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Royal Mail Holdings plc

Annual Report and Financial Statements 2010-11

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POST OFFICE

Royal Mail

PARCEL FORCE WORLDWIDE

GLS General Logistics Systems

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Royal Mail Group ('the Group') is unique in reaching everyone in the UK through its mails, Post Office and parcels businesses. The Group is a key component of the UK's economic and social infrastructure, providing services to private individuals, companies and communities.

The Group is the sole provider of the UK's Universal Service. It does so for some of the lowest prices in Europe. Every working day, the business processes and delivers around 62 million items to 28.8 million UK addresses.

Each year, our European and UK express parcels businesses – General Logistics Systems (GLS) and Parcelforce Worldwide – handle some 423 million parcels. In 11,820 Post Office branches, we serve around 20 million customers every week.

The business is changing fast. The Group is modernising its core letters business to make it more efficient, effective and customer responsive. The Post Office is transforming its branch network in response to changing customer needs and the demands of a modern and dynamic business.

This process of change is about ensuring a sound, secure and sustainable Royal Mail. The mails market is in significant decline in the developed world. Royal Mail is no different. It faces significant financial challenges which are being urgently addressed. The Board has a clear plan. The Postal Services Act is an important part of the process.

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Financial and business performance highlights

Financial performance

During the year, the Group changed the structure of its internal organisation which has resulted in a change to the composition of its reportable segments As a result of this change corresponding information for earlier periods has been restated

The Group's operating segments – UK Letters & Parcels and International (UKLPI) Post Office Limited (POL), General Logistics Systems (GLS) and our smaller other companies such as Romec Limited – are organised and managed separately according to the nature of the products and services provided

We have also changed the way we report our performance Performance of the Group is now reported after costs associated with modernising the business This provides a better understanding of our performance against our strategic aims

Revenues

- Group revenues of £9 2 billion Inland addressed volumes down by 4% with UKLPI revenues falling by £121 million
- GLS underlying revenues grew by around 4% at constant exchange rates
- Post Office Limited core volumes continue to decline Revenues down £62 million

Profits and cash flow

- Operating profit after modernisation costs of £39 million** is £141 million lower than last year driven by the reported revenue decline
- Improved free cash outflow of £213 million down from £545 million as a result of lower modernisation costs and one-off disposals proceeds this year

Balance sheet

- Net liabilities of £3,107 million are lower than £6,281 million last year primarily because of the reduction in the pension deficit
- The accounting pension deficit has decreased from £8 0 billion in 2010 to £4 5 billion in 2011 driven by an actuarial gain of £3 4 billion Cash payments of around £300 million were made in the year to fund the pension deficit
- The accounting pension deficit has reduced by £3 5 billion mainly as a result of the announcement by Government to use CPI rather than RPI as the inflation measure (CPI is now the statutory minimum indexation for pensions in deferment and in payment) and an increase in asset values due to market conditions

Business performance

Modernisation

- Modernisation programme is delivering cost savings and efficiency
  - Reduction in hours of 2 4% to partially offset volume decline
  - 554 new/upgraded machines, walk sequencing rates of nearly 34%
  - 24 World Class Mail Centres
  - 117 delivery offices using new delivery methods
  - Accidents down 25%[1]

Quality of service

- Retail First Class quality of service - 91 4% – this figure is without any adjustments After adjustments are made the Retail First Class quality of service figure is 93 0% after account is taken of the extraordinary combination of the severe winter weather and the unprecedented closure of UK airspace because of Icelandic volcanic ash
- Post Office Limited customer satisfaction – 85%

	External revenue		Operating (loss)/profit after modernisation costs**	
Business unit	**2010-11 £m**	2009-10 £m	**2010-11 £m**	2009-10 £m
UKLPI*	**6,857**	6,978	**(120)**	20
Post Office Limited	**776**	838	**21**	33
General Logistics Systems	**1,485**	1,487	**118**	112
Other	**38**	46	**20**	15
Group	**9,156**	9,349	**39**	180

* UKLPI – UK Letters & Parcels and International
** All references to operating profit/(loss) after modernisation costs are before other exceptional items The operating loss for 2010-11 was £49 million (2010 profit of £113 million) as shown on the consolidated income statement on page 51

1 UK frontline employees

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Chairman's Statement



Donald Brydon
Chairman

The postal world is changing rapidly; so too are all communication channels. The lives of everyone in Royal Mail Group are affected.

Work practices, structures and processes regulation product offerings and customer needs are all changing Royal Mail Group is determined to succeed in this complex environment

2010-11 was a very challenging year much remains to be done to improve our financial and operational performance

In spite of the outstanding efforts of all our colleagues, the Board was disappointed with our overall financial results Overall revenues were 2 1% lower than last year Group operating profit, after modernisation costs, was only £39 million Tiny changes in revenue have a major impact on profitability Our financial position is challenging our core letters volumes are declining and we have a large and disproportionate historic pension deficit

We have again reported negative free cash flow – of £213 million – albeit significantly down from last year s negative £545 million This is not sustainable The main cash outflow relates to payments to the pension fund and the capital investment and voluntary redundancy costs associated with modernisation The accounting pension fund deficit is approximately £4 5 billion In 2010-11 we contributed nearly £300 million towards reducing it

Our transformation
We know that we are a business which with a different structure and regulatory regime could be commercially successful on a sustained basis Parts of our business like GLS and Parcelforce Worldwide continue to increase profits They show what we can do in an unregulated environment and with the same commercial freedom as other companies

We are in a process of transformation. It is as radical as any that has happened in the history of the UK's postal industry. It is a transformation that has been likened to rebuilding the engine of a car while the vehicle is still moving

Inland addressed mail volumes have traditionally tracked GDP A buoyant economy meant more mail, recessions meant less The internet has changed the paradigm Inland addressed mail volumes in the UK peaked for the year 2005-06 at around 80 million items of mail per day They have declined ever since During 2010-11, Royal Mail delivered 62 million items of mail per day We can expect further declines in the future of about 5% a year

Against this backdrop of significant and ongoing structural decline, we need to ensure that our core letters business is cost effective and we need to diversify our revenue streams

Modernisation of our processes is not optional Moya Greene and her team are focused on successfully delivering the required transformation The scale and depth of the changes that we have made and will continue to make are set out in this report

The UK businesses are undergoing profound changes. Every part of the organisation is affected We are making real and tangible progress

Our significant progress
We have strengthened our focus on health and safety This is a key measure which we now closely review at every Board meeting Given the scale of our financial challenges we have also redoubled our emphasis on managing our cash flows This discipline is now deeply embedded across the Group

The Board and the senior management team have also been part of the profound change taking place The senior management team has been rebuilt Following a comprehensive search Moya Greene formerly CEO Canada Post was appointed as our Chief Executive in July 2010 She has made significant progress in a very short time in

- Restructuring the business reducing costs at the centre in the process
- Significantly sharpening our focus on the customer
- Beginning the process of putting our business on a more sustainable financial footing
- Changing the focus of the debate around regulation

In light of the trading results, during the second half of the year the strategic plan was reviewed and our view of future profitability and cashflows showed a worsening position The Board has had to review whether the Group (excluding Post Office Limited) can pay its debts as they fall due over the foreseeable future This has involved regular reviews of projected monthly cash headroom until March 2013 The deteriorating financial position and expected future cashflows means that the value of ColleagueShares at the end of March 2011 is nil The final value of ColleagueShares will not be known until the end of March 2012

The Postal Services Act is a key enabling framework which will prove essential in the years ahead, particularly through dealing with the pension issues and in ensuring access to new capital We have more work to do on the next steps and we are looking forward to constructive engagement with a new regulator

We have had very significant support from the Government including in particular, its work to promote the Postal Services Act Government has also responded well to the needs of the Post Office with a commitment to invest £1 34 billion These commitments to the future of the Royal Mail and Post Office are most welcome

The Government has announced its intention subject to State Aid approval to relieve the Company of its legacy pension deficit with effect from March 2012

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Chairman's Statement continued

Our Board
Three new executive directors and three new non executives have joined the Board in the past 12 months Four are women Along with Moya, Dave Smith joined the Board as the first Chief Customer Officer Dave had previously been Managing Director of Parcelforce Worldwide and of the Post Office The new Chief Finance Officer Matthew Lester joined from ICAP Paula Vennells who has been with the Group since 2006 was appointed Managing Director of the Post Office in October having previously been its Chief Operating Officer

Three new non executive Directors with extensive customer experience Cath Keers Orna Ni-Chionna and Nick Horler joined during the year Cath was Customer Director and Marketing Director of O2 UK Orna is a former partner at McKinsey where she specialised in retail and consumer clients, looking at the customer experience from a strategic perspective She has been appointed Senior Independent Director Nick Horler was until recently, Chief Executive of Scottish Power He also brings regulated-business experience

There were two retirements during the year Baroness Prosser retired after six years' service as did Richard Handover after eight years He was latterly Senior Independent Director We will miss their counsel I thank them for their excellent contributions to the Group

Thank you
Moya and I both understand how much we are asking of everybody at Royal Mail The process of change is stretching In an organisation of our scale and reach, it is having an impact on the lives of tens of thousands of people and their families I would like to offer my sincere thanks to all of my colleagues on the great work they have done over the past 12 months We now have a clear plan in place I am confident we can – and will – successfully deliver it

GRO

Donald Brydon



Royal Mail's operation involves road, rail, air, and in some cases sea, to transport the mail around the country.

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Chief Executive's Review



Moya Greene
Chief Executive

We have a clear plan in place to deal with our difficult business environment. It will be a stretch to achieve our plan, but we are determined to do so.

Introduction
Royal Mail Group is a vital part of the UK's economic and social infrastructure Our service is comprehensive six-days-a-week and with overnight delivery We delivered around 62 million items to almost 29 million homes and businesses every working day last year We collect mail from 115 271 post boxes – often more than once a day – as well as from approximately 11,800 Post Offices and more than 80 000 businesses Our Post Office network is bigger than all of the UK high street banks combined around 20 million customers visit per week

Our service is not only comprehensive it is also good value for money For collecting a First Class letter sorting it carrying it by road, rail or air and delivering it by hand we charge 46p This journey could be as much as 800 miles from collection to delivery

Our prices are among the lowest in Europe. Most countries do not provide a six-day service, or enable their customers to post as late in the day as we do. Our standards for on-time performance are higher than most countries.

We achieved our First Class quality target with a 93 0% performance when account is taken of the impact of the extraordinary combination of the worst winter weather in living memory and the unprecedented closure of UK airspace because of Icelandic volcanic ash Without any adjustment, the performance for the year would be 91 4%

Royal Mail and Post Office are brands that enjoy considerable public support People trust us We offer and provide services that customers large and small, need At a time when many companies do not enjoy strong brand profiles, this is a major advantage for us We know better than to be complacent We need to maintain that trust

Moving forward
There is much more for me and my team to learn and most importantly to deliver One of the things we need to do is to communicate more and be more responsive We will I hope this document is a good start If you have any feedback please do write to me at moya greene@royalmail com

In this my first Annual Report as Chief Executive I would like to use this opportunity to set out our core strategic approach

We need to address the fact that we are losing money in our core letters business As the availability of public capital is restricted, we need access to private capital to invest and grow We need to modernise our core letters business This involves not only our investment in new equipment and processes but investment in our people

We must develop new products and services Innovate to meet the needs of our customers and generate additional revenues to offset the decline in earnings from our core letters business In addition continued change in the regulatory regime is required

Modernising our business
The Groups operating profit after modernisation costs fell from £180 million last year to £39 million at the end of this financial year The Group has been in significant financial difficulty for a number of years reporting negative cash flow four years in a row Our challenge is to put the Group on a sound secure and sustainable footing

Royal Mail is honoured to collect and deliver the mail on behalf of households and businesses across the UK But our industry is in decline Few could have predicted the dramatic decline in the postal market Letters now account for a very modest share of daily social messaging The continued structural decline in the number of items of mail in the UK is well documented

Single piece mail volumes have declined by 40% in the past five years We anticipate total mail volumes continuing to decline by around 5% a year for the foreseeable future

Consumer mail is in decline In volume terms it now accounts for around 12% of our total business The typical household spends less than 40p a week on postage As volumes fall, our revenues decline Revenues were down 2 1% (£193m) last year Our costs are falling But, they are not declining fast enough to offset the reduction in revenue

Our current margin after modernisation charges at 0 4% is down from 1 9% in 2009-10 and is slim compared to other postal operators We need a reasonable and sustainable margin to maintain the comprehensive Universal Service our customers enjoy and to invest in our Group

One of the key ways we are going to improve our financial performance is to modernise our core letters business

Our modernisation is one of the largest change management programmes ever undertaken in the UK The peak period of change is under way – now The jobs of over 100 000 people are changing

I know that this change is hard for our people The section on modernisation explains what we are doing in more detail

Modernisation changes every process – collecting transporting, sorting and delivering mail It affects everyone who works for the organisation It will unfortunately continue to mean significant job reductions There will be job losses These will be in addition to almost 45 000 UK full-time equivalent employees who have left the Royal Mail Group over the last decade

In some of our offices where we have revised delivery methods we have cut operating hours by an average of 11% This is our best in class performance It is not the case everywhere Our future depends on our ability to achieve this level of improvement everywhere We have a great deal still to do

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Chief Executive's Review continued

Change needs to be continuous The automation of packets for example has just begun The boom in online retailing means parcel delivery requirements will increase This is growth that Royal Mail needs to capture

The World Class Mail programme developed by Royal Mail itself, is another key factor in our future success This programme is having a major impact – in performance and attitudes In 2011 we will see the programme rolled out to all mail centres and schemes established in collection and delivery offices I was pleased in October when the World Class Manufacturing Association gave awards for operational excellence to our mail centres in Cardiff, Gatwick and Belfast

Investing in our people

We are a people business Our greatest asset is our people In our delivery network, our people are daily ambassadors for Royal Mail Almost no other company has daily contact with customers in the way that Royal Mail does

For many years, our employee engagement scores have been disappointing Our colleagues justifiably take great pride in Royal Mail itself and the valuable work they do in so many communities across the country The turnover rate of our full-time frontline workforce is about half the UK average On the other hand, our colleagues, given the difficult situation facing the Group and the scale of the modernisation do not have confidence in our future It is imperative that we change this

A major focus for me, personally, is to ensure that we are a much more open and communicative company – starting first and foremost – with each other We are committed to much more active engagement by senior managers with the frontline Starting this summer, around 150 of our senior managers will be taking part in workplace visits around the country briefing our people

Royal Mail will be a much more efficient and effective organisation. That is the best outcome for all our stakeholders, and particularly our people.

Meeting the needs of our customers

A more rigorous focus on who our customers are, what they want and how they want mail delivered is absolutely critical

We need to ensure customers know we value their custom and that we fix their problems quickly In the next 12 months we will seek to simplify our products and processes accurately measure and track customer perception, promptly respond to problems and drive up our performance significantly in this crucial area

Our new organisational structure is designed to bring us much closer to our customers in both the regulated and unregulated sectors In the Post Office with significant financial support from the Government, we are investing in transforming the network and piloting new branch models including longer opening hours

We are now tracking on a regular basis what our business customers think about Royal Mail through the Net Promoter Score methodology More detail can be found in the Customer section in this report We have a great deal to do to improve our customer proposition

At the moment, our customers see Royal Mail primarily as a delivery and distribution company To remain relevant in the future, we must innovate and re-establish ourselves as a market-leading communications and distribution company

We will do this not just by transforming our Universal Service network and revitalising our parcel network We must diversify our revenues to make up for declines in our core letters business We aim to capture and sell more data and link with more digital networks

We will establish more external partnerships to expand our capabilities and commercial propositions that generate substantial financial value for Royal Mail and its new partners There is no certainty that all – or most – of these new ventures will succeed Our clear success with GLS and Parcelforce Worldwide demonstrates, however that Royal Mail Group has a successful track record of growing businesses

Changing our regulatory framework

The time is right to change the existing regulatory structure The Postal Services Act including the welcome provision for Ofcom to become the regulator and a Government commitment to a new regulatory approach constitutes a new framework for change Any significant changes would not impact on the one-price-goes-anywhere six-days-a-week Universal Service That is now enshrined in the Postal Services Act

The objective of the Postal Services Act is to safeguard the Universal Service by ensuring that Royal Mail can attract external capital and deliver a commercial rate of return A different approach to regulation is essential We will work closely with Ofcom to achieve the changes needed for the good of the Universal Service

Outlook

The next two years will be challenging We must put the Group and our ability to deliver the Universal Service on a sound, secure and sustainable footing We need to improve our efficiency to reduce our costs faster than the decline in revenues from our core letters business We must continue to modernise and to invest in the Group and our people Just as importantly, we must sharpen our focus on customers and put their needs at the heart of everything we do We will also innovate and build new partnerships with respected third parties

By any measure this is a very significant change agenda I am very grateful – as the Chairman has already articulated – for the considerable support we have received from the Government Secretary of State for Business, Innovation and Skills, Vince Cable Parliamentary Under-Secretary of State for Postal Affairs, Edward Davey and their officials I am particularly conscious of the commitment of all my colleagues and their pride in Royal Mail Group I would like to thank them I know I can count on them again as we reshape and rebuild Royal Mail

GRO

Moya Greene
Chief Executive

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Modernising Royal Mail

Our modernisation programme is one of the biggest transformations in UK industry.

A major programme
A major programme to modernise Royal Mail is under way – it is one of the biggest transformations in UK industry. Significant progress has been made over the last year but much remains to be done.

Before the current modernisation programme started in 2007 Royal Mail did not have the latest technology to sequence mail to the order of a postman and woman's walk. Most of the mail was still hand sorted before being delivered. Postmen and women carried the full mail weight on their shoulders. All this is changing – fast.

The programme is led by Mark Higson, Executive Director and Managing Director, Operations and Modernisation. A dedicated team is working to update every aspect of our operations – collections, processing, sorting and delivery.

Around £400 million was invested by Royal Mail Group in modernisation this year.

Why is modernisation important for customers and external stakeholders?
Revenues are falling as the mail market continues to decline. Fewer mail items are being handled every year and we have too much capacity given this smaller mail market.

Modernisation is about generating cost savings faster than the decline in revenues. It is at the heart of ensuring a sound, secure and sustainable Universal Service for everybody in the UK. It is as fundamental as that.

Modernisation is about a more innovative Royal Mail and a more customer-responsive business. While traditional 'white letters' have seen a dramatic decline, packet volumes are increasing following the boom in online retailing. Modernisation enables us to provide new customer solutions such as tracking to the doorstep that better reflect the reality of a changed – and changing – mail market, and crucial to the competitiveness and commercial success of Royal Mail.

The pace will intensify
We are committed to fully engaging and involving our people as we implement these changes, which are affecting the working lives of more than 100,000 colleagues. We are working closely with the Communication Workers Union (CWU) under the Business Transformation agreement reached in early 2010. As our Chief Executive said: "The peak period of change is under way – now".

Our postmen and women are our main asset and modernisation is challenging for many of them. They may need to work differently, there are changes to their start and finish times, more efficient working methods and different delivery rounds. We are also significantly reducing the size of our workforce. Since 2002, around 45,000 people have left Royal Mail Group as part of our ongoing change programme.



As part of the Group's modernisation programme, 378 walk sequencing machines have been installed at mail centres across the UK to improve efficiencies in the sorting process. The equipment automatically sorts the mail into the exact sequence of a postman or woman's walk.

We are committed to working with our people and the CWU to manage operational job reductions on a voluntary basis.

Many of the changes are improving the working lives of our colleagues. They include the installation of modern technology and better equipment for our postmen and women, including more trolleys, shared vans to handle packets and parcels, and handheld devices to record signatures when mail is delivered.

Most importantly of all, modernisation is about ensuring that our core letters business is placed on a sound, secure and sustainable footing. That is the key to ensuring a viable business and protecting as many jobs as possible.

Our recent progress
In the 12 months since we signed the Business Transformation agreement with the CWU, we have made significant progress. A significant number of delivery office revisions have been completed and major changes have been made to our mail centre and transport networks. We have also reduced accidents in the workplace by 25% in 2010-11 – a key and vital improvement – and met our licence targets for First Class and Second Class mail quality of service after force majeure adjustments for volcanic ash and extreme weather in December and January.

Nevertheless, the programme has taken longer to start fully delivering results than we planned. So much more needs to be done.

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Modernising Royal Mail continued

Key examples of significant progress

- Installed 378 sequencing machines
- Introduced 38 intelligent Letter Sorting Machines which can sort 38 500 letters an hour nearly twice the speed of older machines
- Upgraded and extended 138 Integrated Mail Processing machines
- Sequencing 34% of the mail
- Closed 12 mail centres, and, following extensive consultations, announced the closure of a further 16

Modernisation – the next phase

As we reported earlier the key phase in the modernisation programme is now

We are introducing new delivery methods throughout our 1,371 delivery offices and in the next year will complete this delivery transformation in more than 700 offices over 50%

This is a major and far-reaching exercise Traditional methods involving postmen and women carrying the mail on foot or bicycle are being replaced by the use of 5,000 high-capacity trolleys and 11,300 two-person vans Delivery rounds are being changed so that they will be more effective and efficient

The pace of change in our mail centres will continue We expect that around half of the mail centres could close by 2016-2017 We are focused on delivering all the benefits of the modernisation programme as quickly and effectively as possible, working closely with our people and with the CWU



Many postmen and women are now using new equipment such as trolleys, replacing the need to carry mail by foot or bicycle.

World Class Mail

World Class Mail is revolutionising the way we work Developed within Royal Mail, based on leading global practice and expert advice World Class Mail is a unique and comprehensive system for improving safety customer service quality and productivity A key element is engagement with our people to ensure they are fully involved in all aspects of our modernisation

World Class Mail is already in operation in 24 mail centres and seven delivery sectors This year will see the approach introduced in all our mail centres and an extension to many more delivery offices and collection hubs

Root cause analysis of problem areas by employee teams is at the heart of World Class Mail Safety is the first of its 10 improvement 'pillars At Greenford mail centre the packet sorting conveyor area was the scene of six accidents in the year before World Class Mail was introduced and 50 working days were lost to injury Since the programme was put in place the area has been accident-free for 700 days – a remarkable achievement by the local team

We were pleased when the World Class Manufacturing Association recognised the progress and achievements of our people last autumn in three mail centres – Gatwick Cardiff and Belfast – by awarding them Bronze Awards at a ceremony in the Greenwich Maritime Museum in London



Last October, teams at mail centres in Cardiff (pictured), Gatwick and Northern Ireland were presented with Awards by the World Class Manufacturing Association. They were recognised for their efforts to create safer and more productive places to work, in turn helping to improve quality of service.

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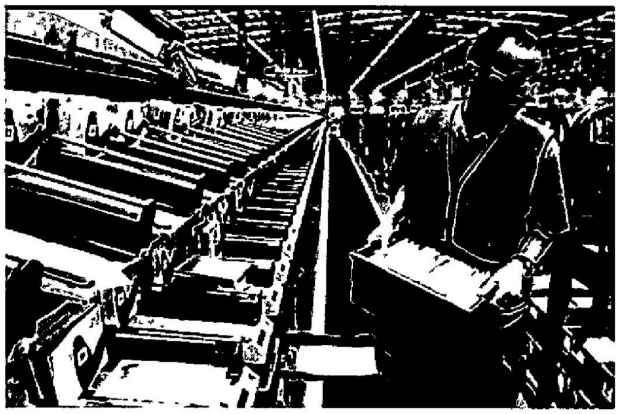
Our people

To modernise Royal Mail successfully, our employees need to be fully engaged with the business and our strategy. Our postmen and women are both the medium and the message: they drive the brand experience for many of our customers.

Our UK workforce is relatively mature and stable More than a third have been with Royal Mail for over 20 years, 6% have less than two years service The average age is 44 Many of our staff have spent their entire careers at Royal Mail

Our profile
Royal Mail Group is one of the largest employers in the country We currently have around 163,000 staff in the UK Employees currently represent approximately 70% of our costs



A postman unloading a letter sorting machine at South Midlands mail centre.

Number of employees at the end of the financial year[1]

	2011	2010
UKLPI	**155,181**	160 291
Post Office Limited	**7,782**	8 209
GLS	**13,167**	12 885
Other	**4,254**	4 217
Total	**180,384**	185 602

1 Source see note 4 page 68
2 Source Royal Mail Have Your Say Survey 2007-2011

Our workforce is mainly represented by the Communication Workers Union with around 120 000 members In terms of diversity women represent 18% of the workforce and we are seeking to increase this proportion Nine per cent of our employees are from black and minority ethnic (BME) backgrounds in line with the proportion of BME citizens in the UK population as a whole

In terms of diversity, women represent 18% of the workforce and we are seeking to increase this proportion

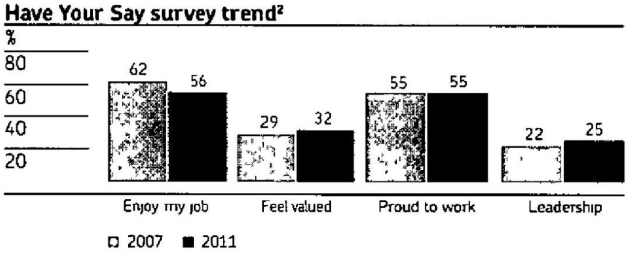
Engaging with our colleagues
To modernise Royal Mail successfully our employees need to be fully engaged with the business and our strategy We are a people business

As outlined earlier, our colleagues are true ambassadors for the Group They are our delivery network As our Chief Executive said they are the "daily ambassadors for Royal Mail" They are both the medium and the message Almost no other company has daily contact with its customers in the way that Royal Mail does

Our employee engagement scores are simply not where we want them to be We are taking action to improve this situation

Between 2007 and 2011 the picture has not changed significantly

Have Your Say survey trend[2]



Each month we carry out a Have Your Say (HYS) survey of employee opinion This is a snapshot taken across the organisation The HYS surveys show that our colleagues take great pride in Royal Mail and the valuable work they do in so many communities across the country The turnover rate for full-time frontline employees is about half the UK average

On the other hand our colleagues given the difficult situation facing the Group and the scale of modernisation do not have the confidence we would like them to have in our future

During 2010, the numbers in respect of employee engagement varied from a maximum of 34% in the summer to a low of 12% in the snowbound Christmas rush The average was around 20% The figures do vary across the business They are better in Parcelforce Worldwide and in Post Office Limited

Our culture
Royal Mail is a communications business Yet our communications – particularly internally – require a significant overhaul

We are not always seen to be a responsive employer We have not always been good at listening

Focus group research carried out between January and March 2011 found that Royal Mail is felt to say too little too late, and that what is said is often not believed

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Our people continued

The modernisation programme that Royal Mail has embarked on requires the entire workforce to accept changes to how and sometimes where they work Yet postmen and women can quite understandably feel that their job hasn t changed they are still delivering to the same people they always were

There were positives too, including a feeling that the Group is now moving in the right direction

- People want to do a good job
- People on the frontline want to be listened to
- When people are asking questions they deserve answers
- People who have years of valuable experience want to feel involved

Our future
We know what the issues are Now we have to solve them

In 2010 Royal Mail signed a Business Transformation agreement with the Communication Workers Union This includes a commitment on both sides to modernise Royal Mail, and change working practices and working conditions

For more details about our modernisation programme see pages 7 and 8 One of the 'pillars' of our World Class Mail (WCM) programme is safety WCM is transforming the efficiency of our operations and is improving the safety performance At the Gatwick mail centre for example, reportable accidents have fallen by 80% in the past three years In Scotland accident rates were down 32% in 2010 alone

While we aim to deliver our modernisation programme through effective engagement with our people, we will also be continuing to engage with our unions.

Royal Mail s industrial relations in the past have been difficult We believe that having a positive relationship with our unions based on openness and honesty will help us through the challenges ahead

Alongside our focus on safety for all of our people, there will be an increased focus on learning and development both in our operations and across the Group In May 2011 (after the end of our financial year) we started to implement the largest SAP Human Resources and payroll system in Europe – our People System Programme This completely modernises all of our HR systems and gives a single source of people information across the Group as well as helping to drive performance improvements

We acknowledge that we have not done enough to communicate with our people But starting in summer 2011 around 150 members of the senior leadership team will be going out to meet employees in mail centres and delivery offices to explain where we are going as a business Each will be on the road for at least one week during 2011-12 They will be in the field to listen and learn and to communicate to colleagues They will provide feedback on their visits to our Chief Executive and the senior management team

The criteria used to assess bonus payments for senior managers are being changed to reflect the financial and non-financial performance of the business Employee engagement scores and safety performance customer satisfaction and service delivery are all part of a new balanced scorecard which will reward managers according to

- What customers think of us
- What the people we lead think of us
- How good a service we are providing
- How financially healthy we are making the business

The same measures will eventually be used to assess performance bonuses across the Group

We value our people Without them our business would not be what it is today

We will be relying on all of them to tackle head on the challenges we face in the next two years The pride that they continue to show will help us meet those challenges

We know we have work to do in engaging with our people to make sure that they are more confident in what lies ahead We believe that by being more open and transparent and having the right recognition in place we will achieve our goals



Royal Mail postmen and women play a valuable role. They 'go the extra mile' by delivering the mail to customers in all weathers.



Teams working at the Group's 12 contact centres provide telephone assistance to customers, fielding more than 10 million calls annually.

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Our customers

Our customers want us to keep our basic service promises. Consistently collect on time, deliver on time and respond quickly when needed.

Royal Mail Group has appointed Dave Smith as its first Chief Customer Officer He is introducing a comprehensive programme to significantly improve our customers' experience

Our programme aims to cement Royal Mail as the most trusted delivery brand in the UK Our objective is to do so through the provision of consistent, high-quality and relevant services to all UK customers individual consumers, small and medium-sized businesses and large companies We will do so by acting on what our customers are telling us, by effective and consistent engagement with our people and by clear and regularly communicated standards and measurements

The Post Office is also transforming the way it deals with its customers It has more branches than all of the main UK banks combined and around 20 million customers visit per week

Currently, it is piloting ways of operating Post Offices to increase opening hours and to ensure more sustainable branches for subpostmasters, who manage the vast majority of the network



Royal Mail's unique position as Universal Service provider means we deliver around 62 million letters and packets per day to almost 29 million addresses across the UK, six days a week. This comprehensive service is unrivalled by any other mail provider.

1 Ofcom Report August 2010

Our customers
Today over 104 billion[1] text messages are sent a year in the UK As a result of the growth in email and social networking sites letters now account for a very modest share of daily social messaging There is also a significant decline in transactional communications through the post like bank statements and bills

Business customers represent most of our annual mail bag while mail from private individuals – or what we call consumer mail – now represents a very small fraction of what we deliver every day

We are equally focused on delivering a consistent and excellent customer experience to businesses, consumers and recipients who use our services The level of service we provide to consumers remains profoundly important to us

As part of the Universal Service we are committed to delivering to around 29 million addresses six-days-a-week Each address represents a customer who will have a view about Royal Mail and the service it offers Many consumers also own or run businesses Their decisions to use or not use Royal Mail at work will be based in part on their experience of how we deliver their mail at home

Business customers want us to focus on being easy to do business with, from the first point of contact, through offering and setting up relevant and value-for-money services, to receiving an invoice.

