**	**4**	**358**	**246**	**714**	**-**	**714**
Segment revenue	**6,936**	**383**	**1,269**	**282**	**8,870**	**1,232**	**10,102**
Segment result							
Operating (loss)/profit before exceptional items	**(3)**	**8**	**(34)**	**77**	**48**	**114**	**162**
Less share of post tax profits from joint ventures and associates	**(1)**	**-**	**(36)**	**(10)**	**(47)**	**-**	**(47)**
Operating exceptional items - Government grant	**-**	**-**	**313**	**-**	**313**	**-**	**313**
- other	**(353)**	**(17)**	**(382)**	**(2)**	**(754)**	**-**	**(754)**
Profit on disposal of property plant and equipment	**-**	**-**	**5**	**53**	**58**	**-**	**58**
Segment result	**(357)**	**(9)**	**(134)**	**118**	**(382)**	**114**	**(268)**
Share of post tax profits from joint ventures and associates	**1**	**-**	**36**	**10**	**47**	**-**	**47**
Segment result after share of post tax profits from joint ventures and associates	**(356)**	**(9)**	**(98)**	**128**	**(335)**	**114**	**(221)**

Not included in segment result after share of post tax profits from joint ventures and associates is net pensions interest of £131m (2007 £199m), finance income of £84m (2007 £62m), finance costs of £71m (2007 £56m) and a taxation credit of £212m (2007 £27m charge), which when added reconciles to the 'profit for the financial year from continuing operations' in the income statement of £135m (2007 £286m)

52 weeks to 25 March 2007	UK operations (restated)					European operations	
Segment revenue	Royal Mail	Parcelforce Worldwide	Post Office Limited	Other businesses	Total	General Logistics Systems	Total
	£m	£m	£m	£m	£m	£m	£m
External revenue	6 857	337	868	35	8,097	1,082	9,179
Revenue between segments (restated)	106	5	348	237	696	-	696
Segment revenue	6,963	342	1,216	272	8 793	1,082	9,875
Segment result							
Operating profit/(loss) before exceptional items	136	7	(108)	83	118	115	233
Less share of post tax profits from joint ventures and associates	-	-	(27)	(12)	(39)	-	(39)
Operating exceptional items	(154)	(1)	(88)	-	(243)	-	(243)
Profit on disposal of business	-	-	-	74	74	-	74
Profit on disposal of property, plant and equipment	-	-	15	29	44	-	44
Segment result	(18)	6	(208)	174	(46)	115	69
Share of post tax profits from joint ventures and associates	-	-	27	12	39	-	39
Segment result after share of post tax profits from joint ventures and associates	(18)	6	(181)	186	(7)	115	108

Royal Mail Holdings plc

3. Segment information (continued)

The above analysis of revenue between segments for 2006-07 has been restated to include the impact of the operations of Royal Mail Estates Limited (RMEsL) £94m and Romec Limited £143m within the 'Other businesses' segment These amounts were previously classified as internal recharges and hence did not form part of revenue between segments

Operating profit before exceptional items for all UK operations has also been restated as if RMEsL had been operating in 2006-07 in the way it has operated in 2007-08 The effect of this change has been to reduce the operating profit before exceptional items of Royal Mail by £58m and Parcelforce Worldwide by £3m and to increase the operating loss before exceptional items of Post Office Limited by £9m Consequently, the operating profit before exceptional items of the Other businesses segment has increased by £70m There has been no overall change to the Total Segment result as a result of this restatement

Analysis of net assets/(liabilities) by class of business and geographic area

	UK operations						European operations		
At 30 March 2008	**Royal Mail**	**Parcelforce Worldwide**	**Post Office Limited**	**Other businesses**	**Corporate***	**Total**	**General Logistics Systems**	**Total unallocated assets/ (liabilities)**	**Total assets/ (liabilities)**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets	**1,521**	**101**	**1,203**	**656**	**56**	**3,537**	**595**	**2,222**	**6,354**
Liabilities	**(3,672)**	**(226)**	**(1,166)**	**(174)**	**(248)**	**(5,486)**	**(226)**	**(883)**	**(6,595)**
At 25 March 2007									
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets	1 443	82	1 026	661	61	3 273	520	1 831	5 624
Liabilities	(5 222)	(337)	(913)	(179)	(194)	(6 845)	(198)	(845)	(7 888)

*In the context of the above table Corporate, as defined in the accounting policies note, holds certain assets and liabilities that do not form part of any business segment but which do form part of the UK geographic segment

Assets include Non-current assets held for sale' of £1m (2007 £7m) relating to Other businesses

Unallocated assets and liabilities comprise the following items

	2008		2007	
	Unallocated assets £m	**Unallocated liabilities £m**	Unallocated assets £m	Unallocated liabilities £m
Cash and cash equivalents – interest bearing	**489**	**-**	411	-
Financial assets – investments	**1,091**	**-**	1 017	-
Loans and borrowings	**-**	**(791)**	-	(803)
Obligations under finance leases and hire purchase contracts	**-**	**(53)**	-	(1)
Derivative financial asset/(liabilities)	**32**	**(3)**	-	(7)
Interest receivables/(payables)	**2**	**(16)**	-	(2)
Income tax payable	**-**	**(15)**	-	(29)
Deferred tax assets/(liabilities)	**608**	**(5)**	403	(3)
Total	**2,222**	**(883)**	1,831	(845)

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3 Segment information (continued)

Other segment information

At 30 March 2008	**UK operations**						**European operations**	
	Royal Mail	**Parcelforce Worldwide**	**Post Office Limited**	**Other businesses**	**Corporate**	**Total**	**General Logistics Systems**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Additions								
Property, plant and equipment	**178**	**4**	**40**	**32**	**(6)**	**248**	**36**	**284**
Intangible assets	**14**	**4**	**51**	**-**	**9**	**78**	**1**	**79**
Non cash expenses								
Depreciation and amortisation	**166**	**1**	**1**	**36**	**3**	**207**	**29**	**236**
Impairment	**-**	**6**	**91**	**-**	**-**	**97**	**-**	**97**

Negative additions in the year within the Corporate segment are due to the transfer of expenditure (including amounts brought forward from 2006-07) to other segments mainly Royal Mail being higher than expenditure incurred by Corporate in 2007-08

At 25 March 2007	£m	£m	£m	£m	£m	£m	£m	£m
Additions								
Property, plant and equipment	154	4	8	34	12	212	52	264
Intangible assets	21	3	35	-	6	65	-	65
Non cash expenses								
Depreciation and amortisation	142	-	1	28	1	172	26	198
Impairment	14	-	50	-	-	64	-	64

4 People information

(a) Headcount

The number of people employed calculated on a headcount basis were

	Period end employees		**Average employees**	
	2008	2007	**2008**	2007
Royal Mail	**164,995**	167 640	**165,257**	170,127
Parcelforce Worldwide	**4,464**	4,176	**4,384**	4 141
Post Office Limited	**9,163**	9 990	**9,600**	10,640
Corporate and Group Property	**2,654**	2 961	**2,732**	3,181
UK wholly owned subsidiaries	**181,276**	184 767	**181,973**	188,089
UK partially owned subsidiaries	**4,313**	4 592	**4,330**	4,600
General Logistics Systems	**13,135**	12,137	**12,715**	11 749
Group total	**198,724**	201,496	**199,018**	204 438

	2008	2007
Number of subpostmasters at year end	**10,768**	11 494

(b) Directors' emoluments

	2008 £000	2007 £000
Directors' emoluments	**3,666**	4,164
Amounts receivable under Long-Term Incentive Plans	**1,120**	3 113
Number of Directors accruing benefits under defined benefit schemes	**4**	5

The Directors Remuneration Report discloses full details of Directors' emoluments and can be found on pages 37 to 43

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Royal Mail Holdings plc

5 Operating costs

Operating profit before exceptional items is stated after charging

	2008 £m	2007 £m
(a)		
Pensions charge (note 25)	**701**	722
Cash	550	543
Non-cash	151	179
(b)		
Distribution and conveyance operating costs	**1,341**	1 237
Operating lease charges on vehicles	38	64
Other distribution and conveyance	1,303	1,173
(c)		
Depreciation and amortisation	**236**	198
Depreciation of owned property, plant and equipment	189	169
Depreciation of property, plant and equipment under finance lease and hire purchase contracts	22	17
Total depreciation (note 10)	211	186
Amortisation of intangible assets (note 12)	25	12
Property facilities and maintenance costs	**261**	263
Computers and telephones costs	**281**	259
Consultancy, marketing and legal fees	**263**	187
Operating lease charges on property plant and equipment (excluding vehicles)	**149**	148
Foreign currency exchange (gains)/losses	**(3)**	4
Research and development expenditure	**1**	1
Regulatory body costs	**16**	19
Postcomm	9	10
Postwatch	7	9

6. Auditors' remuneration

	2008 £000	2007 £000
Audit of statutory financial statements	**647**	607
Other fees to auditors		
Statutory audits for subsidiaries	**1,359**	1 270
Other services supplied pursuant to such legislation	**388**	468
Taxation services	**283**	279
Corporate finance services	**109**	91
Litigation services	**245**	128
Other services	**51**	133
Total	**3,082**	2,976

The Group paid an additional £185,000 in 2008 relating to the 2007 audit

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7. Operating exceptional items

	2008		2007	
	£m	**£m**	£m	£m
Government grant income		**313**		-
ColleagueShare costs - phantom share scheme	**(116)**		-	
- stakeholder dividend	**(161)**		-	
		(277)		-
Other restructuring costs				
Provision for restructuring (note 20)	**(363)**		(179)	
Other exceptional write-offs	**(17)**		-	
Impairment of property plant and equipment (note 10)	**(40)**		(15)	
Impairment of intangible assets (note 12)	**(57)**		(39)	
Impairment relating to associates (note 14)	**-**		(10)	
		(477)		(243)
Total operating exceptional items		**(441)**		(243)

The £313m (2007 £nil) relates to a Government grant received by the Group under the Industrial Development Act (IDA) 1982 This amount was used during the year to compensate Post Office Limited for providing certain specified "services of general economic interest"

The £116m (2007 £nil) phantom share scheme costs and £161m (2007 £nil) stakeholder dividend costs are the estimated costs relating to the first year of the Company ColleagueShare plan The stakeholder dividend will be paid to qualifying employees in 2008-09 whilst the costs of the phantom share scheme are discounted and will be repurchased by the Group by 2012

The provision of £479m in note 20 is shown as £363m in the above table after excluding the £116m ColleagueShare provision separately identified

The £363m (2007 £179m) restructuring charge is in respect of employee related redundancy costs of £165m (2007 £180m) resulting mainly from operational efficiency initiatives in Royal Mail and organisational design review in Post Office Limited, £141m (2007 £nil) subpostmasters' compensation paid through the Agency Network Change (ANC) programme, £43m (2007 £nil) exceptional charge for project fees for the WH Smith and the ANC programmes, £10m (2007 £1m release) exceptional property charges and £4m other Group exceptional charges (2007 £nil)

Of the above impairments £91m (2007 £50m) relates to Post Office Limited comprising £40m (2007 £15m) property, plant and equipment and £51m (2007 £35m) intangible assets The remaining £6m relates to Parcelforce Worldwide intangible assets Due to ongoing losses the carrying values of asset purchases made by Post Office Limited during the year have been impaired to recoverable amount There was no impairment relating to associates in the current year The prior year relates to the impairment of G3 Worldwide Mail N V (Spring) (2007 £10m)

Other exceptional write-offs of £17m (2007 £nil) include £9m in Post Office Limited relating to professional fees for the new Government funding agreement and £8m for other restructuring exceptional items charged in the current year

8 Net finance income (excluding net pensions interest)

	2008	2007
	£m	£m
Interest payable on financial liabilities carried at amortised cost	**(71)**	(56)
Finance costs	**(71)**	(56)
Interest received on available for sale financial assets	**12**	-
Interest received on held for trading financial assets	**-**	1
Interest received on loans and receivables financial assets	**72**	61
Finance income	**84**	62
Net finance income (excluding net pensions interest)	**13**	6

No gains/losses on available for sale financial assets were released from equity and recognised in the income statement for the year

The finance costs of £71m (2007 £56m) include £1m (2007 £nil) in respect of finance charges payable under finance lease and hire purchase contracts

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9 Income tax

The major components of income tax (credit)/charge for the years ended 30 March 2008 and 25 March 2007 are

