Registered Number 2154540

Post Office Limited

Annual Report and Financial Statements

2011-2012

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Contents

Post Office Limited

Directors' Report

The Directors present the financial statements for Post Office Limited (the Company) These financial statements relate to the 52 weeks ended 25 March 2012 (2011 27 March 2011)

Principal activities

The Company s principal activities are the provision of access to a wide range of Government financial travel and retail services through its network of Post Office branches and other channels across the United Kingdom (UK)

Review of the business and future developments

The operating profit from continuing operations before exceptional items for 2012 was £30 million (2011 £11 million) after including receipt of £180 million (2011 £150 million) in respect of the Network Subsidy Payment The operating profit after modernisation costs before other operating exceptional items was £28 million (2011 loss of £4 million) Post Office Limited does not prepare consolidated financial statements and the Company s share of the results of our joint venture and associate businesses – a profit of £31 million (2011 £25 million) – is therefore excluded from the profit as stated Instead we show dividend income from investments which for the year under review was £38 million (2011 £30 million)

£180 million (2011 £150 million) was paid to Post Office Limited during the year to fund the maintenance of a social network of post offices, which was recorded within revenue as a Network Subsidy Payment

Post Office Limited has nearly 20 million customer visits per week through its network of 11,818 branches and provides around 170 different products and services This includes savings insurance, loans, mortgages credit cards Government services, telephony, foreign currency travel insurance and retail mails services

Revenue increased in 2011-12 by £39 million to £1,160 million There was growth in mails volumes of packets, parcels and international mail together with the impact of mails price increases and growth in identity related work, lottery, retail and personal financial services This was partially offset by a decline in traditional products such as bill payment and from a reduction in the number of telephony customers However the main driver of the increase in income was the £30 million increase to the Network Subsidy Payment to £180 million (2011 £150 million) Operating profit after modernisation improved from a loss of £4 million to a profit of £28 million mainly due to the £39 million income improvement

On 1 April 2012 Post Office Limited became an independent business meaning that Post Office Limited and Royal Mail Group Limited are now sister companies Alice Perkins was appointed Chairman of the Post Office Limited Board on 22 September 2011 Over the last year the Post Office has undertaken rigorous planning in anticipation of this significant development A long-term commercial agreement with Royal Mail was signed on 19 January 2012 to ensure that the Post Office continues to provide unrivalled access and retail customer service in mails and parcels services

This year's results have been achieved against a backdrop of taking steps to secure new business and services while trialling new-style branches and preparing to roll out the largest modernisation programme in the history of the business over the next three years

Post Office Limited's strategy is based around growth supported by modernisation and improved customer service and there are a number of key programmes in place to support this

Modernising the Post Office network

In accordance with the Government funding agreement in October 2010 thousands of Post Office branches will be modernised This will mean service improvements and longer opening hours to make Post Office branches more accessible for customers There will be no programme of closures

Over the last financial year, more than 124 new main and local style Post Office branches have been opened, bringing the nationwide total to 200 After further testing and refinement of the new-style branches Post Office Limited will roll out the modernisation programme more widely from summer 2012 By March 2015, around 6 000 branches will have been converted to the new-style branches strengthening the overall network that reaches every community in the UK

New features of our main Post Office branches include more modern environments with open plan counters dedicated travel services counters and fast track services for small and medium sized businesses Among the new technology offered in many locations are Post & Go machines and leading edge biometric data capture technology which has been instrumental in growing new Government business

In local branches customers now benefit from open plan counters next to retail counters that enables people to pay for their groceries and make the most of Post Office products and services at the same time

Serving as a front office for Government

As well as developing the financial services and mails business the Post Office is increasingly becoming established as an effective front office for local and national Government This builds on a long history of delivering essential Government services Post Office Limited continues to manage more than three million Post Office card accounts for people receiving benefits, state pensions and tax credit payments The Post Office is ideally positioned as an intermediary between the public and national and local Government

Directors' Report (continued)

Post Office Limited can offer cost-effective delivery of services, a secure IT infrastructure in seamless conjunction with back offices and full front-office service for payments, applications identity verification data capture and information The Post Office also offers digital services for customers who do not have internet access, and a face-to-face channel for those transactions that cannot be done online

Post Office Limited is working with Government departments, agencies and local councils to explore new forms of service delivery that improve accuracy, eliminate fraud and reduce costs For example, the Post Office Application Enrolment and Identity (AEI) unit uses advanced biometric technology to capture fingerprints electronic signatures and digital facial images Customers in 752 branches can now use this facility to renew photo card driving licences and in around 100 of these branches to apply for biometric residence permits In February 2012, the millionth customer used this AEI digital service