At the heart of our strategy will be a strong focus on the customer and improving their experience of Royal Mail

In 2011-12 our Customer Experience Programme will focus on what our customers tell us is most important by

- Helping all of our people understand what customers are asking us to do and why
- Focusing on the vital few things that customers are telling us we need to improve, whether these are products or processes and delivering long-term fixes before moving on to other areas
- Working to make us easier to do business with at each customer touch point, starting with our contact centres
- Introducing new easy-to-understand measures, based on direct customer feedback, that everyone will see from top to bottom in the organisation

Understanding what our customers think of us
A robust understanding of what our customers want and their perception of the level of service being provided is essential to inform both our priorities for action and compelling communications to all of our people Our overall net satisfaction score, for example rose from 30% to 34% between February and March 2011 We are also introducing new measures such as the likelihood that our customers will increase or decrease their purchase of Royal Mail products and services both to track the impact of the changes we make and to provide a forward looking indicator of customer activity

For the first time we have also started to measure what our business customers think of our services and products through what is called a Net Promoter Score (NPS) This is a standard tracking mechanism that assesses the extent to which customers are likely

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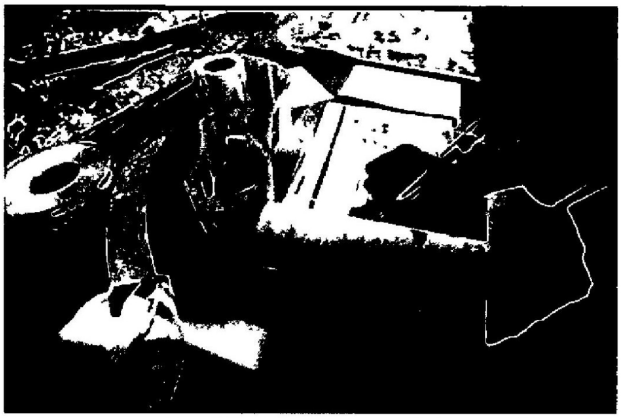
Our customers continued



Businesses use Royal Mail for a range of high-quality services, including our premium next day Special Delivery.

to recommend the service provided This will allow us to benchmark other UK and International companies, set targets and to build these customer measures into our corporate and functional scorecards The year end Net Promoter Score for the Group was - 1

As an indicator of what this activity can achieve three years ago Parcelforce Worldwide introduced a Customer Experience Programme and a year later began using an NPS measure By focusing on service at all customer touch points it has seen a continuous improvement in customer loyalty and enquiry handling performance

Our customer service

Continuously improving customer service is a priority. It is the right thing to do for the customer. It is clearly right for our brand. It also has the potential to cut our costs.

Because of the sheer scale of our operation even a small service failure percentage can have expensive consequences For example around one million items a week are not delivered first time - for a myriad of valid reasons

Being unable to deliver first time causes disappointment and inconvenience for customers and storage and retrieval issues for Royal Mail It also generates millions of phone calls a year direct to delivery offices and contact centres Delivering to neighbours, if the customer is unavailable would improve the efficiency of our operation and the customer experience The rules we operate under do not allow for this to happen This is something we believe is important and should be changed

More fundamentally, we need to continue to improve our core customer service proposition We intend to make it easier and faster for customers to use us

We will focus on appropriate first-time fixes and single points of contact Our customer service staff and call centre procedures must be focused on resolving callers' enquiries swiftly We need to continue to develop self-service solutions that customers want This is what we are doing in 2011

How we deal with complaints

We have already been successful at reducing repeat and escalated complaints, down 12 7% and 24 8% year on year respectively

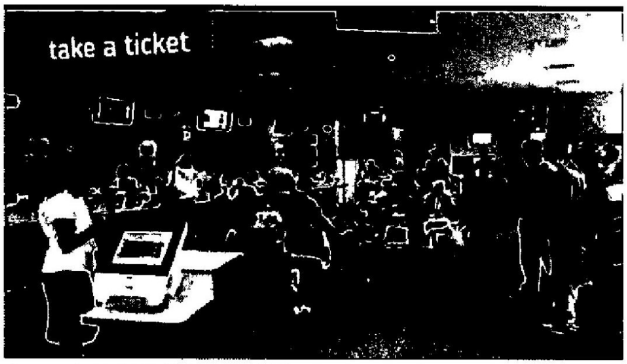
We do not always resolve issues quickly Nor are we good at feeding customer comments back to delivery office level so that in future we can get it right first time - saving customers hassle and us money

This is another priority area for us

The changing market and our products

In addition to our core letters market of First and Second Class letters and bulk mail, Royal Mail also offers distribution services to e-commerce companies traditional catalogue retailers and other customers wishing to send packages domestically Services range from stamped packets with no tracking or additional value-add to Special Delivery a lunchtime next day guaranteed service and our next day Tracked service offering full end-to-end tracking

In 2010-11, we began to rationalise and simplify our products and to align them more closely to customers different needs Simplicity in our offer will benefit customers enhance Royal Mail's operational efficiency, and make customers want to choose us Further details on our products are given in the UKLPI section later in this report



Around 11,800 UK Post Office branches have around 20 million customers visit per week. The greeting and ticketing system in modern Crown branches helps us to serve customers more efficiently.

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Regulation

The time is right to change the existing regulatory structure. The Postal Services Act, including the provision for Ofcom to become the regulator, alongside the Government commitment to a new regulatory approach, constitutes a new framework for change. Any significant changes would not impact the one-price-goes-anywhere, six-days-a-week Universal Service, which is enshrined in the Postal Services Act.

Customers have increasing choices as to how they receive information and communications Today there are very few communications that can only be done through printed and mailed matter It is appropriate therefore, that the regulation of post should come within the remit of the regulator responsible for the communications sector Ofcom

Royal Mail welcomes the Government's commitment to a new framework for postal services regulation through its policy statements and letter to Ofcom. The debate is heading in the right direction.

The objective of the Postal Services Act is to safeguard the Universal Service by ensuring that Royal Mail can attract external capital and earn a commercial rate of return A different approach to regulation is essential We will work closely with Ofcom to achieve the changes needed for the good of the Universal Service

The time is right to review the existing regulatory structure
Broad consensus exists among stakeholders that the regulatory framework needs to change

The current framework goes further than the requirements of European Union Directives in a number of ways In the UK the Universal Service provider is required by regulation to process and deliver its competitors' mail and to provide a guaranteed price advantage No other country has a regime which mandates access to do this Royal Mail has until very recently been making a loss on mail it delivers for others It has also lost market share due to the guaranteed price advantage it provides other players

Both Universal Service Obligation (USO) and non-USO services are currently price controlled in the UK In most European states, only USO services are subject to price cap regulation Price controls currently apply to approximately 80% of Royal Mail revenues at a time when they are declining every year In the UK, prices for stamps are at the low end compared with other countries

The postal market in the UK was opened up to competition ahead of other countries and when the process of structural decline had already begun The regulatory approach – mandated access and headroom regulation – has actively promoted private sector investment in additional capacity when the market is contracting rapidly At this time, Royal Mail must now invest to take out capacity

Postal service regulation across Europe in 2010[1]

	Fully liberalised market	Mandatory access for competitors to access USP's network, and a guaranteed price advantage	Price control not limited to USO and reserved products and services
UK	Yes	Yes	Yes
Denmark	No	No	No
Germany	Yes	No	Yes
Belgium	No	No	No
Netherlands	Yes	No	No
Sweden	Yes	No	No
France	No	No	No
Austria	No	No	No
Spain	Yes	No	No

Regulatory developments
During the last year, the focus with Postcomm has been on seeking to secure a relaxation of the regulatory burdens including price control and the requirement to publish commercial proposals three months in advance We have also worked with Postcomm to secure a price rise to continue the modernisation programme

- Postcomm launched a set of consultations in May 2010 on a set of changes for 2011 which resulted in a number of incremental changes to narrow price controls
- Royal Mail made an application to enable the Group to generate up to £100 million revenue above the regulatory limits to safeguard the Universal Service and continue modernisation In addition there were a number of applications and investigations
- Royal Mail made an application to waive quality of service penalties and compensation payments after industrial action in 2009-10 led to a reduction in the quality of service In September 2010 Postcomm accepted the case in full
- Postcomm accepted in full Royal Mail's force majeure case for bad weather affecting quality of service in 2009-10

1 European postal regulation before implementation of Third EU Postal Services Directive
Source IPC Postal Regulatory Database Country Directory 2010 Copenhagen Economics Main Development in the Postal Sector (2008-2010)

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Regulation continued

- Postcomm closed its investigation into allegations of predatory pricing and margin squeeze on Mailsort® Light After extensive responses from Royal Mail Postcomm decided to take no action against the Group
- Postcomm closed its investigation into undue restriction undue preference and undue discrimination with regards to term contracts The evidence did not support a finding of licence breach
- Royal Mail developed a costing manual setting out the principles of our costing system This was subsequently classed as fit for purpose' by the regulator s economic consultants and published by Royal Mail
- Postcomm concluded its investigation into Royal Mail s monitoring of quality of service performance stating that Royal Mail had failed parts of its licence condition relating to the quality of service measurement system In light of the investigation's findings and Royal Mail's comprehensive remedial actions, Postcomm did not consider it appropriate to impose a financial penalty

During the last year, the cost of regulation has been a major burden for the Universal Service provider Royal Mail is making a loss in its core letters business Funding and servicing the regulatory regime cost Royal Mail around £50 million last year including payments for the regulator s running costs and Royal Mail s costs to comply with the licence and answer the regulator s questions It also included the cost of running a unit to manage access to our network as required by the licence

Equivalent prices for domestic stamp postage in Europe*

2011 (0-20g)		2011 (20-50g)	
Denmark	65	Italy	120
Greece	55	Sweden	89
Finland	54	Greece	75
Belgium	54	Germany	74
Italy	51	France	73
Portugal	49	Netherlands	72
UK	46	Portugal	71
Germany	45	Denmark	65
France	44	Austria	58
Luxembourg	44	Finland	54
Sweden	44	Belgium	54
Austria	43	Spain	47
Ireland	42	UK	46
Netherlands	36	Luxembourg	44
Spain	33	Ireland	42

* Royal Mail First Class versus European next day delivery services or equivalent as at April 2011 (purchasing power parity)

Conclusion
The time is right to review and significantly change the regulatory structure Solid progress has already been made

The postal market is at an inflection point Volumes continue to decline very significantly The current regulatory regime is a burden on the Universal Service provider and extends beyond the relevant EU directives There is growing evidence that Royal Mail, as the Universal Service provider should be treated on the same basis as any other postal player that is subject to market conditions and competition law

Any significant change of the regulatory framework would not mean changes to the Universal Service The one-price-goes-anywhere six-days-a-week service is enshrined in the Postal Services Act Royal Mail is honoured to deliver to the 28 8 million addresses throughout the country We are committed to doing so

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Community

Corporate Responsibility (CR) is a priority for us. The Group fully integrates CR into its everyday working environment.

2010-11 represents the eighth year that we have published an external Corporate Responsibility report It is also the third successive year that we have reported on our activities using the Business in The Community (BiTC) four-fold classification framework

We also moved from a Silver award rating to a Gold award rating in the BiTC Corporate Responsibility Index The Groups score moved eight percentage points from 86% to 94% The BiTC Corporate Responsibility Index is a voluntary benchmark for UK companies It provides a benchmark for organisations to evaluate their management and impact within the key CR areas of community environment marketplace and workplace We will be working towards Platinum status in 2011-12 as this year we missed Platinum status by only 0 8%

Barnardo's
Our flagship charity, chosen by our people is Barnardos To date over £1 million has been raised for the children's charity

Last summer, disabled ultra-distance athlete Chris Moon MBE ran across the UK in the Post Office 1000 Challenge He completed 1 000 miles in 30 days averaging 36 miles a day Chris met staff in Post Office branches in many locations where they ran their own fundraising campaigns raising cash for Barnardo's

£460 000 was also raised specifically for the Children in Need campaign by our colleagues and customers last November



A group of postmen and women in and around Lancashire joined thousands of other people in the Ride the Lights bike ride along Blackpool promenade to raise money for Barnardo's.

Community
We are a major part of the UKs economic and social infrastructure That is why we play a role in so many communities across the UK Our Post Office network for instance, is a core part of many urban and rural communities across the country Our position as one of the largest full-time employers in the UK (having 163,000 staff) means that we also make a significant economic contribution As a predominantly UK-based company, we have a large procurement programme that makes a major contribution through the purchase of goods and services

Workplace
Our key focus in the workplace is the health and safety of our people Accidents across the UK businesses fell by 21% this year In 2010-11 the number of accidents across our business was 19 389 compared with 24 479 the year before One of the reasons that the accident rate has fallen is our investment in modern equipment such as high-capacity trolleys as well as more efficient ways of working

Our sick absence rate for 2010-11 sits below our target and is in line with the Confederation of British Industry average absence target The year end sick absence figure was 4 1%, which was lower than our target of 4 4% Royal Mail Group works hard at reducing our absence rate with its people We offer a wide range of support in this area including health advice and initiatives The bulk of our absences continue to be caused by musculoskeletal problems or injuries

Marketplace
First and foremost our marketplace contribution is to provide a high-quality service at reasonable prices As we have already pointed out our prices are amongst the lowest in Europe Most countries do not provide a six-day service, or enable their customers to post as late in the day as we do Our standards for on-time performance are higher than most countries

In our marketplace, the direct marketing industry is making significant strides to reduce its environmental impact Royal Mail is helping in this More than three-quarters of direct marketing material is now recycled This is ahead of the 2013 target set in agreement between the industry and the Department of Environment, Food and Rural Affairs Royal Mail s Sustainable® Mail service offers better-targeted sustainably produced and easy-to-recycle mail campaigns

Payroll Giving

We have one of the largest and longest established Payroll Giving schemes in the UK The scheme makes it easy for our people to donate some of their salary each month to their chosen charity

Since its launch in 1989, colleagues have donated more than £43 million The biggest beneficiaries among the 850 charities supported by the scheme include Barnardos County Air Ambulance Trust, Help the Hospices Macmillan Cancer Support and our own charity which supports our colleagues, the Rowland Hill Benevolent Fund

Over the past year, the scheme has raised more than £2 5 million

We currently have 42 694 colleagues – one in four employees – taking part Typically, companies have to work hard at promoting their scheme to reach 10% of their people signing up to the scheme to attain a Gold level National Payroll Giving Certificate In the UK, 6% of all Payroll Giving donors work for Royal Mail Group

Tax relief encourages people to donate For example anyone who pays tax at the basic rate of 20%, only has to contribute £8 from their salary to give £10 to charity

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Community continued

Environment
Royal Mail Group understands and monitors its environmental impact We have been working hard to reduce it We have a number of plans in place designed to reduce our consumption of fuel and other energy use We continually seek ways to reduce waste

Our Carbon Trust Standard certification has been renewed after we cut greenhouse gas emissions by 47 670 tonnes in two years

It means that we're still the only UK postal services operator to have achieved the prestigious accreditation Based on a rigorous independent assessment, the standard – which has to be renewed every two years – shows that we've measured and reduced our carbon footprint across our business and are committed to cutting it further each year

We are identifying opportunities to avoid and reduce transport emissions Telemetry technology has been used to assist improvements in vehicle use Over 1,000 vehicles were taken out of our delivery operations through optimisation and ensuring our journeys take the most efficient routes This saved around 4,808 tonnes of CO_2

We are also developing our future vehicle roadmap which will look at opportunities for low-emission vehicles where commercially and operationally viable

In 2010-11 we bought over 1,000 compact diesel vehicles Our existing electric vehicles have been complemented by the purchase of 10 diesel electric hybrids at our West London delivery office as part of the Government's Low Carbon Vehicle Procurement Programme

Removing mileage from our network trunking vehicles which consume the largest proportion of our fuel, is a continued focus This can be achieved through effective route planning and national optimisation We continue to use double-deck trailers and have purchased a further 50 double-deck trailers with further enhancements to boost their mail-carrying capabilities by around 6% They are entering our operation during 2011

Key focus
Our Corporate Responsibility and community investment programmes will be a key focus for the Group in the next 12 months Our strategy will be reviewed Our community investment programmes will be refreshed A new Corporate Responsibility report will be produced It will outline our clear strategy in this area, alongside enhanced reporting



Postmen and women in Northern Ireland helped collect football kit for children in Malawi.

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Our Transparency report

Royal Mail Group is committed to being more responsive, open and transparent with its stakeholders.

Royal Mail and Post Office are two of the most respected brands in the UK This is a great advantage to the Group The strength of our brands derives from how we serve our customers and our interaction with other stakeholders

In this our first Transparency Report the Group is sharing a number of key facts with all of its stakeholders We are doing so because of our commitment to being more open to and more responsive with our customers We also plan to publish a range of key statistics on our website on a regular basis – monthly and quarterly



Royal Mail's 115,271 post boxes are a familiar and much-loved feature of the UK landscape.

A large-scale business
Royal Mail is a mail business serving 28 8 million addresses across the UK six-days-a-week We deliver to 27 2 million residential addresses and 1 6 million registered business addresses We collect mail from 115,271 post boxes

With around 11 800 branches nationwide, the Post Office is the largest retail and financial services chain in the UK The Post Office has more branches than all of the UK high street banks combined Over 99% of the UK population lives within three miles of a post office Around 20 million customers visit a post office per week

Freedom of Information requests

Royal Mail is a major brand which attracts interest from a wide range of stakeholders. As a Government-owned company, it is naturally the case that there is a great deal of interest in our mission as the UK's Universal Service provider, including the work of Post Office Limited.

One of the ways this interest manifests itself during the year is the number of Freedom of Information (FOI) requests we receive These requests cover a wide range of issues We receive them from a broad spectrum of people including members of the public, the media and elected representatives

Some of these requests can be answered quickly but some need to be considered carefully under the terms of the legislation In the last year 590 requests were referred to our central FOI team Of those 267 requests were answered in full, and a further 116 requests were answered in part There were 137 requests where the information requested was not provided because, for example it would damage commercial interests or breach principles of the Data Protection Act In another 70 cases the information requested was not held by us

Returned letters
The overwhelming majority of all items we handle are delivered safely to the correct address A very modest proportion of the items we handle are undeliverable for a variety of different reasons outside of our control

Items are not always able to be delivered if addresses are incomplete the recipient has moved, or there is no return address In these circumstances, letters and packets are returned to the National Return Letter Centre in Belfast

Royal Mail tries very hard to ascertain the correct address and deliver the item If that is not possible we will seek to return it to the sender free of charge Our National Return Letter Centre employs 160 full-time people dedicated to trying to return items The number of items processed in 2010-11 by the Centre was 19 6 million That should be set against the 15 9 billion of items we delivered this year

The majority of items are business mail Under the terms of trade with our major business customers if the mail is not delivered then it will be securely disposed of unless a return address is included on the envelope This has been the practice for many years The mail which cannot be delivered or returned is stored for up to four months If an item is not claimed it is put out to auction All the proceeds minus a market rate commission for the auction house are used to partially pay the considerable cost involved in seeking to reunite customers with their items

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Our Transparency report continued

The annual income from items sold at auction by the National Return Letter Centre for 2010-11 was £933 255 This income represents a modest contribution to the annual cost of more than £4 million of providing this free service

Exceptions to our delivery and collection service
Royal Mail is not always able to deliver or collect mail as it would like to At the time of the Exceptions Annual Review in October 2010 there were 2 985 national Universal Service delivery exceptions in the UK

Every day, we deliver to 28 8 million addresses So this represents 0 01% of that total

The exceptions are where our postmen and women have difficulty gaining access or there is a long-term health and safety risk Examples include where we cannot deliver to an address because it is on an island and has limited ferry services There were also 414 short-term delivery exceptions which have been in place for more than 12 months in October 2010 These are mainly due to dangerous dogs in gardens

Last year there were 2 180 long-term Universal Service collection exceptions across the UK There are currently 127 118 collection points in the UK the majority of which we collect from on a daily basis The small amount of collection exceptions represent 1 7% of that total These exceptions can be caused by difficulties in accessing post boxes There were also 155 short-term collection exceptions of more than four months These were caused by road or building works limiting access to post boxes All of these exceptions are reported to Postcomm on a regular basis

Mail security
The security of mail is of the utmost importance to us Royal Mail Group has robust security measures in place in all parts of its operations

Any person found tampering or interfering with mail will be robustly dealt with and prosecuted in England and Wales by Royal Mail Group In Scotland, cases are handed over to the Procurator Fiscal In Northern Ireland they are passed to the Public Prosecution Service Anyone attempting to steal from Post Office Limited is also liable to be prosecuted

In 2010-11 312 former employees of Royal Mail Group were prosecuted in the UK These prosecutions need to be set against the fact that the Group employs around 163 000 people in the UK

The Post Office network
At the end of March 2011 there were 11 820 post offices open and trading throughout the UK In March 2010, there were 11,905 post offices open in the UK There has been a net reduction of 85 post offices in the course of 2010-11 The current network is made up of 373 Crown post offices, and 11,447 agency post offices

Network turnover
The vast majority of post offices change hands – when a subpostmaster decides to sell their business – without a break in service or closure This is part of the normal market turnover of businesses in the UK Around 97% of post offices are operated and owned by local business people who have a contract to offer post office services From April 2010 to March 2011, 800 post offices changed hands The previous year around 1,000 changed hands These successful transfers bring new energy and focus into our network

There are cases where branches which are run by independent business people from their own premises close due to circumstances beyond our control When a branch closes in such circumstances we communicate the situation to the local community and stakeholders and our approach is to try to restore a sustainable post office service when possible Our field teams work with local communities to try to restore services and in many cases we are able to do this There are cases where it is not possible even after considerable efforts If a post office is closed for whatever reason even if it is just for a short time whilst work is undertaken to restore service it is not included in the numbers we use when reporting network size Our reported network size of 11,820 at the end of March 2011 shows the network of open and trading post offices

We are committed to being as open and as transparent as possible We hope that our first annual Transparency Report is helpful to our wide range of stakeholders. We would welcome any feedback on this report

You can provide feedback by emailing Shane O'Riordain, Director of Communications at shane oriordain@royalmail com



Agency post office branches account for 97% of the network. They are run by independent business people and the post office is usually part of a retail outlet.

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Our businesses

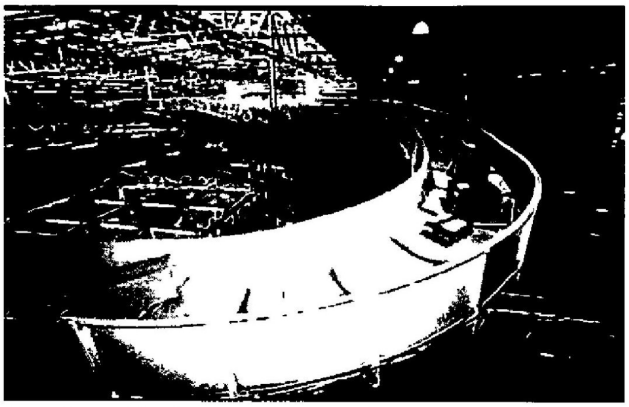
The Group's main businesses
The Group is organised into three businesses which are covered in the following pages

UK Letters & Parcels and International (UKLPI) processes and delivers letters and packets in line with its unique Universal Service Obligation (USO), through Royal Mail It is also a leading provider of collection and delivery services for express packages and parcels through Parcelforce Worldwide, providing both businesses and consumers with a full range of timed delivery options UKLPI is responsible for the design and production of the UK s stamps and philatelic products It is also responsible for the processing of international mail under reciprocal arrangements with other overseas postal administrations Within this unit are

- Commercial Regulated
- Commercial Non-Regulated
- Operations
- Wholesale
- Property
- Central functions

Post Office Limited has a national network of branches and is represented in many communities across the country It provides a trusted access point for everyday products, services and information in postal services financial services, travel, banking telephony bill payments Government services retail and the secure transportation of cash

General Logistics Systems B V (GLS) delivers high-quality parcel services, logistics and express services throughout Europe GLS is one of the biggest ground-based parcel service providers in Europe today GLS provides a network coverage of 42 countries through wholly owned and partner companies and is globally connected via contractual agreements



Parcelforce Worldwide is the Group's express parcels business for business and consumers, delivering from two hubs and 52 depots in the UK.

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UK Letters & Parcels and International

Royal Mail is the only provider of the UK's Universal Service for some of the lowest prices in Europe.

UK Letters & Parcels and International comprises the activities of both Royal Mail and Parcelforce Worldwide Royal Mail delivered 62 million items every working day last year Parcelforce Worldwide handled 63 million parcels In total, these businesses employ 155 181 people in the UK

Royal Mail is the only provider of the UK's Universal Service for some of the lowest prices in Europe It provides a daily collection and delivery service at uniform and affordable prices Royal Mail also provides the social and economic glue in every single community with its reach to 28 8 million addresses

Royal Mail collects from around 115,000 post boxes and 11,820 post offices six-days-a-week. It works through the night in a network of 59 mail centres Royal Mail uses a fleet of 33,600 vehicles and employs 130,000 postmen and women in 1,371 delivery offices, delivering around 62 million items of mail every single working day

We achieved our First Class quality target in 2010-11 with a 93 0% performance when account is taken of the extraordinary combination of the harshest winter in 30 years[1] and the unprecedented closure of UK airspace because of Icelandic volcanic ash Without any adjustment the performance for the year would be 91 4%

Under the terms of its licence from Postcomm and in accordance with standard practice Royal Mail is asking the regulator to apply adjustments to the 2010-11 quality of service figures to recognise the severity of the weather conditions and the disruption caused by the volcanic ash cloud via an established procedure The Company believes the exceptional conditions fully warrant adjustments as Royal Mail did everything possible to cope with events beyond its control.



Royal Mail has one of the largest vehicle fleets in the UK, with over 33,000 vehicles which are used to transport mail around the country.

1 Source Met Office

Royal Mail's biggest challenge continues to be the digital age The competition of technology - email phone, text and broadband - has had a dramatic effect on the whole market It contributed to mail volume decline of 4% this year

Parcelforce Worldwide provides express parcel services to both businesses and consumers With global reach, it operates from two hubs and 52 depots within the UK

Parcelforce Worldwide has had an exceptional year In a market where competition is open and intense, it has increased both revenues and profits

In the UK market, where there are more than a dozen major parcel businesses Parcelforce Worldwide's growth has outpaced all its rivals

It achieved volume growth of 15%, partially offset by a changing customer mix and market price pressures leading to another year of record profits

Its Business to Business volumes also grew in 2010-11 in what is the most competitive sector of the market Its business strategy rests firmly on one of the highest quality of service records in the industry

Parcelforce Worldwide employs 4 508 people The business has high employee engagement - amongst the highest levels in the whole of Royal Mail Group

Trading results

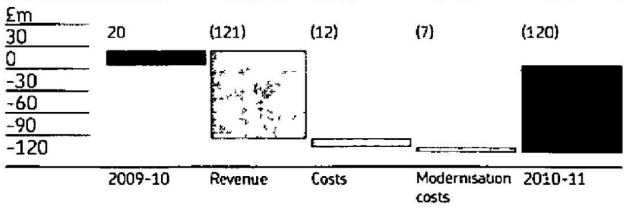
UK Letters & Parcels and International

	2010-11 £m	2009-10 £m
External revenue	**6,857**	6,978
Operating (loss)/profit after modernisation costs*	**(120)**	20

before other operating exceptional items

Revenue fell by £121 million as tariff increases were not enough to offset a 4% volume decline in inland addressed mail, which was primarily driven by losses to alternative digital communications channels Single-piece mail like stamped and metered declined by 11% This means that in five years this type of mail has declined by over 35% The decline in inland addressed volumes was lower than last year's at 7%, reflecting improvements in the economy and recent signs that advertising mail is starting to reclaim some market share The 4% decline in inland addressed mail was driven by letters 5% large letters 4%, offset by a 3% increase in packets

Movement in operating profit after modernisation costs



First Class retail quality of service was 91 4% against the background of adverse weather and volcanic ash cloud conditions during 2010-11 The timing and severity of snow in November and December 2010

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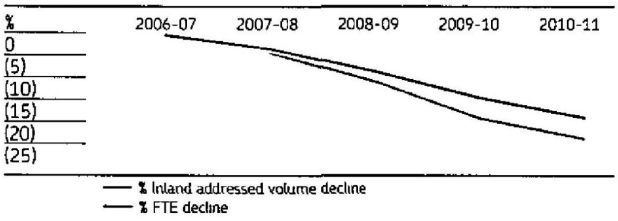
UK Letters & Parcels and International continued

when Christmas volumes were peaking was a real test of Royal Mail's Universal Service credentials Even though it proved impossible to deliver in some parts of the country, unlike others Royal Mail did not shut down its network. It invested £20 million more to maintain it

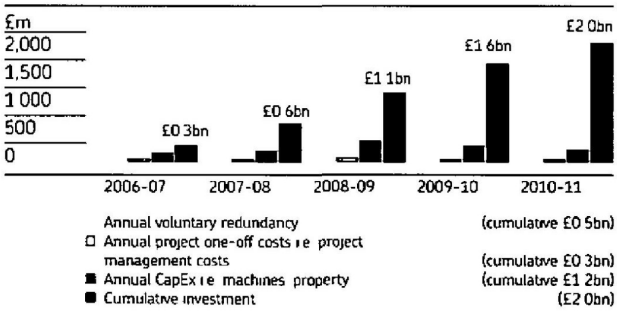
During the year a pay and modernisation agreement with the Communication Workers Union was reached, providing a platform to continue to modernise Royal Mail's network However the delay in signing this agreement resulted in lower cost savings than originally anticipated This contributed to operating profit after modernisation costs declining from £20 million to a loss of £120 million

Modernisation



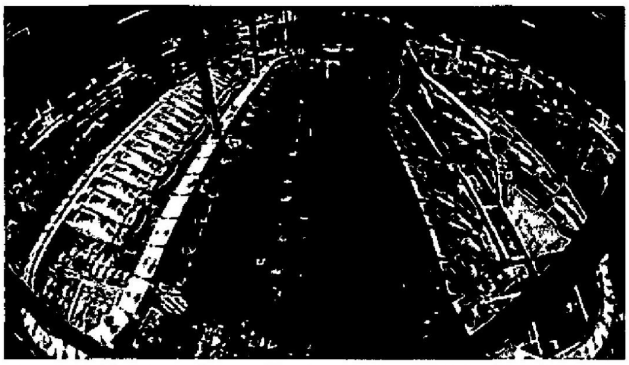
The challenge of managing down costs – in a largely fixed costs/ people-based network – more quickly than the decline in revenues is even more critical if the Universal Service is to be profitable and sustainable Since 2006-07 volumes have declined cumulatively by over 20% whilst the gross cumulative reduction in hours is around 15% This is why modernising the network is a significant part of the overall Group strategy When completed it will not only be one of the largest transformations in the UK, but will also provide world-class productivity safety and service quality It will enable mail to compete successfully with other communications media

Since March 2006, £2 0 billion has been invested by Royal Mail in new equipment in mail centres and delivery offices and voluntary redundancy costs with some £400 million spent in 2010-11 In that time nearly 23,000 people have left the business





Royal Mail charters 25 aircraft, which make 54 flights on average a day.