	2008 £m	2007 £m
Tax charged to the income statement		
Current income tax		
Current UK income tax charge	**(22)**	49
Foreign tax	**29**	31
Adjustments in respect of current income tax of prior years	**(3)**	(4)
	4	76
Deferred income tax		
Relating to origination and reversal of temporary differences	**(246)**	(49)
Effect of change in tax rate	**30**	-
Income tax (credit)/charge reported in the income statement	**(212)**	27
Tax charged to equity		
Income tax related to items charged or credited directly to equity		
Deferred income tax charge related to actuarial gains on pension deficit	**-**	39
Effect of change in tax rate on deferred tax in equity	**15**	-
Current income tax relief for pension deficit recovery payment	**-**	(66)
Current income tax charge for fair value adjustments on fixed asset investments	**3**	-
Income tax charge/(credit) reported in equity	**18**	(27)
Total taxation losses/(gains) recognised		
Current income tax charge	**7**	10
Deferred income tax (credit)	**(201)**	(10)
Total income tax credit reported	**(194)**	-

A reconciliation between tax expense and the product of accounting profit multiplied by the UK rate of Corporation Tax for the years ended 30 March 2008 and 25 March 2007 is as follows

	2008 £m	2007 £m
Accounting (loss)/profit before tax from continuing operations	**(77)**	313
At UK standard rate of Corporation Tax of 30%	**(23)**	94
Overseas current tax rates	**1**	5
Tax overprovided in prior years	**(3)**	(4)
Non-taxable income	**(94)**	-
Non-deductible expenses	**(4)**	8
Associates/joint ventures' profit after tax charge included in Group pre-tax profit	**(14)**	(12)
Net decrease in tax charge resulting from recognition of deferred tax assets	**(97)**	(23)
Effect of change in tax rate on deferred tax	**30**	-
Profit from asset disposals eligible for relief	**(4)**	(37)
Other	**(4)**	(4)
Tax (credit)/charge in the income statement	**(212)**	27
Effective income tax rate	**n/a**	9%

9 Income tax (continued)

Deferred tax relates to the following

	Balance sheet 2008 £m	Balance sheet 2007 £m	Income statement 2008 £m	Income statement 2007 £m
Liabilities				
Accelerated capital allowances	**(3)**	(3)	**-**	-
Goodwill qualifying for tax allowances	**(2)**	-	**(2)**	-
Gross deferred tax liabilities	**(5)**	(3)		
Assets				
Deferred capital allowances	**62**	27	**35**	(9)
Provisions	**26**	10	**16**	(1)
Pensions temporary differences	**470**	345	**140**	67
Losses available for offset against future taxable income	**41**	6	**34**	(4)
Goodwill qualifying for tax allowances	**9**	15	**(7)**	(4)
Gross deferred tax assets	**608**	403		
Net deferred tax asset	**603**	400		
Consolidated income statement			**216**	49

The Group has unrecognised deferred tax assets of £338m (2007 £1,159m) relating to the retirement benefit obligation, £289m (2007 £272m) relating mainly to fixed asset temporary differences, and £189m (2007 £101m) relating to tax losses in subsidiaries that are available to offset against future taxable profits The Group has capital losses carried forward the tax effect of which is £16m (2007 £13m) The Group has rolled over capital gains of £74m (2007 £86m) no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their carrying value, as it is anticipated that a capital loss would arise

At 30 March 2008, there was no recognised or unrecognised deferred income tax liability (2007 £nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional taxation should such amounts be remitted due to the availability of double taxation relief or other exemptions

The Finance Act 2007 reduced the main rate of corporation tax to 28% with effect from 1 April 2008 The effect of this change on deferred tax balances is included in these accounts and is detailed above In his 2007 Budget the Chancellor of the Exchequer announced forthcoming changes to the capital allowances regime which have subsequently been confirmed In accordance with accounting standards the effects of these capital allowances changes on deferred tax balances has not been reflected in these accounts due to the relevant legislation not having been substantively enacted at the balance sheet date It is expected that the phased abolition of industrial buildings allowances will reduce the Group's unrecognised deferred tax assets by approximately £100m

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10. Property, plant and equipment

	Land and buildings						2008
	Freehold	Long leasehold	Short leasehold	Plant and machinery	Motor vehicles	Fixtures and equipment	Total
Cost	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 26 March 2007	1 486	258	503	842	274	858	4 221
Exchange movements	23	1	-	13	3	11	51
Reclassification	(15)	-	14	1	-	-	-
Additions	64	10	20	85	63	42	284
Acquisition of subsidiary	-	-	-	-	-	1	1
Disposals	(18)	(6)	(7)	(13)	(18)	(24)	(86)
Reclassification to non-current assets held for sale (note 15)	(2)	-	-	-	-	-	(2)
At 30 March 2008	**1,538**	**263**	**530**	**928**	**322**	**888**	**4,469**
Depreciation and impairment							
At 26 March 2007	736	151	272	522	124	797	2 602
Exchange movements	5	1	-	9	2	9	26
Reclassification	(1)	-	1	-	-	-	-
Depreciation (note 5)	54	6	29	62	45	15	211
Impairment (note 7)	3	1	12	-	6	18	40
Disposals	(16)	(5)	(6)	(13)	(16)	(24)	(80)
Reclassification to non-current assets held for sale (note 15)	(1)	-	-	-	-	-	(1)
At 30 March 2008	**780**	**154**	**308**	**580**	**161**	**815**	**2,798**
Net book value							
At 30 March 2008	**758**	**109**	**222**	**348**	**161**	**73**	**1,671**
At 26 March 2007	750	107	231	320	150	61	1 619

Depreciation rates are disclosed within accounting policies (note 2) No depreciation is provided on freehold land which represents £156m (2007 £151m) of the total cost of properties The net book value of the Groups property plant and equipment held under hire purchase contracts and finance leases amounts to £83m (2007 £37m) mainly relating to vehicles plant and machinery The net book value of the Groups property plant and equipment includes £156m (2007 £112m) in respect of assets in the course of construction The net book value of the Groups land and buildings includes £433m (2007 £429m) in respect of building fit-out

	Land and buildings						2007
	Freehold	Long leasehold	Short leasehold	Plant and machinery	Motor vehicles	Fixtures and equipment	Total
Cost	£m	£m	£m	£m	£m	£m	£m
At 27 March 2006	1 490	260	494	794	230	811	4 079
Exchange movements	(2)	-	-	(1)	-	-	(3)
Reclassification	(9)	4	5	(2)	-	2	-
Additions	72	3	12	52	75	50	264
Disposal of subsidiaries	-	-	-	1	-	-	1
Disposals	(16)	(5)	(8)	(2)	(31)	(5)	(67)
Reclassification to non-current assets held for sale	(49)	(4)	-	-	-	-	(53)
At 25 March 2007	1 486	258	503	842	274	858	4 221
Depreciation and impairment							
At 27 March 2006	723	150	246	471	113	782	2 485
Exchange movements	-	-	-	(1)	-	(1)	(2)
Reclassification	-	-	-	(1)	-	1	-
Depreciation (note 5)	45	6	28	55	39	13	186
Impairment (note 7)	1	-	6	-	1	7	15
Disposals	(11)	(3)	(8)	(2)	(29)	(5)	(58)
Reclassification to non-current assets held for sale (note 15)	(22)	(2)	-	-	-	-	(24)
At 25 March 2007	736	151	272	522	124	797	2 602
Net book value							
At 25 March 2007	750	107	231	320	150	61	1 619
At 27 March 2006	767	110	248	323	117	29	1 594

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11 Goodwill

Cost	2008 £m	2007 £m
At 26 March 2007 and 27 March 2006	**487**	476
Exchange movement	**70**	(1)
Acquisition of businesses (note 13)	**8**	12
At 30 March 2008 and 25 March 2007	**565**	487
Impairment		
At 26 March 2007 and 27 March 2006	**344**	344
Exchange movement	**48**	-
At 30 March 2008 and 25 March 2007	**392**	344
Net book value		
At 30 March 2008 and 25 March 2007	**173**	143
At 26 March 2007 and 27 March 2006	143	132

The carrying value of goodwill arising on business combinations of £173m (2007 £143m) at the balance sheet date includes £172m (2007 £142m) relating to the General Logistics Systems (GLS) business segment In line with the accounting policy (see note 2) this goodwill has been reviewed for impairment An impairment loss is recognised for the amount by which the carrying value of an asset or cash generating unit exceeds the recoverable amount The recoverable amount is the higher of net realisable value and value in use The carrying value of GLS, excluding interest bearing and tax related assets and liabilities is £369m (2007 £322m) at year end (see note 3) and the operating profit before exceptional items is £114m (2007 £115m) for the year (see note 3) The carrying value represents a multiple of 3 2 (2007 2 8) on operating profit before exceptional items The net realisable value of GLS, for the purposes of the impairment review (i e the 'fair value less costs to sell'), has been assessed with reference to earnings multiples for quoted entities in a similar sector On this basis, the net realisable value of GLS has been assessed to be in excess of the carrying value No reasonable possible change in the earnings multiples referenced would reduce the net realisable value to below the carrying value

12. Intangible assets

	2008				2007			
Cost	**Master franchise licences £m**	**Customer listings £m**	**Software licences £m**	**Total £m**	Master franchise licences £m	Customer listings £m	Software licences £m	Total £m
At 26 March 2007 and 27 March 2006	19	15	107	141	19	7	42	68
Additions	-	-	79	79	-	-	65	65
Disposals	-	-	(3)	(3)	-	-	-	-
Acquisition of businesses (note 13)	-	4	-	4	-	8	-	8
Exchange differences	3	2	-	5	-	-	-	-
At 30 March 2008 and 25 March 2007	**22**	**21**	**183**	**226**	19	15	107	141
Amortisation and impairment								
At 26 March 2007 and 27 March 2006	12	6	59	77	8	3	15	26
Impairment	-	-	57	57	-	-	39	39
Amortisation	4	4	17	25	4	3	5	12
Disposals	-	-	(3)	(3)	-	-	-	-
Exchange differences	2	1	-	3	-	-	-	-
At 30 March 2008 and 25 March 2007	**18**	**11**	**130**	**159**	12	6	59	77
Net book value								
At 30 March 2008 and 25 March 2007	**4**	**10**	**53**	**67**	7	9	48	64
At 26 March 2007 and 27 March 2006	7	9	48	64	11	4	27	42

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12 Intangible assets (continued)

The intangible assets recognised in the Group s balance sheet none of which have been internally generated, have finite lives and are being written down on a straight-line basis over their remaining economic lives as follows

Intangible asset	Remaining economic life in years
Master franchise licences	1 to 3
Customer listings	1 to 3
Software licences	1 to 6

The amortisation charge of £25m (2007 £12m) relating to intangible assets is aggregated within other operating costs within the income statement and disclosed in note 5 to the accounts Details of impairments are disclosed in note 7 to the accounts

13 Business combinations

The acquisitions during the current or prior years are not material and therefore, the following disclosures are made on an aggregated basis The table below sets out the identifiable assets and liabilities that were acquired at their provisional fair values to the Group as at the date of acquisition which where relevant, are consistent with their book values immediately before the acquisition

	Book value/ fair value Total 2008 £m	Book value/ fair value Total 2007 £m
Trade and other receivables	**-**	9
Trade and other payables	**(1)**	(11)
Net working capital acquired	**(1)**	(2)
Property plant and equipment	**1**	1
Cash and cash equivalents	**-**	2
Net assets acquired	**-**	1
Intangible assets recognised on acquisition	**4**	8
Goodwill recognised on acquisition	**8**	12
Total cost recognised	**12**	21
Gross consideration	**12**	20
Acquisition costs	**-**	1
Total costs	**12**	21
Less deferred consideration	**(7)**	(2)
cash and cash equivalents acquired	**-**	(2)
Net cash outflow	**5**	17

On 1 October 2007 certain assets of a Milan Franchise Area business Italy were acquired by the General Logistics Systems (GLS) subsidiary If this combination had taken place at the beginning of the financial year, Group revenue from continuing operations would have been £9 392m The profit of the acquired entity since its acquisition date and if it had been acquired at the beginning of the financial year is not material in the context of the Group's profit after tax

The goodwill arising on this acquisition represents the strategic benefit of securing control of operations in one of the major industrialised areas of Italy and thereby significantly increasing GLS's presence in this market