Sales strength

Post Office products continue to earn accolades for the sixth year running the British Travel Awards cited the Post Office as the 'Best Travel Insurance Provider' and the 'Best Foreign Exchange/ Travel Money Provider' for the fifth year running Post Office Limited also won Best Savings Provider at the MoneySupermarket 2011 Supers Awards

The mails sector continues to account for around a third of the business Income from Royal Mail has increased this year due to an increase in packets parcels and international mail sold through the Post Office and due to the effect of price increases

Within Financial Services the value held in Post Office branded savings accounts has now grown to £15 8 billion and opportunities to increase the range of savings accounts are being sought The Post Office recently launched a new Premier Cash ISA for example, which is already proving popular with customers

Through relationships with partner banks around 80 per cent of all UK debit cardholders now have access to cash withdrawals and balance enquiries at Post Office branches

Focus on customer service

Customer satisfaction is a key priority for the Post Office and the Customer Satisfaction score in 2011-12 was 87%

The Post Office will introduce extended opening hours and refreshed branches as part of the modernisation programme to improve further the service offered to customers Independent research carried out in November 2011 at the new local and main-style Post Office branches showed that customer satisfaction was above 90%

Results and dividends

The profit after taxation for the year was £37m (2011 £17m loss) The Directors do not recommend the payment of a dividend (2011 £nil dividend)

Pensions

As explained in note 26, on 1 April 2012 after the balance sheet date almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan was transferred to HM Government On this date the Royal Mail Pension Plan was also sectionalised with Royal Mail Group and Post Office Limited responsible for their own sections in future On the same date all employees seconded from Royal Mail Group to Post Office Limited were formally transferred to Post Office Limited

During the year Royal Mail Group Ltd was the sponsoring employer for the Royal Mail Pension Plan and Royal Mail Senior Executive Pension Plan (both defined benefit schemes), and for the Royal Mail Defined Contribution Plan (a defined contribution scheme) Based on assets the Royal Mail Pension Plan is one of the largest pension schemes in the UK Both defined benefit schemes are now closed to new members New employees are offered membership of the Defined Contribution Plan

The assets and liabilities of the defined benefit schemes, as measured under accounting standards, are reported as a net pension deficit in the consolidated balance sheet of Royal Mail Holdings plc, the ultimate parent company The gross assets and liabilities and Post Office Limited s share of the net deficit are significant assets and liabilities

Royal Mail Group Ltd had the legal relationship with the Trustees of the defined benefit schemes and as such the Trustees hold Royal Mail Group Ltd liable for the actuarial deficit in the schemes However under an agreement between Post Office Limited and Royal Mail Group Ltd, Royal Mail Group Ltd provided employees engaged in the business of Post Office Limited Post Office Limited met the full costs of employment and is responsible for the funding of the pension deficit attributable to these employees Consequently, Post Office Limited recognised a balance sheet deficit on full adoption of FRS 17 This was based on employee numbers over 12 years and represented approximately 7% of the total balance sheet deficit (pre deferred tax) at that time The net pensions interest, deficit recovery payments and actuarial gains or losses are also allocated on this basis, giving the Company approximately 7% of the total balance sheet deficit (pre deferred tax) at the balance sheet date The current service cost, regular future service contributions and curtailments are computed separately for Royal Mail Group Ltd and Post Office Limited based on common factors/rates

Post Office Limited

Directors' Report (continued)

The balance sheet pension deficit net of deferred tax has decreased from £316m in March 2011 to £206m The decrease in the deficit of £110m principally relates to an actuarial gain of £108m The actuarial gain arose mainly due to market conditions giving rise to improved asset values This gain is recorded in the statement of total recognised gains and losses

Political and charitable contributions
During the year, the Company made charitable contributions amounting to £320,108 (2011 £100) No political contributions were made in the year (2011 £nil)

Research and development
Research and development expenditure during the year amounted to £nil (2011 £nil)

Policy on the payment of suppliers
The Company's policy is to use its purchasing power fairly Payment terms are agreed in advance for all major contracts For lower value transactions the standard payment terms printed on the purchase order apply It is Company policy to abide by the agreed terms The Company has sought to comply with the Department for Business, Innovation and Skills (BIS) Better Practice Code

The number of days purchases in creditors at the balance sheet date was 33 days (2011 29 days)