Royal Mail's operation at Heathrow Worldwide Distribution Centre handles international mail to and from the rest of the world.

The challenging and changing market

In addition to our core letters market of First and Second Class letters and bulk mail, Royal Mail offers distribution services to e-commerce companies traditional catalogue retailers and other customers wishing to send packages domestically Services range from stamped packets with no tracking or additional value-add to Special Delivery, a lunchtime next day guaranteed service and our next day Tracked service offering full end-to-end tracking

In 2010-11, we began to rationalise and simplify our products and to align them more closely to customers different needs Simplicity in our offer will benefit customers enhance Royal Mail s operational efficiency, and make customers want to choose us

We have done a lot this year to improve our core products and to innovate

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UK Letters & Parcels and International continued

Highlights included

- Continued strong growth for our Royal Mail Tracked services – greater than 100% growth in volume and revenue for the third year running Growth has been generated by the addition of around 700 new customers and winning a major contract with one of the UK s leading online retailers
- The launch of our next day tracked service – Royal Mail Tracked Next Day This responds to increasing customer demand for faster services
- Making it easier for customers to buy our services and receive reports on our performance through the launch of our online ordering tool Despatch Manager Online
- A successful trial of evening deliveries within the London area This is now being expanded through Royal Mail Sameday
- Keeping open around 600 enquiry offices up to two hours later on a Wednesday and Saturday to provide customers with greater flexibility
- For advertisers Royal Mail s Advertising Mail™ is a new product designed as part of Royal Mail s commitment to meet the specific needs of advertisers Customers sending dedicated advertising mail that meets direct marketing 'best practice' standards can benefit from better prices helping them deliver stronger returns on their marketing investment
- For fulfilment companies Royal Mail has developed a simple-to-use online tool to get the right packet delivery products and options to meet specific customer needs in this highly competitive area This 'menu-based approach allows customers to choose what works best for them
- Royal Mail became the world s first postal company to help businesses make their post interactive using digital watermarking technology

The advertising and communications market continues to change This has had a direct impact on direct mail and transactional mail – bills and statements Although high and low volume business mailers and those sending statements will see an improved offer from us in 2011-12 The continued trend has been towards highly measurable low cost media This has fuelled the growth in cheaper digital media Combined with greater consumer access through broadband and mobile channels, the majority of UK growth has been in the digital space, with a direct impact on direct mail volumes

While the number of corporate and SME companies including mail in their advertising mix has slightly increased, overall volumes have declined This is because of the substitution of digital communication by customers Royal Mail has countered this by offering marketing support including the Mail Media Centre (mmc co uk) – the home of insight and advice – and financial incentives to encourage both first-time users and existing users of direct marketing

Royal Mail is a strong player in the direct mail market, where there is solid evidence that well-targeted direct mail beats other ways of advertising We are developing strategies to be the marketing partner of choice for direct mailers We are doing so by offering expertise in data management campaign planning and consumer targeting We are aiming at growth with both the largest companies and small businesses

2010 saw our first ever Direct Marketing Sale stimulating significant incremental business

More traditional transactional mail continues to decline as many of the banks and utilities run proactive programmes to switch consumers to digital alternatives while the customer remains keen on receiving posted items Many businesses are reappraising the use of direct mail and the advertising association WARC is forecasting a 3% growth in 2011-12

Key Facts and figures

- 62 million items processed and delivered every single working day
- 74% of mail is delivered to just 13% of the country
- 28 8 million addresses – 1 6 million business addresses
- 91 4% First Class quality of service – but post force majeure will have hit target Target is 93%
- 115 271 post boxes
- 59 mail centres of which 24 are World Class Mail centres
- 1 371 delivery offices
- 33,600 vehicles
- 155 181 people
- UK stamp prices amongst lowest in Europe

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UK Letters & Parcels and International continued

Royal Mail Special Stamps programme

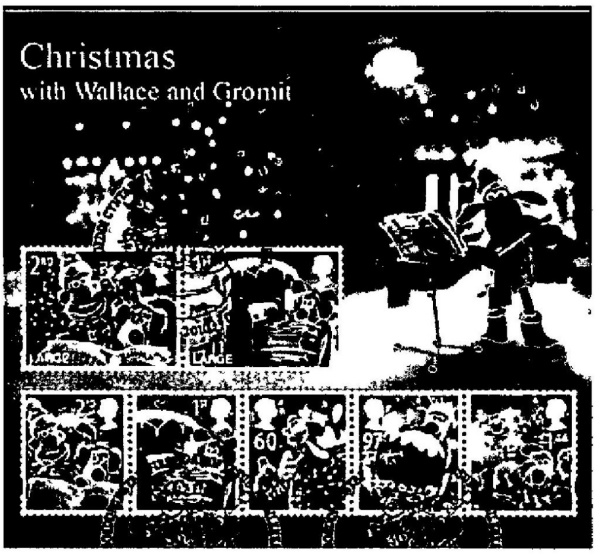
Royal Mail s first commemorative stamp was issued in 1924 to mark the British Empire Exhibition In the 1960s the modern-day Special Stamp programme was launched This now features over a dozen issues every year

By 31 March 2011 over 450 issues of Special Stamps had been produced Themes for 2010-11 varied from Britain Alone, a tribute to people on the home front in the dark days of 1940 to UK mammals Winnie-the-Pooh and stage musicals

In August 2010 the Great British Railways issue saw the launch of the world s first intelligent stamps When scanned through a special smartphone app the stamps revealed exclusive footage of Bernard Cribbins reciting the iconic Night Mail poem This technology was also included in stamps celebrating the 50th anniversary of environmental organisation WWF in March 2011

In December Wallace and Gromit Christmas stamps proved extremely popular FAB stamps got 2011 off to a flying start in January with the UK's first motion stamps - lenticular printing revealing the iconic 5-4-3-2-1 opening sequence of Thunderbirds when the stamps are tilted back and forth

The year culminated in the announcement on 29 March of stamps to commemorate the wedding of HRH Prince William and Catherine Middleton The stamps made headlines across the UK and around the globe reinforcing Royal Mail's reputation as a world leader in stamp production and design



Wallace and Gromit stamps were extremely popular in December for Christmas mail.

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The Post Office

The Post Office is part of everyday life in communities throughout the UK.

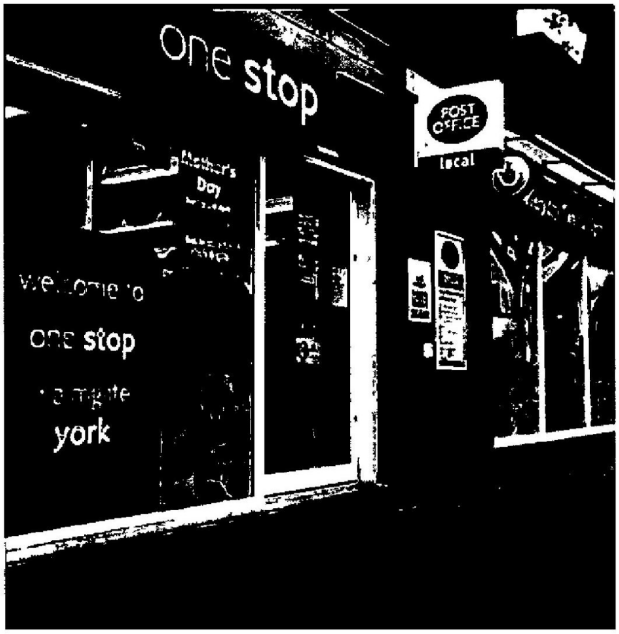
It provides around 170 different services and products spanning financial services including savings, insurance, loans, mortgages and credit cards Post Office also offers Government services telephony foreign currency travel insurance and mail services

Around 20 million customers visit the 11 820 Post Office branches per week

Trading results

Post Office Limited	2010-11 £m	2009-10 £m
External revenue	**776**	838
Operating profit after modernisation costs*	**21**	33

before other operating exceptional items



The Post Office is piloting new branch formats, which can offer extended opening hours to customers. In Post Office locals, the Post Office operation is fully integrated into the retail outlet where it is located. This means Post Office services are offered for longer, matching retailers' opening hours and, in many cases, open on Sundays too.

Revenue declined by £62 million to £776 million mainly in traditional business This was caused by Post Office Card Account income falling due to the full year impact of the October 2009 contract on the Card Account (which yields a lower rate per account) and as customers continued to migrate to bank accounts Revenues also declined in some areas of financial services and telephony Although revenues declined in travel services due to economic factors market share was maintained

This has resulted in a decline in profit after modernisation costs of £12 million from £33 million to £21 million Some of the revenue decline was mitigated by careful cost control which included a 16% reduction in the number of managers

There has been a focus on addressing customers' concerns around queue time in Crown Offices with the benefits of the 2009-10 Crown Office refurbishment programme providing a platform to improve our service into the future Complaints are down in the year but there is further work to do A focus on customer service will continue into 2011-12, to meet the rising expectations of consumers related to staff helpfulness and speed of service through staff training and further self-service in branches

Maintaining revenues

The challenge in the Post Office is similar to that of Royal Mail to find new revenue streams and to manage costs efficiently as traditional volumes decline

During the year the Post Office identified growth in other areas This is key in stabilising revenues as traditional volumes fall away In Government services, new income has been generated following the roll out in the first half of the year of biometric identity capture equipment across 752 branches In mails, revenues in premium services have increased by investing in branch specialists who offer service and support to customers Working with Royal Mail there are further plans to grow our mails services to small businesses In financial services online savings accounts have been very successful, bringing in excess of £4 billion online balances in the seven-month period since their launch in August 2010



The Government has committed to £1.34 billion in funding over the next four years. This will cement the Post Office's vital place in UK communities It will help to build a Post Office network that is relevant for the 21st century.

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The Post Office continued

Within the branch network by far the largest of its kind in the UK, piloting of the new Post Office trading models is underway to extend opening hours and to enable more sustainable and profitable branches for operators in the future Feedback from customers and operators about the pilots is positive Research by MORI for Consumer Focus shows that 97% of customers believe the convenience of the location is better or on a par with other post offices and 83% like the increased opening hours Research by aba research for Post Office Limited reports that 94% of customers are extremely or very satisfied with their overall experience Working closely with the National Federation of Subpostmasters developments will be reviewed and stakeholder views taken into account as these models develop

Securing the Post Office network in the digital age
Post Office Limited is now embarking on a five-year plan based on the Government's policy statement 'Securing the Post Office network in the digital age, published in November 2010 This confirmed Government funding commitment of £1 34 billion over the next four years which is vital to ensure further innovation in the Post Office network

This support from the Government shows a tremendous commitment to the future of the Post Office network It reinforces its place in local communities, its role as part of UK infrastructure and the social value that its network provides to the country The package provides the investment and confidence to build a Post Office that is relevant for customers in the 21st century It will establish a sustainable future for the Post Office It provides the foundation we need to build a Post Office we can all be proud of

The plan reflects

- A strong understanding of and commitment to the social and economic value of the Post Office for communities and businesses across the UK
- Investing in and modernising to create a sustainable branch network which offers longer opening hours to customers There will be no programme of closures
- Maintaining a strong commercial relationship with Royal Mail for the mutual benefit of both companies
- Establishing the Post Office as a genuine front office of Government at both national and local level
- Expanding accessible and affordable personal financial services including helping people access their current accounts through our branches In the year ahead almost 80% of all UK current accounts will be accessible at post offices
- Complementing an increasingly online world to benefit customers Providing access to online services through our branch network for those who are digitally excluded and easy general access to those digital processes that still need a physical element e g handling a package, checking documents or confirming customers' identities
- Moving forward with important concepts within the Postal Services Act such as the opportunities for mutualisation that would look at new ways for employees, subpostmasters and communities to be involved in the ownership and running of the Post Office



Modern Crown Post Office branches feature an open plan layout, with a separate area for financial services conversations. The ticketing system helps to manage footfall.



Automated Post & Go machines enable customers to weigh and pay for postage away from the counter.

Facts and figures

- Around 11 800 branches including 373 Crown Offices
- Approximately 28,000 customer-facing positions
- Around 20 million customers visit the post office per week
- UK s leading supplier of foreign currency exchange with a 25% market share
- Customer satisfaction levels at 85%

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General Logistics Systems – GLS

GLS is one of the biggest ground-based parcel service providers in Europe today.

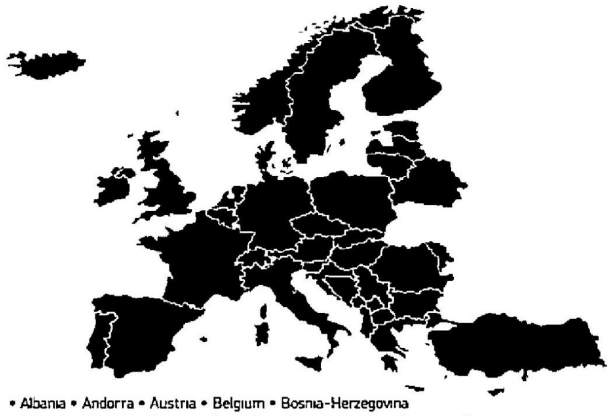
GLS is a pan-European company providing reliable, Business to Business high-quality parcel and express services as well as value-added logistics solutions Founded in 1999 it has strong historical roots in each European country s domestic market

GLS is one of the biggest ground based parcel service providers in Europe today GLS provides a network coverage of 42 countries through wholly owned and partner companies and is globally connected via contractual agreements

The GLS network comprises 38 central transhipment points in Europe made up of 656 depots and 17,100 vehicles Its 13,167 people deliver over 360 million parcels annually for 220 000 customers throughout Europe

GLS is the European leader in quality providing market-leading quality and margins

GLS pan-European network



• Albania • Andorra • Austria • Belgium • Bosnia-Herzegovina
• Bulgaria • Croatia• Cyprus • Czech Republic • Denmark • Estonia • Finland
• France • Germany • Greece • Hungary • Iceland • Ireland • Italy • Latvia • Liechtenstein
• Lithuania • Luxemburg • Macedonia • Malta • Monaco • Montenegro • Netherlands
• Norway • Poland • Portugal • Romania • San Marino • Serbia • Slovakia • Slovenia
• Spain • Sweden • Switzerland • Turkey • United Kingdom • Vatican City

Trading results

General Logistics Systems

	2010-11 £m	2009-10 £m
External revenue	**1,485**	1,487
Operating profit after modernisation costs*	**118**	112

*before other operating exceptional items

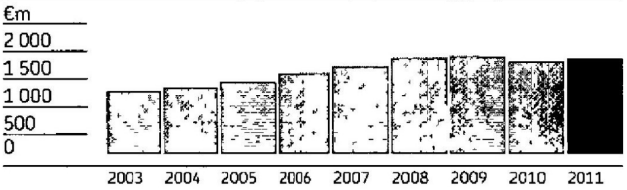
Reported revenues are £2 million lower than last year at £1,485 million This is partly due to the strengthening of Sterling against the Euro Underlying revenues were around 4% higher than the prior year after adjusting for exchange rate movements This reflects the improvements in the European economies as they move out of recession This underlying improvement was driven by volume growth

Operating profit increased by £6 million (5 3%) to £118 million despite an adverse currency effect of £4 million After adjusting for the currency impact, operating profits increased by 9%

Profitability improved from economies of scale as higher parcel volumes were transported through the GLS network as well as through continued focus on costs.

The operating margin after modernisation costs improved from 7 5% to 8 0%

GLS underlying revenue



Up to 2008-09 GLS grew its revenues every year in line with growth in the European economies and the expansion of its network Then GLS like other parcel companies was impacted by the recessionary environment which started in 2008 resulting in a modest decline in volumes and revenues Despite the recession, GLS has continued to generate healthy cash returns It continued to strengthen its European network and focus on excellent service quality This leaves GLS well placed as economies and markets improve

Facts and figures

- Parcel volume 2010-11 360 million
- Customers 220 000
- Workforce 13 167
- Hubs 38
- Locations 656
- Vehicles 17,100

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Key Performance Indicators

The Group's Key Performance Indicators (KPIs)
Customers are at the centre of everything we do within the Group Our main aim is to be the most trusted delivery brand in the UK which provides the Universal Service for our customers the length and breadth of the country We also want to be seen as the premier European and UK express parcel businesses offering excellent customer service

The Group also wants to sustain and grow the Post Office commercially while maintaining its key role as part of the UK's social and economic fabric

Our key strategies and objectives will be communicated widely across the Group, embedded into its day-to-day activities and measured on a timely basis by appropriate KPIs and performance measurements They are monitored by the Royal Mail Holdings plc Board and its sub committees, as highlighted below

Customer service
To win and keep customers we must provide a consistently high quality of service, delivering on time, collecting on time and responding quickly when needed

That means

- delivering a high quality of service and mails integrity
- developing products that match the needs of our customers
- becoming easier to do business with

Our performance measures in this area are

KPI	2011	2010
Retail First Class quality of service	**91.4%**	87.9%
Number of complaints (millions)	**1.23**	1 20
Post Office Limited – customer satisfaction	**85%**	89%

First Class quality of service continues to improve building on the momentum achieved in the previous year Customer complaints rose reflecting the challenges posed by the volcanic ash cloud and adverse winter weather conditions

Parcelforce Worldwide continues to provide excellent customer service with its PFWW 24 timed delivery product Quality of service remained stable this year, despite the adverse winter weather conditions

Post Office customers remain satisfied with the service they receive in the 11 820 post office branches throughout the country A focus on customer service will continue in 2011-12

Modernising Royal Mail
Our modernisation programme continues to drive wide-ranging efficiency improvements across the business as well as delivering cost savings Our World Class Mail programme has been launched in 24 mail centres and in 117 delivery offices this year Belfast Cardiff and Gatwick mail centres have already received awards from the World Class Manufacturing Association

Our performance measures in this area are

KPI	2011	2010
Gross hours reduction (%)	**2 4%**	5 9%
Sequenced mail exit rate	**34%**	8%
Handheld devices deployed (cumulative)	**33,553**	27000

As set out in the modernisation section we did not achieve the gross hours reduction we had anticipated However, we have made significant progress modernising our mail centres

Our people
Royal Mail Group believes that health and safety is an important element of every working day The Group treats this matter very seriously and it is discussed regularly at Board meetings Throughout our businesses, we are committed to ensuring our employees and customers are kept as safe as possible We also understand that we can only move forward as a successful group of companies if we involve our people in making change happen This underpins our commitment to employee engagement through our regular survey which was established in 2003

Our performance measures in this area are

KPI	2011	2010
RIDDOR Accidents/1000 (12 month rolling average)#	**20.8**	27 8
Engagement Index	**24%**	*
Total Attendance	**95.4%**	95 0%

* comparative not available due to change in basis of measurement.
# frontline employees

We have improved the accident rate materially but seek a further positive change in 2011-12 Engaging our people will be a major focus in the coming years as we have set out on pages 9 and 10

Profitability and cash flow
Funding from Government continues to be used to support the capital investment programme which addresses the historic under-investment in the core letters business Continuing to develop more efficient ways of working and well-targeted products and services will help us to succeed in a highly competitive marketplace

Our performance measures in this area are

KPI	2011	2010
External revenue	**£9,156m**	£9,349m
Operating profit*	**£39m**	£180m
Margin*	**0 4%**	1 9%
Free cash flow	**£(213)m**	£(545)m

* after modernisation costs before other operating exceptional items

Details of our financial performance are included in the Financial Review on pages 28 to 34

The current KPIs and performance measures are under review It is our intention to share these with all of our stakeholders at our half-yearly review in the Autumn The new range of KPIs will follow similar themes as detailed in this section where the services we give to our customers will be at the centre of everything we do

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Financial review

Profit and loss summary

	2011 £m	2010 £m
External revenue	**9,156**	9 349
Operating costs	**(8,938)**	(8 986)
Modernisation exceptional costs	**(207)**	(224)
Share of profits from joint ventures & associates	**28**	41
Operating profit after modernisation costs*	**39**	180
Other operating exceptional costs	**(88)**	(67)
Non-operating exceptional profits	**109**	5
Profit before financing and taxation	**60**	118
Net finance costs and pensions interest	**(212)**	(380)
Taxation charge	**(106)**	(58)
Loss for the financial year	**(258)**	(320)

* before other operating exceptional items

- Group external revenue fell by £193m from £9 349m in 2010 to £9 156m in 2011 as core traditional volumes in Royal Mail and the Post Office continue to decline,
- Operating profit after modernisation costs of £39m is £141m lower than last year's £180m mainly due to the decrease in revenues offset by lower operating and modernisation costs Other operating exceptional costs include impairments of £41m and a £30m provision for potential industrial claims,
- Non-operating exceptional profits of £109m comprise profits on the sales of property and other assets of £65m (2010 £5m) and the profit on disposal of a 20% investment in Camelot of £44m (2010 £nil)
- Finance and pensions interest costs of £212m (2010 £380m) have reduced by £168m mainly due to a £162m lower notional pensions interest charge and
- Taxation charges have increased mainly due to a deferred tax charge increase of £34m

Balance sheet summary

	2011 £m	2010 £m
Net assets before pension deficit	**1,394**	1 760
Pension deficit	**(4,501)**	(8 041)
Net liabilities	**(3,107)**	(6 281)

- Net assets before the pension deficit of £1 4bn are £0 4bn lower than last year's £1 8bn, mainly due to property and other asset disposals,
- The accounting pension deficit has decreased from £8 0bn in 2010 to £4 5bn in 2011, reflecting the decrease in liabilities following the Government announcing its intention to change the inflation measure from RPI to CPI and an increase in asset values as a result of improved market conditions and
- Net liabilities of £3 1bn are lower than £6 3bn last year primarily because of the reduction in the pension deficit

Cash flow summary

	2011 £m	2010 £m
EBITDA, pre pension costs	**962**	1 082
Operating exceptional items*	**(242)**	(243)
Working capital	**(49)**	(83)
Pension payments	**(771)**	(867)
Cash outflow from operations	**(100)**	(111)
Capital expenditure	**(376)**	(462)
Disposal of assets	**237**	14
Other (dividends, tax, interest)	**26**	14
Free cash outflow	**(213)**	(545)

* excludes pension payments relating to redundancy

- EBITDA pre pension costs of £962m is lower than last years £1,082m mainly due to the decline in revenues of £193m offset by a reduction in operating costs
- Operating exceptional items of £242m mainly comprise cash flows relating to modernisation such as voluntary redundancy and ColleagueShare payments
- Pension payments of £771m are £96m lower than last year's £867m mainly because of the reduction in ongoing contributions as a result of lower pensionable pay and a reduction in the employer cash contributions rate
- Capital expenditure of £376m is £86m lower due to a reduction in capital expenditure on the modernisation programme,
- Disposal of assets of £237m comprises property sales of £164m and the sale of a 20% investment in Camelot of £73m, and
- As a result, free cash outflow of £213m is £332m lower than last year of which some £400m (2010 £500m) relates to modernisation

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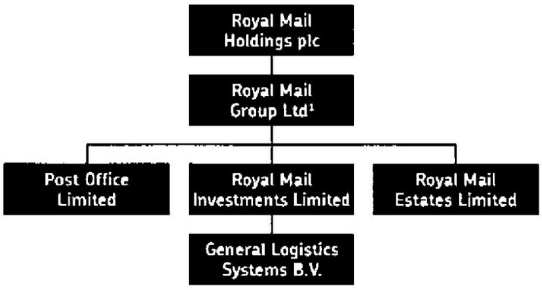
Financial review continued

Background
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 Royal Mail Holdings plc together with its subsidiaries, associates and joint ventures comprise 'the Group' The Group operates within a regulatory framework comprising an independent regulator, Postcomm and a statutory consumer organisation Consumer Focus

Legal structure
Royal Mail Holdings plc is directly owned by the UK 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 UK Letters & Parcels and International business unit included in Royal Mail Group Ltd is not a separate legal entity

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

Operating units
The Group is organised into four operating units

UK Letters & Parcels and International (UKLPI) processes and delivers letters and packets in line with its unique Universal Service Obligation (USO) and is also a leading provider of collection and delivery services for express packages and parcels providing both business and private addresses with a full range of timed delivery options It is responsible for the design and production of the UK's stamps and philatelic products and also the processing of international mail under reciprocal arrangements with other overseas postal administrations Within this unit are the Commercial Regulated Commercial Non-Regulated Operations Wholesale Property and Central functions which are aligned to products or specific business areas and functions

General Logistics Systems B V (GLS) is one of the largest ground based parcel service providers in Europe today GLS provides a network coverage of 42 countries through wholly owned and partner companies and is globally connected via contractual agreements

Post Office Limited has a national network of branches 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 services retail and the secure transportation of cash

Other comprises Romec Limited and NDC 2000 Limited, which provide facilities management services and design consultancy services respectively for both the Group and to external customers PostCap Guernsey Limited which provides captive insurance services for the Group Royal Mail Pension Trustees Limited which provides trustee services to and manages the administration of the Group's principal pension scheme, and the Group's investment in Quadrant Catering Limited, which provides catering services across the Group

The following table highlights the segmental results of each unit

	External revenue		Operating (loss)/profit after modernisation costs*	
Business unit performance	2011 £m	2010 £m	2011 £m	2010 £m
UK Letters & Parcels and International (UKLPI)	**6,857**	6 978	**(120)**	20
General Logistics Systems (GLS)	**1,485**	1 487	**118**	112
Post Office Limited	**776**	838	**21**	33
Other businesses	**38**	46	**20**	15
Group	**9,156**	9 349	**39**	180

before other operating exceptional items

Segment performance is discussed in the relevant preceding sections

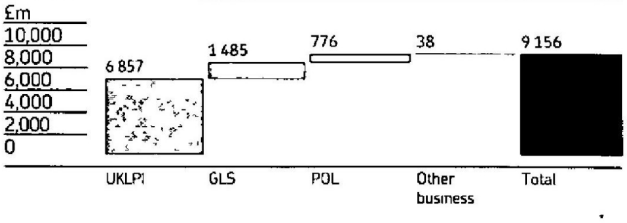
External revenue
The Group's external revenue fell by £193m from £9 349m to £9 156m

UKLPI revenue was £121m lower at £6 857m mainly due to a 4% decline in core letter volumes despite price increases The volume decline is driven by a change in the marketplace, with a move away from core products to digital communications channels and competitors as well as down-trading to other lower priced Royal Mail products

Post Office Limited revenue declined by £62m to £776m mainly in traditional Government business This was caused by Post Office Card Account income falling due to the full year impact of the October 2009 contract on the Card Account (which yields a lower rate per account) and as customers continued to migrate to bank accounts

GLS revenue was lower by £2m year on year at £1,485m with an underlying revenue growth of around 4% being more than offset by the adverse impact of foreign exchange when converting its Euro results into Sterling

External revenue by business unit



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Financial review continued

Costs (including modernisation costs)

	2011 £m	2010 £m
People costs	**(5,717)**	(5 746)
Distribution and conveyance costs	**(1,619)**	(1,579)
Other operating costs	**(1,602)**	(1 661)
Operating costs before exceptional items	**(8,938)**	(8,986)
Modernisation costs (operating exceptional items)	**(207)**	(224)

Total operating costs of £8 938m have decreased from £8 986m by £48m whilst modernisation costs have decreased by £17m to £207m

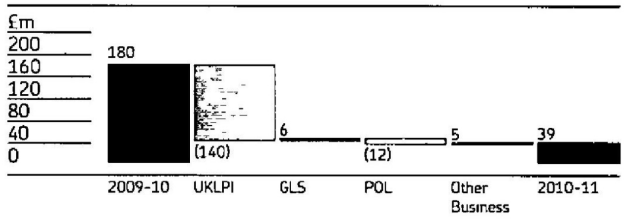
People costs of £5,717m have decreased by £29m This decrease is driven by the modernisation programme delivering efficiencies contributing to a headcount reduction of around 5 200 for the Group, but has almost been offset by higher pay rate and pensions costs

Distribution and conveyance operating costs of £1 619m have increased by £40m, principally due to higher year-on-year international export volumes differing country mix and higher freight rates into the USA and Australasia

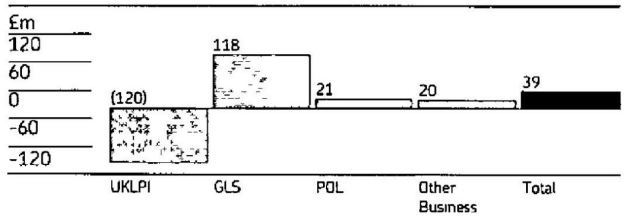
Other operating costs (including sales and marketing property, communication IT and other functional costs) have decreased by £59m to £1 602m driven by a focused cost and procurement exercise across the UK businesses

Modernisation costs are £17m lower as a result of a £69m net release of ColleagueShare costs (2010 £44m charge) offset in part by £84m higher restructuring costs and £12m higher impairments due to business transformation

Operating profit after modernisation costs - growth/(decline) by business unit (£m)*



Operating (loss)/profit after modernisation costs by business unit (£m)*



* before other operating exceptional items

Operating profit after modernisation costs of £39m is £141m lower than £180m last year UKLPI and Post Office Limited both returned year-on-year profit declines due to falling revenues and competitive and economic factors whilst GLS continued to generate significant profits and achieve good margins as European economies improve

Share of profits in joint ventures and associates

The Groups share of profits in joint ventures and associates of £28m decreased by £13m from £41m mainly due to the sale of a 20% investment in Camelot (£7m) and lower profit shares from both G3 Worldwide Mail N V (Spring) and the Bureau de Change joint venture

Net exceptional items, including modernisation costs

Exceptional items	2011 £m	2010 £m
Operating exceptional items		
- Modernisation costs	**(207)**	(224)
- Other	**(88)**	(67)
	(295)	(291)
Non-operating exceptional items		
- Asset disposals	**65**	5
- Camelot disposal	**44**	-
Net exceptional items	**(186)**	(286)

Modernisation costs are treated as operating exceptional items because of their nature and size and have been explained above

Other operating exceptional costs of £88m comprise a £30m provision for potential industrial claims, £41m of impairments and £15m relating to costs associated with the State Aid application and Postal Services Bill For further details see note 7 to the financial statements

During the year there has been an increase in property and other asset disposals and a one-off sale of the Groups 20% investment in Camelot Together these generated a non-operating exceptional profit of £109m (2010 £5m)