The prior year acquisitions relate to the purchase by GLS of 100% of the voting shares of ABX Belgium Distribution a parcels and general cargo business based in Belgium, on 31 December 2006, and certain assets of three franchisee businesses in Italy (not material in aggregate)

14. Investments in joint ventures and associates

Joint ventures

During 2007-08 and 2006-07, the Group's only joint venture investment was a 50% interest in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change

Associates

Details of the Group s 2007-08 and 2006-07 associate investments are provided in note 29 The reporting dates for these investments is 31 March 2008 except for Quadrant Catering Limited (30 September 2007) and G3 Worldwide Mail N V (Spring) (31 December 2007) Estimates of the profits of Quadrant Catering Limited and G3 Worldwide Mail N V (Spring), from their reporting date to 30 March 2008 (and 25 March 2007 for the prior year) have been included to ensure that the reported share of profits of associates aligns with the Group's financial year There are no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends repayment of loans or advances

	At 26 March 2007 £m	**Share of post tax pre dividend profit £m**	**Investment in associates £m**	**Dividend £m**	**Exchange differences £m**	**At 30 March 2008 £m**
Joint ventures						
Share of net assets	58	34	-	(24)	-	**68**
Goodwill	1	-	-	-	-	**1**
Net investments	59	34	-	(24)	-	**69**
Associates						
Share of net assets	46	13	10	(12)	1	**58**
Goodwill	9	-	-	-	-	**9**
Net investments	55	13	10	(12)	1	**67**
Total net investments in joint ventures/associates	114	47	10	(36)	1	**136**

	At 27 March 2006 £m	Impairment (note 7) £m	Share of post tax pre dividend profit £m	Dividend £m	At 25 March 2007 £m
Joint ventures					
Share of net assets	51	-	30	(23)	58
Goodwill	1	-	-	-	1
Net investments	52	-	30	(23)	59
Associates					
Share of net assets	56	(3)	9	(16)	46
Goodwill	16	(7)	-	-	9
Net investments	72	(10)	9	(16)	55
Total net investments in joint ventures/associates	124	(10)	39	(39)	114

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14. Investments in joint ventures and associates (continued)

	2008			2007		
Share of assets and liabilities	**Joint ventures £m**	**Associates £m**	**Total £m**	Joint ventures £m	Associates £m	Total £m
Current assets	**139**	**113**	**252**	128	102	230
Non-current assets	**2**	**47**	**49**	2	39	41
Share of gross assets	**141**	**160**	**301**	130	141	271
Current liabilities	**(73)**	**(101)**	**(174)**	(72)	(91)	(163)
Non-current liabilities	**-**	**(1)**	**(1)**	-	(4)	(4)
Share of gross liabilities	**(73)**	**(102)**	**(175)**	(72)	(95)	(167)
Share of net assets	**68**	**58**	**126**	58	46	104
Share of revenue and profit						
Revenue	**68**	**1,095**	**1,163**	60	1,084	1,144
Profit after tax	**34**	**13**	**47**	30	9	39

15. Non-current assets held for sale

	Assets		
Net book amount	**Freehold £m**	**Long leasehold £m**	**Total £m**
At 26 March 2007	7	-	7
Reclassification from property, plant and equipment	1	-	1
Disposals	(7)	-	(7)
At 30 March 2008	**1**	**-**	**1**

	Disposal group		Assets		
Net book amount	Freehold £m	Long leasehold £m	Freehold £m	Long leasehold £m	Total £m
At 27 March 2006	-	-	11	-	11
Reclassification from property, plant and equipment	19	2	8	-	29
Disposals	(19)	(2)	(12)	-	(33)
At 25 March 2007	-	-	7	-	7

The expected disposal of these properties is as a result of the rationalisation of the portfolio

Non-current assets held for sale are reported in the relevant business segment Further details are provided in note 3

During the year a gain of £11m (2007 £13m) was recognised in the income statement in relation to the disposal of assets held for sale

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16 Inventories

	2008 £m	2007 £m
Supplies and materials (uniforms, fuel, printing and stationery, mailbags, engineering spares)	**23**	16
Merchandise (Post Office Limited retail and lottery products)	**10**	10
Total	**33**	26

During the year £3m (2007 £3m) of inventory items were written off Engineering spares items are included net of a provision for impairment of £2m (2007 £nil) The cost of inventories recognised as an expense in the income statement is £49m (2007 £41m)

17 Current trade and other receivables

	2008 £m	2007 £m
Trade receivables	**859**	818
Prepayments and accrued income	**191**	152
Sub total	**1,050**	970
Client debtors	**61**	61
Interest	**2**	-
Income tax receivable	**1**	-
Total	**1,114**	1,031

Movements in the provision for bad and doubtful debts were as follows

	2008 £m	2007 £m
At 26 March 2007 and 27 March 2006	**36**	34
Exchange adjustment	**(1)**	-
Receivables provided for during the year	**20**	16
Release of provision	**(6)**	(7)
Acquisition through business combinations	**-**	1
Utilisation of provision	**(16)**	(8)
At 30 March 2008 and 25 March 2007	**33**	36

The amount of trade receivables that were past due but not impaired is as follows

	2008 £m	2007 £m
Past due not more than one month	**78**	55
Past due more than one month and not more than two months	**12**	15
Past due more than two months	**16**	27
Total past due but not impaired	**106**	97
Provided for or not yet overdue	**786**	757
Provision for bad and doubtful debts	**(33)**	(36)
Total trade receivables	**859**	818

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18 Cash and cash equivalents

	2008 £m	2007 £m
Cash in the Post Office Limited network	**933**	768
Other cash in hand	**5**	17
Cash at bank	**138**	45
Total cash at bank, in hand or in Post Office Limited network	**1,076**	830
Cash equivalent investments Short-term deposits	**351**	366
Total	**1,427**	1,196

Other than cash in the Post Office Limited network and in hand of £938m (2007 £785m), the cash and cash equivalent balances of £489m (2007 £411m) are interest bearing Cash at bank of £138m (2007 £45m) earns interest at either floating or short-term fixed rates based upon bank deposit rates Short-term deposits of £351m (2007 £366m) are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates The fair value of cash and cash equivalent investments is not materially different from the carrying value of £1 427m (2007 £1 196m)

The £1,427m total cash and cash equivalents does not include a £7m (2007 £nil) overdrawn bank balance relating to the General Logistics Systems (GLS) subsidiary This £7m is included in the Financial liabilities - interest bearing loans and borrowings balance of £289m in the balance sheet

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19. Financial liabilities

2008

	Loans and borrowings £m	Finance lease/hire purchase contracts £m	Derivative liabilities £m	Total £m
Amounts falling due in				
One year or less or on demand (current)	289	10	3	302
More than one year (non-current)	502	43	-	545
More than one year but not more than two years	-	11	-	11
More than two years but not more than five years	2	25	-	27
More than five years	500	7	-	507
Total	791	53	3	847

Included within the £289m loans and borrowings is an overdrawn bank balance of £7m (2007 £nil)

2007

	Loans and borrowings £m	Finance lease/hire purchase contracts £m	Derivative liabilities £m	Total £m
Amounts falling due in				
One year or less or on demand (current)	301	-	7	308
More than one year (non-current)	502	1	-	503
More than one year but not more than two years	-	1	-	1
More than two years but not more than five years	1	-	-	1
More than five years	501	-	-	501
Total	803	1	7	811

Analysis of loans and committed facilities

2008

	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of loan drawn down Year
*BERR loans to Royal Mail Group Ltd	500	1,200	1,700	5 8	2023
*BERR loans to Post Office Limited	280	870	1,150	5 6	2008
Committed facilities	780	2,070	2,850		
Miscellaneous loans and borrowings in subsidiaries	11	-	11	4 5	2009
Total	791	2,070	2,861		

* The Department for Business Enterprise and Regulatory Reform (BERR) was formerly known as the Department for Trade and Industry (DTI)

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19. Financial liabilities (continued)

	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average Interest rate of loan drawn down %	2007 Average maturity date of loan drawn down Year
BERR loans to Royal Mail Group Ltd	500	1 200	1,700	5 8	2023
BERR loans to Post Office Limited	300	850	1,150	5 7	2007
Committed facilities	800	2,050	2,850		
Miscellaneous bank loans in overseas subsidiaries	3	-	3	4 8	2010
Total	803	2 050	2,853		

The miscellaneous loans and borrowings in subsidiaries are either unsecured or secured on various assets (mainly property) of the overseas subsidiaries The loans are repayable in variable and fixed amounts over their maturity periods

The obligations under finance leases and hire purchase contracts are either unsecured or secured on the leased assets These are repayable in variable and fixed amounts over their maturity periods The average interest rate is **6%** (2007 5%) The average maturity date is within two to three years (2007 - within one to two years)

The undrawn committed facilities, in respect of which all conditions precedent had been met at the balance sheet date expire as follows

	2008 £m	2007 £m
Expiring in one year or less	**-**	-
Expiring in more than one year but not more than two years	**-**	-
Expiring in more than two years	**2,070**	2,050
Total	**2,070**	2,050

The following securities apply to the Group's committed facilities

	2008 £m	2007 £m	**Security**
Royal Mail Group Ltd drawn down loans	**500**	500	Fixed charges over Royal Mail Group Ltd s loans to General Logistics Systems B V Royal Mail Group Ltd s loans to subsidiaries of General Logistics Systems B V and Royal Mail Investments Limited s shares in General Logistics Systems B V Floating charge over non regulated assets of Royal Mail Group Ltd
Royal Mail Group Ltd senior debt facility	**900**	900	Fixed charges over Royal Mail Holdings plc s shares in Royal Mail Group Ltd and Royal Mail Group Ltd s shares in Royal Mail Estates Limited Floating charges over all assets of Royal Mail Holdings plc Royal Mail Group Ltd and Royal Mail Estates Limited
Royal Mail Group Ltd Shareholder loan facility	**300**	300	None
	1,700	1 700	
Post Office Limited facility	**1,150**	1 150	Floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items*
Total	**2,850**	2 850	

* The negative pledge is an agreement not to grant security over these assets or to set up a vehicle that has the same effect

The Post Office Limited facility of £1 150m is restricted to funding the cash and near cash items held within the Post Office Limited network As at 30 March 2008, the balance of this cash was £933m (2007 £768m) as shown in note 18

The BERR loans to Post Office Limited under the facility are short dated on a programme of liquidity management and mature on average 1 day after the year end (2007 16 days) On maturity it is expected that further loans will be drawn down under this facility, which expires in 2011 At the balance sheet date this was to 2010 and extended on 18 April 2008 to 2011

The security in place in the previous year was as disclosed above

The BERR loans to Royal Mail Group Ltd and Post Office Limited become repayable immediately on the occurrence of an event of default under the loan agreements These events of default include non-payment, insolvency and breach of covenant relating to interest and total indebtedness It is not anticipated that the Company is at risk of breaching any of these obligations

Royal Mail Holdings plc

20 Provisions for liabilities and charges

	Current provisions £m	Non-current provisions £m	Held for sale provisions £m	Total £m	Mails and Parcels £m	Counter Services £m	Total £m
At 26 March 2007	69	42	-	111	106	5	111
Reclassification to Mails and Parcels	-	-	-	-	(1)	1	-
Charged in operating exceptional items	347	132	-	479	218	261	479
Charged in other operating costs	1	(2)	-	(1)	(3)	2	(1)
Reclassification to current provisions	8	(8)	-	-	-	-	-
Utilised non-cash	(29)	-	-	(29)	(19)	(10)	(29)
Utilised cash	(148)	(1)	-	(149)	(83)	(66)	(149)
At 30 March 2008	**248**	**163**	**-**	**411**	**218**	**193**	**411**

	Current provisions £m	Non-current provisions £m	Held for sale provisions £m	Total £m	Mails and Parcels £m	Counter Services £m	Total £m
At 27 March 2006	58	53	-	111	109	2	111
Reclassification to Mails and Parcels	-	-	-	-	1	(1)	-
Charged in operating exceptional items	179	-	-	179	141	38	179
Charged in other operating costs	4	10	-	14	11	3	14
Reclassification to non-current provisions	(4)	4	-	-	-	-	-
Reclassification to held for sale provisions	-	(25)	25	-	-	-	-
Utilised non-cash	(41)	-	-	(41)	(29)	(12)	(41)
Utilised cash	(127)	-	(1)	(128)	(103)	(25)	(128)
Disposal of property group	-	-	(24)	(24)	(24)	-	(24)
At 25 March 2007	69	42	-	111	106	5	111

The Mails and Parcels provision includes amounts relating to ColleagueShare £105m (2007 £nil) onerous property contracts £15m (2007 £27m) and decommissioning costs, £7m (2007 £9m) with the balance of £91m (2007 £70m) principally relating to redundancy The Mails and Parcels provision in the main is expected to be utilised in 2008-09 with the remaining amounts expected to be utilised over the next two to three years, except for £105m (2007 £nil) relating to ColleagueShare expected to be utilised within 5 years and £2m relating to onerous property contracts expected to be utilised over a period longer than 3 years The timing of cash flows for such provisions are by their nature uncertain and dependent upon the outcome of related events

Counter Services provisions include amounts in respect of Agency Network change £127m (2007 £nil), a programme to close 2,500 agency branches agreed with Government to be completed during 2008-09 the WH Smith project £22m (2007 £nil), a programme to transfer 70 branches to WH Smith, the organisational design review and other redundancy £14m (2007 £1m) onerous property contracts £19m (2007 £4m) and ColleagueShare £11m (2007 £nil) These provisions are expected to be utilised in 2008-09 with the exception of ColleagueShare, expected to be utilised within 5 years and certain property provisions that are expected to be utilised over a period longer than 3 years

Details of amounts charged as operating exceptional items are contained in note 7 The amounts released in other operating costs relate to onerous property contracts and decommissioning costs The change in the carrying value of the discounted element of the provision balance due to the passage of time is not material Non-cash utilised amounts principally relate to transfers from provisions to current payables for amounts due to the pension scheme for redundancies with early retirement Of the current payables recognised in this way during the year £22m (2007 £27m) had been cash settled by the balance sheet date

The cash utilised of £149m (2007 £128m) includes £144m (2007 £118m) of spend relating to exceptional rationalisation and £5m (2007 £10m) relating to other operating costs Total cash spend in the year relating to exceptional rationalisation is shown in the cash flow statement

21. Current trade and other payables

	2008 £m	2007 £m
Trade payables and accruals	**1,251**	1 178
Advance customer payments	**274**	264
Social security	**122**	89
Sub total	**1,647**	1 531
Deferred consideration on business combinations	**5**	3
Client creditors	**426**	303
Amounts due to pension schemes relating to redundancies	**7**	14
Interest	**16**	2
Capital creditors	**92**	71
ColleagueShare accrual	**161**	-
Total	**2,354**	1,924

The Group, through Post Office Limited receives and disburses cash on behalf of Government agencies and other clients to customers through its Post Office branch network Amounts owed to these parties are separately shown as client creditors above The level of cash held and the related creditors can vary significantly at each balance sheet date

The change in the carrying value of the discounted element of the payable balance due to the passage of time is not material

22 Non-current other payables

	2008 £m	2007 £m
Deferred consideration	**4**	1
Capital creditors	**12**	-
Other payables	**24**	24
Total	**40**	25

23. Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise short-term deposits money market liquidity investments, Government gilt edged securities, loans, finance leases and hire purchase contracts and cash The main purposes of these financial instruments are to raise finance and manage the liquidity needs of the business operations The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from operations

The Group enters into derivative transactions principally commodity swaps and forward currency contracts The purpose is to manage the commodity and currency risks arising from the Group's operations

It is, and has been throughout the year under review, the Group's policy that no speculative trading in financial instruments shall be undertaken

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk, commodity price and credit risk The Board reviews and agrees policies for managing each of these risks and they are summarised below

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates to the Group's debt obligations and interest bearing financial assets The BERR loans to Royal Mail Group Ltd of £500m (2007 £500m) are at a fixed interest rate to maturity with an average maturity date of 2023 (2007 – average date of 2023) The BERR loans to Post Office Limited of £280m (2007 £300m) are at short-dated fixed interest rates – average maturity 1 day (2007 average 16 days) The total interest bearing financial assets of the group (excluding the pension escrow investments) of £510m (2007 £428m) are at short-dated fixed or variable interest rates with average maturity 12 days (2007 average 15 days) These short-dated financial instruments are maturity managed to obtain the best value out of the interest yield curve

The Group's policy is to manage its net interest expense using an appropriate mix of fixed and variable rate financial instruments No external hedging of interest rate risk is undertaken

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant of the Group's profit before taxation and equity based upon the financial instruments held at the balance sheet date

The effect from available for sale (whether floating or fixed rate) financial assets is calculated as the change in fair value at the balance sheet date and impacts equity

23 Financial risk management objectives and policies (continued)

The effect from other floating rate financial instruments is calculated as the balance of the instruments multiplied by the change in interest rates and impacts profit before taxation

There is no effect on either profit before taxation or equity from other financial instruments

	2008		2007	
	Effect on profit before taxation gains/(losses) £m	**Effect on equity gains/(losses) £m**	Effect on profit before taxation gains/(losses) £m	Effect on equity gains/(losses) £m
Effect on of an increase in GBP interest rates of 100 basis points (1%)	**4**	**(52)**	11	-
Effect on of a decrease in GBP interest rates of 100 basis points (1%)	**(4)**	**72**	(11)	-

Foreign currency risk

The Group is exposed to foreign currency risk due to trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in the UK, the balances held to operate the Bureau de Change services within Post Office Limited and various purchase contracts denominated in foreign currency These risks are mitigated by hedging programmes managed by Group Treasury Where possible, exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward contracts Hedging will not normally be considered for exposures of less than £1m hedging is normally confined to 80% of the forecast exposure where forecast cash flows are highly probable

The Group's obligation to settle with overseas postal operators is denominated in Special Drawing Rights (SDRs) - a basket of currencies comprising of US Dollar (US$), Japanese Yen, Sterling and euro Group Treasury operates a rolling 18-month hedge programme which is subsequently reviewed on a quarterly basis There has been no external SDR hedge in place throughout the financial year 2007-08 due to there being no material net exposure

For the Bureau de Change business, balances of major currency holdings are hedged along with minor currencies showing a closely correlated movement

The Group's obligations to settle conveyance charges in US$ and euro has been hedged (US$ to April 2011, euro to April 2008)

The Group has four active hedge programmes covering obligations to settle euro invoices on automation projects

The Group does not hedge the translation exposure created by the net assets of its overseas subsidiaries

The following table demonstrates the sensitivity to reasonably possible changes in exchange rates, with all other variables held constant of the Group's profit before taxation and equity based upon the financial instruments held at the balance sheet date

The effect from financial instruments owned by GLS denominated in foreign currency and held at amortised cost in the balance sheet is calculated as the balance of the instruments multiplied by the change in exchange rates and impacts equity

The effect from other financial instruments denominated in foreign currency and held at amortised cost in the balance sheet is calculated as the balance of the instruments multiplied by the change in exchange rates and impacts profit

The effect from derivative assets and liabilities is calculated as the change in fair value at the balance sheet date and impacts equity (for derivatives within an effective hedging relationship) or profit before taxation for ineffective hedges and derivatives not designated in hedging relationships

There is no effect on either profit before taxation or equity from other financial instruments

	2008		2007	
	Effect on profit before taxation gains/(losses) £m	**Effect on equity gains/(losses) £m**	Effect on profit before taxation gains/(losses) £m	Effect on equity gains/(losses) £m
Effect on of an increase in USD/GBP exchange rates of 20 cents	**(2)**	**(12)**	(1)	(4)
Effect on of a decrease in USD/GBP exchange rates of 20 cents	**2**	**15**	1	5
Effect on of an increase in GBP/euro exchange rates of 10 pence	**(1)**	**34**	1	14
Effect on of a decrease in GBP/euro exchange rates of 10 pence	**1**	**(34)**	-	(17)

Royal Mail Holdings plc

23 Financial risk management objectives and policies (continued)

Commodity price risk

The Group is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe, which consumes over 140 million litres of fuel per year, and a jet fuel price risk arising from the purchasing of air freight services The Group's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets The strategy uses over-the-counter derivative products (in both US$ commodity price and US$/Sterling exchange rate) to manage these exposures

In addition, the Group is exposed to the commodity price risk of purchasing electricity and gas The Group s risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets These exposures are managed by locking into fixed rate price contracts with suppliers

The following table demonstrates the sensitivity to reasonably possible changes in commodity prices with all other variables held constant, of the Group s profit before taxation and equity based upon the financial instruments held at the balance sheet date

The effect from derivative assets and liabilities is calculated as the change in fair value at the balance sheet date and impacts equity (for derivatives within an effective hedging relationship) or profit before taxation for ineffective hedges and derivatives not desginated in hedging relationships

There is no effect on either profit before taxation or equity from other financial instruments

	2008		2007	
	Effect on profit before taxation gains/(losses) £m	**Effect on equity gains/(losses) £m**	Effect on profit before taxation gains/(losses) £m	Effect on equity gains/(losses) £m
Effect on of an increase in Diesel fuel prices of 10 US cents per litre	**-**	**5**	-	9
Effect on of a decrease in Diesel fuel prices of 10 US cents per litre	**-**	**(5)**	-	(9)
Effect on of an increase in Jet fuel prices of 10 US cents per litre	**1**	**-**	2	-
Effect on of a decrease in Jet fuel prices of 10 US cents per litre	**(1)**	**-**	(2)	-

Credit risk

Royal Mail operates a Credit Policy, which provides a fair and equitable arrangement for all its account customers The level of credit granted is based on a customer s risk profile assessed by an independent credit referencing agent The Credit Policy is applied rigidly within the regulated products area so as to ensure that Royal Mail is not in breach of compliance legislation Assessment of credit for the non-regulated products is based on commercial factors which are commensurate with the Group s appetite for risk.

Royal Mail has a dedicated credit management team, which sets and monitors credit limits and takes corrective action as and when appropriate Despite all the controls in place Royal Mail does suffer from bad debts, but the level of bad debts incurred is around 0 2% of turnover

With respect to credit risk arising from other financial assets of the Group which comprise cash cash equivalent investments available for sale financial assets, held to maturity financial assets held for trading financial assets, loans and receivables financial assets and certain derivative instruments, the Group invests/trades only with high quality financial institutions The Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments

There are no significant concentrations of credit risk within the Group, apart from a £0 2bn exposure to the Royal Bank of Scotland as a result of the establishment of the two pension escrow accounts This exposure is expected to be short-term, pending the implementation of a longer term investment strategy for the accounts

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows Typical short-term investments include money market funds, time deposits with approved counterparties, UK Government gilts and Treasury bills Borrowing facilities are regularly reviewed to ensure continuity of funding

The unused facilities for Royal Mail Group Ltd of £1,200m expire between 2014 and 2016 (2007 £1,200m expiring between 2014 and 2016) The unused facility for Post Office Limited of £870m (2007 £850m) expires in 2011 Additionally the Group has £300m (2007 £300m) of uncommitted lines of credit which are reviewed annually

Capital management

Royal Mail Holdings plc is a public limited company which is not traded and regards its capital as share capital share premium, retained earnings and debt provided by the UK Government The sole shareholder and the provider of the majority of debt to the Group is the UK Government The management of capital is closely linked to the Group's relationship with its Shareholder The Group maintains its liquidity requirements by the management of its internal funds and by the drawing down of equity and debt from its Shareholder as well as drawing on limited external debt facilities The Group's debt to equity ratio is determined by its Shareholder

Financial assets - pension escrow investments

On 23 March 2007, Royal Mail Holdings plc and Royal Mail Group Ltd established £1bn of investments in escrow These investments are held as security to the Royal Mail Pension Plan in support of the 17 year deficit recovery period from March 2006 At 30 March 2008, Royal Mail Holdings plc had £909m of investments in the pension escrow and Royal Mail Group Ltd had £161m Charges over these assets have been registered Further details on the Royal Mail Pension Plan including the latest full actuarial valuation are contained in note 25

Royal Mail Holdings plc

24. Financial instruments

Carrying amounts and fair values

Set out below is a summary by category of the carrying amounts of all the Group s financial instruments Trade debtors, creditors, prepayments accruals and client creditors have been omitted from this analysis on the basis that carrying value is a reasonable approximation for fair value Pension scheme assets and liabilities are also excluded Fair values have been calculated using current market prices (forward exchange rates/commodity prices) and discounted using appropriate discount rates There are no material differences between the fair value (transaction price) of all financial instruments at initial recognition and the fair value calculated using these valuation techniques The only financial instrument where the carrying amount at year end is different to the fair value is the 'BERR loans to Royal Mail Group Ltd' At the year end the respective fair value is £507m (2007 £494m)