ColleagueShare scheme (related credits and charges included in modernisation costs)

The scheme has completed its fourth year and has one more year in its five year life span during which notional shares have been allocated to employees and stakeholder dividends paid based on the achievement of certain targets The costs and credits of the scheme continue to be treated as a modernisation cost within operating exceptional items

Fully eligible employees continue to hold 711 notional shares each in the Company following their issue in 2007 (408 shares) and 2008 (303 shares) The Board agreed during 2009-10 that the third and final issue of notional shares was replaced by the payment of an additional stakeholder dividend now deemed to be business transformation payments as they are linked directly to the achievement of targets, including key modernisation milestones

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Financial review continued

The value of ColleagueShares is based on a share plan valuation model The scheme provides employees with two opportunities to sell ColleagueShares back to the Company, after valuation points at March 2011 and March 2012 The valuation at March 2011 shows no value to ColleagueShares The final value of ColleagueShares will not be known until after the end of the 2011-12 financial year but it is expected that this valuation will similarly indicate no value The value of ColleagueShares is a result of the deteriorating financial position of the Group which is reflected in the latest business plan This has resulted in the provision at 27 March 2011 for the redemption value at the end of the scheme being reduced to £nil and a credit of £109m recognised in modernisation costs

The impact of the deterioration in the anticipated financial position of Royal Mail Group Ltd is also reflected in the individual parent Company financial statements of Royal Mail Holdings plc where its carrying value has been written down by £3 8bn to £nil as set out on page 106

The Group made the final stakeholder dividend payment relating to 2009-10 of £400 per eligible employee and continued to pay in the year additional business transformation payments in recognition of achieving certain targets The total charge to the income statement for these payments is £41m

Net finance and pensions interest costs
Net finance and pensions interest costs of £212m (2010 £380m) comprise £167m (2010 £329m) net pensions interest costs and £45m (2010 £51m) of finance costs relating to cash and debt Net pensions interest costs are explained in the pensions section below

Net finance costs of £45m (2010 £51m) comprise finance costs of £114m (2010 £98m), offset by finance income of £69m (2010 £47m) The increase in finance costs of £16m is mainly due to higher borrowing volumes and higher finance lease interest payable partly offset by lower charges due to unwinding of discounts and lower commitment fees The increase in finance income of £22m is mainly due to higher investment yields on index-linked gilts within the pension escrow investment portfolio higher investment volumes within the escrow investment portfolio and interest receivable on large VAT repayments

Taxation
The taxation charge of £106m (2010 £58m) comprises £17m current tax credit (2010 £27m) with respect to UK operations, a £35m (2010 £31m) current tax charge on overseas profits a UK deferred tax charge of £79m (2010 £53m) and an overseas deferred tax charge of £9m (2010 £1m)

Operating cash flow
EBITDA pre pension costs of £962m are £120m lower than last year s £1 082m mainly due to the decrease in revenues of £193m offset by a reduction in operating costs of £48m Operating exceptional items spend of £242m (excluding pension payments relating to redundancy) is in line with last year s £243m due to an increase of £23m in ColleagueShare dividend (relating to prior year s performance) and transformation payments (relating to the pay and modernisation agreement) being offset by £24m lower restructuring spend

Pension payments of £771m are £96m lower than last year's £867m mainly because of the reduction in ongoing contributions as a result of lower pensionable pay and a reduction in the employer cash contribution rate further explained below

Together, the above categories comprise cash outflows from operations, which totalled an outflow of £100m £11m lower than last year s £111m

Free cash flow
Capital expenditure comprises spend (property plant and equipment and intangibles purchases) of £376m which is £86m lower than last year s £462m mainly due to the changing nature of the modernisation programme in Royal Mail, which has moved from significant investment in the mail processing centres to changing work practices in delivery which requires lower property spend

This capital expenditure has been offset by disposals of property and other assets in response to the requirement to fund the modernisation programme During the year £237m was generated from the disposal of assets which includes £159m (2010 £8m) of property-related disposals and £73m (2010 £nil) relating to the disposal of the Group's investment in Camelot The majority of property disposal proceeds relate to the sale and operating leaseback of mail centres and the London Old Street property and in total contributed £131m in the year with other property outright sales contributing £28m

Together with operating cash flow these and other cash flows of £26m (2010 £14m) amounts comprise free cash outflows of £213m for the year, which are £332m lower than last year s £545m The reduction is primarily due to almost flat operating cash outflows benefiting from lower capital expenditure of £86m and higher asset disposal proceeds of £223m

Balance sheet including pensions, funding and treasury management overview

	2011 £m	2010 £m
Property, plant and equipment	**1,832**	1 935
Inventory	**38**	38
Trade and other receivables	**1,135**	1,156
Trade and other payables	**(1,995)**	(2 119)
Provisions	**(278)**	(276)
Net operating assets	**732**	734
Goodwill (mainly relates to GLS)	**197**	197
Intangible assets (mainly software)	**126**	99
Investments in joint ventures and associates	**105**	147
Investment assets	**428**	443
Pension escrow investments	**1,161**	1,189
Other financial investments/derivatives	**87**	77
Cash and cash equivalents	**1,101**	937
Loans and borrowings	**(1,853)**	(1 526)
Other financial liabilities	**(261)**	(199)
Net financial assets	**235**	478
Other (liabilities)/assets	**(1)**	105
Net assets before pension deficit	**1,394**	1,760
Pension deficit	**(4,501)**	(8,041)
Net liabilities	**(3,107)**	(6,281)

The Group is balance sheet insolvent with net liabilities of £3,107m (2010 £6 281m) mainly due to an accounting pension deficit of £4 501m (2010 £8,041m deficit)

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Financial review continued

During the year there have been no material business acquisitions and only one significant business disposal - the sale of the 20% investment in Camelot The following represents a summary of the movements in the main line items in the balance sheet

Property plant and equipment of £1,832m is £103m lower as the result of depreciation charges asset write-offs and property disposals being higher than new investment into property, plant and equipment

Trade and other receivables of £1,135m are £21m lower than last year and there continues to be a good track record on receivables management

Trade and other payables of £1 995m are £124m lower than last year almost entirely due to the payment of the ColleagueShare dividend in June 2010 of £73m and a reduction in capital expenditure payables of £58m due to the reduction in capital expenditure

Provisions of £278m have increased by £2m and mainly comprise amounts relating to restructuring

The increase in intangible assets of £27m to £126m is due to £73m of software additions – the largest project being the People Systems Programme - offset by amortisation and impairment charges The decrease in investments in joint ventures and associates is mainly due to the disposal of the 20% investment in Camelot

The pension deficit liability is further explained below

Pensions

Schemes

Royal Mail Group Ltd is the sponsoring employer for the Royal Mail Pension Plan (RMPP) and the Royal Mail Senior Executives' Pension Plan (both defined benefit schemes), and for the Royal Mail Defined Contribution Plan (defined contribution scheme) Based on assets the Royal Mail Pension Plan is one of the largest pension schemes 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 volatility, particularly with respect to movements in equity values and future expectations of inflation and bond rates

Both defined benefit schemes are now closed to new members New employees are offered membership of the Defined Contribution Plan

Pension charges in profit

Pension charges within profit	2011 £m	2010 £m
Operating pension costs	**458**	441
Exceptional pension costs (relating to redundancy)	**47**	42
Net pensions interest charge	**167**	329
Pension charges	**672**	812

The £17m increase in operating pension costs is principally as a result of market conditions resulting in a pension charge that is 17 8%[1] of pensionable pay compared to 16 8% last year offset by a reduction in the number of people employed The percentage applied to the pensionable payroll is determined at the beginning of the financial year and is intended to represent the amount by which liabilities will increase due to employing active members for one more year

The net pensions interest charge reflects the unwinding of the discount on the schemes' liabilities less the long-term expected rate of return on the schemes assets Net pensions interest charge of £167m (2010 £329m) a non-cash item for the Group, has reduced by £162m mainly due to an increase in the expected returns on Plan assets as a result of the increase in fair value of Plan assets at March 2010

Pension balance sheet amounts

The balance sheet pension deficit has reduced from £8,041m in March 2010 to £4 501m this year end The reduction in the deficit of £3 540m principally relates to an actuarial gain of £3 424m

The actuarial gain arose mainly due to a reduction in liabilities following the change in the inflation assumption from RPI to CPI where relevant, following the Government's announcement that it was intending to change the inflation measure used to determine statutory minimum indexation in deferment and in payment from RPI to CPI in 2011, together with market conditions giving rise to improved asset values

On 23 March 2007 the Group established £1bn of investments in escrow as security to the Royal Mail Pension Plan in support of the deficit recovery plan On 24 March 2011 an agreement was implemented to substitute £102m pension escrow financial investments with mortgages against certain property assets

Pension cash payments

Pensions cash funding: Group contributions	2011 £m	2010 £m
Regular pension contributions	**442**	526
Funding of pension deficit	**299**	291
Payments relating to redundancy	**30**	50
Net cash payments	**771**	867

Regular pension contributions have reduced from £526m to £442m in line with lower pensionable pay and a reduction in the regular rate of employer contributions for the Royal Mail Pension Plan from 20 0% of pensionable pay to 17 1%[1] effective from April 2010 as agreed with the Pension Trustee as part of the formal triennial actuarial valuation The regular rate of employee contributions for the Royal Mail Pension Plan remains unchanged at 6 0%

Deficit recovery payments by the Group have increased by £8m (2 7%) from £291m to £299m and include £7m (2010 £5m) relating to the Royal Mail Senior Executives Pension Plan Deficit recovery payments are planned for the Royal Mail Pension Plan over the 38 years from the date of the latest formal triennial actuarial valuation There have been no employee deficit contributions

Funding

There are specific funding arrangements for Royal Mail Group Ltd (which excludes Post Office Limited) and for Post Office Limited However as a result of the pension deficit, the Group is balance sheet insolvent (meaning the accounting liabilities of the Group exceed its assets) and has substantial future liabilities in connection with this deficit The Directors keep the funding position of the Group under

1 The cash contribution is set once every three years based on a long term view of market conditions at that time the profit and loss charge is updated each year reflecting more recent changes in market assumptions

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Financial review continued

constant review to confirm that it is a going concern A summary of their review is set out on pages 58 to 60

Treasury management overview
The Group operates a central Treasury function that manages £1 2bn of financial asset investments (substantially all of which are now held in escrow in favour of the pension fund trustees) and £1 1bn of cash and cash equivalent investments (including £704m cash in the Post Office network funded partly by a Government loan facility) in accordance with investment restrictions set by the Government It also manages £2 1bn of financial liabilities (mainly Government borrowings) 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 the Board s 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

Facilities
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

Covenants
Loan covenants for Royal Mail Group Ltd are tested on a rolling 12-month basis in September and March Royal Mail Group Ltd and the Government concluded discussions which reset a number of the key loan covenants for the 12-month testing periods ending March and September 2011 and March 2012 The revisions are considered to be on a commercial basis with a consent fee and an increase in the borrowing margin All loan covenants were met at September 2010 and March 2011

At the balance sheet date the Group is financed as follows

Borrower Royal Mail Group Ltd Purpose	Average interest rate of loan drawn down %	Facility end date	Facility £m	Utilised £m	Average loan maturity date
GLS funding	5 8	2021-2025	500	500	2023
Capital Expenditure and Restructuring	3 0	2014	600	600	2014
General Purpose/Working Capital	–	2014	300	–	–
General Purpose/Working Capital	12	*	377	377	*
Borrower Post Office Limited **Purpose**					
Network cash	0 8	2012	1 150	375	2011
Borrower GLS B V **Purpose**					
General Purpose/Working Capital	4 5	2012	1	1	–
Total facility/facilities utilised			**2,928**	**1,853**	

* Loan facilities are repayable on the later of March 2016 and the release of the pension escrow investments The loan (and facility) increased by £40m (2010 £37m) as a result of accrued interest added to the loan balance This Royal Mail Group Ltd loan is subordinate to all other creditors

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Financial review continued

Financial risks and related hedging
The Group is exposed to currency and commodity price risk The Group operates hedging policies which are described in the notes to the accounts The gross exposures (before hedging) are set out in the table below together with how much the 2011-12 operating profit would differ from 2010-11 as a result of the changes to 27 March 2011 in commodity costs post the impact of our hedging programmes

Exposure	Impact on operating profit of a 5% increase in price/weakening of sterling (before hedging) £m (loss)/gain	Impact of no further change in price/rate on 2011-12 operating profit versus 2010-11 (post hedging) £m (loss)/gain
Diesel and Jet	(5)	(21)
US$	(2)	Nil
Euro	(9)	1

It is anticipated that there will be a £21m adverse impact on profits arising from the change in effective (post hedging impact) diesel costs from 33ppl in 2010-11 to an anticipated 45ppl in 2011-12 Without hedging this adverse variance would be £36m (based upon closing fuel prices at 27 March 2011)

The Group manages its interest rate risk by maintaining a mix of fixed and floating rate debt At the year end 59% of loans were at fixed rate to maturity Consequently (and taking into account financial assets held but excluding the pension escrow investments) an increase of 100 basis points to interest rates at the year end would result in an annual reduction to profit of £3m The impact of such a change in rates to the pension escrow investments would affect equity and would offset to some degree the impact of the interest rate change on the pension liabilities

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

Events after the balance sheet date
On 30 March 2011 Romec Limited a 51% owned subsidiary of the Group disposed of its 99% shareholding in its subsidiary Romec Services Limited to Balfour Beatty plc which holds the 49% non-controlling interest in Romec Limited As a result of this transaction Balfour Beatty plc has been released from a contractual obligation that it had in relation to the pension funding for Romec Limited employees

On 9 June 2011 Government announced the passing of the Postal Services Bill This confirms the Government's intention to take on the historic pension deficit with effect from March 2012, and the intention to restructure the Group's balance sheet in due course

GRO

Matthew Lester
Chief Finance Officer
Royal Mail Group
13 June 2011

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Risk Management and Control

Overview
The Board believes that effective risk management and a sound control environment are fundamental to the Group

The system is designed to manage rather than eliminate the risk of failure as taking on risk is inherent in undertaking the commercial activities of the Group

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the guidance detailed by the Turnbull Committee as part of the Combined Code including financial operational, compliance risks and risks to reputation The process incorporates both a top-down element (which collates Executive management/Board view of key risks) and a bottom-up element (which collates the views of the business units and functions on risks in their area) Taken together these two perspectives are combined to form the Group risk profile

The process has been in place throughout the year and up to the date of approval of these financial statements

The responsibility for joint ventures and associates rests on the whole, with the senior management of those operations The Group monitors its investments and exerts influence through Board representations

Risk Environment
In the main the principal risks facing the Group have not changed

The Group has classified its principal risks into three main categories – Revenues and Costs, Government, Regulation and Legislation, and Financial

Revenues and Costs risks comprise those inherent within most postal operators, namely the ability or not for costs to be reduced as core traditional letter volumes decline as customers find alternative digital means to communicate and transact Royal Mail is currently undergoing a large scale modernisation programme to improve productivity safety quality and culture and as the independent Hooper review confirmed, successful implementation is vital to Royal Mail s future viability For more information see pages 7 and 8

The majority of the Groups business is subject to regulation under the Postal Services Commissions (Postcomm) Licence for Royal Mail the Financial Service Authority (FSA) requirements for financial services offered through the Post Office and the Office of Communications (Ofcom) requirements for telecommunication services offered through the Post Office The environment creates two areas of risk for Royal Mail and the Post Office firstly, Royal Mail may not have the ability or flexibility to set prices at levels it considers commercial, and its ability to change the scope of services and range of products is restricted, secondly for both any non-compliance with regulatory requirements may lead to financial penalties or other sanctions

The Group's activities are wide with significant assets in the form of property equipment and vehicles and a substantial workforce Changes to legislation can have significant impacts on the business and financial results Recent legislation that has impacted Royal Mail includes the implementation of VAT on postal services and European work time directives

The Group is currently balance sheet insolvent, meaning its accounting liabilities are more than its assets primarily due to pension liabilities Royal Mail is currently wholly owned by UK Government which is the sole source for lending for the Group Any support given to the Group by Government in this area requires State Aid approval from the European Commission Overall the business is subject to uncertainties around going concern and these are fully discussed in note 2

Risk Framework
The Group-wide risk management framework includes risk governance risk identification measurement and management, and risk reporting

The Group's approach to control is based on the underlying principle of line management accountability for internal control and for risk management The Group recognises and uses the principle of the 'Three Lines of Defence' that is

a) primary controls over the risks to the business are located in the day to day operation

b) these are supported by internal monitoring and oversight

c) independent assessments by Internal Audit and others provide the third line

The process for risk identification and management 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 Risk management action plans are monitored at executive level to ensure key risks are being mitigated

The process includes a 'top down and 'bottom up' element which means that the views of top management and also units/functions are collated and brought together, in the Group risk profile to form a comprehensive view of key risks in the organisation

The process also includes an 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 assurance that the risks are appropriately identified, evaluated and managed

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

Risk Governance and the Board
The Board has delegated responsibility for specific review of risk and control processes to the Audit & Risk Committee (ARC) and the ARC in turn has set up a sub-committee the Corporate Risk Management Committee (CRMC) to help discharge its duties The key responsibilities for risk and control among the Board, ARC, and CRMC are as follows

Board
The Board is accountable for the risks taken by the Group It is responsible for

- providing strategic direction on the appropriate balance between risk and reward
- setting the tone and culture for managing risk and embedding risk management
- ensuring the most significant risks facing the organisation are properly understood and managed

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Risk Management and Control continued

Audit & 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
- review the scope of work authority and resources of the Internal Audit & Risk Management function
- regularly review the Group risk profile
- review the scope and work of the external auditor to ensure that it is appropriate and that the auditor is independent
- review the Annual Report and Financial Statements and the associated internal and external processes (including the above work of the external auditor) to ensure that the whole document presents an appropriate and balanced view of the business its performance and its risks

Corporate Risk Management Committee
The Committee acts as a sub-committee to the Audit & Risk Committee and meets quarterly to

- support the business in ensuring proactive management of risks within the business
- promote the establishment communication and embedding of risk management throughout the business
- receive and review analyses on specific key risks
- review emerging risks

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 for the management of risk This process has been reviewed and refined and is now overseen by the Chief Executive

The following Group level risks have been identified and are actively being managed to support the long-term sustainability of the Group

Revenues and Costs
Royal Mail like other postal administrations faces an inherent risk of core volume and revenue decline for a number of reasons

- Historically there has been a correlation between the state of the UK economy and level of mail volumes Economic weakness or uncertainty will have a direct impact on mail volumes and consequently on Group revenues and profit
- The marketplace in which we operate continues to change, with substitution from the traditional letter to e-mails text messaging and other digital media
- Our business customers want to continue to drive transactional mail (statement, bills and application forms) online to provide savings to their businesses
- Advertisers now have more and lower cost options than they used to, for example the internet has taken a 30% share which reduces direct mail volumes
- Increased awareness of and sensitivity to 'green' issues, including use of paper may impact customer and receiver sentiment and drive down usage of mail or increase switching to alternatives
- Government and traditional bill payments transactions are declining in the Post Office

Management has raised prices and is applying for further increases and is actively working to simplify the product portfolio, enhance the customer experience and develop new revenue streams

However responses to structural decline are limited because Royal Mail's cost base comprises mainly people costs and is largely fixed in nature The workforce is heavily unionised and Royal Mail's Universal Service Obligation (USO) requires a national collection and delivery network irrespective of volumes Similarly, both the USO and Post Office network are designed to provide social cohesion and economic wealth and not maximisation of profit

Management agreed a 3 year pay and modernisation deal in 2010 with the postal union and its frontline workforce In the past year around 5,000 people have left UK businesses Despite these initiatives, overall costs have not decreased as fast as revenue

Royal Mail is undergoing a significant extensive modernisation programme including World Class Mail, and the success of business strategy relies on successful extraction of benefits from the programme

The business needs to successfully manage the deployment of this programme to drive modernisation and achieve sustainable benefits including safety improvements cost reductions and delivery of excellent quality of service to our customers Failure to do so may lead to increased costs potential fines and impact on our reputation and brand value

Government, Regulation and Legislation
The Group is subject to regulatory requirements on its operations and the risk of penalties for non-compliance Royal Mail's Licence contains material restrictions on the operation of the business These include

- Obligations over the delivery and collection of mail including mail integrity and quality of service
- Restrictions over the freedom to set prices and requirements to share intellectual property such as new innovations before products are launched, and
- Obligations to give competitors access to the network

If Royal Mail breaches Licence conditions or other regulatory requirements it may be subject to financial penalties

In addition Post Office Limited 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, which requires service providers to issue and adhere to Codes of Practice

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Risk Management and Control continued

Changes to European or domestic law can have a direct impact on the Group, such as the European Working Time Directive International Financial Reporting Standards (IFRS), speed restrictions on the Group's vehicles and increased liberalisation of the market for postal service providers

In response Royal Mail has sought to agree a regulatory regime which allows the business to serve customers needs protect the USO and build a sustainable business The change in regulatory regime is now enshrined in the Postal Services Act, with the move of regulator from Postcomm to Ofcom

Financial

The Group is facing a number of significant financial risks including the requirement to fund a significant historical pension deficit volatility in the overall pension obligation and the ongoing need to restructure the business with limited funding

Note 2 to the financial statements provides full disclosure on the status of going concern in both Royal Mail Group Ltd and Post Office Limited

Internal Control and Internal Audit

The Group operates a system of internal control including operational financial and compliance controls and risk management systems to control the day-to-day operations of the Groups activities The key processes and controls comprise

1 Key policies and documentation

- Royal Mail's activities are mandated by the Postal Services Act and are further bound by a postal service Licence which covers service standards complaint handling integrity of mail, access to postal facilities, accounting separation and process for postal services
- The Group's Code of Business Standards sets the principles of professionalism and integrity for our people
- Standard policies exist within each function including
  - Royal Mail GAAP based on IFRS covering all accounting policies
  - HR policies covering people – recruitment sickness absence, disciplinary procedures and leavers
  - Authority limits delegated into each business unit to control day to day expenses combined with processes to procure, requisition and approve spend
  - Investment Appraisal policies to cover investment approvals
  - Compliance and regulatory policies set by Group Regulation
  - Standard operating procedures are followed at the frontline

2 Standard daily and monthly management accounting and payroll processes through centralised shared services for the UK businesses This includes expenditure requisition and order review and approval by a list of appropriate approvers, generally under the Finance function

3 A budget prepared reviewed and set once a year, providing annual clarity on the short-term strategies for each part of the Group This, along with the delegated authorities resets the levels of delegated spend in each area on an annual basis

4 Performance management reviews include production of weekly indicators and a pyramid of monthly balanced scorecards from front line operations to Holdings Board level which underpin quarterly reviews and the interim and year end results The focus of these reviews is comparing actual in year results to budget forecast and prior year

5 Five to ten year business plans are collated on a regular basis and submitted to both the Shareholder and the regulator as part of formal external processes such as regulatory framework reviews and State Aid applications This provides regular opportunity for executive management and the Board to re-appraise/re-confirm long-term strategies and objectives for the Group

6 Self assessment of over 300 key processes

A rolling self assessment of approximately 300 key financial and non-financial processes across all parts of the UK businesses including commercial and operations and within each key function

7 Sign off by executives

Twice a year, Finance Directors provide a formal confirmation including

- business unit financial returns have been properly prepared and fairly present the financial position
- Group accounting policies have been consistently followed
- a system of internal controls has been maintained and that no significant deficiencies have been identified
- that all events after the balance sheet date have been identified

In addition once a year executives confirm whether they are aware of any material related party transactions

8 Specific and targeted Internal Audit work programme

The effectiveness of the internal control system is reviewed regularly by Internal Audit & Risk Management (IA&RM) the Groups independent internal audit function IA&RM reports to the Audit & Risk Committee (ARC) and provides assurance to executive management and the Board on the effectiveness of the internal control system

Internal Audit reports include an action plan where issues have been identified and progress against action plans is regularly tracked and reported

IA&RM establishes and agrees with the ARC an annual plan of assignments and activities based on discussions with the Board and management, and also taking into account known issues in the business and the postal industry

9 External audit and other reviews

There are a number of external audits and reviews that take place during the year to provide management, the Board and the regulator with assurance on specific matters including

- The external auditor performs a statutory year end audit
- The external auditor performs an audit of the regulatory accounts and in conjunction with economic consultants performs a review of the price control submissions to the regulator as part of Licence Conditions 15 and 21 requirements
- The external auditor confirms that the statement to the regulator on 'necessary resources' is consistent with their audit findings as part of Licence Condition 16 requirements
- End to end quality of service is reviewed by an independent accounting firm as part of Licence Condition 4 requirements
- The USO daily collections and deliveries reporting systems are reviewed by an independent accounting firm as part of Licence Condition 4 requirements

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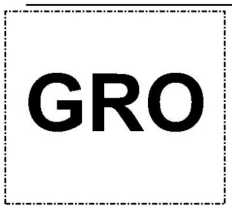
Royal Mail Holdings plc Board



Chairman
Donald Brydon CBE (66)
Donald Brydon is Chairman of the Royal Mail Group and Smiths Group plc He had a 20-year career with Barclays Group, during which time he was Chairman and Chief Executive of BZW Investment Management and acting Chief Executive of BZW followed by ten years with the AXA Group including holding the posts of Chairman and Chief Executive of AXA Investment Managers and Chairman of AXA Framlington He has also recently been Chairman of the London Metal Exchange Amersham plc, Taylor Nelson Sofres plc and the ifs School of Finance and a Director of Allied Domecq plc and Scottish Power plc He is a past Chairman of EveryChild



Non-executive Directors
David Currie (64)
Lord David Currie was appointed to the Board in January 2009 He was the founding Chairman of Ofcom (2002 – April 2009), Deputy Dean of London Business School and Dean of Cass Business School City University He is Chairman of the International Centre for Financial Regulation and of Semperian PPP Investment Partners Holdings Ltd and sits on the boards of the accountancy firm BDO the Dubai Financial Services Authority, IG Group plc and the London Philharmonic Orchestra Previous appointments include positions with Nomura, Terra Firma Unisys, T-Systems and on the boards of Abbey National plc and Ofgem



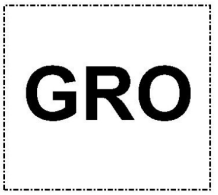
Nick Horler (52)
Nick Horler joined the Board in April 2010 He was previously Chief Executive Officer of Scottish Power and has held senior strategic roles in major companies both in the UK and abroad



Cath Keers (46)
Cath Keers was appointed to the Board in June 2010 as a non-executive Director She is a non-executive Director of Telefonica Europe, the insurance group LV= and The Childrens Mutual She was previously Customer Director and Marketing Director of O2 UK



Paul Murray (49)
Paul Murray joined the Board in August 2009 and is Chair of the Audit and Risk Committee Paul is also Audit Committee Chairman at Qinetiq plc and is a Trustee of Pilotlight He was previously Senior Independent Director of Taylor Nelson Sofres plc and has also been Group Finance Director of Carlton Communications plc and of LASMO plc



Les Owen (62)
Les Owen joined the Board in January 2010 Les is a qualified actuary with 35 years experience in the financial services industry From 2000 to 2006 he was the Group Chief Executive Officer of AXA Asia Pacific Holdings Limited and responsible for AXAs Asian life insurance and wealth management operations Prior to this he was Chief Executive of AXA Sun Life plc He was a member of the Global AXA Group Executive Board Les is currently non-executive Chairman of Jelf Group plc and a non-executive Director of Post Office Limited Computershare CPP Ltd Just Retirement Ltd and of Discovery Holdings a South African listed health and life insurer



Orna Ni-Chionna (55)
Orna Ni-Chionna was appointed to the Board in June 2010 She became Chair of the Remuneration Committee and Senior Independent Director in April 2011 She is a former Partner at McKinsey & Company where she specialised in serving retail and consumer clients She is currently the Senior Independent Director of HMV plc She was until recently the Senior Independent Director of Northern Foods plc and of BUPA and was a non-executive Director of the Bank of Ireland UK Holdings plc and Bristol & West plc She is Chair of Trustees of the Soil Association

Directors who retired from the Board
Baroness Prosser OBE 31 10 10
Richard Handover CBE 30 03 11

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Royal Mail Holdings plc Board continued

GRO

Executive Directors
Moya Greene (56)
Moya Greene was appointed Chief Executive Officer in July 2010, previously having been President and Chief Executive Officer of Canada Post Corporation since 2005 Whilst there she led a wide-ranging transformation programme to increase quality of service and efficiency across the organisation Prior to joining Canada Post she held senior roles at companies including Bombardier Inc and TD Bank

GRO

Mark Higson (55)
Mark Higson joined the Company in November 2007 He is the Managing Director, Operations and Modernisation 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

GRO

Matthew Lester (47)
Matthew Lester was appointed as Chief Finance Officer in November 2010 He was previously Finance Director of ICAP plc for four years Prior to this he worked for Diageo plc in a number of senior finance roles including Group Financial Controller He is a non-executive Director of Man Group plc

GRO

David Smith (46)
David Smith was appointed to the Board in April 2010 He is Chief Customer Officer having been Managing Director of Post Office Limited and Managing Director of Parcelforce Worldwide David joined Royal Mail Group in 2002 initially as Finance Director of Royal Mail's Business Sales division before being appointed as Finance Director of Parcelforce Worldwide in January 2003 and then Managing Director of Parcelforce Worldwide He is a qualified chartered accountant and, prior to 2002 held a number of financial and commercial positions in the electronics industry including Finance Director of RS Components UK

GRO

Paula Vennells (52)
Paula Vennells was appointed Managing Director of Post Office Limited in October 2010, having been its Chief Operating Officer She joined in 2007 from Whitbread plc where she was Group Commercial Director She has held Marketing Strategy & Sales Director roles with large retailers Argos/GUS Dixons Stores Group and started her career with Unilever Paula is also a non-executive Director & Trustee for Hymns Ancient and Modern Group

Directors who left during the year
Adam Crozier 31 03 10
Ian Duncan 15 06 10

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Directors' Report

The Directors present the Group financial statements for Royal Mail Holdings plc These financial statements relate to the year ended 27 March 2011 (2010 year ended 28 March 2010)

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 Groups business and future developments is presented in the Chairman's Statement and pages 5 to 34

Results and dividends
The loss before taxation amounted to £152m (2010 £262m loss) After taxation, the loss was £258m (2010 £320m loss) Of the loss after taxation £1m profit (2010 £1m profit) is attributable to non controlling interest The Directors do not recommend a dividend (2010 £nil dividend)

Directors
The names and biographies of the current Directors appear in the Royal Mail Holdings plc Board section pages 38 to 39

Political and charitable contributions
During the year the Group made charitable contributions of £2m (2010 £2m) No political contributions were made in the year (2010 £nil)

Research and development
Research and development expenditure during the year amounted to £nil (2010 £nil)

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 Companys 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 Innovation and Skills (BIS) Better Payment Practice Code 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 financial statements