The tables below also set out the carrying amount of the currency of the Group's financial instruments

Financial assets	**Classification**	**Sterling £m**	**US$ £m**	**euro £m**	**Other £m**	**2008 Total £m**
Cash at bank in hand or in Post Office Limited network		**847**	**15**	**189**	**25**	**1,076**
Cash equivalent investments						
- Money market funds	Loans and receivables	**88**	-	-	-	**88**
- Short-term deposits - Government/local government	Loans and receivables	**122**	-	-	-	**122**
- Short-term deposits - bank	Loans and receivables	**141**	-	-	-	**141**
Cash equivalent investment		**351**	-	-	-	**351**
Cash and cash equivalents		**1,198**	**15**	**189**	**25**	**1,427**
Financial assets - investments (current)						
- Short-term deposits - bank	Loans and receivables	**20**	-	-	-	**20**
- Short-term deposits - Government/local government	Loans and receivables	**1**	-	-	-	**1**
Financial assets - investments (current)		**21**	-	-	-	**21**
Financial assets - pension escrow investments (non-current)						
- Short-term deposits - bank	Loans and receivables	**187**	-	-	-	**187**
- Treasury bills	Available for sale	**640**	-	-	-	**640**
- Gilt edged securities (conventional)	Available for sale	**32**	-	-	-	**32**
- Gilt edged securities (index linked)	Available for sale	**211**	-	-	-	**211**
Financial assets - pension escrow investments (non-current)		**1,070**	-	-	-	**1,070**
Derivative assets - (current)		-	**14**	**10**	-	**24**
- (non-current)		-	**3**	**5**	-	**8**
Total		**2,289**	**32**	**204**	**25**	**2,550**
Financial liabilities						
BERR loans to Post Office Limited	Amortised cost	**(280)**	-	-	-	**(280)**
Miscellaneous loans in subsidiaries (current)	Amortised cost	**(2)**	-	**(7)**	-	**(9)**
Financial liabilities - loans and borrowings (current)		**(282)**	-	**(7)**	-	**(289)**
Obligations under finance leases and hire purchase contracts (current)	Amortised cost	**(9)**	-	**(1)**	-	**(10)**
BERR loans to Royal Mail Group Ltd	Amortised cost	**(500)**	-	-	-	**(500)**
Miscellaneous loans in subsidiaries (non-current)	Amortised cost	-	-	**(2)**	-	**(2)**
Financial liabilities - loans and borrowings (non-current)		**(500)**	-	**(2)**	-	**(502)**
Obligations under finance leases and hire purchase contracts (non-current)	Amortised cost	**(43)**	-	-	-	**(43)**
Derivative liabilities		-	-	**(3)**	-	**(3)**
Total		**(834)**	-	**(13)**	-	**(847)**
Net total financial assets		**1,455**	**32**	**191**	**25**	**1,703**

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Royal Mail Holdings plc

24 Financial instruments (continued)

Financial assets	Classification	Sterling £m	US$ £m	euro £m	Other £m	2007 Total £m
Cash at bank in hand or in Post Office Limited network		680	17	109	24	830
Cash equivalent investments						
- Money market funds	Loans and receivables	79	-	-	-	79
- Short-term deposits - Government/local government	Loans and receivables	285	-	-	-	285
- Short-term deposits - bank	Loans and receivables	2	-	-	-	2
Cash equivalent investment		366	-	-	-	366
Cash and cash equivalents		1 046	17	109	24	1 196
Financial assets - investments (current)						
- Short-term deposits - bank	Loans and receivables	13	-	-	-	13
- Short-term deposits - Government/local government	Loans and receivables	1	-	-	-	1
- Gilt edged securities (conventional)	Available for sale	3	-	-	-	3
Financial assets - investments (current)		17	-	-	-	17
Financial assets - pension escrow investments (non-current)						
- Short-term deposits - bank	Loans and receivables	1 000	-	-	-	1,000
Financial assets - pension escrow investments (non-current)		1,000	-	-	-	1 000
Total		2,063	17	109	24	2 213
Financial liabilities						
BERR loans to Post Office Limited	Amortised cost	(300)	-	-	-	(300)
Miscellaneous bank loans in overseas subsidiaries (current)	Amortised cost	-	-	(1)	-	(1)
Financial liabilities - loans (current)		(300)	-	(1)	-	(301)
BERR loans to Royal Mail Group Ltd	Amortised cost	(500)	-	-	-	(500)
Miscellaneous bank loans in overseas subsidiaries (non-current)	Amortised cost	-	-	(2)	-	(2)
Financial liabilities - loans (non-current)		(500)	-	(2)	-	(502)
Obligations under finance leases and hire purchase contracts (non-current)	Amortised cost	-	-	(1)	-	(1)
Derivative liabilities		-	(7)	-	-	(7)
Total		(800)	(7)	(4)	-	(811)
Net total financial assets		1 263	10	105	24	1,402

There are no financial assets or liabilities designated at fair value through the income statement on initial recognition

Derivative assets £24m current, £8m non-current (2007 £nil) and liabilities £3m (2007 £7m) are valued at fair value Effective changes in the fair value of derivatives, which are part of a designated cash flow hedge under IAS 39, are deferred into equity All other changes in derivative fair value are taken straight to the income statement.

None of the financial assets listed above are either past due or considered to be impaired

The movements in pension escrow investments of £70m consists of £57m interest on the investments and £13m movement in fair value deferred into the Financial Assets Reserve

Royal Mail Holdings plc

24 Financial instruments (continued)

Interest rate risk

Interest on financial instruments classified as floating is repriced at intervals of less than one year Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument

The table below sets out the carrying amount by maturity of the Group s financial instruments that are exposed to interest rate risk. The pension escrow investments mature between 8 days and 48 years but have been disclosed as maturing in greater than 5 years as the investments have been provided as security to the Royal Mail Pension Plan in support of the 17 year deficit recovery period from March 2006

Financial year ended 30 March 2008

Fixed rate	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Cash at bank	7.3	4	-	-	-	4
Cash equivalent investments						
- Short-term deposits - Government/local government	5 2	122	-	-	-	122
- Short-term deposits - bank	5.0	41	-	-	-	41
Financial assets - investments (current)						
- Short-term deposits - bank	5 8	20	-	-	-	20
- Short-term deposits - Government/local government	7.7	1	-	-	-	1
Financial assets - pension escrow investments (non-current)						
- Gilt edged securities (conventional)	4 8	-	-	-	32	32
BERR loans to Post Office Limited	5 6	(280)	-	-	-	(280)
BERR loans to Royal Mail Group Ltd	5 8	-	-	-	(500)	(500)
Obligations under finance lease and hire purchase contracts	5 8	(10)	(11)	(25)	(7)	(53)
Miscellaneous loans in subsidiaries	5 8	(2)	-	(1)	-	(3)
Total		(104)	(11)	(26)	(475)	(616)
Floating rate						
Cash at bank	3 7	134	-	-	-	134
Cash equivalent investments						
- Money market funds	5 4	88	-	-	-	88
- Short-term deposits - bank	5.4	100	-	-	-	100
Financial assets - pension escrow investments (non-current)						
- Short-term deposits - bank	5.2	-	-	-	187	187
- Treasury bills	5.1	-	-	-	640	640
- Gilt edged securities (index linked)	3 7	-	-	-	211	211
Miscellaneous loans in subsidiaries	3.9	(7)	-	(1)	-	(8)
Total		315	-	(1)	1,038	1,352
Non-interest bearing						
Cash in hand or in Post Office Limited network		938	-	-	-	938
Derivative assets		24	4	4	-	32
Derivative liabilities		(3)	-	-	-	(3)
Total		959	4	4	-	967
Net total financial assets/(liabilities)		1,170	(7)	(23)	563	1,703

Royal Mail Holdings plc

24. Financial instruments (continued)

Financial year ended 25 March 2007

Fixed rate	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Cash at bank	3 8	21	-	-	-	21
Cash equivalent investments						
- Short-term deposits - Government/local government	5 2	285	-	-	-	285
- Short-term deposits - bank	5 2	2	-	-	-	2
Financial assets - investments (current)						
- Short-term deposits - bank	5 3	13	-	-	-	13
- Short-term deposits - Government/local government	7 7	1	-	-	-	1
- Gilt edged securities (conventional)	5 4	3	-	-	-	3
BERR loans to Post Office Limited	5 7	(300)	-	-	-	(300)
BERR loans to Royal Mail Group Ltd	5 8	-	-	-	(500)	(500)
Total		25	-	-	(500)	(475)
Floating rate						
Cash at bank	2 9	24	-	-	-	24
Cash equivalent investments						
- Money market funds	5 2	79	-	-	-	79
Financial assets - pension escrow investments (non-current)						
- Short-term deposits - bank	5 2	-	-	-	1 000	1,000
Miscellaneous bank loans in overseas subsidiaries	4 8	(1)	-	(1)	(1)	(3)
Obligations under finance leases and hire purchase contracts	5 3	-	(1)	-	-	(1)
Total		102	(1)	(1)	999	1,099
Non-interest bearing						
Cash in hand or in Post Office Limited network		785	-	-	-	785
Derivative liabilities		(7)	-	-	-	(7)
Total		778	-	-	-	778
Net total financial assets/(liabilities)		905	(1)	(1)	499	1,402

The money market funds have been reclassified as floating rate

Royal Mail Holdings plc

24 Financial instruments (continued)

Contractual maturity analysis for gross financial liabilities

The table below sets out the gross (undiscounted) contractual cash flows of the Group's financial liabilities For overdrafts, loans and finance leases/hire purchase contracts, these cash flows represent the undiscounted total amounts payable including interest. For derivatives which are settled gross these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow For derivatives which are settled net, these cash flows represent the undiscounted forecast outflow

				2008
	Gross loans and borrowings commitments £m	**Gross finance lease/hire purchase instalments £m**	**Gross payments on derivatives settled gross £m**	**Total £m**
Amounts falling due in				
One year or less or on demand (current)	**317**	**12**	**191**	**520**
More than one year (non-current)	**919**	**51**	**99**	**1,069**
More than one year but not more than two years	**30**	**13**	**53**	**96**
More than two years but not more than five years	**89**	**29**	**46**	**164**
More than five years	**800**	**9**	**-**	**809**
Total	**1,236**	**63**	**290**	**1,589**

					2007
	Gross loan commitments £m	Gross finance lease/hire purchase instalments £m	Gross payments on derivatives settled gross £m	Net liabilities on derivatives settled net £m	Total £m
Amounts falling due in					
One year or less or on demand (current)	330	-	119	5	454
More than one year (non-current)	947	1	58	-	1,006
More than one year but not more than two years	29	1	58	-	88
More than two years but not more than five years	88	-	-	-	88
More than five years	830	-	-	-	830
Total	1 277	1	177	5	1,460

Hedging Activities

The Group had the following designated cash flow hedge programmes during the current and previous financial year

i) The diesel fuel hedge programmes uses forward commodity price swaps and forward currency purchase contracts to hedge the exposure arising from commodity price and US$/GBP exchange rates for forecast diesel fuel purchases

ii) The air conveyance hedge programme uses US$ and euro forward currency purchase contracts to hedge the exposure arising from US$/GBP and GBP/euro exchange rates for forecast air conveyance purchases

iii) Four capital programmes using euro forward currency purchase contracts to hedge the exposure arising from GBP/euro exchange rates for contracted capital expenditure on automation projects

Royal Mail Holdings plc

24 Financial instruments (continued)

The following table shows the movements on the hedging reserve for each of these hedge programmes

2008	Gains/(losses) deferred into equity during year £m	(Gains)/losses released from equity to income during year £m	(Gains)/losses released from equity to the carrying value of non-financial assets during year £m
Diesel fuel	**19**	**(3)**	-
Air Conveyance	**1**	-	-
Capital programmes	**16**	-	**(1)**
Total	**36**	**(3)**	**(1)**
2007			
Diesel fuel	(8)	3	-
Air conveyance	(1)	1	-
Total	(9)	4	-

The £3m gains released from equity to income during year (2007 losses of £4m) are included within the distribution and conveyance operating costs in the income statement

There is no material ineffectiveness recognised in the income statement relating to cash flow hedges

For all the above cash flow hedge programmes the underlying cash flows being hedged are expected to occur at the same dates as the hedge instruments (derivatives) mature For the non-capital programmes (Diesel and Air Conveyance) the profit or loss will be taken on maturity For capital programmes, the impact on the income statement will be through the depreciation charge over the life of the asset being hedged

The following table shows the derivatives outstanding at the year end

2008	Commodity/ currency	Nominal amount	Maturity date	Average contracted commodity price/ exchange rate	Derivative asset non-current fair value £m	Derivative asset - current fair value £m	Derivative liability fair value £m
Diesel fuel	**Diesel fuel**	**79k tonnes**	**Apr 08-Jan 09**	**US$684/tonne**	-	**12**	-
Diesel fuel	**US $**	**$182m**	**Apr 08-Apr 11**	**US$1 96/£**	**2**	-	-
Air conveyance	**US $**	**$69m**	**Apr 08-Apr 11**	**US$1 97/£**	**1**	-	-
Air conveyance	**euro**	**€0 3m**	**Apr 08**	**£0.69/€**	-	-	-
Capital programmes	**euro**	**€214m**	**Apr 08-Apr 11**	**£0 73/€**	**5**	**10**	-
Cash flow hedges					**8**	**22**	-
Other derivatives					-	**2**	**(3)**
Total					**8**	**24**	**(3)**
2007							
Diesel fuel	Diesel fuel	149k tonnes	Apr 07-Oct 08	US$644/tonnes	-	-	(3)
Diesel fuel	US$	$96m	Apr 07-Oct 08	US$1 88/£	-	-	(2)
Air conveyance	US$	$3m	Apr 07	US$1 77/£	-	-	-
Air conveyance	euro	€1m	Apr 07	£0 70/€	-	-	-
Capital programmes	euro	€102m	May 07-Feb 09	£0 69/€	-	-	-
Cash flow hedges					-	-	(5)
Other derivatives					-	-	(2)
Total					-	-	(7)

Other derivatives represent hedges by the Group of other foreign exchange and commodity price exposures, which are not designated as hedges under IAS 39 (including the hedge of jet fuel costs arising from the purchasing of air freight services and the hedge of the Bureau de Change currency holdings within Post Office Limited)

24 Financial instruments (continued)

The Group had outstanding forward transactions to hedge foreign currency and fuel purchases as follows

	In currency (millions)		Sterling equivalents (millions)	
	2008	2007	**2008**	2007
Maturing within one year				
euro	**210**	110	**153**	74
US Dollars	**142**	133	**72**	71
Australian Dollars	**9**	4	**4**	2
Fuel (US Dollars)	**65**	94	**33**	51
Maturing after one year				
euro	**101**	84	**76**	58
US Dollars	**182**	25	**92**	13
Fuel (US Dollars)	**-**	25	**-**	13

The Group's fuel hedges, which fix the GBP cost of purchasing fuel consist of two elements which may be hedged jointly or separately

- a commodity forward transaction fixing the cost in US Dollars of purchasing fuel, and
- a currency forward transaction fixing the GBP cost of these US Dollars

The table above contains both of these transactions The commodity forward transactions are shown under the heading Fuel (US Dollars) - $65m (2007 $94m) maturing within one year and $nil (2007 $25m) maturing after one year The related currency forward transactions are contained within the total of US Dollars - $142m (2007 $133m) maturing within one year and $182m (2007 $25m) maturing after one year

25. Employee benefits - pensions

The Group operates pension schemes as detailed below

Scheme	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
Various other small-scale schemes operated by overseas subsidiaries	Overseas subsidiary employees	Defined contribution

Defined Contribution

A charge for the defined contribution schemes of £2m (2007 £2m) was recognised in operating profit before exceptional items within the income statement The Company contributions to these schemes was £2m (2007 £2m)

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds The latest full actuarial valuations of both schemes have been carried out as at 31 March 2006 using the projected unit method For RMPP this valuation has been concluded at £3 4bn deficit For RMSEPP, the valuation has been concluded at £43m deficit A series of changes began to take effect on 1 April 2008 and are summarised in the Chairman and Chief Executive's Statement

Payment of £548m (2007 £541m) was made during the year in respect of regular future service contributions, with £542m (2007 £538m) relating to RMPP The regular future service contributions for RMPP, expressed as a percentage of pensionable pay has remained at 20 0% effective from the beginning of the previous year This rate is not expected to change materially during 2008-09 For RMSEPP, these contributions have been at 48 2% (2007 20 9%)

Payment of £284m (2007 £243m) was made during the year to fund the deficit in the schemes with £276m (2007 £241m) relating to RMPP Deficit recovery payments are planned for RMPP over the 17 years from the date of the latest full actuarial valuation These payments will be made before each 31 March and may therefore span across the Group s year end (the last Sunday in March) Over the 16 years from 31 March 2007, planned deficit payments are £260m per annum, increasing in line with RPI (base year is 2006-07) For RMSEPP deficit recovery payments will be £5m per annum from 1 April 2007 to 31 December 2015

A current liability of £7m (2007 £14m) has been recognised for payments to the pension schemes relating to redundancy (see note 21) During the year, payments of £36m (2007 £74m) relating to redundancy were made

On 23 March 2007, the Group established £1bn of investments in escrow as security to the Royal Mail Pension Plan in support of the 17 year deficit recovery period

25 Employee benefits – pensions (continued)

The following disclosures relate to the gains/losses and deficit in the schemes recognised for the RMPP and RMSEPP defined benefit plans in the financial statements of the Group

a) Major assumptions

The size of the pension deficit which is large in the context of the Group and its finances, is materially sensitive to the assumptions adopted Small changes in these assumptions could have a significant impact on the deficit and overall income statement charge The major assumptions were

	At 30 March 2008 % pa	At 25 March 2007 % pa
Rate of increase in salaries	**4 6**	4 1
Rate of increase in pensions and deferred pensions	**3 6**	3 1
Discount rate	**6 5**	5 3
Inflation assumption	**3 6**	3 1
Expected average rate of return on assets	**6 8**	7 0

The above assumptions relate to both defined benefit plans with the exception of the expected average rate of return on assets which is computed for the combined assets of the plans The expected average rate of return on assets is a weighted average of the long-term expected rate of return of each principal asset class (see section b) The expected average rate of return is computed at each balance sheet date based on the market values and long-term rate of return of each principal asset class as at that date

Mortality

The mortality assumptions for the larger scheme are based on the 1992 series mortality tables allowing for medium cohort' projections of future improvements These are detailed below

Average expected life expectancy from age 60	**2008**	2007
For a current 60 year old male RMPP member	**26 years**	26 years
For a current 60 year old female RMPP member	**29 years**	29 years
For a current 40 year old male RMPP member	**28 years**	28 years
For a current 40 year old female RMPP member	**31 years**	30 years

b) Plans' assets and expected rates of return

The assets in the plans and the expected rates of return were

At 30 March 2008

	Market value		**Long-term expected rate of return**	
	2008 £m	2007 £m	**2008 % pa**	2007 % pa
Equities	**11,090**	15,372	**8 3**	8 0
Bonds	**10,064**	5,693	**5 2**	4 6
Property	**2,565**	2,484	**6 7**	6 2
Other assets	**204**	29	**4 6**	4 1
Fair value of plans' assets	**23,923**	23 578		
Present value of plans' liabilities	**(26,846)**	(28 563)		
Deficit in schemes	**(2,923)**	(4 985)		

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded

Certain of the above investments relate to properties occupied by the Group, but the contribution of these properties to the fair value of plans' assets is not material The pension plans have not invested in any other assets used by the Group or in the Group's own financial instruments

Royal Mail Holdings plc

25. Employee benefits – pensions (continued)

c) Recognised charges

An analysis of the separate components of the amounts recognised in the income statement and statement of recognised income and expense (SORIE) is as follows

	2008 £m	2007 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptional items		
Current service cost	**699**	704
Past service cost	**-**	16
Total charge to operating profit before exceptional items	**699**	720
Analysis of amounts charged to operating exceptional items		
Loss due to curtailments (within provision for restructuring charge – note 7)	**42**	51
Total charge to operating profit	**741**	771
Analysis of amounts charged/(credited) to financing		
Interest on plans' liabilities	**1,509**	1 342
Expected return on plans assets	**(1,640)**	(1,541)
Total net credit to financing	**(131)**	(199)
Net charge to income statement before deduction for tax	**610**	572
Analysis of amounts recognised in the statement of recognised income and expense (SORIE)		
Actual return on plans assets	**313**	1,713
Less expected return on plans' assets	**(1,640)**	(1 541)
Actuarial (losses)/gains on assets (all experience adjustments)	**(1,327)**	172
Experience adjustments on liabilities	**(169)**	(122)
Effects of changes in actuarial assumption on liabilities	**3,294**	290
Actuarial gains on liabilities	**3,125**	168
Total actuarial gains recognised in SORIE before deduction for tax	**1,798**	340

d) Movement in plans' assets and liabilities

Changes in the present value of the defined benefit pension obligations are analysed as follows

	2008 £m	2007 £m
Plans' liabilities at beginning of period	**(28,563)**	(27,435)
Current service cost	**(699)**	(704)
Past service cost	**-**	(16)
Curtailment costs*	**(29)**	(41)
Finance cost	**(1,509)**	(1,342)
Employee contributions	**(164)**	(162)
Actuarial gain (recognised in SORIE)	**3,125**	168
Benefits paid	**993**	969
Plans liabilities at end of period	**(26,846)**	(28 563)

*The curtailment costs in the income statement are recognised on a consistent basis with the associated compensation costs Estimates of both are included for example in any redundancy provisions raised The curtailment costs above represent the costs associated with those people paid compensation in respect of redundancy during the accounting period Such payments may occur in an accounting period subsequent to the recognition of costs in the income statement

Royal Mail Holdings plc

25 Employee benefits - pensions (continued)

Changes in the fair value of the plans' assets are analysed as follows

	2008 £m	2007 £m
Plans assets at beginning of period	**23,578**	21 847
Company contributions paid	**918**	858
Movement in company contributions accrued	**(7)**	(33)
Company contributions prepaid for 2008-09	**(50)**	-
Employee contributions	**164**	162
Finance income	**1,640**	1 541
Actuarial (loss)/gain (recognised in SORIE)	**(1,327)**	172
Benefits paid	**(993)**	(969)
Plans assets at end of period	**23,923**	23,578

e) History of experience gains and losses

The cumulative amount of actuarial gains and losses recognised since transition to IFRSs at 29 March 2004 in the statement of recognised income and expense is £890m gain (2007 £908m loss) The Directors are unable to determine how much of the pension scheme deficit recognised in transition to IFRSs is attributable to actuarial gains and losses since inception of the pension schemes Consequently, the Directors are unable to determine the cumulative amount of actuarial gains and losses that would have been recognised in the statement of recognised income and expense between inception of the pension schemes and transition to IFRSs

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of assets	**23,923**	23 578	21 847	17,357	15,200
Present value of liabilities	**(26,846)**	(28 563)	(27 435)	(21 315)	(19,594)
Deficit in schemes	**(2,923)**	(4,985)	(5,588)	(3 958)	(4 394)

	2008 £m	2007 £m	2006 £m	2005 £m
Experience adjustment on assets	**(1,327)**	172	3 421	1,043
Experience adjustment on liabilities	**(169)**	(122)	(161)	(302)

26. Share capital

Authorised	2008 £	2007 £
Ordinary shares of £1 each	**100,000**	100,000
Special Rights Redeemable Preference Share (Special Share) of £1 each	**1**	1
Total	**100,001**	100,001

Issued and called up	2008 £	2007 £
Ordinary shares of £1 each	**50,005**	50,005
Special Rights Redeemable Preference Share (Special Share) of £1 each	**1**	1
Total	**50,006**	50,006

The Special Share can be redeemed at any time by its holder (the Secretary of State for Business Enterprise and Regulatory Reform) subject to such redemption being compliant with the Companies Act 1985 The Company cannot redeem the Special Share without the prior consent of its holder No premium is payable on redemption

On distribution in a winding up of the Company, the holder of the Special Share 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

Under section 63(7) of the Postal Services Act 2000, for the purposes of the Companies Act 1985, certain shares issued shall be treated as if their nominal value had been fully paid up