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 £690m (2010 £749m) In the opinion of the Directors the aggregate market value of the Group's land and buildings exceeds this net book value by £480m (2010 £460m)

Financial instruments
Details of financial risk management objectives and policies and financial instruments are shown in note 24 and note 25 respectively

Directors and their interests
The Directors of the Company and details of changes during the year are given on page 46 The Secretary of State appoints the Chairman all other Directors are appointed by the Company with the Secretary of States consent

UK Government is the Companys 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 auditor is unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is 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 Companys 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 176,000 people (2010 approximately 181 000) in our wholly owned subsidiaries An analysis of the Group headcount is shown in note 4 to the financial statements Our people are our ambassadors, our brand and our service

The Groups policy is to encourage effective communication and consultation between our people particularly on matters relating to strategy financial and economic factors that may influence their business units performance This is achieved through the use of an extensive range of communication channels including our employee opinion survey 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

Corporate 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 Details are provided on pages 15 to 16 The Group publishes an annual report of its activities Further details of our CR governance structure and activities will be available in our 2011 CR Report when it is published

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 cash flow projections and the material uncertainties facing 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 financial statements

Auditor
A resolution to reappoint Ernst & Young LLP as auditor will be put to the Annual General Meeting

By Order of the Board

GRO

Jon Millidge
Company Secretary
13 June 2011

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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 2008 The Company has fully complied with the provisions set out in section 1 of the Code during the year in so far as they are appropriate to a public company with a single shareholder The following statement is intended to explain our governance policies and practices in light of the Code principles and provisions 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 Chairman, five executive Directors and seven non-executive Directors The biographies of each of the Directors setting out their current roles commitments and previous experience are on pages 38 to 39 The Board met on ten occasions during the course of the year under review

The Board 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 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 with the support of the Company Secretary This year's evaluation was conducted using a combination of questionnaires and a full Board discussion A performance evaluation of the Audit and Risk Committee has been conducted by the Chairman of the Committee Other committees are undertaking a review of their terms of reference

Directors may take independent professional advice in the furtherance of their duties at the Group's expense All Directors have access to the advice and services of the Company Secretary the 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 All Directors will be standing for annual re-election at this year's Annual General Meeting 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

	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings during the year*	**10**	**5**	**5**	**1**
Chairman				
Donald Brydon	10(10)	-	5(5)	1(1)
Executive				
Moya Greene	8(8)	-	-	-
Mark Higson	10(10)	-	-	-
Matthew Lester	5(5)	-	-	-
David Smith	10(10)	-	-	-
Paula Vennells	5(6)	-	-	-
Non-executive				
David Currie	10(10)	5(5)	4(4)	1(1)
Richard Handover	9(10)	3(5)	5(5)	0(1)
Nick Horler	9(10)	1(3)	3(4)	1(1)
Cath Keers	8(9)	3(3)	4(4)	1(1)
Orna Ni-Chionna	8(9)	2(3)	4(4)	1(1)
Paul Murray	10(10)	5(5)	4(4)	1(1)
Les Owen	7(10)	3(3)	4(4)	1(1)
Former Directors				
Ian Duncan	1(1)	-	-	-
Baroness Prosser	5(5)	-	3(3)	-

* 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

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Corporate Governance continued

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 pages 45 to 48 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 27 March 2011

Chief Executive's Committee

Chair	Moya Greene
Membership	Stephen Agar (Director Regulated products) Rico Back (CEO GLS), Mark Higson (Managing Director, Operations and Modernisation) Matthew Lester (Chief Finance Officer), Alex Smith (Director of Business Development & Technology), David Smith (Chief Customer Officer)
Role	The Committee is responsible for all the key areas of commercial activity within Royal Mail The Chief Executives Committee (CEC) meets twice a month The role of the CEC is to manage the overall framework of financial risk & business controls to meet shareholder, Regulatory and legal requirements

Group Executive Team

Chair	Moya Greene
Membership	Stephen Agar (Director, Regulated products) Rico Back (CEO GLS) Paul Bates (Managing Director Wholesale) Paul Budd (Director Internal Communications), John Duncan (Group HR Director) Derek Foster (Internal Audit and Risk Management Director) Dale Haddon (Deputy Group HR Director) Kath Harmeston (Director of Procurement) Mark Higson (Managing Director Operations and Modernisation), Matthew Lester (Chief Finance Officer), Jon Millidge (Company Secretary) Shane O Riordain (Director of Communications), Frank Schinella (Deputy Chief Finance Officer) Alex Smith (Director of Business Development & Technology) David Smith (Chief Customer Officer) Dick Stead (Managing Director, Parcelforce Worldwide) Jeff Triggs (Interim General Counsel), Paula Vennells (Managing Director Post Office Limited), Sue Whalley (Director of Regulation and Government Affairs)
Role	The Committee meets every three months and its responsibilities are to develop and monitor deployment of the Groups strategy and consider overall performance of the Group The Royal Mail Holdings plc Board has delegated authority to the Investment Committee of the Group Executive Team to make investment decisions of up to £20m The Investment Committee meets monthly

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Corporate Governance continued

Audit and Risk Committee

Chair	Paul Murray
Membership	All non-executive Directors 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 auditor and can seek further professional advice at the Group'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 auditor, and to approve its remuneration and terms of engagement • to monitor and review the external auditor's independence, objectivity and the effectiveness of the audit process • to develop and implement policy on the engagement of the external auditor 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 Risk Management and Control on pages 35 to 37

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

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Corporate Governance continued

Remuneration Committee

Chair	Richard Handover
Membership	Chairman and all non-executive Directors
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 pages 45 to 48

Nomination Committee

Chair	Donald Brydon
Membership	All non-executive Directors
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 formally on one occasion during the year but had met informally on many occasions during the course of the year in order to progress the appointments of the executive members of the Board The Committee's main focus was on the selection and recruitment of 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

Pensions Committee

Chair	Matthew Lester
Membership	John Duncan (Group HR Director) Jon Millidge (Company Secretary) Les Owen (non-executive Director)
	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 Groups occupational pension schemes

Statement by the independent non-executive Directors
A number of structured processes exist throughout the Company to support good governance All the non-executive Directors are members of all the principal Board Committees Audit and Risk, Nomination and Remuneration, which gives each of them insight into a cross-section of important areas and informs Board discussions

The independent non-executive Directors are satisfied that the Company's corporate governance controls have been effective throughout the financial year ended 27 March 2011

GRO

Orna Ni-Chionna
Senior Independent Director

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Directors' Remuneration Report

The Company's remuneration policy and practices follow the UK Corporate Governance Code (formerly known as the Combined Code). This report explains the Committee's policy and gives details of the current remuneration practices in accordance with the Directors' Remuneration Report Regulations in so far as Royal Mail as a non-listed company can comply with them. In line with the Regulations, the following parts of the report have been audited:

- Directors' emoluments with respect to 2010-11
- Performance-related annual bonuses outturn for 2010-11 and
- Pensions

The Remuneration Committee
The Board has overall accountability for executive remuneration and the terms of the service contracts offered to all executive Directors but these also require the consent of the Secretary of State for Business, Innovation and Skills. The Secretary of State also gives consent for the remuneration arrangements for non-executive Directors.

The Remuneration Committee's role is to approve the remuneration policy for executive Directors and their immediate reports and to approve recommendations on their salary, benefits, bonuses and other terms and conditions of employment.

The Remuneration Committee is made up of independent non-executive Directors and the Chairman of the Board. Membership of the Committee is given on page 44. The Chief Executive and the Group HR Director may attend Committee meetings by invitation. They 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 has taken advice from time to time from independent professional organisations that are best able to assist it on the particular topic under discussion.

During 2010-11, information on the external marketplace was obtained from Monks Partnership (a trading name of PricewaterhouseCoopers), Deloitte LLP, Hay Management Consultants, Kepler Associates and Towers Watson Limited. Internal support is provided by the Group HR Director, John Duncan and the Company Secretary, Jon Millidge. Other advice and information has been provided by specialists from the HR and Finance functions. The Chairman and the Chief Executive have given information to the Committee on the performance of key executives.

During the year Towers Watson Limited provided the Company with advice on pensions and actuarial matters.

Remuneration Policy
The Company's objectives on Directors' remuneration are that:

- the overall remuneration package should be sufficiently competitive to attract and retain executives with sufficient commercial experience to run a large, complex business in a highly challenging context
- a significant proportion of the remuneration package should be dependent on performance – both short and long-term and
- incentives should be designed so that they align the interests of senior executives, customers and the Shareholder

The Committee's policy for senior executives takes into account pay and employment conditions elsewhere in the Group, including those of frontline postmen and women.

The Committee regularly reviews the benefits package offered to its key executives. The Committee aims to ensure that the package is reasonable in the circumstances and that it follows accepted best practice. It is mindful of public concerns about remuneration levels, particularly in the current economic climate.

The Main Components of Remuneration
The main components of remuneration for executive Directors for 2010-11 were: basic salary; an annual performance-related bonus; pension or pension allowance and other benefits such as a company car and private medical insurance. A Long-Term Incentive Plan was also discussed with executive Directors but its duration and detail have not yet been finalised with the Secretary of State.

Base Salaries
The Committee believes that base salaries should be set at levels that are enough to recruit and retain executives of proven ability to manage a very large and complex company which faces many challenges. 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 the Company. This data is provided by independent consultancies, usually based on the published annual reports of other organisations. Increases are recommended only 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.

In the light of the difficult economic circumstances no general increases to base salary were awarded to Board members in respect of the 2010-11 salary review. No increases had been awarded in 2009-10 either. In 2008 it had been agreed that the salaries of Ian Duncan and Alan Cook would increase to £350,000 and £300,000 a year respectively. These increases were to apply in two phases, with the second due on 1 July 2009. At the request of Ian Duncan and Alan Cook, these second increases were postponed for implementation on 1 July 2010 but in fact both individuals left the Company before that date.

Performance-related Annual Bonus
In 2010-11, the bonus potential for the Chief Executive was 100% of base salary. For the Chief Finance Officer it was 60% for on-target performance, rising to a maximum of 100% of salary in the event of exceptional results. In the case of the other executive Directors the figures were 48% and 80% respectively.

For all executive Directors the factors driving annual bonus were profit, cash, quality of service and personal objectives agreed by the Remuneration Committee. The measures were changed at the beginning of the year to include cash management in the light of the Company's changing priorities. As the Chief Executive and Chief Finance Officer joined the Company during the financial year it was agreed that their bonus plan should depend on the achievement of Personal Objectives only.

Adverse weather and the disruption to air transport caused by ash from the Eyjafjallajokull volcano had an effect on quality of service during the year, as did the changes necessary to modernise working practices.

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 61.

Long-Term Incentive Plan
The Committee discussed a Long-Term Incentive Plan (LTIP) with executive Directors but its duration and detail have not yet been finalised with the Secretary of State.

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Directors' Remuneration Report continued

Full details of the previous LTIP were included in last year's Annual Report The plan lasted for three years and combined annual awards related to Return on Total Assets with a waiver of a proportion of annual bonuses, all of which were subject to a final factor which reflected cumulative Return on Total Assets over the three year performance period

Benefits
Benefits include the provision of a company car and health insurance or the cash equivalent of any benefits not taken The Chief Executive is eligible for two return flights to Canada each year and financial advice Relocation expenses are paid where applicable

Fixed and Performance-related elements of executive Directors' remuneration (excluding pensions)
For 2010-11, 46% of Directors potential annual earnings related to fixed elements whilst 54% related to annualised performance elements For the Group Chief Executive and Chief Finance Officer 42% was fixed and 58% was variable The elements of remuneration at risk to performance are those available through the Long-Term Incentive Plan and the performance-related annual bonus

Directors' emoluments in respect of 2010-11
The following table summarises the remuneration of Board members in respect of 2010-11

	Annua salary /fees £000	Salary/fees paid in year £000	Performance related bonus £000	Benefits £000	Cash supplement in lieu of pension £000	2011 £000	2010[1] £000
Chairman							
Donald Brydon	200	200	-	-	-	**200**	200
Executive							
Moya Greene[2]	498	350	142	145[3]	-[4]	**637**	-
Mark Higson	428	428	72	15	171	**686**	1 733[5]
Matthew Lester[6]	428	146	54	5	60	**265**	-
David Smith[7]	250	250	70[8]	12	31	**363**	-
Paula Vennells[9]	225	99	33	4	11	**147**	-
Non-executive							
Lord Currie	40	40	-	-	-	**40**	38
Richard Handover[10]	65	63	-	-	-	**63**	65
Nick Horler[11]	40	37	-	-	-	**37**	-
Cath Keers[12]	40	31	-	-	-	**31**	-
Paul Murray	50	51	-	-	-	**51**	34
Orna Ni-Chionna[13]	40	31	-	-	-	**31**	-
Les Owen	40	37	-	-	-	**37**	6
Former Directors							
Alan Cook[14]	282	-	-	-	-	-	1 252[5]
Adam Crozier[15]	633	5	-	-	2	**7**	2 428[5]
Ian Duncan[16]	325	70	-	2	15	**87**	1,396[5]
Baroness Prosser[17]	50	32	-	-	-	**32**	55
Total 2011	3,634	1,870	371	183	304	**2,714**	
Total 2010	2 201	2 132	554	69	571		7 207

1 For executive Directors this includes LTIP and deferred bonuses
2 Moya Greene was appointed on 15 July 2010
3 This includes the cost of international relocation
4 Details of Moya Greenes pension arrangements are given on page 48
5 Includes LTIP payments in respect of 2007-2010 Mark Higson £1 012 000 Alan Cook £768 000 Adam Crozier £1 570 000 and Ian Duncan £888 000
6 Matthew Lester joined the Board on 24 November 2010
7 David Smith was promoted to the Board on 6 April 2010 and left the Board on 13 June 2011
8 Will be paid at a later date subject to compliance with the conditions set out by the Remuneration Committee
9 Paula Vennells was promoted to the Board on 18 October 2010
10 Richard Handover left the Board on 31 March 2011
11 Nick Horler joined the Board 1 April 2010
12 Cath Keers joined the Board 1 June 2010
13 Orna Ni-Chionna joined the Board on 1 June 2010
14 Alan Cook left then Board on 15 March 2010
15 Adam Crozier left the Board on 31 March 2010
16 Ian Duncan left the Board on 15 June 2010
17 Baroness Prosser left the Board 31 October 2010

The figures in the table represent the qualifying emoluments earned and receivable by anyone who has served as a Director at any time 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

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Directors' Remuneration Report continued

Performance-related Annual Bonuses Outturn for 2010-11
Information on the annual bonus plan is given on page 46 Bonus payments are significantly below the on-target levels in the light of the Group's performance

Executive Directors' Outside Appointments
The Board permits executive Directors to hold outside appointments as non-executive Directors, subject in each case to Board approval Directors may retain fees from any such Directorships

The annual fees received by executive Directors as at 27 March 2011 in respect of their non-executive Directorships are shown in the table below

	Directorship	2011 £000	2010 £000
Adam Crozier	Debenhams plc	-	50
Moya Greene	Tim Hortons	22*	-

* Sterling equivalent of payments received in the year

Contracts
The Committee's policy is that executive Directors appointed to the Board are given notice periods of one year, and that they must give six months notice of departure 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 27 March 2011

	Date of contract	Expiry date of current employment contract	Unexpired term (months)
Chairman			
Donald Brydon	26 March 2009	25 March 2012	12
Executive Directors			
Moya Greene*	15 July 2010	-	12
Mark Higson	5 November 2007	-	12
Matthew Lester	24 November 2010	-	12
David Smith	6 April 2010	-	12
Paula Vennells	16 November 2010	-	12

* Moya Greenes contract provides that if the Company terminates her employment at any time during the first 18 months of her contract she will receive 18 months of base salary in lieu of notice together with one years on-target annual bonus

The non-executive Directors have service contracts but do not have employment contracts The service contract dates for the non-executive Directors who have served during the year are as follows

	Date of contract	Expiry date of current service contract	Unexpired term (months)
Non-executive Directors			
Lord Currie	1 January 2009	31 December 2011	9
Baroness Prosser#	1 November 2004	31 October 2010	-
Richard Handover*	1 January 2003	31 March 2011	-
Nick Horler	1 April 2010	31 March 2013	24
Cath Keers	1 June 2010	31 May 2013	26
Paul Murray	1 August 2009	31 July 2012	16
Orna Ni-Chionna	1 June 2010	31 May 2013	26
Les Owen	27 January 2010	26 January 2013	22

Baroness Prosser left the Board on 31 October 2010
* Richard Handover left the Board on 31 March 2011

The Company is committed to the service contracts for the remaining term of appointments subject to annual review and notice, for non-executive Directors including the Chairman

Non-executive Directors
The fees paid to the Chairman are determined by the Secretary of State Fees for the non-executive Directors are determined by the executive Directors and are submitted to the Secretary of State for approval Independent market surveys are consulted in determining them

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

The Royal Mail Senior Executives Pension Plan (RMSEPP) is closed to new members Existing members accrue service on a career average basis on the basis of a retirement age of 65 Current executive Directors who are members of the plan are subject to a cap on pensionable earnings which for 2010-11 was £123 600

Details of RMSEPP are set out in note 26 to the financial statements The Plan is a funded, Inland Revenue-registered defined benefit occupational pension scheme It 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 65) and is subject to the maximum pensionable service and the scheme-specific earnings cap Pensions in payment are increased annually in line with the 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

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Directors' Remuneration Report continued

For senior executives whose membership of the Plan (RMSEPP) is restricted by the earnings cap (£123,600 for 2010-11) pension provision is made by a combination of the Company scheme and a cash pension supplement or its equivalent David Smith and Paula Vennells receive a cash supplement of 25% of base pay above the earnings cap Mark Higson and Matthew Lester are not members of the Plan and receive a cash supplement of 40% of base pay

For the Chief Executive the Company makes a contribution to a UK HMRC approved pension plan and promises to pay her after leaving the Company a sum that accumulates monthly during employment as if it were invested in Government securities

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

	Age at Year end	Accumulated accrued benefit at 28 March 2010 £	Increase in accrued benefits during the period £	Increase in accrued benefits during the period (net of inflation) £	Transfer value of increase before inflation less Directors contributions £
Executive Directors					
David Smith	46	20 937	2 671	2,076	16,800
Paula Vennells	52	10,244	1,204	1 072	11 337

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 28 March 2010 or at date of appointment to Board if later £	Plus transfers-in received £	Sub total £	Transfer value at 27 March 2011 £	Movement in the period less Directors contributions £
Executive Directors						
David Smith	46	304 441	-	304 441	347,629	36,388
Paula Vennells	52	184,843	-	184 843	194 384	6 451

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

Moya Greene has been provided with contributions of £20 000 to an HMRC approved defined contribution pension plan in respect of service during the 2010-11 financial year For 2010-11 the Company has also made her an unfunded promise currently accrued at £120,611 to be paid on her ceasing to be employed The value of this promise will fluctuate as if it had been invested in UK 5-year gilts

Tony McCarthy a former Director, is in receipt of an annual payment of £43 111 as a result of an unfunded unapproved pension promise made to him on when he joined the Company

GRO

Orna Ni-Chionna
Remuneration
Committee Chair
13 June 2011

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

The Directors are responsible for preparing the Directors 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 Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period In preparing these financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether the applicable IFRSs as adopted by the European Union have been followed subject to any material departures disclosed and explained by 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 adequate accounting records that are sufficient to show and explain the Company s transactions and 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 2006 and as regards the Group financial statements Article 4 of the IAS Regulation 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

GRO

Moya Greene **Matthew Lester**

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Independent Auditor's 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 27 March 2011 which comprise the Consolidated income statement the Consolidated statement of comprehensive income the Consolidated statement of changes in equity the Consolidated balance sheet the Consolidated statement of cash flows and the related notes 1 to 30 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the Company s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company s members those matters we are required to state to them in an auditor s report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Company and the Company s members as a body for our audit work for this report or for the opinions we have formed

Respective responsibilities of directors and auditors
As explained more fully in the Directors Responsibilities Statement set out on page 49 the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group s circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements In addition we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the Group financial statements

- give a true and fair view of the state of the Group s affairs as at 27 March 2011 and of its loss for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – going concern
In forming our opinion which is not modified we have also considered the adequacy of the disclosures made in note 2 to the financial statements concerning the Group s ability to continue as a going concern The conditions described in note 2 indicate the existence of material uncertainties which may cast significant doubt about the Group s ability to continue as a going concern The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion

- certain disclosures of Directors remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

Other matter
We have reported separately on the parent company financial statements of Royal Mail Holdings plc for the year ended 27 March 2011 That report includes an emphasis of matter

Ernst & Young LLP

Alison Duncan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
13 June 2011

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Consolidated income statement for the year ended 27 March 2011 and 28 March 2010

	Notes	2011 £m	2010 £m
Continuing operations			
Turnover		**9,006**	9 199
Network Subsidy Payment		**150**	150
Revenue		**9,156**	9 349
People costs excluding ColleagueShare and restructuring costs	4(a)	**(5,717)**	(5 746)
Distribution and conveyance operating costs	5(b)	**(1,619)**	(1 579)
Other operating costs	5(c)	**(1,602)**	(1 661)
Share of post tax profit from joint ventures and associates	15	**28**	41
Operating profit before exceptional items		**246**	404
Modernisation costs – operating exceptional items	7	**(207)**	(224)
ColleagueShare – share scheme value		109	28
– dividend		1	(72)
– business transformation		(41)	-
Restructuring costs		(264)	(180)
Impairments		(12)	-
Operating profit after modernisation costs before other operating exceptional items		**39**	180
Other operating exceptional items	7	**(88)**	(67)
Operating (loss)/profit		**(49)**	113
Profit on disposal of property plant and equipment		**65**	5
Profit on disposal of associate company	15	**44**	-
Profit before financing and taxation		**60**	118
Finance costs	8	**(114)**	(98)
Finance income	8	**69**	47
Net pensions interest	26(c)	**(167)**	(329)
Loss before taxation		**(152)**	(262)
Taxation charge	9	**(106)**	(58)
Loss for the financial year from continuing operations		**(258)**	(320)
(Loss)/profit attributable to			
Equity holder of the parent company		**(259)**	(321)
Non-controlling interest		**1**	1

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Consolidated statement of comprehensive income for the year ended 27 March 2011 and 28 March 2010

	Notes	2011 £m	2010 £m
Loss for the financial year from continuing operations		**(258)**	(320)
Other comprehensive income/(expense) for the period		**3,432**	(1 305)
Translation differences on foreign currency net investments		(11)	(21)
Actuarial gains/(losses) on defined benefit schemes	26	3 424	(1 312)
Gains/(losses) on cash flow hedges deferred into equity	25	24	(12)
(Gains)/losses on cash flow hedges released from equity to income	25	(7)	21
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	25	(3)	(4)
Gains on financial assets deferred into equity		20	42
Gains on financial assets released from equity to income		(6)	-
Taxation on items taken directly to equity	9	(9)	(19)
Total comprehensive income/(expense) for the period		**3,174**	(1 625)
Total comprehensive income/(expense) for the period attributable to			
Equity holder of the parent company		**3,173**	(1 626)
Non-controlling interest		**1**	1

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Consolidated statement of changes in equity for the year ended 27 March 2011 and 28 March 2010

	Share premium £m	Retained earnings £m	Financial Assets Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Other Reserves £m	Equity holder of the parent £m	Non-controlling interest £m	Total equity £m
At 29 March 2010	**430**	**(6,968)**	**55**	**136**	**12**	**47**	**(6,288)**	**7**	**(6,281)**
(Loss)/profit for the period	-	(259)	-	-	-	-	(259)	1	(258)
Other comprehensive income/(expense) for the period	-	3 424	9	(11)	10	-	3 432	-	3 432
Translation differences on foreign currency net investments	-	-	-	(11)	-	-	(11)	-	(11)
Actuarial gains on defined benefit schemes	-	3 424	-	-	-	-	3 424	-	3 424
Gains on cash flow hedges deferred into equity	-	-	-	-	24	-	24	-	24
Gains on cash flow hedges released from equity to income	-	-	-	-	(7)	-	(7)	-	(7)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	-	-	-	-	(3)	-	(3)	-	(3)
Gains on financial assets deferred into equity	-	-	20	-	-	-	20	-	20
Gains on financial assets released from equity to income	-	-	(6)	-	-	-	(6)	-	(6)
Taxation on items taken directly to equity	-	-	(5)	-	(4)	-	(9)	-	(9)
Total comprehensive income/(expense) for the period	-	3,165	9	(11)	10	-	3,173	1	3,174
At 27 March 2011	**430**	**(3,803)**	**64**	**125**	**22**	**47**	**(3,115)**	**8**	**(3,107)**

	Share premium £m	Retained earnings £m	Financial Assets Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Other Reserves £m	Equity holder of the parent £m	Non-controlling interest £m	Total equity £m
At 30 March 2009	430	(5 331)	23	157	12	47	(4 662)	6	(4 656)
(Loss)/profit for the period	-	(321)	-	-	-	-	(321)	1	(320)
Other comprehensive (expense)/income for the period	-	(1 316)	32	(21)	-	-	(1 305)	-	(1 305)
Translation differences on foreign currency net investments	-	-	-	(21)	-	-	(21)	-	(21)
Actuarial losses on defined benefit schemes	-	(1 312)	-	-	-	-	(1 312)	-	(1 312)
Loss on cash flow hedges deferred into equity	-	-	-	-	(12)	-	(12)	-	(12)
Loss on cash flow hedges released from equity to income	-	-	-	-	21	-	21	-	21
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	-	-	-	-	(4)	-	(4)	-	(4)
Gains on financial assets deferred into equity	-	-	42	-	-	-	42	-	42
Taxation on items taken directly to equity	-	(4)	(10)	-	(5)	-	(19)	-	(19)
Total comprehensive (expense)/income for the period	-	(1 637)	32	(21)	-	-	(1 626)	1	(1 625)
At 28 March 2010	430	(6 968)	55	136	12	47	(6 288)	7	(6 281)

A description of the nature and application of the reserves in the above tables is included in note 27

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Consolidated balance sheet at 27 March 2011 and 28 March 2010

	Notes	2011 £m	2010 £m
Non-current assets			
Property plant and equipment	10	**1,832**	1 935
Leasehold land payment	11	**3**	4
Goodwill	12	**197**	197
Intangible assets	13	**126**	99
Investments in joint ventures and associates	15	**105**	147
Financial assets – pension escrow investments	25	**1,161**	1 189
- investments	25	**44**	49
- derivatives	25	**6**	3
Other receivables		**-**	**1**
Deferred tax assets	9	**8**	95
		3,482	3 719
Non-current assets held for sale	16	**4**	5
Current assets			
Inventories	17	**38**	38
Trade and other receivables	18	**1,135**	1 155
Income tax receivable		**-**	14
Financial assets - investments	25	**1**	1
- derivatives	25	**36**	24
Cash and cash equivalents	19/25	**1,101**	937
		2,311	2 169
Total assets		**5,797**	5 893
Current liabilities			
Trade and other payables	22	**(1,961)**	(2 076)
Financial liabilities - interest bearing loans and borrowings	20/25	**(375)**	(388)
- obligations under finance lease and hire purchase contracts	20/25	**(65)**	(61)
- derivatives	20/25	**(3)**	(17)
Income tax payable		**(6)**	(8)
Provisions	21	**(181)**	(130)
		(2,591)	(2 680)
Non-current liabilities			
Financial liabilities - interest bearing loans and borrowings	20/25	**(1,478)**	(1 138)
- obligations under finance lease and hire purchase contracts	20/25	**(193)**	(120)
- derivatives	20/25	**-**	(1)
Provisions	21	**(97)**	(146)
Retirement benefit obligation – pension deficit	26	**(4,501)**	(8 041)
Other payables	23	**(34)**	(43)
Deferred tax liabilities	9	**(10)**	(5)
		(6,313)	(9 494)
Total liabilities		**(8,904)**	(12 174)
Net liabilities		**(3,107)**	(6 281)
Equity			
Share capital	27	**-**	-
Share premium		**430**	430
Retained earnings		**(3,803)**	(6 968)
Reserves		**258**	250
Equity attributable to equity holder of parent company		**(3,115)**	(6 288)
Non-controlling interest		**8**	7
Total equity		**(3,107)**	(6 281)

The financial statements on pages 51 to 99 were approved by the Board of Directors on 13 June 2011 and signed on its behalf by

GRO

Moya Greene **Matthew Lester**

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Consolidated statement of cash flows for the year ended 27 March 2011 and 28 March 2010

	Notes	2011 £m	2010 £m
Cash flow from operating activities			
Operating profit before exceptional items		**246**	404
Adjustment for			
Depreciation and amortisation	5(c)	**286**	278
Share of post tax profit from joint ventures and associates	15	**(28)**	(41)
Working capital and other non-cash movements		**(49)**	(83)
Increase in inventories		-	(6)
Decrease in receivables		14	24
Decrease in payables		(44)	(30)
Increase in client receivables		(9)	(14)
Increase/(decrease) in client payables		1	(63)
Net increase in derivative assets		(12)	(7)
Increase in non-exceptional provisions		1	13
Cash paid in respect of retirement benefit obligations in excess of that charged in operating profit		**(283)**	(376)
Cash payments in respect of operating exceptional items (see note (a) below)		**(272)**	(293)
ColleagueShare/business transformation payments		(102)	(82)
Other		(170)	(211)
Cash outflow from operations		**(100)**	(111)
Income tax paid		**(22)**	(16)
Net cash outflow from operating activities		**(122)**	(127)
Cash flows from investing activities			
Dividends received from joint ventures and associates	15	**39**	35
Finance income received		**69**	47
Proceeds from sale of property plant and equipment		**164**	**14**
Proceeds from disposal of associate company		**73**	-
Purchase of property plant and equipment		**(292)**	(374)
Acquisition of businesses	14	**(2)**	(1)
Purchase of intangible assets		**(82)**	(80)
Payment of deferred consideration in respect of prior years acquisitions		**-**	(7)
Net sale/(purchase) of financial assets investments (non-current)		**42**	(86)
Net proceeds from financial assets investments (current)		**-**	6
Net cash inflow/(outflow) from investing activities		**11**	(446)
Net cash outflow before financing activities		**(111)**	(573)
Cash flows from financing activities			
Finance costs paid		**(60)**	(52)
Payment of capital element of obligations under finance lease contracts		**(65)**	(22)
Cash received on sale and leasebacks		**115**	73
New loans		**332**	451
Repayment of borrowings		**(42)**	(2)
Net cash inflow from financing activities		**280**	448
Net increase/(decrease) in cash and cash equivalents		**169**	(125)
Effect of exchange rates on cash and cash equivalents		**(2)**	(1)
Cash and cash equivalents at the beginning of the period		**934**	1 060
Cash and cash equivalents at the end of the period	19/25	**1,101**	934

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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	2011 £m	2010 £m
Current year operating exceptional items	**93**	85
Prior years operating exceptional items	**179**	208
Total	**272**	293

The net cash outflow of £272m (2010 £293m) comprises £131m (2010 £158m) relating to cash utilised to settle exceptional provisions £73m (2010 £75m) relating to ColleagueShare dividends £25m (2010 £nil) for business transformation payments £nil (2010 £11m) incurred for current year pension redundancy liabilities £30m (2010 £39m) relating to prior year pension redundancy liabilities and £13m (2010 £10m) in respect of other costs which were recorded within other payables

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Notes to the Group financial statements

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

The Group s financial statements for the year ended 27 March 2011 were authorised for issue by the Board on 13 June 2011 and the balance sheet was signed on the Board s behalf by Moya Greene and Matthew Lester

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 year ended 27 March 2011 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 2006 (the Act) and the financial statements are produced in accordance with the Act and applicable IFRSs The UK is the Group s country of domicile

The Group consolidated financial statements are presented in Sterling and all values are rounded to the nearest £m except where otherwise indicated These consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments and available for sale financial assets which have been measured at fair value

Changes in accounting policy and disclosures

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

The Group has adopted the following revised and amended accounting standards as of 29 March 2010 The impact on the financial statements or performance of the Group is also described below

IFRS 3 (revised) Business Combinations

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 interest) with an option to recognise these at full fair value as at the acquisition date and for previously held non-controlling interest to be fair valued as at the date control is obtained with gains and losses recognised in the income statement The adoption of this revised standard has not had a material impact on the financial position or performance of the Group

IAS 27 (amended) Consolidated and Separate Financial Statements

The amended standard no longer restricts the allocation to non-controlling 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 is accounted for as an equity transaction and has no impact on goodwill nor does it give rise to any gain or loss Where there is loss of control of a subsidiary any retained interest will be re-measured to fair value which will impact the gain or loss recognised on disposal This amended standard has not had a material impact on the financial position or performance of the Group

Improvements to IFRSs (issued 2009)

In May 2009 the International Accounting Standards Board (IASB) issued its second omnibus of amendments to its standards primarily with a view to removing inconsistencies and clarifying wording There are separate transitional provisions for each amendment The adoption of the Improvements to IFRSs resulted in changes to accounting policies but did not have a material impact on the financial position or performance of the Group

Significant accounting judgements, estimates and assumptions

The preparation of the Group s consolidated financial statements requires management to make judgements estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date However uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods

The key sources of 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 ColleagueShare plan costs and provisions

Defined benefit pension obligations

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 £690m An additional one year on the life expectancy could increase liabilities by approximately £840m The major assumptions and carrying value of the obligations are disclosed in note 26

Deferred tax

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 carrying values of the deferred tax assets and liabilities are included within note 9

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2 Accounting policies (continued)

ColleagueShare plan

The calculation of the ColleagueShare costs and liabilities is reliant on a number of judgements estimates and assumptions 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 The carrying values of the ColleagueShare liabilities are included within notes 21 and 22

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made Due to the nature of provisions a significant part of their determination is based upon estimates and/or judgements concerning the future

Restructuring provisions including for redundancy and property costs are derived based upon the most recent business plan for direct expenditure where plans are sufficiently detailed and appropriate communication to those affected has been undertaken This includes the expected number of employees impacted rate of compensation per employee rental costs and expected period of properties remaining vacant and dilapidation costs

The potential industrial claims provision is based on the best information available as at the year end including independent expert advice

Funding

Material Uncertainty in the Financing of Royal Mail Group excluding Post Office Limited ('RMG')

Background

The postal market in the UK is both open to full competition and in structural decline due to the emergence of alternative digital communication media Over the past 5 years inland addressed postal volumes have declined by some 20% and are expected to continue to decline by some 5% per annum over the next five years This has resulted in a significant erosion of profits and cash flows similar to other postal operators around the world In addition the actuarial pension deficit agreed formally with the Pension Trustee in 2010 is some £10bn as at 31 March 2009 for Royal Mail Group excluding Post Office Limited (RMG) – to be repaid over a 38 year period - and RMG is required to make pension deficit repayments of £286m per annum rising to around £410m per annum by 2016

Balance sheet and cash flow solvency

RMG is currently balance sheet insolvent with net liabilities of £2 8bn (2010 £5 8bn) (Post Office Limited net liabilities £0 3bn (2010 £0 5bn)) brought about by the recognition of the pension deficit on the balance sheet in March 2006 The pension deficit currently stands at £4 5bn (2010 £8 0bn) with the decrease this year mainly due to the Government requirement to use a CPI based inflation assumption for the majority of schemes rather than RPI as in previous years

The pension deficit recognised in the RMG financial statements is calculated based on the requirements of IAS 19 and on different assumptions to the actuarial deficit agreed periodically with the Pension Trustee and it is the latter that is used to determine the cash payments to repair the deficit

At 27 March 2011 RMG has £553m of cash headroom (including cash on hand short term deposits and unutilised loan facilities) available

There are severe pressures and risks on RMG s cash flow and headroom position brought about by a number of factors including

- recent and forecast declines in inland addressed postal volumes caused by the current economic climate and the emergence of alternative digital communications media causing a material reduction in the proportion of communications carried out using the mail
- the significant investment required to modernise RMG so as to achieve the cost reductions necessary to keep pace with the reduction in volumes and
- the costs of meeting RMG s obligations to fund the pension scheme including both ongoing pension contributions and pension deficit payments

As a result of this pressure on cash flow and the fact that RMG is balance sheet insolvent the Board has been carefully monitoring on a regular basis whether RMG has sufficient cash flow to meet its liabilities as they fall due over the foreseeable future This has involved regular reviews of projected monthly cash headroom until March 2013 and includes a review of the strategic plan cash flows to March 2016

RMG has been taking a number of steps to preserve its financial flexibility including property disposals the disposal of its 20% investment in Camelot sales and leasebacks cost-cutting supplier initiatives and other measures to reduce expenditure and to release cash Nevertheless the Board has concluded that without Government support RMG may not be able to meet its liabilities as they fall due including the next £286m pension deficit contribution payment due in March 2012 and the repayment of £900m Government loan facilities due in March 2014

Government Policy for Royal Mail

In 2008 the Government commissioned a review of the postal sector and its findings in its report back - titled "Modernise or Decline and its findings confirmed that the universal service is part of our economic and social glue and that it delivers significant economic value to the nation and its citizens Royal Mail the letters business of RMG has been modernising its operations over the last five years and will continue to make further significant investment to reduce its cost base

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2 Accounting policies (continued)

The Government made the restructuring and privatisation of RMG one of its first policies and

- the Postal Services Bill – which provides a platform for the Government to relieve RMG of the majority of its historical pension assets and liabilities to change the regulatory regime for RMG and allow the introduction of private capital – has now been agreed by both Houses of Parliament and received Royal Assent and
- a formal State Aid application to the European Commission for restructuring aid (relieving RMG of the majority of its pension deficit and restructuring the balance sheet) as required by European Law will be made by the Government in June 2011

Key Assumptions and Material Uncertainties for Going Concern

The RMG strategic plan (the plan) projects a sustained return to profitability and cash generation as the benefits of modernisation are realised The plan assumes that core letter volumes will continue to decline by 5% per annum and that a further £1 1bn will be invested into modernising the Royal Mail letters network to improve profitability and cash flow generation in the next two years A key material assumption is that this modernisation programme will be successful in delivering World Class Mail and reducing costs in 2012-13 by £0 6bn in real terms compared to the cost base of 2010-11

The plan also assumes that Government will relieve RMG of the majority of its pension deficit restructure the balance sheet reset covenants from March 2012 onwards and that a more appropriate postal regulatory regime will be introduced

In forming their view regarding RMG s going concern status the Directors have identified two material uncertainties that cast significant doubt upon RMG s ability to continue as a going concern

First the relief of the majority of the pension deficit and the balance sheet restructure are conditional on the obtaining of State Aid approval from the European Commission In particular State Aid approval will need to be obtained by March 2012 when the next pension deficit payment would otherwise be due

The Government has announced that it will submit a formal State Aid notification to the European Commission in June 2011 outlining its plan to provide restructuring aid to RMG with the intention of returning the business to financial viability and that it hopes that the process will be completed by March 2012

However the Directors can not be certain that State Aid approval will be given for the full package of measures or that it will be given by March 2012

The second material uncertainty is whether Government would provide alternative financing in the event of a delayed or rejected application for restructuring aid on suitable terms as described above

The Directors believe that the Government would continue to provide adequate financing to RMG This is based on a number of factors including the prior experience of financing Post Office Limited by the Government from 2006-7 onwards

Going Concern Basis in the Financial Statements

On this basis and after careful consideration of the cash flow and headroom projections the Directors consider it appropriate to prepare the financial statements on a going concern basis which assumes that RMG will continue in operational existence for the foreseeable future

Should the State Aid application fail and Government not provide alternative debt financing arrangements to relieve the future pension deficit obligations the going concern basis would be invalid and adjustments would have to be made to reduce the value of the assets to their realisable amount to provide for any further liabilities that might arise and to reclassify fixed assets and long-term liabilities as current assets and current liabilities The financial statements presented for the year ending 27 March 2011 do not contain any adjustment that would be required if it was concluded that RMG was unable to continue as a going concern

Post Office Limited

Post Office Limited had net liabilities as at 27 March 2011 but has operated at a profit before exceptional items during 2010-11 for the third year running

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 continued with the implementation of a number of programmes which are designed to improve the profitability of the company The branch closure programme is completed and no further closures are planned but further work on efficiency improvements and improving the business model continues These programmes include

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

On 24 March 2010 a funding agreement was agreed that provides up to £180m for compensation for losses sustained in parts of the network in 2011-12 as well as providing access to the working capital facility of £1 15bn to 31 March 2012 These arrangements received State Aid approval on 23 March 2011

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2 Accounting policies (continued)

A further funding agreement with Government was announced on 27 October 2010 which provided for

- funding of £410m for 2012-13
- funding of £415m for 2013-14
- funding of £330m for 2014-15 and
- extension of the existing working capital facility of £1 15bn up to 31 March 2016

All of the funding for 2012-13 to 2014-15 and extension of the working capital facility is subject to State Aid approval

Whilst the Directors are satisfied with the progress that has been made it should be noted Post Office Limited continues to face a challenging future

Notwithstanding these uncertainties the Directors recognise that significant progress has been made in delivering its 2005-11 plan and that a plan for 2011-15 has been approved so 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 have been prepared on a going concern basis

Basis of consolidation

The consolidated financial statements comprise the financial statements 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 intra-group balances and transactions including unrealised profits arising from intra-group transactions have been eliminated in full Transfer prices between business segments are set on a basis of charges reached through 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

Non-controlling interest represents the portion of profit/loss gains/losses and net assets relating to subsidiaries that are not attributable to members of the Company The non-controlling interest balance is presented within equity in the consolidated balance sheet separately from parent shareholder s equity

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 is net of value added tax and comprises Turnover and the Network Subsidy Payment Turnover principally relates to the rendering of services as follows

UK Letters & Parcels and International

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

Post Office Limited

Revenue is recognised at the time that Government financial mails and telephony services are provided

General Logistics Systems

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

The Network Subsidy 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 Innovation and Skills 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 (excluding ColleagueShare and restructuring costs) distribution and conveyance operating costs other operating costs and the Group s post tax share of profit from joint ventures and associates

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2 Accounting policies (continued)

Operating exceptional items

Operating exceptional items primarily modernisation costs 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 employee 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 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 14% of the projected equity value of the Group

The costs of the plan are included in the income statement as an exceptional item throughout the life of the plan and are included within payables or provisions as appropriate The Group will redeem all ColleagueShares by 2012-13

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

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 on a straight-line basis as follows

Customer listings	1 to 4 years
Software	1 to 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 directly 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

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	2-12 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 given 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

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2 Accounting policies (continued)

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 capital element 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 expense over the lease term on a straight-line basis

A leasehold land payment is an upfront payment to acquire a long-term leasehold interest in land This payment is stated at cost and is amortised on a straight-line basis over the period of the lease

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

Trade 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 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

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2 Accounting policies (continued)

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 statement of cash flows 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

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 Short-term deposits are classified as loans and receivables financial instruments

Financial liabilities - interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost

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

Borrowing costs are recognised as an expense when incurred unless they are directly attributable to the construction or development of a qualifying asset in which case they are capitalised using the weighted average cost of borrowing for the period of construction/development

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 forecast transaction

In relation to cash flow hedges to hedge the foreign exchange or commodity price 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 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 (including conventional gilt edged securities index-linked gilt edged securities and Treasury bills) is determined by reference to bid prices at the close of business on the balance sheet date Hence the conventional gilt edged securities index-linked gilt edged securities and Treasury bills are within Level 1 of the fair value hierarchy as defined within IFRS 7

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) Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 7

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2 Accounting policies (continued)

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

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 it is probable 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 comprehensive income Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income

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

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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 rate 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 Provisions Contingent Liabilities and Contingent Assets* 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

Government grants relating to assets are recognised as deferred income that is amortised over the useful life of the relevant assets

Segment information

During the year the Group changed the structure of its internal organisation in a manner that resulted in a change to the composition of its reportable segments As a result of this change corresponding information for earlier periods has been restated

The Group s operating 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 Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment Segment performance is evaluated based on operating profit/loss

There is no aggregation of operating segments The operating units that make up the four operating segments are detailed on page 29

The operating segments comprise operations in both the UK and other parts of Europe the latter being relevant to the GLS business segment The UK operations include the remaining two operating segments plus the Other segments

Segment revenues have been attributed to the respective countries based on the location of the customer

Transfer prices between the segments are set on a basis of charges reached through negotiation with the respective business units that form part of the segments

There are no differences in the measurement of the respective segments profit/loss and the consolidated financial statements prepared under IFRSs

Accounting standards issued but not yet applied

The International Accounting Standards Board (IASB) has issued accounting standards relevant to the Group with an effective date for accounting periods beginning after the commencement date of the period to which these financial statements relate The Group has considered the impact of these below

International Accounting Standards (IAS/IFRSs)		*Effective date*
IAS 24	Related Party Disclosures (Amendment)	1 January 2011
IFRS 9	Financial Instruments Classification and Measurement	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

IAS 24 Related Party Disclosures

This revised standard provides an exemption from disclosure requirements for transactions between entities controlled jointly controlled or significantly influenced by the same government and between such entities and the government itself unless they are individually or collectively significant The standard also amends the definition of a related party to remove some inconsistencies This standard which will be adopted with a commencement date of 28 March 2011 will not have any impact on the financial position or performance of the Group

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2 Accounting policies (continued)

IFRS 9 Financial Instruments Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASB s work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39 In subsequent phases the IASB will address classification and measurement of financial liabilities hedge accounting and derecognition The completion of this project is expected in 2011 The adoption of the first phase of IFRS 9 mandatory for the Group commencing 1 April 2013 will have an effect on the classification and measurement of the Group s financial assets The Group will quantify the effect in conjunction with the other phases when issued to present a comprehensive picture

IFRS 10 Consolidated Financial Statements
IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent compared with the requirements that were in IAS 27 The standard will be adopted with a commencement date of 1 April 2013 and will be reviewed to understand any possible impact on the financial position of the Group

IFRS 11 Joint Arrangements
IFRS 11 replaces *IAS 31 Interests in Joint Ventures* and provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form (as is currently the case) The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities The standard will be adopted with a commencement date of 1 April 2013 and will be reviewed to understand any possible impact on the financial position of the Group

IFRS 12 Disclosures of Interests in Other Entities
IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms on interests in other entities including subsidiaries joint arrangements and unconsolidated structured entities A number of new disclosures are required One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity The standard will be adopted with a commencement date of 1 April 2013 and will be reviewed to understand any possible impact on the financial position of the Group

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single framework for measuring fair value where that is required by other standards The standard applies to both financial and non-financial items measured at fair value The standard will be adopted with a commencement date of 1 April 2013 and will be reviewed to understand any possible impact on the financial position of the Group

Improvements to IFRSs not yet adopted

In April 2009 and May 2010 the IASB issued amendments to its standards primarily with a view to removing inconsistencies and clarifying wording There are separate transitional provisions for each standard The Group has adopted the relevant 2009 amendments as detailed on page 57

The Group has not yet adopted the following relevant 2010 amendments although they are not expected to impact on the financial position or performance of the Group The improvements can be summarised as follows

IFRS 3 Business Combinations The measurement options for non-controlling interests resulting from a business combination have been limited Further acquisition related costs are required to be expensed and not included in the purchase price and contingent consideration should be recognised at fair value on the acquisition date

IFRS 7 Financial Instruments Disclosures The amendment includes multiple clarifications related to the disclosure of financial instruments

IAS 27 Consolidated and Separate Financial Statements Any future partial disposal of an 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 re-measured to fair value which will impact the gain or loss recognised on disposal

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3 Segment information

The Group reports its segments in the way it internally manages its business as follows

27 March 2011	UK operations				Other European operations	
	UK Letters & Parcels and International	Post Office Limited	Other	Total	General Logistics Systems	Total
	£m	£m	£m	£m	£m	£m
External revenue	6,857	776	38[1]	7,671	1,485	9,156
Revenue between segments	28	345	142	515	-	515
Total segment revenue	6,885	1,121	180	8,186	1,485	9,671
Operating profit before exceptional items	72	36	20	128	118	246
Modernisation costs – operating exceptional items	(192)	(15)	-	(207)	-	(207)
Operating (loss)/profit after modernisation costs before other operating exceptional items	(120)	21	20	(79)	118	39
Other operating exceptional items	(48)	(40)	-	(88)	-	(88)
Operating (loss)/profit	(168)	(19)	20	(167)	118	(49)
Profit on disposal of property plant and equipment	60	5	-	65	-	65
Profit on disposal of associate company	-	-	44	44	-	44
(Loss)/profit before financing and taxation	(108)	(14)	64	(58)	118	60

[1] The Other segments external revenue comprises £37m (2010 £45m) relating to the provision of facilities management services by Romec Limited and £1m (2010 £1m) for building engineering services provided by NDC 2000 Limited

Finance costs of £114m (2010 £98m) finance income of £69m (2010 £47m) and net pensions interest of £167m (2010 £329m) when added to the profit before financing and taxation of £60m (2010 £118m) reconciles to the Group loss before taxation of £152m (2010 £262m)

There is no single customer for which revenues from transactions amount to 10% or more of the total revenues earned in the current period or in the prior period

Pages 19 to 26 confirm the activities of the major business segments

28 March 2010 – Restated for internal organisation structure change in 2010-11

	UK operations				Other European operations	
	UK Letters & Parcels and International	Post Office Limited	Other	Total	General Logistics Systems	Total
	£m	£m	£m	£m	£m	£m
External revenue	6 978	838	46[1]	7 862	1 487	9 349
Revenue between segments	29	343	145	517	-	517
Total segment revenue	7 007	1 181	191	8 379	1 487	9 866
Operating profit before exceptional items	205	72	15	292	112	404
Exceptional items - modernisation	(185)	(39)	-	(224)	-	(224)
Operating profit after modernisation costs before other operating exceptional items	20	33	15	68	112	180
Other operating exceptional items	5	(72)	-	(67)	-	(67)
Operating profit/(loss)	25	(39)	15	1	112	113
Profit on disposal of property plant and equipment	2	3	-	5	-	5
Profit/(loss) before financing and taxation	27	(36)	15	6	112	118

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3. Segment information (continued)

The following amounts are included within operating profit before exceptional items

27 March 2011	UK operations				Other European operations	
	UK Letters & Parcels and International £m	Post Office Limited £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Depreciation	**223**	**-**	**-**	**223**	**27**	**250**
Amortisation of intangible assets	**29**	**-**	**-**	**29**	**7**	**36**
Share of post tax (loss)/profit from joint ventures and associates	**(1)**	**25**	**4**	**28**	**-**	**28**

28 March 2010	UK operations				Other European operations	
	UK Letters & Parcels and International £m	Post Office Limited £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Depreciation	217	-	-	217	29	246
Amortisation	25	-	-	25	7	32
Share of post tax profit from joint ventures and associates	3	27	11	41	-	41

4 People information

(a) People costs excluding ColleagueShare and restructuring costs

	2011 £000	2010 £000
Wages and salaries	**4,398**	4 439
Pensions	**458**	441
Social security	**304**	300
Subpostmasters	**475**	480
Temporary resource	**82**	86
	5,717	5 746

(b) People numbers

The number of people employed calculated on a headcount basis were

	Period end employees		Average employees	
	2011	2010	**2011**	2010
UK Letters & Parcels and International	**155,181**	160 291	**157,317**	162 907
Post Office Limited	**7,782**	8 209	**8,066**	8 576
UK wholly owned subsidiaries	**162,963**	168 500	**165,383**	171 483
UK partially owned subsidiaries	**4,254**	4 217	**4,244**	4 199
General Logistics Systems	**13,167**	12 885	**13,120**	12 917
Group total	**180,384**	185 602	**182,747**	188 599

The number of subpostmasters employed at the period end were

	2011	2010
Total	**8,283**	8 448

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4. People information (continued)

(c) Directors' emoluments

	2011 £000	2010 £000
Directors emoluments	**2,714**	3 035
Amounts earned under Long-Term Incentive Plans	**-**	2 626
Number of Directors accruing benefits under defined benefit schemes	**2**	2

The Directors Remuneration Report discloses full details of Directors' emoluments and can be found on pages 45 to 48

5 Operating costs

Operating profit before exceptional items is stated after charging

	2011 £m	2010 £m
(a)		
Pensions charge (note 26)	**458**	441
Cash	442	526
Non-cash	16	(85)
(b)		
Distribution and conveyance operating costs	**1,619**	1 579
Operating lease charges on vehicles	19	30
Other distribution and conveyance	1 600	1 549
(c)		
Depreciation and amortisation	**286**	278
Depreciation of owned property plant and equipment	205	210
Depreciation of property plant and equipment under finance lease and hire purchase contracts	45	36
Total depreciation (note 10)	250	246
Amortisation of intangible assets (note 13)	36	32
Operating lease charges on property plant and equipment (excluding vehicles)	**222**	215
Minimum lease rentals payable	228	220
Lease rentals receivable	(6)	(5)
Property facilities and maintenance costs	**297**	308
Computers and telephones costs	**262**	247
Consultancy marketing and legal fees	**116**	178
Bureau de Change foreign currency exchange losses	**1**	-
Regulatory body costs	**13**	14
Postcomm	10	11
Consumer Focus	3	3

6 Auditor's remuneration

	2011 £000	2010 £000
Audit of statutory financial statements	**597**	597
Other fees to the auditor		
Statutory audits for subsidiaries	**1,398**	1 427
Other services supplied pursuant to such legislation	**442**	329
Taxation services	**55**	121
Other services	**29**	46
Total	**2,521**	2 520

The Group paid no additional amounts in 2011 in respect of the 2010 audit (£199 000 in 2010 in respect of the 2009 audit)

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7 Operating exceptional items

The results for the year include a number of non-recurring or restructuring costs which fall outside of the Group's normal trading activity. These are items which in management's judgement need to be disclosed by virtue of their size or incidence in order to provide greater visibility of the underlying results of the business which the Board believes to be a more meaningful indication of ongoing operational performance. An analysis of the exceptional items included within the income statement is as follows:

	2011		2010	
	£m	£m	£m	£m
Modernisation costs				
ColleagueShare - share scheme	**109**		28	
- dividend	**1**		(72)	
- business transformation	**(41)**		-	
		69		(44)
Restructuring costs				
Provision for restructuring (note 21)	**(256)**		(177)	
Other restructuring costs	**(8)**		(3)	
		(264)		(180)
Impairment of property, plant and equipment (note 10)		**(12)**		-
Total modernisation costs		**(207)**		(224)
Other operating exceptional costs				
Provision for potential industrial claims	**(30)**		-	
Impairment of property, plant and equipment (note 10)	**(29)**		(58)	
Impairment of intangible assets (note 13)	**(12)**		(18)	
Impairment of investment in associate company (note 15)	**(2)**		-	
Other exceptional items	**(15)**		9	
		(88)		(67)
Total operating exceptional items		**(295)**		(291)

The £109m release (2010 £28m release) for the share scheme and the £1m release (2010 £72m charge) for the dividend reflects the decrease in estimated liability in respect of ColleagueShares as at the balance sheet date (note 21). The £41m charge (2010 £nil) relates to ColleagueShare payments that are now linked to the achievement of key modernisation milestones as part of the pay deal with the Communication Workers Union.

The £256m (2010 £178m) restructuring charge in provisions is in respect of redundancy costs of £237m (2010 £167m) resulting mainly from operational efficiency initiatives in UKLPI and Post Office Limited. Other Group restructuring exceptional charges of £19m (2010 £11m) were incurred during the year. These were mainly in respect of onerous property lease obligations.

Other restructuring costs of £8m (2010 £3m) refer to employees' excess travel expenses associated with modernisation of the business.

The £12m (2010 £nil) impairment included within modernisation costs relates to the derecognition of plant and equipment £10m and building fit-out £2m as a result of business transformation.

Material costs of litigation requiring separate disclosure due to size and incidence amounted to £30m. A provision was raised to meet these costs of potential industrial claims.

Other impairments of £43m (2010 £76m) relate to Post Office Limited comprising £29m (2010 £57m) property, plant and equipment and £11m (2010 £15m) intangible assets. iRed Partnership Limited (iRed) comprising £nil (2010 £1m) property, plant and equipment and £1m (2010 £3m) intangible assets and a further £2m charge (2010 £nil) in relation to impairment of the carrying value of the investment in an associate company. Due to ongoing losses, the carrying values of asset purchases made by Post Office Limited and iRed during the year have been impaired to their recoverable amount.

Other exceptional items charged of £15m (2010 net £9m accrual release in respect of professional fees) were in respect of State Aid and Postal Services Bill related costs.

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8 Net finance costs

The following analysis excludes net pensions interest

	2011 £m	2010 £m
Unwinding of discount relating to ColleagueShare scheme	(7)	(9)
Interest payable on financial liabilities carried at amortised cost	(107)	(89)
Finance costs	(114)	(98)
Interest received on available for sale financial assets	60	42
Interest received on loans and receivables financial assets	9	5
Finance income	69	47
Net finance costs (excluding net pensions interest)	(45)	(51)

The finance costs of £114m (2010 £98m) include £13m (2010 £7m) in respect of finance charges payable under finance lease and hire purchase contracts

The finance income of £69m (2010 £47m) includes gains of £6m (2010 £nil) on available for sale financial assets which were released from equity and recognised in the income statement for the year

9. Income tax

The major components of the income tax charge for the years ended 27 March 2011 and 28 March 2010 are

	2011 £m	2010 £m
Tax charged in the income statement		
Current income tax		
Current UK income tax credit	(16)	(24)
Foreign tax	35	31
Adjustments in respect of current income tax of previous years	(1)	(3)
	18	4
Deferred income tax		
Relating to origination and reversal of temporary differences	88	54
Income tax charge reported in the income statement	106	58
Tax charged to equity		
Income tax related to items charged or credited directly to equity		
Deferred income tax charge related to actuarial movements in the pension deficit	-	4
Deferred income tax charge related to movements in hedging reserve	4	5
Current income tax charge for fair value adjustments on financial assets investments	5	10
Income tax charge reported in equity	9	19
Total taxation charge		
Current income tax charge	23	14
Deferred income tax charge	92	63
Total income tax charge reported	115	77

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9 Income tax (continued)

A reconciliation between the tax charges and the product of accounting loss multiplied by the UK rate of Corporation Tax for the years ended 27 March 2011 and 28 March 2010 is as follows

	2011 £m	2010 £m
Loss before taxation	**(152)**	(262)
At UK standard rate of Corporation Tax of 28%	**(43)**	(73)
Overseas current tax rates	**(3)**	(2)
Tax over-provided in prior years	**(1)**	(3)
Non-taxable income	**(12)**	(6)
Non-deductible expenses	**15**	16
Associates/joint ventures profit after tax charge included in Group pre-tax profit	**(8)**	(11)
Net increase in tax charge resulting from derecognition of deferred tax assets	**192**	149
Profit from asset disposals eligible for relief	**(28)**	(2)
Other	**(6)**	(10)
Tax charge in the income statement	**106**	58
Effective income tax rate	-	-

Deferred tax relates to the following	Balance sheet		Income statement	
	2011 £m	2010 £m	2011 £m	2010 £m
Liabilities				
Accelerated capital allowances	**(1)**	(1)	**-**	-
Goodwill qualifying for tax allowances	**(9)**	(4)	**(5)**	(4)
Gross deferred tax liabilities	**(10)**	(5)		
Assets				
Deferred capital allowances	**9**	1	**8**	(103)
Provisions and other	**1**	30	**(29)**	(6)
Pensions temporary differences	**-**	2	**(2)**	(2)
Losses available for offset against future taxable income	**6**	68	**(62)**	65
Hedging derivatives temporary differences	**(8)**	(6)	**2**	(1)
Goodwill qualifying for tax allowances	**-**	-	**-**	(3)
Gross deferred tax assets	**8**	95		
Net deferred tax (liability)/asset	**(2)**	90		
Consolidated income statement			**(88)**	(54)

The Group has unrecognised deferred tax assets of £2 017m (2010 £2 847m) comprising £1 218m (2010 £2 253m) relating to the retirement benefit obligation £452m (2010 £360m) relating mainly to fixed asset timing differences and £347m (2010 £234m) 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 £15m (2010 £24m) and temporary differences related to capital losses of £91m (2010 £107m) The Group has rolled over capital gains of £61m (2010 £73m) no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value as it is anticipated that a capital loss would arise

Finance (No 2) Act 2010 reduced the main rate of corporation tax to 27% with effect from 1 April 2011 The effect of this change on unrecognised deferred tax is included in these accounts and is detailed above In March 2011 the Chancellor of the Exchequer announced that the main rate of corporation tax will be 26% for the year commencing 1 April 2011 and that there will be successive annual one percentage point reductions until the rate reaches 23% with effect from 1 April 2014 However in accordance with accounting standards the effect of these rate reductions 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 A reduction to 23% would based on losses and temporary differences at 27 March 2011 reduce the Group s unrecognised deferred tax assets by £296m

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9. Income tax (continued)

The taxation of foreign profits rules were enacted in Finance Act 2009 Under the foreign profits rules a dividend exemption was introduced which largely exempts dividends received on or after 1 July 2009 from UK corporation tax The Group has applied this legislation in arriving at its UK tax results for the accounting period ended 27 March 2011 and 28 March 2010

At 27 March 2011 there was no recognised or unrecognised deferred income tax liability (2010 £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 exemptions and other reliefs including the UK dividend exemption