Under sections 72 and 74 of the Postal Services Act 2000, the Secretary of State for Business, Enterprise and Regulatory Reform may issue directions to the Company which depending on the direction issued could result in the recognition of a distribution

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Royal Mail Holdings plc

27 Total equity

	Share premium £m	Retained earnings £m	Financial Assets Reserve £m	Rural Network Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Other Reserves £m	Equity holder of the parent £m	Minority interest £m	Total equity £m
At 26 March 2007	**430**	**(2,775)**	**-**	**30**	**6**	**(5)**	**47**	**(2,267)**	**3**	**(2 264)**
Profit for the period	-	135	-	-	-	-	-	**135**	-	**135**
Translation differences	-	-	-	-	63	-	-	**63**	-	**63**
Actuarial gains on defined benefit schemes	-	1 798	-	-	-	-	-	**1,798**	-	**1,798**
Gain on cash flow hedges deferred into equity	-	-	-	-	-	36	-	**36**	-	**36**
Gain on cash flow hedges released from equity to income	-	-	-	-	-	(3)	-	**(3)**	-	**(3)**
Gain released from equity to the initial carrying value of fixed assets	-	-	-	-	-	(1)	-	**(1)**	-	**(1)**
Gains deferred into reserves	-	-	13	-	-	-	-	**13**	-	**13**
Taxation on items taken directly to equity	-	(15)	(3)	-	-	-	-	**(18)**	-	**(18)**
Recognised income for the period	**-**	**1 918**	**10**	**-**	**63**	**32**	**-**	**2 023**	**-**	**2 023**
Allocation to Rural Network Reserve	-	(150)	-	150	-	-	-	-	-	-
Transfer from Rural Network Reserve	-	150	-	(150)	-	-	-	-	-	-
Transfer of interest income to Rural Network Reserve	-	(6)	-	6	-	-	-	-	-	-
At 30 March 2008	**430**	**(863)**	**10**	**36**	**69**	**27**	**47**	**(244)**	**3**	**(241)**

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27. Total equity (continued)

	Share premium £m	Retained earnings £m	Mails Contribution Reserve £m	POL Contribution Reserve £m	Holdings Escrow Reserve £m	Mails Reserve £m	Rural Network Reserve £m	POL Funding Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Other Reserves £m	Equity holder of the parent £m	Minority interest £m	Total equity £m
At 27 March 2006	-	(4,270)	-	-	-	836	28	-	8	-	55	(3,343)	4	(3 339)
Profit for the period	-	286	-	-	-	-	-	-	-	-	-	286	-	286
Translation differences	-	-	-	-	-	-	-	-	(2)	-	-	(2)	-	(2)
Actuarial gains on defined benefit schemes	-	340	-	-	-	-	-	-	-	-	-	340	-	340
Loss on cash flow hedges deferred into equity	-	-	-	-	-	-	-	-	-	(9)	-	(9)	-	(9)
Loss on cash flow hedges released from equity to income	-	-	-	-	-	-	-	-	-	4	-	4	-	4
Taxation on items taken directly to equity	-	27	-	-	-	-	-	-	-	-	-	27	-	27
Recognised income/(expense) for the period	-	653	-	-	-	-	-	-	(2)	(5)	-	646	-	646
Transfer from Mails Reserve to Rural Network Reserve	-	-	-	-	-	(75)	75	-	-	-	-	-	-	-
Allocation to Rural Network Reserve	-	(75)	-	-	-	-	75	-	-	-	-	-	-	-
Transfer from Rural Network Reserve	-	150	-	-	-	-	(150)	-	-	-	-	-	-	-
Transfer of interest income to Rural Network Reserve	-	(2)	-	-	-	-	2	-	-	-	-	-	-	-
Issue of ordinary shares (1)	145	-	-	-	-	-	-	-	-	-	-	145	-	145
Allocation to Mails Contribution Reserve	-	(145)	145	-	-	-	-	-	-	-	-	-	-	-
Transfer from Mails Contribution Reserve	-	145	(145)	-	-	-	-	-	-	-	-	-	-	-
Issue of ordinary shares (2)	231	-	-	-	-	-	-	-	-	-	-	231	-	231
Allocation to POL Contribution Reserve	-	(231)	-	231	-	-	-	-	-	-	-	-	-	-
Transfer from POL Contribution Reserve to POL Funding Reserve	-	-	-	(231)	-	-	-	231	-	-	-	-	-	-
Transfer of interest income to POL Funding Reserve	-	(2)	-	-	-	-	-	2	-	-	-	-	-	-
Transfer from POL Funding Reserve	-	233	-	-	-	-	-	(233)	-	-	-	-	-	-
Transfer of interest income to Mails Reserve	-	(34)	-	-	-	34	-	-	-	-	-	-	-	-
Distribution of Mails Reserve	-	795	-	-	-	(795)	-	-	-	-	-	-	-	-
Allocation to Holdings Escrow Reserve	-	(795)	-	-	795	-	-	-	-	-	-	-	-	-
Issue of ordinary shares (3)	54	-	-	-	-	-	-	-	-	-	-	54	-	54
Allocation to Holdings Escrow Reserve	-	(54)	-	-	54	-	-	-	-	-	-	-	-	-
Transfer of interest income to Holdings Escrow Reserve	-	(1)	-	-	1	-	-	-	-	-	-	-	-	-
Transfer from Holdings Escrow Reserve	-	850	-	-	(850)	-	-	-	-	-	-	-	-	-
Transfer of unrealised gain	-	8	-	-	-	-	-	-	-	-	(8)	-	-	-
Dividend paid to minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(1)	(1)
At 25 March 2007	430	(2 775)	-	-	-	-	30	-	6	(5)	47	(2,267)	3	(2 264)

27 Total equity (continued)

Rural Network Reserve

The Rural Network Reserve was created by Post Office Limited following directions issued by the Secretary of State under section 72 of the Postal Services Act 2000 (the Act) The amounts allocated to this Reserve are to be applied as if they were profits available for distribution The purposes for which the Rural Network Reserve may be utilised are stated in the directions issued, and principally relate to the maintenance of a rural network of post offices A total of £594m has been used from this Reserve towards the maintenance of a rural network between March 2003 and the beginning of the 2007-08 financial year

Following an order issued by the Secretary of State under section 103 of the Act Post Office Limited received £150m during the period (2007 £75m) This subsidy has been accounted for as a Government grant and recorded within Revenue as the Social Network Payment (see note 2) Under the terms of an agreement Post Office Limited immediately allocated £150m to the Rural Network Reserve on receipt of the Social Network Payment During the period £150m (2007 £150m) of the Rural Network Reserve was applied towards the maintenance of a rural network of Post Offices

Interest

The transfer of interest relates to income recorded in the income statement, which has been earned on the assets that support the Rural Network Reserve

Financial Assets Reserve

The Financial Assets Reserve is used to record fair value changes on available for sale financial assets

Foreign Currency Translation Reserve

The Foreign Currency Translation Reserve is used to record the gains and losses arising from 29 March 2004 on translation of assets and liabilities of subsidiaries denominated in currencies other than the reporting currency

Hedging Reserve

The Hedging Reserve is used to record gains and losses arising from cash flow hedges since 28 March 2005

Other Reserves

Other Reserves of £47m (2007 £47m) comprise £2m (2007 £2m) unrealised gain on First Rate Exchange Services Holdings Limited, a joint venture transaction and £45m (2007 £45m) relating to unrealised gains on Midasgrange Limited, an associate company There were no transfers between this Reserve and retained earnings during the year (2007 £8m)

28 Commitments

Operating lease commitments

The Group is committed to the following future minimum lease payments under non-cancellable operating leases as at 30 March 2008

	Land and Buildings		Vehicles and equipment		IT equipment		Total	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Within one year	**129**	120	**27**	36	**27**	15	**183**	171
Between one and five years	**417**	366	**29**	42	**53**	52	**499**	460
Beyond five years	**640**	679	**3**	-	**-**	12	**643**	691
Total	**1,186**	1,165	**59**	78	**80**	79	**1,325**	1,322

Existing property leases have an average term of 15 years and any new leases entered into generally have a 15-year term with a 10-year break clause Vehicle leases generally have a term of between 3 and 7 years depending on the asset class with the average term being 4 years The existing leases have an average term remaining of 1 year There are two IT contracts, one expiring within a year and one with a term of 10 years with 5 years remaining at the balance sheet date

Finance lease and hire purchase commitments

	2008		2007	
	Minimum payments £m	**Present value of minimum lease payments £m**	Minimum payments £m	Present value of minimum lease payments £m
Within one year	**12**	**10**	-	-
Between one and five years	**43**	**36**	1	1
Beyond five years	**8**	**7**	-	-
Total minimum lease payments	**63**	**53**	1	1
Less amounts representing finance charges	**(10)**	**-**	-	-
Present value of minimum lease payments	**53**	**53**	1	1

The Group has finance lease contracts for vehicles, property and equipment The leases have no terms of renewal purchase options or escalation clauses and there are no restrictions concerning dividends borrowings or additional leases Vehicle leases have a term of between 2 and 5 years, depending on the class of vehicle, with the average term being 3 years The property lease is for a 15 year term and the equipment for an average of 7 years

Capital commitments

The Group has commitments of £222m at 30 March 2008 (25 March 2007 £110m), which are contracted for but not provided in the accounts

29 Related party transactions

The ultimate parent (the Company) and principal subsidiaries

Royal Mail Holdings plc is the ultimate parent company of the Group The consolidated financial statements include the financial statements of Royal Mail Holdings plc and the principal subsidiaries listed in the following table

Company	Country of incorporation	% equity interest 2008	2007
Royal Mail Group Ltd	United Kingdom	100	100
Post Office Limited	United Kingdom	100	100
Royal Mail Investments Limited	United Kingdom	100	100
General Logistics Systems B V	Netherlands	100	100
Royal Mail Estates Limited	United Kingdom	100	100
Romec Limited	United Kingdom	51	51
iRed Redefining Document Management Ltd	United Kingdom	100	n/a

Royal Mail Holdings plc

29 Related party transactions (continued)

Royal Mail Estates Limited, a wholly owned subsidiary, was formed during the 2006-07 financial year The security on the Royal Mail Group Ltd senior debt facility includes a fixed charge over shares in Royal Mail Estates Limited and a floating charge over all the assets of Royal Mail Estates Limited (see note 19) Further to the transfer of most of the property assets of Royal Mail Group Ltd to Royal Mail Estates Limited in 2006-07, the remaining property assets in scope were transferred during the current financial year

iRed Redefining Document Management Ltd was formed during the year to source, produce procure and deliver all printed material being created by the Group

Joint venture

The Group has a 50% interest in First Rate Exchange Services Holdings Limited (previously known as First Rate Travel Services Limited until its name change on 23 February 2006) a company registered in the United Kingdom

Associates

The following companies are the principal associates of the Group

Company	Country of incorporation	% Ownership 2008	2007
Quadrant Catering Limited	United Kingdom	**51**	51
Camelot Group plc	United Kingdom	**20**	20
G3 Worldwide Mail N V (Spring)	Netherlands	**24 5**	24 5
Midasgrange Limited	United Kingdom	**50**	50

The majority of the Board and voting power in Quadrant Catering Limited is held by the Group s partner hence it is not a subsidiary

Related party transactions

During the year the Group entered into transactions with related parties The transactions were in the ordinary course of business and included administration and investment services recharged to the Group's pension plan by Royal Mail Pensions Trustees Limited The transactions entered into and the balances outstanding at the financial year end were as follows

	Sales/recharges to related party		Purchases from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Royal Mail Pension Plan	**9**	9	**-**	-	**-**	-	**-**	-
Quadrant Catering Limited	**-**	-	**40**	43	**-**	-	**9**	5
Camelot Group plc	**47**	48	**-**	-	**1**	1	**-**	-
G3 Worldwide Mail N V (Spring)	**1**	1	**9**	12	**10**	13	**1**	2
Midasgrange Limited	**14**	9	**-**	-	**10**	8	**-**	-
First Rate Exchange Services Holdings Limited Group (restated)	**29**	26	**145**	131	**2**	3	**1**	2

The 2006-07 purchases from First Rate Exchange Services Holdings Limited Group have been restated to include the margin charged by the related party to Post Office Limited on foreign currency used in the Bureau de Change operation

The companies listed above are joint ventures and associates of the Group with the exception of Royal Mail Pension Plan