10 Property, plant and equipment

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost							
At 29 March 2010	1 719	267	601	1 143	460	964	5 154
Exchange rate movements	(5)	-	-	(2)	(1)	(1)	(9)
Reclassification	(75)	(4)	79	(2)	3	(1)	-
Additions	74	19	17	85	44	52	291
Disposals	(109)	(5)	(4)	(42)	(34)	(6)	(200)
Reclassification to non-current assets held for sale (note 16)	(12)	-	-	-	-	-	(12)
At 27 March 2011	**1,592**	**277**	**693**	**1,182**	**472**	**1,008**	**5,224**
Depreciation and impairment							
At 29 March 2010	891	166	387	682	233	860	3 219
Exchange rate movements	(1)	-	-	(2)	-	(1)	(4)
Reclassification	(40)	(3)	42	-	1	-	-
Depreciation (note 5)	44	7	38	74	53	34	250
Impairment (note 7)	-	-	7	10	1	23	41
Disposals	(21)	(1)	(4)	(42)	(30)	(6)	(104)
Reclassification to non-current assets held for sale (note 16)	(10)	-	-	-	-	-	(10)
At 27 March 2011	**863**	**169**	**470**	**722**	**258**	**910**	**3,392**
Net book value							
At 27 March 2011	**729**	**108**	**223**	**460**	**214**	**98**	**1,832**
At 29 March 2010	828	101	214	461	227	104	1 935

Depreciation rates are disclosed within accounting policies (note 2) No depreciation is provided on freehold land which represents £190m (2010 £205m) of the total cost of properties The net book value of the Group's property plant and equipment held under hire purchase contracts and finance leases amounts to £262m (2010 £176m) comprising £152m (2010 £157m) vehicles £88m (2010 £13m) plant and machinery and £22m (2010 £6m) land and buildings The net book value of the Group's property plant and equipment includes £150m (2010 £197m) in respect of assets in the course of construction The net book value of the Group's land and buildings includes £383m (2010 £409m) in respect of building fit-out

The £291m (2010 £370m) additions do not include any borrowing costs capitalised in relation to specific qualifying assets (2010 £nil)

On 24 March 2011 an agreement was implemented to substitute £102m pension escrow financial investments with mortgages against certain property assets The carrying value of these property assets of £33m is included within the £729m freehold land and buildings total above The fair value of these property assets based on a residual cashflow analysis* exceeds their carrying value by £124m

**A residual cashflow analysis determines a price that could be paid for the property given the expected as if complete value of the proposed development and the total cost of the proposed development allowing for market level profit margins and having due regard to the known characteristics of the property and the inherent risk involved in its development*

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10 Property, plant and equipment (continued)

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost							
At 30 March 2009	1 669	263	549	1 104	390	947	4 922
Exchange rate movements	(6)	-	-	(5)	(1)	(3)	(15)
Reclassification	(12)	1	11	(11)	13	(2)	-
Additions	93	4	55	71	101	46	370
Acquisition of businesses	1	-	-	-	-	-	1
Disposals	(8)	(1)	(14)	(16)	(43)	(24)	(106)
Reclassification to non-current assets held for sale (note 16)	(18)	-	-	-	-	-	(18)
At 28 March 2010	1 719	267	601	1 143	460	964	5 154
Depreciation and impairment							
At 30 March 2009	851	158	338	642	205	842	3 036
Exchange rate movements	(2)	-	-	(3)	(1)	(2)	(8)
Reclassification	-	-	-	(6)	6	-	-
Depreciation (note 5)	52	7	35	63	57	32	246
Impairment (note 7)	11	2	28	1	5	11	58
Disposals	(7)	(1)	(14)	(15)	(39)	(23)	(99)
Reclassification to non-current assets held for sale (note 16)	(14)	-	-	-	-	-	(14)
At 28 March 2010	891	166	387	682	233	860	3 219
Net book value							
At 28 March 2010	828	101	214	461	227	104	1 935
At 30 March 2009	818	105	211	462	185	105	1 886

11. Leasehold land payment

	2011 £m	2010 £m
Net book value		
At 29 March 2010 and 30 March 2009	**4**	4
Amortisation	**(1)**	-
At 27 March 2011 and 28 March 2010	**3**	4

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12 Goodwill

	2011 £m	2010 £m
Cost		
At 29 March 2010 and 30 March 2009	**636**	663
Exchange rate movements	**(11)**	(27)
Acquisition of businesses	**3**	-
At 27 March 2011 and 28 March 2010	**628**	636
Impairment		
At 29 March 2010 and 30 March 2009	**439**	457
Exchange rate movements	**(8)**	(18)
At 27 March 2011 and 28 March 2010	**431**	439
Net book value		
At 27 March 2011 and 28 March 2010	**197**	197
At 28 March 2010 and 29 March 2009	197	206

The carrying value of goodwill arising on business combinations of £197m (2010 £197m) at the balance sheet date includes £195m (2010 £195m) 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 £450m (2010 £456m) at year end and the operating profit before exceptional items is £118m (2010 £112m) for the year (note 3) The carrying value represents a multiple of 3 8 (2010 4 1) 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

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13 Intangible assets

	2011				2010			
	Master franchise licences £m	**Customer listings £m**	**Software £m**	**Total £m**	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost								
At 29 March 2010 and 30 March 2009	24	27	325	376	25	28	255	308
Additions	-	-	73	73	-	-	71	71
Disposals	-	-	(16)	(16)	-	-	(1)	(1)
Acquisition of businesses	-	2	-	2	-	-	-	-
Exchange rate movements	-	-	-	-	(1)	(1)	-	(2)
At 27 March 2011 and 28 March 2010	**24**	**29**	**382**	**435**	24	27	325	376
Amortisation and impairment								
At 29 March 2010 and 30 March 2009	22	22	233	277	22	19	189	230
Impairment (note 7)	-	-	12	12	-	-	18	18
Amortisation	2	3	31	36	1	4	27	32
Disposals	-	-	(16)	(16)	-	-	(1)	(1)
Exchange rate movements	-	-	-	-	(1)	(1)	-	(2)
At 27 March 2011 and 28 March 2010	**24**	**25**	**260**	**309**	22	22	233	277
Net book value								
At 27 March 2011 and 28 March 2010	**-**	**4**	**122**	**126**	2	5	92	99
At 29 March 2010 and 30 March 2009	2	5	92	99	3	9	66	78

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.

The amortisation charge of £36m (2010 £32m) relating to intangible assets is aggregated within 'other operating costs' in the income statement and disclosed in note 5. Details of the impairment are disclosed in note 7.

The £73m (2010 £71m) additions include £1m (2010 £0.2m) borrowing costs capitalised in relation to specific qualifying assets.

14 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 fair values to the Group as at the date of acquisition.

	Fair value Total 2011 £m
Tangible assets acquired	**-**
Intangible assets recognised on acquisition	**2**
Goodwill recognised on acquisition	**3**
Total cost recognised	**5**
Gross consideration	**5**
Less deferred consideration	**(3)**
Net cash outflow	**2**

The General Logistics Systems (GLS) subsidiary acquired Reggio Emilia and North Turin franchise area businesses in Italy on 1 September 2010 and 1 March 2011 respectively. If these combinations had taken place at the beginning of the financial year, Group revenue from continuing operations would have been £9,161m. The goodwill of £2m and £1m respectively arising on these acquisitions is indicative of the relative quality of the acquired entities.

Combined profits of the acquired entities since their respective acquisition dates and if they had been acquired at the beginning of the financial year are not material in the context of the Group's profit after tax.

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15 Investments in joint ventures and associates

Joint ventures

During 2010-11 and 2009-10 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 2010-11 and 2009-10 associate investments are provided in note 29 The reporting dates for these investments is 31 March 2011 except for Quadrant Catering Limited (30 September 2010) and G3 Worldwide Mail N V (Spring) (31 December 2010) Estimates of the profits of Quadrant Catering Limited and G3 Worldwide Mail N V (Spring) from their reporting date to 27 March 2011 (and 28 March 2010 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 29 March 2010 £m	Share of post tax pre dividend profit £m	Impairment £m	Disposal £m	Dividend £m	At 27 March 2011 £m
Joint ventures						
Share of net assets	74	28	-	-	(30)	**72**
Goodwill	1	-	-	-	-	**1**
Net investments	75	28	-	-	(30)	**73**
Associates						
Share of net assets	61	-	-	(20)	(9)	**32**
Goodwill	11	-	(2)	(9)	-	**-**
Net investments	72	-	(2)	(29)	(9)	**32**
Total net investments in joint ventures/associates	147	28	(2)	(29)	(39)	**105**

During the year the Group disposed of its 20% shareholding in Camelot Group plc and Camelot Global Services Limited

The goodwill impairment relates to the Group's investment in the G3 Worldwide Mail N V (Spring) associate company

	At 30 March 2009 £m	Share of post tax pre dividend profit £m	Reclassification £m	Dividend £m	At 28 March 2010 £m
Joint ventures					
Share of net assets	71	32	-	(29)	74
Goodwill	1	-	-	-	**1**
Net investments	72	32	-	(29)	75
Associates					
Share of net assets	60	9	(2)	(6)	61
Goodwill	9	-	2	-	11
Net investments	69	9	-	(6)	72
Total net investments in joint ventures/associates	141	41	-	(35)	147

The reclassification above relates to the increased shareholding in G3 Worldwide Mail N V (Spring)

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15 Investments in joint ventures and associates (continued)

	2011			2010		
	Joint ventures £m	**Associates £m**	**Total £m**	Joint ventures £m	Associates £m	Total £m
Share of assets and liabilities						
Current assets	**150**	**49**	**199**	172	123	295
Non-current assets	**2**	**21**	**23**	3	53	56
Share of gross assets	**152**	**70**	**222**	175	176	351
Current liabilities	**(80)**	**(37)**	**(117)**	(101)	(112)	(213)
Non-current liabilities	**-**	**(1)**	**(1)**	-	(3)	(3)
Share of gross liabilities	**(80)**	**(38)**	**(118)**	(101)	(115)	(216)
Share of net assets	**72**	**32**	**104**	74	61	135
Share of revenue and profit						
Revenue	**74**	**380**	**454**	77	1 206	1 283
Profit after tax	**28**	**-**	**28**	32	9	41

16 Non-current assets held for sale

	Land and buildings		
	Freehold £m	**Long leasehold £m**	**Total £m**
Net book amount			
At 29 March 2010	5	-	5
Reclassification from property plant and equipment	4	-	4
Reclassification to property plant and equipment	(2)	-	(2)
Disposals	(3)	-	(3)
At 27 March 2011	**4**	**-**	**4**

The planned disposal of these property assets is as a result of the rationalisation of the Group portfolio

During the year a gain of £8m (2010 £2m) was recognised in the income statement in relation to the disposal of non-current assets held for sale

	Land and buildings		
	Freehold £m	Long leasehold £m	Total £m
Net book amount			
At 30 March 2009	2	1	3
Reclassification from property plant and equipment	5	-	5
Reclassification to property plant and equipment	(1)	-	(1)
Disposals	(1)	(1)	(2)
At 28 March 2010	5	-	5

17 Inventories

	2011 £m	2010 £m
Supplies and materials (uniforms fuel printing and stationery mailbags engineering spares)	**30**	30
Merchandise (retail lottery products and stamps)	**8**	8
Total	**38**	38

During the year no inventory items were written off (2010 £1m) Engineering spares items are included net of a provision for impairment of £5m (2010 £4m) The cost of inventories recognised as an expense in the income statement is £160m (2010 restated £142m)

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18 Current trade and other receivables

	2011 £m	2010 £m
Trade receivables	**853**	855
Prepayments and accrued income	**124**	151
	977	1 006
Client receivables in the Post Office Limited network	**158**	149
Total	**1,135**	1 155

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

	2011 £m	2010 £m
At 29 March 2010 and 30 March 2009	**32**	29
Foreign exchange rate adjustment	**-**	-
Receivables provided for during the year	**11**	17
Release of provision	**(6)**	(7)
Utilisation of provision	**(11)**	(7)
At 27 March 2011 and 28 March 2010	**26**	32

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

	2011 £m	2010 £m
Past due not more than one month	**64**	90
Past due more than one month and not more than two months	**14**	7
Past due more than two months	**29**	14
Total past due but not impaired	**107**	111
Provided for or not yet overdue	**772**	776
Provision for bad and doubtful debts	**(26)**	(32)
Total trade receivables	**853**	855

19 Cash and cash equivalents

	2011 £m	2010 £m
Cash in the Post Office Limited network	**704**	708
Cash at bank and in hand	**100**	145
Total cash at bank in hand or in the Post Office Limited network	**804**	853
Cash equivalent investments Short-term deposits	**297**	84
Total cash and cash equivalents	**1,101**	937

Cash and cash equivalents comprise amounts held physically in cash bank balances available on demand and deposits for three months or less dependent on the immediate cash requirements of the Group Where interest is earned this is either at floating or short-term fixed rates based upon bank deposit rates The fair value of cash and cash equivalent investments is not materially different from the carrying value of £1 101m (2010 £937m)

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20 Financial liabilities

2011

	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)	**375**	**65**	**3**	**443**
More than one year (non-current)	**1,478**	**193**	**-**	**1,671**
More than one year but not more than two	-	50	-	50
More than two years but not more than five	601	109	-	710
More than five years	877	34	-	911
Total	**1,853**	**258**	**3**	**2,114**

2010

	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)	388	61	17	466
More than one year (non-current)	1 138	120	1	1 259
More than one year but not more than two years	-	45	1	46
More than two years but not more than five years	301	73	-	374
More than five years	837	2	-	839
Total	1 526	181	18	1 725

2011

	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**
BIS loans to Royal Mail Group Ltd	**1,477**	**300**	**1,777**	**6 3**	**2017**
BIS loans to Post Office Limited	**375**	**775**	**1,150**	**0 8**	**2011**
Committed facilities	**1,852**	**1,075**	**2,927**		
Miscellaneous loans and borrowings in subsidiaries	**1**	**-**	**1**	**4 5**	**2012**
Total	**1,853**	**1,075**	**2,928**		

2010

	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
BIS loans to Royal Mail Group Ltd	1 177	560	1 737	6 6	2018
BIS loans to Post Office Limited	343	807	1 150	0 8	2010
Committed facilities	1 520	1 367	2 887		
Miscellaneous loans and borrowings in subsidiaries	6	-	6	2 2	2011
Total	1 526	1 367	2 893		

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20 Financial liabilities (continued)

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 5% (2010 5%) The average maturity date is more than five years (2010 within two to three years)

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

	2011	2010
	£m	£m
Expiring in one year or less	**-**	-
Expiring in more than one year but not more than two years	**775**	807
Expiring in more than two years	**300**	560
Total	**1,075**	1 367

The following securities apply to the Group s committed facilities

	2011	2010	
	£m	£m	**Security**
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 excluding certain Group properties over which mortgages are held as security to the Royal Mail Pension Plan
Royal Mail Group Ltd shareholder loan facility	**377**	337	None
Royal Mail Group Ltd other drawn down loans	**500**	500	Fixed charges over any Royal Mail Group Ltd loans to General Logistics Systems B V any Royal Mail Group Ltd 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
	1,777	1 737	
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	**2,927**	2 887	

*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 Royal Mail Group Ltd shareholder loan increased by £40m (2010 £37m) as a result of accrued interest added to the loan balance

The Post Office Limited facility of £1 150m is currently restricted to funding the cash and near cash items held within the Post Office Limited network

The BIS 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 (2010 1 day) On maturity it is expected that further loans will be drawn down under this facility which expires in 2012

The security in place in the previous year was as disclosed above – with the exception of the £102m mortgages over certain Group properties which were completed in March 2011

The BIS 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 except as discussed in note 2

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21 Provisions for liabilities and charges

	Exceptional			
	Restructuring and other costs	ColleagueShare	Other	Total
	£m	£m	£m	£m
At 28 March 2010	114	108	54	276
Arising during the year				
- charged in operating exceptional items	299	-	-	299
- charged in other operating costs	-	-	25	25
Unused amounts reversed	(13)	(109)	(7)	(129)
Utilised in the year	(181)	(4)	(17)	(202)
Discount rate adjustment	2	7	-	9
At 27 March 2011	**221**	**2**	**55**	**278**
Disclosed as				
Current at 27 March 2011	141	2	38	181
Non-current at 27 March 2011	80	-	17	97
	221	**2**	**55**	**278**
Current at 28 March 2010	88	-	42	130
Non-current at 28 March 2010	26	108	12	146
	114	108	54	276

Restructuring and other exceptional costs

The provision for restructuring principally comprises redundancy schemes of £159m (2010 £97m) Unused amounts reversed of £13m principally relate to the Heathrow Worldwide Distribution Centre (HWDC) project where a change in business strategy has resulted in it no longer being probable that an outflow of resources will be required to settle the Group s obligations The HWDC strategy has been superseded by the London Mail Centre Review a new strategy developed in the current year requiring a new provision to be raised for £34m

A further £32m relates to onerous property and commercial contracts associated with restructuring projects and £30m relating to the costs of potential industrial claims

The timing of cash flows for such provisions is by its nature uncertain and dependent upon the outcome of related events

ColleagueShare

Royal Mail operates a share scheme referred to as ColleagueShare This is a five-year scheme running to March 2012 The provision at 27 March 2011 of £2m (2010 £108m) represents the potential liability for the financial years up to 2011-12

Other

Other provisions of £55m (2010 £54m) are those recognised principally for the expected liabilities arising from property exits in the normal course of business These principally comprise onerous lease obligations and decommissioning costs Other provision amounts arise from estimated exposures resulting from legal claims incurred in the normal course of business Other' provision amounts are expected to be utilised in 2011-12 with the remainder within 2 to 3 years except £5m onerous property contracts expected to be utilised within 3 to 5 years and a further £2m expected to be utilised over a period greater than 5 years

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22 Current trade and other payables

	2011 £m	2010 £m
Trade payables and accruals	**1,179**	1 179
Advance customer payments	**307**	299
Social security	**95**	95
	1,581	1 573
Deferred consideration on business combinations	**2**	-
Client payables in the Post Office Limited network	**314**	313
Amounts due to pension schemes relating to redundancies	**12**	6
Interest	**2**	2
Capital payables	**50**	108
ColleagueShare accrual	**-**	74
Total	**1,961**	2 076

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 payables above The level of cash held and the related payables 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

Capital payables represent liabilities outstanding in relation to the acquisition of property plant and equipment and intangible assets

23 Non-current other payables

	2011 £m	2010 £m
Lease incentives	**24**	22
Other payables	**9**	21
Deferred consideration on business combinations	**1**	-
Total	**34**	43

24 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 receivables and trade payables 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 BIS loans to Royal Mail Group Ltd of £1 477m (2010 £1 177m) are a mix of £600m (2010 £nil) variable rate and £877m (2010 £1 177m) fixed interest rate with a combined average maturity date of 2017 (2010 – average date of 2018) The BIS loans to Post Office Limited of £375m (2010 £343m) are at short-dated fixed interest rates with average maturity 1 day (2010 average 1 day) The total interest bearing financial assets of the group (excluding the non-current investments) of £397m (2010 £191m) are at short-dated fixed or variable interest rates with average maturity 5 days (2010 average 3 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

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24 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

	2011		2010	
	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 of an increase in Sterling interest rates of 100 basis points (1%)	**(3)**	**(143)**	(1)	(149)
Effect of a decrease in Sterling interest rates of 50 basis points (0 5%)	**2**	**84**	1	90

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 and 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 comprised 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 An external SDR hedge was put in place during 2010-11

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$ has been hedged to April 2012

The Group has two 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 However it does hedge the transactional exposure created by inter-company loans with these subsidiaries

The table below demonstrates the sensitivity of the Group to its gross currency exposures (before hedging) together with how much the 2011-12 operating profit before exceptional items (operating profit) would differ from 2010-11 as a result of the changes to 27 March 2011 in exchange rates post the impact of the Group s hedging programmes

The sensitivity analysis is the impact on the Group s operating profit that would result from a movement in exchange rates (excluding any hedges in place) It is calculated as the difference between the operating profit that would have been reported based upon actual currency transactions and actual exchange rates during the year (but excluding the impact of any hedges in place) and the operating profit that would have been reported based upon actual currency transactions but with exchange rates with sterling 5% weaker

The impact on 2011-12 operating profit is calculated as the movement in operating profit (from actual 2010-11 operating profit) that would arise on the actual currency transactions in 2010-11 at the actual hedge rates for 2011-12 where hedges are in place and the closing exchange rates for 2010-11 where no hedge exists

The analysis below excludes the impact of changes in US$/Sterling exchange on diesel and jet fuel prices as this analysis is included in the commodity price risk note

The analysis is different from the analysis provided in last year s financial statements (which reported the sensitivity of the Group s financial instruments at the balance sheet date) as the new analysis is felt to more usefully illustrate the exposures of the Group

	2011		2010	
	Impact on operating profit of a 5% weakening of sterling (before hedging) £m gain/(loss)	**Impact of no further change in exchange rate on 2011-12 operating profit versus 2010-11 (post hedging) £m gain/(loss)**	Impact on operating profit of a 5% weakening of sterling (before hedging) £m gain/(loss)	Impact of no further change in exchange rate on 2010-11 operating profit versus 2009-10 (post hedging) £m gain/(loss)
US$	**(2)**	**-**	**1**	(4)
Euro	**(9)**	**1**	(3)	-

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24 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 130 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 and using over-the-counter derivative products to manage these exposures

The table below demonstrates the sensitivity of the Group to it's gross commodity price exposures (before hedging) together with how much the 2011-12 operating profit before exceptional items (operating profit) would differ from 2010-11 as a result of the changes to 27 March 2011 in commodity prices post the impact of the Group's hedging programmes

The sensitivity analysis is the impact on the Group's operating profit that would result from a movement in commodity prices (excluding any hedges in place) It is calculated as the difference between the operating profit that would have been reported based upon actual commodity transactions and actual commodity prices during the year (but excluding the impact of any hedges in place) and the operating profit that would have been reported based upon actual commodity transactions but with commodity prices 5% higher

The impact on 2011-12 operating profit is calculated as the movement in operating profit (from actual 2010-11 operating profit) that would arise on the actual commodity transactions in 2010-11 at the actual hedge prices for 2011-12 where hedges are in place and the closing commodity prices for 2010-11 where no hedge exists

	2011		2010	
	Impact on operating profit of a 5% increase in price (before hedging) £m gain/(loss)	**Impact of no further change in price on 2011-12 operating profit versus 2010-11 (post hedging) £m gain/(loss)**	Impact on operating profit of a 5% increase in price (before hedging) £m gain/(loss)	Impact of no further change in price on 2010-11 operating profit versus 2009-10 (post hedging) £m gain/(loss)
Diesel and Jet	**(5)**	**(21)**	(4)	23

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 Credit controls in place have limited the level of bad debt incurred to around 0 1% (2010 0 1%) 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

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 £300m expire in 2014 (2010 £560m expiring in 2014) The unused facility for Post Office Limited of £775m expires in 2012 (2010 £807m expiring in 2011) Additionally the Group has £200m (2010 £200m) of uncommitted lines of credit which are reviewed annually

Capital management

Royal Mail Holdings plc is a public limited company whose shares are not traded and the Group 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

As explained in the going concern section in note 2 the loans and the funding structure of the Group may be subject to change

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 38 year deficit recovery period from March 2009 At 27 March 2011 Royal Mail Holdings plc had £1 074m (2010 £1 011m) of financial assets in the pension escrow and Royal Mail Group Ltd had £87m (2010 £178m) of financial assets plus mortgages on certain Group properties 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 26

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25 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 receivables, payables, prepayments, accruals and client payables 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 fair value of the BIS loans to Royal Mail Group Ltd (non-current) is £1 563m at 27 March 2011 (2010 £1 197m). The fair value of Obligations under finance leases and hire purchase contracts is £262m (2010 £184m). For all other financial instruments fair value is equal to the carrying amount.

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

	Level	Classification	Sterling £m	US$ £m	Euro £m	Other £m	2011 Total £m
Financial assets							
Cash at bank, in hand or in Post Office Limited network			**659**	**13**	**103**	**29**	**804**
Cash equivalent investments			**296**	**1**	**-**	**-**	**297**
- Money market funds		Loans and receivables	142	-	-	-	142
- Short-term deposits – local government		Loans and receivables	29	-	-	-	29
- Short-term deposits – bank		Loans and receivables	125	1	-	-	126
Cash and cash equivalents			**955**	**14**	**103**	**29**	**1,101**
Financial assets – investments (current)							
- Short-term deposits – Government/local government		Loans and receivables	**1**	**-**	**-**	**-**	**1**
Financial assets – investments (non-current)							
- Bank deposits		Loans and receivables	**-**	**44**	**-**	**-**	**44**
Financial assets – pension escrow investments (non-current)			**1,161**	**-**	**-**	**-**	**1,161**
- Cash at bank			3	-	-	-	3
- Treasury bills	1	Available for sale	242	-	-	-	242
- Gilt edged securities (conventional)	1	Available for sale	143	-	-	-	143
- Gilt edged securities (index linked)	1	Available for sale	773	-	-	-	773
Derivative assets – current	2		**6**	**21**	**9**	**-**	**36**
- non-current	2		**1**	**5**	**-**	**-**	**6**
Total financial assets			**2,124**	**84**	**112**	**29**	**2,349**
Financial liabilities							
Financial liabilities – loans and borrowings (current)			**(375)**	**-**	**-**	**-**	**(375)**
- BIS loans to Post Office Limited		Amortised cost	(375)	-	-	-	(375)
Obligations under finance leases and hire purchase contracts (current)		Amortised cost	**(65)**	**-**	**-**	**-**	**(65)**
Financial liabilities – loans and borrowings (non-current)			**(1,477)**	**-**	**(1)**	**-**	**(1,478)**
- BIS loans to Royal Mail Group Ltd		Amortised cost	(1 477)	-	-	-	(1 477)
- Miscellaneous loans in subsidiaries (non-current)		Amortised cost	-	-	(1)		(1)
Obligations under finance leases and hire purchase contracts (non-current)		Amortised cost	**(193)**	**-**	**-**	**-**	**(193)**
Derivative liabilities – current	2		**-**	**(2)**	**(1)**	**-**	**(3)**
Total financial liabilities			**(2,110)**	**(2)**	**(2)**	**-**	**(2,114)**
Net total financial assets			**14**	**82**	**110**	**29**	**235**

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25. Financial instruments (continued)

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

The criteria for codification of Level in the above table is described in the accounting policy Fair value measurement of financial instruments on pages 63 and 64

The financial assets – investments (non-current) – bank deposits of £44m (2010 £49m) and £1m (2010 £nil) of the cash equivalent investments are pledged as collateral to a counterparty bank which has provided a letter of credit in support of a lease payable obligation

Derivative assets £36m current £6m non-current (2010 £24m current £3m non-current) and liabilities £3m current £nil non-current (2010 £17m current £1m non-current) 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 decrease in pension escrow investments of £28m (2010 increase of £83m) consists of £54m (2010 £41m) interest on the investments plus £20m (2010 £42m) movement in fair value deferred into the Financial Assets Reserve less £102m (2010 £nil) released from escrow substituted by mortgages on certain Group properties

	Level	Classification	Sterling £m	US$ £m	Euro £m	Other £m	2010 Total £m
Financial assets							
Cash at bank in hand or in Post Office Limited network			700	14	116	23	853
Cash equivalent investments			84	-	-	-	84
- Money market funds		Loans and receivables	38	-	-	-	38
- Short-term deposits – bank		Loans and receivables	46	-	-	-	46
Cash and cash equivalents			784	14	116	23	937
Financial assets – investments (current)							
- Short-term deposits – Government/local government		Loans and receivables	1	-	-	-	1
Financial assets – investments (non-current)							
- Bank deposits		Loans and receivables	-	49	-	-	49
Financial assets – pension escrow investments (non-current)			1 189	-	-	-	1 189
- Cash at bank			2	-	-	-	2
- Treasury bills	1	Available for sale	269	-	-	-	269
- Gilt edged securities (conventional)	1	Available for sale	137	-	-	-	137
- Gilt edged securities (index linked)	1	Available for sale	781	-	-	-	781
Derivative assets - current	2		-	15	9	-	24
- non-current	2		-	2	1	-	3
Total financial assets			1 974	80	126	23	2 203
Financial liabilities							
Financial liabilities – loans and borrowings (current)			(383)	-	(5)	-	(388)
- BIS loans to Royal Mail Group Ltd		Amortised cost	(40)	-	-	-	(40)
- BIS loans to Post Office Limited		Amortised cost	(343)	-	-	-	(343)
- Miscellaneous loans in subsidiaries (current)		Amortised cost	-	-	(5)	-	(5)
Obligations under finance leases and hire purchase contracts (current)		Amortised cost	(60)	-	(1)	-	(61)
Financial liabilities – loans and borrowings (non-current)			(1 137)	-	(1)	-	(1 138)
- BIS loans to Royal Mail Group Ltd		Amortised cost	(1 137)	-	-	-	(1 137)
- Miscellaneous loans in subsidiaries (non-current)		Amortised cost	-	-	(1)	-	(1)
Obligations under finance leases and hire purchase contracts (non-current)		Amortised cost	(120)	-	-	-	(120)
Derivative liabilities – current	2		(7)	(7)	(3)	-	(17)
– non-current	2		(1)	-	-	-	(1)
Total financial liabilities			(1 708)	(7)	(10)	-	(1 725)
Net total financial assets			266	73	116	23	478

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25 Financial instruments (continued)

Interest rate risk

Interest on financial instruments classified as floating rate 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 tables below set 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 1 day and 45 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 38 year deficit recovery period from March 2009 The floating rate BIS loans to Royal Mail Group Ltd mature in 2014 and interest rates on these loans are set for periods between 7 days and 6 months as selected by the Group

Financial year ended 27 March 2011

	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Cash at bank	3 9	12	-	-	-	12
Cash equivalent investments						
- Short-term deposits local government	0 6	29	-	-	-	29
- Short-term deposits - bank	0 8	92	-	-	-	92
Financial assets - investments (current)						
- Short-term deposits - Government/local government	7 7	1	-	-	-	1
Financial assets - investments (non-current)						
- Bank deposits	0 4	-	5	24	15	44
Financial assets - pension escrow investments (non-current)						
- Gilt edged securities (conventional)	4 8	-	-	-	143	143
BIS loans to Post Office Limited	0 8	(375)	-	-	-	(375)
BIS loans to Royal Mail Group Ltd	8 4	-	-	-	(877)	(877)
Obligations under finance lease and hire purchase contracts	4.6	(65)	(50)	(109)	(34)	(258)
Miscellaneous loans in subsidiaries	4 5	-	-	(1)	-	(1)
Total		(306)	(45)	(86)	(753)	(1,190)
Floating rate						
Cash at bank	0 8	87	-	-	-	87
Cash equivalent investments						
- Money market funds	0 7	142	-	-	-	142
- Short-term deposits - bank	0 8	34	-	-	-	34
Financial assets - pension escrow investments (non-current)						
- Cash at bank	0 4	-	-	-	3	3
- Treasury bills	0 5	-	-	-	242	242
- Gilt edged securities (index linked)	4 7	-	-	-	773	773
BIS loans to Royal Mail Group Ltd	3 0	-	-	(600)	-	(600)
		263	-	(600)	1,018	681
Non-interest bearing						
Cash at bank, in hand or in Post Office Limited network		705	-	-	-	705
Derivative assets		36	6	-	-	42
Derivative liabilities		(3)	-	-	-	(3)
Total		738	6	-	-	744
Net total financial assets/(liabilities)		695	(39)	(686)	265	235

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25. Financial instruments (continued)

Financial year ended 28 March 2010

	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Cash at bank	3.2	5	-	-	-	5
Financial assets - investments (current)						
- Short-term deposits - Government/local government	7.7	1	-	-	-	1
Financial assets - investments (non-current)						
- Bank deposits	1.1	-	-	49	-	49
Financial assets - pension escrow investments (non-current)						
- Gilt edged securities (conventional)	4.8	-	-	-	137	137
BIS loans to Post Office Limited	0.8	(343)	-	-	-	(343)
BIS loans to Royal Mail Group Ltd	8.0	(40)	-	-	(837)	(877)
Obligations under finance lease and hire purchase contracts	4.8	(61)	(45)	(73)	(2)	(181)
Miscellaneous loans in subsidiaries	4.5	(1)	-	(1)	-	(2)
Total		(439)	(45)	(25)	(702)	(1,211)
Floating rate						
Cash at bank	0.4	101	-	-	-	101
Cash equivalent investments						
- Money market funds	0.4	38	-	-	-	38
- Short-term deposits - bank	0.8	46	-	-	-	46
Financial assets - pension escrow investments (non-current)						
- Cash at bank	0.4	-	-	-	2	2
- Treasury bills	0.4	-	-	-	269	269
- Gilt edged securities (index linked)	4.9	-	-	-	781	781
BIS loans to Royal Mail Group Ltd	2.3	-	-	(300)	-	(300)
Miscellaneous loans in subsidiaries	1.5	(4)	-	-	-	(4)
Total		181	-	(300)	1,052	933
Non-interest bearing						
Cash at bank, in hand or in Post Office Limited network		747	-	-	-	747
Derivative assets		24	3	-	-	27
Derivative liabilities		(17)	(1)	-	-	(18)
Total		754	2	-	-	756
Net total financial assets/(liabilities)		496	(43)	(325)	350	478

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25. Financial instruments (continued)

Contractual maturity analysis for gross financial liabilities

The tables below set 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.

						2011
	Gross loans and borrowings commitments £m	**Gross finance lease/hire purchase instalments £m**	**Sub-total £m**	**Gross payments on derivatives settled gross £m**	**Gross payments on derivatives settled net £m**	**Total £m**
Amounts falling due in						
One year or less or on demand (current)	**424**	**76**	**500**	**379**	**2**	**881**
More than one year (non-current)	**2,144**	**308**	**2,452**	**3**	**-**	**2,455**
More than one year but not more than two years	51	58	109	3	-	112
More than two years but not more than five years	717	119	836	-	-	836
More than five years	1 376	131	1 507	-	-	1 507
Total	**2,568**	**384**	**2,952**	**382**	**2**	**3,336**

						2010
	Gross loans and borrowings commitments £m	Gross finance lease/hire purchase instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in						
One year or less or on demand (current)	424	68	492	345	10	847
More than one year (non-current)	1 860	129	1 989	3	1	1 993
More than one year but not more than two years	38	49	87	3	1	91
More than two years but not more than five years	416	76	492	-	-	492
More than five years	1 406	4	1 410	-	-	1 410
Total	2 284	197	2 481	348	11	2 840

Hedging Activities

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

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

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

iii) Three capital programmes using Euro forward currency purchase contracts to hedge the exposure arising from Sterling/Euro exchange rates for contracted capital expenditure on automation projects.

iv) The electricity hedge programme uses forward commodity price swaps to hedge the exposure arising from electricity prices.

v) The gas hedge programme uses forward commodity price swaps to hedge the exposure arising from gas prices.

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25 Financial instruments (continued)

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

	Gains/(losses) deferred into equity during year £m	(Gains)/losses released from equity to income during year £m	Gains released from equity to the carrying value of non-financial assets during year £m
2011			
Diesel fuel	**18**	**(10)**	**-**
Air conveyance	**-**	**(2)**	**-**
Capital programmes	**(3)**	**-**	**(3)**
Electricity	**4**	**4**	**-**
Gas	**5**	**1**	**-**
Total	**24**	**(7)**	**(3)**
2010			
Diesel fuel	3	21	-
Air conveyance	(2)	(4)	-
Capital programmes	(3)	-	(4)
Electricity	(6)	4	-
Gas	(4)	-	-
Total	(12)	21	(4)

The £7m gains released from equity to income during year (2010 £21m losses) 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 electricity 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

	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 non-current fair value £m	Derivative liability current fair value £m
2011								
Diesel fuel	**Diesel fuel**	**148k tonnes**	**Apr 11-Jan 13**	**US$795/tonne**	**4**	**17**	**-**	**-**
Diesel fuel	**US$**	**$118m**	**Apr 11-Jan 13**	**US$1 57/£**	**-**	**-**	**-**	**(1)**
Air conveyance	**US$**	**$25m**	**Mar 11-Apr 12**	**US$1 63/£**	**-**	**-**	**-**	**-**
Capital programmes	**Euro**	**€67m**	**Mar 11-Apr 12**	**£0 85/€**	**-**	**2**	**-**	**-**
Electricity	**Electricity**	**378k MWH**	**Apr 11-Jan 13**	**£46/MWH**	**1**	**3**	**-**	**-**
Gas	**Gas**	**24m therms**	**Apr 11-Apr 13**	**£0 56/therm**	**-**	**3**	**-**	**-**
Cash flow hedges					**5**	**25**	**-**	**(1)**
Other derivatives					**1**	**11**	**-**	**(2)**
Total					**6**	**36**	**-**	**(3)**
2010								
Diesel fuel	Diesel fuel	141k tonnes	Apr 10 – Jan 12	US$703/tonne	1	2	-	(2)
Diesel fuel	US$	$99m	Apr 10 – Jan 12	US$1 75/£	1	8	-	-
Air conveyance	US$	$18m	Apr 10 – Apr 11	US$1 96/£	-	3	-	-
Capital programmes	Euro	€82m	Apr 10 – Apr 11	£0 80/€	1	8	-	-
Electricity	Electricity	448k MWH	Apr 10 – Feb 12	£47/MWH	-	-	(1)	(4)
Gas	Gas	20m therms	May 10 – Jan 12	£0 55/therm	-	-	-	(3)
Cash flow hedges					3	21	(1)	(9)
Other derivatives					-	3	-	(8)
Total					3	24	(1)	(17)

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25 Financial instruments (continued)

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 the hedge of the Bureau de Change currency holdings within Post Office Limited the hedge of the US$ bank deposits and the hedge of inter-company loans with overseas subsidiaries)

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

	In currency (millions)		Sterling equivalents (millions)	
	2011	2010	**2011**	2010
Maturing within one year				
Euro	**336**	293	**287**	258
US$	**232**	206	**146**	121
Australian dollars (AU$)	**3**	4	**2**	2
Japanese Yen (JPY)	**1,028**	-	**8**	-
Diesel and jet fuel (US$)	**98**	88	**63**	48
Electricity and gas (Sterling)	**-**	-	**20**	23
Maturing after one year				
Euro	**-**	4	**-**	3
US$	**50**	37	**32**	23
Diesel and jet fuel (US$)	**46**	36	**29**	22
Electricity and gas (Sterling)	**-**	-	**11**	9

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

- a commodity forward transaction fixing the cost in US$ of purchasing fuel and
- a currency forward transaction fixing the Sterling cost of these US$

The table above contains both of these transactions The commodity forward transactions are shown under the heading Diesel and jet fuel (US$) - US$98m (2010 US$88m) maturing within one year and US$46m (2010 US$36m) maturing after one year The related currency forward transactions are contained within the total of US$ - US$232m (2010 US$206m) maturing within one year and US$50m (2010 US$37m) maturing after one year

26 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 Defined Contribution Plan (RMDCP)	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 £10m (2010 £5m) was recognised in operating profit before exceptional items within the income statement The Company contributions to these schemes was £10m (2010 £5m) A new defined contribution plan (RMDCP) was launched in April 2009 New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Company for a year

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 2009 using the projected unit method For RMPP this valuation was concluded at £10 3bn deficit For RMSEPP the valuation was concluded at £100m deficit A series of changes to RMPP and RMSEPP began to take effect on 1 April 2008

The changes 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
- 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 and
- 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 to the Pension Plan until the maximum level of benefits has been reached

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26 Employee benefits – pensions (continued)

Payment of £432m (2010 £521m) was made during the year in respect of regular future service contributions with £428m (2010 £516m) relating to RMPP The regular future service contributions charge for RMPP expressed as a percentage of pensionable pay has changed to 17 1% (2010 20 0%) effective from April 2010 This rate is not expected to change materially during 2011-12 For RMSEPP these contributions have changed to 35 9% (2010 48 2%) effective from April 2010

Payment of £299m (2010 £291m) was made during the year to fund the deficit in the schemes with £292m (2010 £286m) relating to RMPP Deficit recovery payments are planned for RMPP over the 38 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 37 years from 1 April 2010, planned deficit payments are £282m per annum increasing in line with RPI (base year is 2009-10) For RMSEPP deficit recovery payments will be £11m per annum less regular future service contributions from 1 April 2010 to 31 January 2024

On 23 March 2007 the Group established £1bn of investments in escrow as security to the Royal Mail Pension Plan in support of the deficit recovery plan On 24 March 2011 an agreement was implemented to substitute £102m pension escrow financial investments with mortgages against certain property assets

A current liability of £12m (2010 £6m) has been recognised for payments to the pension schemes relating to redundancy (note 22) During the year payments of £30m (2010 £50m) relating to redundancy were made

A liability of £1m (2010 £1m) has been recognised for future payment of pension benefits to a past Director (see page 48 Directors Remuneration Report)

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 long-term 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 27 March 2011 % pa	At 28 March 2010 % pa
Rate of increase in salaries*	**4 5**	4 6
Rate of pension increases – RMPP Sections A/B	**2 8**	3 6
Rate of pension increases – RMPP Section C	**3 5**	3 6
Rate of pension increases – RMSEPP all members	**3.5**	3 6
Rate of increase for deferred pensions – RMSEPP members not transferred from Section A or B of RMPP	**3 5**	3 6
Rate of increase for deferred pensions – all other members	**2 8**	3 6
Discount rate	**5 5**	5 6
Inflation assumption	**3.5**	3 6
Expected average rate of return on assets	**6.5**	6 7

**The rate of increase in salaries for 2011-12 and 2012-13 reflects the Business Transformation 2010 and Beyond agreement From 2013-14 the rate of increase in salaries assumption is RPI + 1%*

During 2010 the Government announced that it was intending to change the inflation measure used to determine statutory minimum indexation in deferment and in payment from RPI to CPI during 2011 Where relevant the inflation assumption has changed from RPI to CPI

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 latest self administered pension scheme (SAPS) mortality tables (S1PMA for male pensioners and S1DFA for female pensioners) with appropriate scaling factors (106% for male pensioners and 101% for female pensioners) allowing for medium cohort projections with a 1 25% floor These are detailed below

Average expected life expectancy from age 60	**2011**	2010
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	**29 years**	28 years
For a current 40 year old female RMPP member	**32 years**	31 years

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26. Employee benefits – pensions (continued)

b) Plans' assets and expected rates of return

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

	Market value		Long-term expected rate of return	
	2011 £m	2010 £m	**2011 % pa**	2010 % pa
Equities	**4,268**	5 999	**8 2**	8 4
Bonds	**21,409**	17 652	**6 2**	6 2
Property	**1,590**	1 677	**6 5**	6 6
Other assets	**418**	486	**4 2**	4 6
Fair value of plans' assets	**27,685**	25 814		
Present value of plans liabilities	**(32,186)**	(33 855)		
Deficit in schemes	**(4,501)**	(8 041)		

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

c) Recognised charges

An analysis of the separate components of the amounts recognised in the income statement and statement of comprehensive income is as follows

	2011 £m	2010 £m
Analysis of amounts recognised in the income statement:		
Analysis of amounts charged to operating profit before exceptional items.		
- Current service cost	**448**	436
Total charge to operating profit before exceptional items	**448**	436
Analysis of amounts charged to operating exceptional items		
- Loss due to curtailments (within provision for restructuring charge – note 21)	**47**	42
Total charge to operating profit	**495**	478
Analysis of amounts charged/(credited) to financing		
- Interest on plans liabilities	**1,881**	1 701
- Expected return on plans assets	**(1,714)**	(1 372)
Total net charge to financing	**167**	329
Net charge to income statement before deduction for tax	**662**	807
Analysis of amounts recognised in the statement of comprehensive income		
- Actual return on plans assets	**2,184**	5 841
- Less expected return on plans assets	**(1,714)**	(1 372)
Actuarial gains on assets (all experience adjustments)	**470**	4 469
- Experience adjustments on liabilities	**(8)**	673
- Effects of changes in actuarial assumption on liabilities	**2,962**	(6 454)
Actuarial gains/(losses) on liabilities	**2,954**	(5 781)
Total actuarial gains/(losses) recognised in the statement of comprehensive income before deduction for tax	**3,424**	(1 312)

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26 Employee benefits – pensions (continued)

d) Movement in plans' assets and liabilities

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

	2011 £m	2010 £m
Plans liabilities at beginning of period	**(33,855)**	(26 847)
Current service cost	**(448)**	(436)
Curtailment costs*	**(36)**	(48)
Finance cost	**(1,881)**	(1 701)
Employee contributions	**(152)**	(158)
Actuarial gains/(losses) (recognised in statement of comprehensive income)	**2,954**	(5 781)
Benefits paid	**1,232**	1 116
Plans liabilities at end of period	**(32,186)**	(33 855)

*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

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

	2011 £m	2010 £m
Plans assets at beginning of period	**25,814**	20 071
Company contributions paid	**761**	862
Movement in company contributions accrued	**6**	(2)
Employee contributions	**152**	158
Finance income	**1,714**	1 372
Actuarial gains (recognised in statement of comprehensive income)	**470**	4 469
Benefits paid	**(1,232)**	(1 116)
Plans assets at end of period	**27,685**	25 814

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 comprehensive income is £1 082m loss (2010 £4 506m 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 comprehensive income between inception of the pension schemes and transition to IFRSs

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of assets	**27,685**	25 814	20 071	23 923	23 578
Present value of liabilities	**(32,186)**	(33 855)	(26 847)	(26 846)	(28 563)
Deficit in schemes	**(4,501)**	(8 041)	(6 776)	(2 923)	(4 985)

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Experience adjustment on assets	**470**	4 469	(5 481)	(1 327)	172
Experience adjustment on liabilities	**(8)**	673	(10)	(169)	(122)

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27. Issued share capital and reserves

Authorised share capital	2011 £	2010 £
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 share capital	2011 £	2010 £
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 Innovation and Skills) subject to such redemption being compliant with the Companies Act 2006 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 2006 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 Innovation and Skills may issue directions to the Company which depending on the direction issued could result in the recognition of a distribution

Reserves identified in the consolidated statement of changes in equity

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 (2010 £47m) comprise £2m (2010 £2m) unrealised gain on First Rate Exchange Services Holdings Limited a joint venture entity and £45m (2010 £45m) relating to unrealised gains on Midasgrange Limited an associate company

28 Commitments

Operating lease commitments - Group as lessee

The Group is committed to the following future minimum lease payments under non-cancellable operating leases as at 27 March 2011 and 28 March 2010

	Land and buildings		Vehicles and equipment		IT equipment		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Within one year	**146**	138	**11**	20	**36**	32	**193**	190
Between one and five years	**456**	436	**13**	18	**19**	33	**488**	487
Beyond five years	**521**	602	**-**	1	**-**	-	**521**	603
Total	**1,123**	1 176	**24**	39	**55**	65	**1,202**	1 280

Existing leases for UK land and buildings have an average term of 13 years and any new leases entered into generally have a 15-year term with a 10-year break clause Existing land and buildings leased overseas by the GLS subsidiary have an average lease term of 9 years Vehicle leases generally have a term of between 1 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 is one IT contract with a lease term of 10 years with 2 years remaining at the balance sheet date

Subleases
The Group sublets space in certain properties The future minimum sublease payments expected to be received under non-cancellable sublease agreements at 27 March 2011 is £8m (28 March 2010 £6m)

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28 Commitments (continued)

Operating lease commitments – Group as lessor

The Group has entered into lease agreements for unutilised space in the UK estate These non-cancellable leases have remaining terms of between one and 995 years

Future minimum rentals receivable under non-cancellable operating leases at 27 March 2011 and 28 March 2010 are as follows

	2011 £m	2010 £m
Within one year	**5**	5
Between one and five years	**13**	11
Beyond five years	**5**	5
Total minimum lease receipts	**23**	21

Finance lease and hire purchase commitments

	2011		2010	
	Minimum lease payments	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
	£m	**£m**	£m	£m
Within one year	**76**	**65**	68	61
Between one and five years	**177**	**158**	125	118
Beyond five years	**131**	**35**	4	2
Total minimum lease payments	**384**	**258**	197	181
Less amounts representing finance charges	**(126)**	**-**	(16)	-
Present value of minimum lease payments	**258**	**258**	181	181

The Group has finance lease contracts for vehicles land and buildings and plant 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 7 years depending on the class of vehicle with the average term being 3 years Property leases have a term of between 12 and 108 years with the average term being 69 years The term of the plant and equipment leases range from 5 to 8 years with the average being 6 years

Capital commitments

The Group has commitments of £159m at 27 March 2011 (28 March 2010 £129m) which are contracted for but not provided for in the financial statements

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29 Related party disclosures

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 below

Company	Principal activities	Country of incorporation	% equity interest	
			2011	2010
Royal Mail Group Ltd	Mails and parcels services	United Kingdom	100	100
Post Office Limited	Counter retail and financial services	United Kingdom	100	100
Royal Mail Investments Limited	Holding company	United Kingdom	100	100
General Logistics Systems B V	Parcel services	Netherlands	100	100
Royal Mail Estates Limited	Property holdings	United Kingdom	100	100
Romec Limited	Facilities management	United Kingdom	51	51
iRed Partnership Limited	Document management services	United Kingdom	100	100

Royal Mail Holdings plc is the immediate parent company of the Royal Mail Group Ltd subsidiary company The remaining subsidiary companies listed above have Royal Mail Group Ltd as their immediate parent company

Joint ventures

The Group s 50% interest in First Rate Exchange Services Holdings Limited a company registered in the United Kingdom is held by Post Office Limited The company s principal activity is the provision of Bureau de Change

Associates

The following companies are the principal associates of the Group

Company	Principal activities	Country of incorporation	% Ownership	
			2011	2010
Quadrant Catering Limited	Catering services	United Kingdom	**51**	51
G3 Worldwide Mail N V (Spring)	Mail services	Netherlands	**32.45**	32 45
Midasgrange Limited	Financial services	United Kingdom	**50**	50

During the year the Group disposed of its 20% shareholding in Camelot Group plc (note 15)

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

Management control lies with the Bank of Ireland business partner in the operation of the Midasgrange Limited company and therefore the company is not a joint venture

The investment in Quadrant Catering Limited is held by Royal Mail Group Ltd the investment in G3 Worldwide Mail N V (Spring) is held by Royal Mail Investments Limited and the investment in Midasgrange Limited is held by Post Office Limited

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 Pension Trustees Limited The transactions entered into and the balances outstanding at the financial year end were as follows

	Sales/recharges to related party		Purchases/ recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Royal Mail Pension Plan	**9**	10	**-**	-	**-**	-	**-**	-
Quadrant Catering Limited	**-**	-	**34**	35	**-**	-	**3**	3
Camelot Group plc	**10**	37	**-**	-	**-**	-	**-**	-
G3 Worldwide Mail N V (Spring)	**-**	-	**6**	7	**3**	3	**1**	1
Midasgrange Limited	**30**	33	**3**	1	**10**	10	**-**	-
First Rate Exchange Services Holdings Limited Group	**30**	30	**132**	134	**9**	14	**1**	2

With the exception of Camelot Group plc the investment in which was disposed of during the year and the Royal Mail Pension Plan the companies listed above are joint ventures and associates of the Group

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29 Related party disclosures (continued)

The sales to and purchases from related parties are made at normal market prices Balances outstanding 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 (note 20) and
- the Group has received the Network Subsidy Payment from Government (note 2)

Key management compensation

	2011 £000	2010 £000
Short-term employee benefits	**2,714**	3 035
Post-employment benefits	**43**	307
Other long-term benefits	**-**	2 626
Total compensation earned by key management	**2,757**	5 968

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

30 Events after the balance sheet date

On 30 March 2011 Romec Limited a 51% owned subsidiary of the Group disposed of its 99% shareholding in its subsidiary Romec Services Limited to Balfour Beatty plc which holds the 49% non-controlling interest in Romec Limited As a result of this transaction Balfour Beatty plc has been released from a contractual obligation that it had in relation to the pension funding for Romec Limited employees

On 9 June 2011 Government announced the passing of the Postal Services Bill This confirms the Government s intention to take on the historic pension deficit with effect from March 2012 and the intention to restructure RMG s balance sheet in due course

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Group five-year summary (unaudited)

Income statement	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Revenue	**9,156**	9 349	9 560	9 388	9 179
Operating profit before exceptional items	**246**	404	321	162	233
Operating exceptional items – modernisation costs	**(207)**	(224)	*	*	*
Operating profit after modernisation costs before other operating exceptional items	**39**	180	-	-	-
Operating exceptional items - other	**(88)**	(67)	(149)*	(441)*	(243)*
Operating (loss)/profit	**(49)**	113	172	(279)	(10)
Non-operating exceptional items	**109**	5	11	58	118
Profit/(loss) before financing and taxation	**60**	118	183	(221)	108
Finance income and costs including net pensions interest	**(212)**	(380)	(134)	144	205
(Loss)/profit before tax	**(152)**	(262)	49	(77)	313
Taxation	**(106)**	(58)	(278)	212	(27)
(Loss)/profit after tax	**(258)**	(320)	(229)	135	286

Statement of cash flows	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Net (decrease)/increase in cash	**(44)****	24	(255)	224	1
Net increase/(decrease) in cash equivalents	**213**	(149)	(118)	(15)	34
Net increase/(decrease) in cash and cash equivalents	**169**	(125)	(373)	209	35

Balance sheet	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Goodwill and intangible assets	**323**	296	284	240	207
Property plant and equipment	**1,832**	1 935	1 886	1 671	1 619
Other non-current assets including those classified as held for sale	**1,331**	1 493	1 431	1 824	1 528
Net current liabilities	**(280)**	(511)	(385)	(300)	(60)
Non-current liabilities	**(6,313)**	(9 494)	(7 872)	(3 676)	(5 558)
Net liabilities	**(3,107)**	(6 281)	(4 656)	(241)	(2 264)

*A new measure of profitability after modernisation costs impacting the presentation of operating exceptional items has been restated for 2010 only

**The 2011 net decrease in cash of £44m

- includes the repayment of a £3m overdrawn bank balance relating to the General Logistics Systems (GLS) subsidiary which was included in the 2010 net current liabilities balance of £511m
- excludes £2m relating to the impact of foreign exchange rates on cash

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Parent Company financial statements

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

The Directors are responsible for preparing the Directors 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) Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 these financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and accounting 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 adequate accounting records that are sufficient to show and explain the Company s transactions and 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 2006 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

The Directors are not required under UK law to prepare a Remuneration Committee Report but in accordance with the principles of good corporate governance as outlined in the Combined Code have chosen to do so This Report has been prepared by the Remuneration Committee as if the Company was required to comply with both Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom and relevant Listing Rules of the Financial Services Authority and has been approved by the Board The only exception is that a performance graph has not been included since the Company is not quoted

GRO

Moya Greene

GRO

Matthew Lester

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Independent Auditor's 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 27 March 2011 which comprise balance sheet and the related notes 1 to 10 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company s members those matters we are required to state to them in an auditor s report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Company and the Company s members as a body for our audit work for this report or for the opinions we have formed

Respective responsibilities of directors and auditors
As explained more fully in the Directors Responsibilities Statement set out on page 101 the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view The Directors are also responsible for the preparation of the Directors Remuneration Report which they have chosen to prepare as if the Company was required to comply with relevant requirements of both the UK Companies Act 2006 (and Regulations thereunder) and the Listing Rules of the Financial Services Authority The only exception is that a performance graph has not been included since the Company is not quoted Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors In addition the Company has also instructed us to review whether the section of the Directors Remuneration Report that has been described as audited has been properly prepared in accordance with the basis of the preparation described therein

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent Company s circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements In addition we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the parent Company financial statements

- give a true and fair view of the state of the Company s affairs as at 27 March 2011
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter - going concern
In forming our opinion which is not modified we have also considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern The conditions described in note 1 indicate the existence of material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

- the part of the Directors Remuneration Report that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein and
- the information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion

- adequate accounting records have not been kept by the parent Company or returns adequate for our audit have not been received from branches not visited by us or
- the parent Company financial statements and the part of the Directors Remuneration Report to be audited are not in agreement with the accounting records and returns or
- certain disclosures of Directors remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

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Independent Auditor's report to the members of the Company, Royal Mail Holdings plc (continued)

Other matter

We have reported separately on the Group financial statements of Royal Mail Holdings plc for the year ended 27 March 2011 That report includes an emphasis of matter

Ernst & Young LLP

Alison Duncan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
13 June 2011

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Parent Company balance sheet at 27 March 2011 and 28 March 2010

	Notes	2011 £m	2010 £m
Fixed assets			
Investments in subsidiaries	4	-	3 784
Investments in pension escrow	5	**1,074**	1 011
Total net assets		**1,074**	4 795
Capital and reserves			
Share capital	8	-	-
Share premium	9	**430**	430
Reserves	9	**56**	44
Profit and loss account	9	**588**	4 321
Shareholder's funds		**1,074**	4 795

The financial statements on pages 104 to 106 were approved by the Board of Directors on 13 June 2011 and signed on its behalf by

GRO

Moya Greene

GRO

Matthew Lester

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Notes to the parent Company financial statements

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 financial statements are made up to the year ended 27 March 2011 (2010 year ended 28 March)

Basis of preparation
The financial statements of the parent Company Royal Mail Holdings plc (the Company) were authorised for issue by the Board on 13 June 2011

The financial statements on pages 104 to 106 have been prepared in accordance with applicable UK Accounting Standards and law including the requirements of the Companies Act 2006 Unless otherwise stated in the accounting policies below the financial statements have been prepared under the historic cost accounting convention

In making an assessment on the Company s ability to continue as a going concern the Directors have considered the respective going concern assessments made by the Directors of the Royal Mail Group Ltd and Post Office Limited subsidiary companies (see note 2 on pages 58 to 60) In reviewing these assessments the Directors have also taken account of the fact that the Company acts as guarantor for the Royal Mail Group Ltd £900m senior debt facility and £500m other loans facility (see notes 20 and 25 of the Group financial statements for further details) After careful consideration of all available information the Directors are of the view that it is appropriate that these financial statements have been prepared on a going concern basis

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006 However the results of the Company for the year are disclosed in notes 6 and 9 to the financial statements

The Company has taken advantage of paragraph 20 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 financial statements 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 profit and loss account 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 financial statements 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 of 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 1 day and 45 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 38 year deficit recovery period from March 2009

The investments comprise bank balances Treasury bills and gilt edged securities

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 Annual Report and Financial Statements

3. Auditor's remuneration

The auditor of the Company is not paid fees by the Company The auditor of the Company is paid fees by the other companies of the Group This remuneration is disclosed in the Group Annual Report and Financial Statements

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4 Investments in subsidiaries

	Cost £m	Impairment £m	2011 £m	2010 £m
At 29 March 2010 and 30 March 2009	4 160	(376)	3 784	3 784
Impairment charge	-	(3 784)	(3 784)	-
At 27 March 2011 and 28 March 2010	**4,160**	**(4,160)**	**-**	3 784

In accordance with FRS 11 Impairment of Fixed Assets and Goodwill the carrying value of the Company's investment in Royal Mail Group Ltd has been compared to its recoverable amount represented by its value in use to the Company The value in use has been derived from discounted cash flow projections using the Company's pre-tax Weighted Average Cost of Capital (WACC) The accounting standard prevents benefits from future restructuring being included in the cash flow projections Therefore the cash flow projections have not been adjusted to reflect any of the potential actions considered by the Directors in concluding on the going concern basis of preparation of the Group financial statements Details of these considerations are given in the funding section of note 2 of the Group financial statements The comparison of the carrying value of the Company's investment in Royal Mail Group Ltd to its recoverable amount has resulted in an impairment charge of £3 784m reflecting the continued decline in revenues and the costs of the modernisation programme

5 Investments in pension escrow

	2011 Average effective rate %	2011 £m	2010 Average effective rate %	2010 £m
Cash at bank	**0 4**	**3**	0 4	1
Treasury bills	**0 5**	**242**	0 4	229
Gilt edged securities (index linked)	**4 7**	**707**	4 9	664
Gilt edged securities (conventional)	**4 8**	**122**	4 8	117
Investments in pension escrow		**1,074**		1 011

6 Profit and loss account

The Company is a non-trading company The loss for the period relates to an impairment of the carrying value of the investment in Royal Mail Group Ltd of £3 784m (2010 £nil) income from the investments in pension escrow of £46m (2010 £35m) and a tax credit of £5m (2010 £10m)

7. Taxation

A tax charge of £5m (2010 £10m) has been taken to the Financial Assets Reserve reflecting the tax liability on the fair value changes on available for sale financial assets A tax credit of £5m (2010 £10m) has been taken to the profit and loss account reflecting the sheltering of that tax liability by losses of other Group companies

8 Share capital

Details of the share capital are disclosed in the Group Annual Report and Financial Statements in note 27

9 Shareholder's funds

	Share premium £m	Profit and loss account £m	Financial Assets Reserve £m	2011 Total £m	2010 Total £m
At 29 March 2010 and 30 March 2009	430	4 321	44	4 795	4 724
Loss for the year	-	(3 733)	-	(3 733)	45
Taxation on items taken directly to reserves	-	-	(5)	(5)	(10)
Gains on financial asset investments	-	-	17	17	36
At 27 March 2011 and 28 March 2010	**430**	**588**	**56**	**1,074**	4 795

Financial Assets Reserve

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

10 Charges

Details of charges registered over the assets of the Company are contained in the Group financial statements in notes 20 and 25

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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 from 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

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Telephone 020 7250 2888
Registered No 4074919

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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 financial statements

The maintenance and integrity of the Group s websites is the responsibility of the Directors the work carried out by the auditor does not involve consideration of these matters and accordingly the auditor accepts 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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