The sales to and purchases from related parties are made at normal market prices Outstanding balances at the year end are unsecured interest free and settlement is made by cash

The Group trades with numerous Government bodies on an arm's length basis Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted

Separately

- the Group has certain loan facilities with Government (see note 19),
- the Group has received the Social Network Payment from Government (see notes 2 and 27) and
- the Group has received a Government grant (see notes 2 and 7)

Royal Mail Holdings plc

29 Related party transactions (continued)

Key management compensation

	2008 £000	2007 £000
Short-term employee benefits	**3,166**	4,164
Post-employment benefits	**851**	707
Termination benefits	**500**	-
Other long-term benefits	**1,120**	3,113
Total compensation paid to key management	**5,637**	7 984

Key management comprises Executive and Non Executive Directors of the Royal Mail Holdings plc Board

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

Transactions with other related parties

John Neill, a Non Executive Director of the Company until he left on 31 August 2007, is Group Chief Executive and Deputy Chairman of Unipart Group, which during 2006-07 had a contract for the supply of operational support services and expertise with Royal Mail for improvements to mail centres The work programme was successfully completed during 2006-07 with a payment made of £1 4m John Neill took no part in the decision to appoint Unipart Group

Bob Wigley a Non Executive Director of the Company until his resignation on 31 October 2006, is Chairman of Merrill Lynch's Europe Middle East and Africa Business The Royal Mail Pension Plan not the Group had a commercial relationship with Merrill Lynch Investment Management for two UK equity portfolio mandates to the value of £970m for the 7 months up to 31 October 2006 Bob Wigley was not a Trustee of the Royal Mail Pension Plan whilst he was a Non Executive Director of the Company

Royal Mail Holdings plc

Group five-year summary (unaudited)

Income statement	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
	Prepared or restated under				
	IFRS				UK GAAP
Revenue	**9,388**	9 179	9,056	8 956	8 633
Profit from operations	-	-	-	-	220
Pensions charge in respect of pensions deficit under SSAP 24	-	-	-	-	(132)
Operating profit before exceptional items	**162**	233	355	302	88
Operating exceptional items	**(441)**	(243)	(210)	(277)	(64)
Operating (loss)/profit	**(279)**	(10)	145	25	24
Non-operating exceptional items	**58**	118	67	67	64
(Loss)/profit before interest	**(221)**	108	212	92	88
Finance income and costs including net pensions interest	**144**	205	100	75	17
(Loss)/profit before tax	**(77)**	313	312	167	105
Taxation	**212**	(27)	83	(16)	(98)
Profit after tax	**135**	286	395	151	7
Cash flow statement	**2008 £m**	2007 £m	2006 £m	2005 £m	2004 £m
Net increase/(decrease) in cash	**224**	1	(61)	(159)	(11)
Net (decrease)/increase in cash equivalents	**(15)**	34	(118)	134	n/a
Net increase/(decrease) in cash and cash equivalents	**209**	35	(179)	(25)	n/a

Balance sheet	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
	Prepared or restated under IFRS				
Goodwill and intangible assets	**240**	207	174	152	123
Property plant and equipment	**1,671**	1 619	1 594	1 591	1 550
Other non-current assets including those classified as held for sale	**1,824**	1 528	539	486	152
Net current (liabilities)/assets	**(300)**	(60)	535	298	212
Non-current liabilities	**(3,676)**	(5 558)	(6 181)	(4 565)	(5 016)
Net liabilities	**(241)**	(2 264)	(3 339)	(2 038)	(2 979)

Paragraph 37 of International Financial Reporting Standard 1 – First time adoption of IFRSs requires that information prepared under a previous GAAP is clearly labeled Disclosure is also required of the nature of the main adjustments that would be necessary to comply with IFRSs Quantification of those adjustments is not required The main adjustments to the Group accounts on the adoption of IFRSs are

- the inclusion of a retirement benefit obligation on the face of the balance sheet,
- trade and other receivables no longer include an element of pension prepayment
- deferred tax charges to reflect the introduction of the retirement benefit obligation,
- an annual leave accrual is included in trade and other payables
- the income statement reflects a number of minor changes which are mainly presentational but changes to the pension charge and related taxation are the major amendments, and
- the cash flow statement is now produced in IFRS format showing operating financing and investing activities

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Parent Company accounts

Statement of Directors' responsibilities in relation to the parent Company financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing those financial statements the Directors are required to

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company 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 Auditors' report to the members of the Company, Royal Mail Holdings plc

We have audited the parent Company financial statements of Royal Mail Holdings plc for the year ended 30 March 2008 which comprise the balance sheet and the related notes 1 to 9 These parent Company financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

We have reported separately on the Group financial statements of Royal Mail Holdings plc for the year ended 30 March 2008

This report is made solely to the Companys 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' responsibilities for preparing the Annual Report and the parent Company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the parent Company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the parent Company financial statements give a true and fair view, and whether the parent Company financial statements and the part of the Directors Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company financial statements The other information comprises only the Chairman and Chief Executive's Statement, the Annual Review, the Operating and Financial Review the Directors' Report, the Corporate Governance statement the Internal Control statement the unaudited part of the Directors' Remuneration Report and the Statement of Directors' Responsibilities We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination on a test basis of evidence relevant to the amounts and disclosures in the parent Company financial statements and the part of the Directors Remuneration Report to be audited It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent Company 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 parent Company financial statements and the part of the Directors' Remuneration Report to be audited 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 parent Company financial statements and the part of the Directors' Remuneration Report to be audited

Opinion
In our opinion

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 March 2008,
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors' Report is consistent with the parent Company financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
19 May 2008

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Royal Mail Holdings plc

Parent Company balance sheet

at 30 March 2008 and 27 March 2007

	Notes	**2008** **£m**	2007 £m
Fixed assets			
Investments in subsidiaries	4	**3,784**	3 784
Investments in pension escrow	5	**909**	850
Total net assets		**4,693**	4.634
Capital and reserves			
Share capital	7	**-**	-
Share premium	8	**430**	430
Reserves	8	**11**	-
Profit and loss account	8	**4,252**	4 204
Shareholder's funds		**4,693**	4.634

The accounts on pages 100 to 102 were approved by the Board of Directors on 19 May 2008 and signed on its behalf by

GRO

Adam Crozier

GRO

Ian Duncan

Notes to the parent Company accounts

1 Parent Company accounting policies

The following accounting policies apply

Financial year
The financial year ends on the last Sunday in March and, accordingly these accounts are made up to the 53 weeks ended 30 March 2008 (52 weeks ended 25 March 2007)

Basis of preparation
The parent Company's financial statements were authorised for issue by the Board on 19 May 2008

The accounts on pages 100 to 102 have been prepared in accordance with applicable UK Accounting Standards and law including the requirements of the Companies Act 1985 Unless otherwise stated in the accounting policies below, the accounts have been prepared under the historic cost accounting convention

Royal Mail Holdings plc (the Company) has not presented its own profit and loss account as permitted by the Companies Act s230 (3) However, the results of the Company for the year are disclosed in note 8 to the accounts

The Company has taken advantage of paragraph 2D of FRS 29 (IFRS 7) Financial Instruments Disclosures and has not disclosed information required by that standard as the Group's consolidated financial statements in which the Company is included provide equivalent disclosures for the Group under IFRS 7

No new UK Accounting Standards, which affect the presentation of these accounts, have been issued

Impairment reviews
Unless otherwise disclosed in these accounting policies fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired The Company assesses at each reporting date whether such indications exist Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount which is the higher of an asset's net realisable value and its value in use

Investments in subsidiaries
Investments in subsidiaries within the Company s accounts are stated at cost less any accumulated impairment losses The opening and closing carrying value relates solely to the Company's investment in Royal Mail Group Ltd, a 100% subsidiary of the Company Royal Mail Group Ltd is the only direct shareholding held by the Company

Investments in pension escrow
Investments in pension escrow are financial assets within the scope of FRS 26 Financial Instruments Recognition and Measurement'

The investments are a combination of short-term deposits and long-term investments which mature between 8 days and 48 years but have been included within fixed assets as the investments have been provided as security to the Royal Mail Pension Plan in support of the 17 year deficit recovery period from March 2006

The investments comprise short-term deposits with a bank, Treasury bills and gilt edged securities

The bank deposits are non-derivative assets that are neither held for trading nor quoted in an active market and therefore classified as 'loans and receivables' for measurement purposes under FRS 26 (Financial Instruments Recognition and Measurement) The investments are initially recognised at fair value being the amount deposited The investments accrue interest, thereby increasing the carrying value of the investments This interest is included in the reported profit/(loss) for the year The investments are derecognised when they mature

Treasury bills, index-linked gilt edged securities and conventional gilt edged securities are classified as available for sale financial instruments on the basis that they are quoted investments that are not held for trading and may be disposed of prior to maturity The investments are initially recognised at fair value, being the purchase price After initial recognition, interest is included in the reported profit/(loss) for the year, using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised in the Financial Assets Reserve until the investment is derecognised

Contingent liabilities
Contingent liabilities are not disclosed if the possibility of losses occurring is considered to be remote

2 Directors' emoluments

The Directors of the Company are not paid fees by the Company for their services as Directors of the Company The Directors of the Company are paid fees by other companies of the Group These emoluments are disclosed in the Group accounts

3 Auditors' remuneration

The Auditors of the Company are not paid fees by the Company The Auditors of the Company are paid fees by the other companies of the Group This remuneration is disclosed in the Group accounts

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4 Investments in subsidiaries

	Cost £m	Impairment £m	2008 £m	2007 £m
At 26 March 2007 and 27 March 2006	4 160	(376)	3,784	3 784
Additions	-	-	-	376
Impairment	-	-	-	(376)
At 30 March 2008 and 25 March 2007	**4,160**	**(376)**	**3,784**	3,784

5 Investments in pension escrow

	Average effective rate %	2008 £m	Average effective rate %	2007 £m
Short-term deposits - bank	**5 2**	**159**	5 2	850
Treasury bills	**5 1**	**543**	-	-
Gilt edged securities (index linked)	**3 7**	**180**	-	-
Gilt edged securities (conventional)	**4 8**	**27**	-	-
Investments in pension escrow		**909**		850

6 Profit and loss account

The Company is a non-trading company The profit for the period relates to income from the investments in pension escrow

7. Share capital

Details of the share capital are disclosed in the Group accounts in note 26

8 Shareholder's funds

	Share premium £m	Profit and loss account £m	Financial Assets Reserve £m	2008 Total £m	2007 Total £m
At 26 March 2007	430	4,204	-	4 634	3 784
Profit for the year	-	48	-	48	420
Issue of shares	-	-	-	-	430
Gains on financial asset investments	-	-	11	11	-
At 30 March 2008	**430**	**4,252**	**11**	**4,693**	**4,634**

Financial Assets Reserve

The Financial Assets Reserve is used to record fair value changes on available for sale financial assets

9 Charges

Details of charges registered over the assets of the Company are contained in the Group accounts in notes 19 and 24

Royal Mail Holdings plc

Forward Looking Statements

This document contains statements concerning the Group's business financial condition, results of operations and certain of the Group's plans, objectives, assumptions projections, expectations or beliefs with respect to these items

The Company cautions that any forward looking statements in this document may and often do vary from actual results and the differences between these statements and actual results can be material Accordingly readers are cautioned not to place undue reliance on forward looking statements The Company undertakes no obligation to release publicly the result of any revisions to these forward looking statements that may be made to reflect events or circumstances after the date of this document, including without limitation, changes in the Group's strategy, or to reflect the occurrence of unanticipated events

By their nature forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future Such forward looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially by those expressed or implied by these forward looking statements These factors include among other things the impact of competitive products and pricing, the occurrence of major operational problems, the loss of major customers, limitations imposed by the Group s indebtedness, undertakings and guarantees relating to pension funds, contingent liabilities risks of litigation and risks associated with the Group's overseas operations

Corporate Information

Registered Office and Group Head Office

Royal Mail Holdings plc
148 Old Street
LONDON
EC1V 9HQ
GRO
Registered No 4074919

Corporate website

Additional corporate and other information can be accessed on the following website (www royalmailgroup com) Information made available on the website is not intended to be, and should not be regarded as being, part of the accounts

The maintenance and integrity of the Group's websites is the responsibility of the Directors the work carried out by the auditors does not involve consideration of these matters and, accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

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