Land and buildings
The net book value of the Company s land and buildings, based upon a historic cost accounting policy and excluding fit-out is £11m (2011 £12m) In the opinion of the Directors the aggregate market value of the Company's land and buildings at the year end exceeded their net book value by at least £45m (2011 £50m)

Directors and their interests
The following have served as Directors of the Company during the year ended 25 March 2012 or up to the date of approval of these financial statements In preparation for Post Office Limited becoming an independent business on 1 April 2012 there have been a number of changes to the composition of the Board and appointment and resignation dates are shown where they occurred during the year or period up to the date of approval of these financial statements

	Appointed	Resigned
A Perkins CB (Chairman from 22nd September 2011)	21 July 2011	
D H Brydon (Chairman)		22 September 2011
C M Day	22 September 2011	
V A Holmes	4 April 2012	
M J Lester		1 November 2011
A Marnoch	23 May 2012	
N W McCausland	22 September 2011	
M J Moores		10 June 2011
A L Owen		15 March 2012
D J Smith		13 June 2011
S J Storey	18 April 2012	
P A Vennells		

No Director has a beneficial interest in the share capital 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 Post Office Limited and former Directors who held office during the year The indemnity is granted under article 129 of the ultimate parent company's Articles of Association The indemnity is partial in that it does not allow the Company to cover the costs of an unsuccessful defence of a third party claim

Directors' Report (continued)

Principal risks and uncertainties

Funding

Post Office Limited had net liabilities as at 25 March 2012 but has operated at a profit before exceptional items during 2011-12 for the fourth year running

On 24 March 2010 a funding agreement was agreed that provided 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

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
- Extension of the existing working capital facility of £1 15bn up to 31 March 2016

State Aid approval for the funding for 2012-13 to 2014-15 was received on 28 March 2012 and it was also recognised that the working capital facility was no longer deemed State Aid

This investment will enable Post Office Limited to modernise the branch network and the continuation of the Network Subsidy Payment recognises the major social value that Post Offices provide to communities New main and local branches are currently being piloted across the UK and these pilots will help inform the future roll-out plans Customers will benefit from a much better retail experience including extended opening hours This programme is designed to make the Post Office network more self-sustaining and over time less dependent on direct subsidy This programme will not involve branch closures

The Directors are satisfied that the plans in place and the substantial investment secured will enable Post Office Limited to modernise and to secure its future but note that the scale of change required is significant so not without risk

The Directors recognise that significant progress has been made in preparing for the coming years of investment in modernisation and after careful consideration continue to believe that Post Office Limited will be able to meet its liabilities as they fall due in the foreseeable future Accordingly on that basis the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis

Financial risk management objectives and policies

Interest rate risk

The Company's exposure to market risk for changes in interest rates relates to the Company's debt obligations and interest bearing financial assets The BIS loans to Post Office Limited of £377m (2011 £375m) are at short-dated fixed interest rates - average maturity 1 day (2011 average 1 day) On maturity it is expected that further loans will be drawn down under this facility which expires in 2016

Foreign currency risk

The Company is exposed to foreign currency risk due to the balances held to operate the Bureau de Change services These risks are mitigated by hedging programmes managed by Royal Mail Group Ltd

Commodity price risk

In addition the Company is exposed to the commodity price risk of purchasing electricity and gas The Companys risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets These exposures are mitigated by hedging programmes managed by Royal Mail Group Ltd

Credit risk

Post Office Limited 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

With respect to credit risk arising from other financial assets of the Company, 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 Company invests/trades only with high quality financial institutions The Company s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments

Management has policies and procedures in place to measure, monitor and manage any concentrations of credit risk.

Liquidity risk

The Company's primary objective is to ensure that the Company 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 and time deposits with approved counterparties Borrowing facilities are regularly reviewed to ensure continuity of funding

Post Office Limited

Directors' Report (continued)

People

Our goal is to ensure that all employees are engaged and involved in the business and are aligned and equipped to meet business objectives As part of our commitment to drive better service for customers we continue to focus on improving the quality of our leadership professionalising key roles and achieving greater employee involvement in decision making Extensive training and development programmes have been put in place to support our ambition to create a high performance customer-oriented sales culture This ambition is further supported by a range of bonus schemes which are based on the achievement of business targets

Underpinning all of this is a need for dignity at work, where everybody feels valued is treated fairly and equally with everyone playing a full part in helping the Company to achieve its goals

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

Corporate Responsibility

Post Office Limited is committed to carrying out its activities in a socially responsible manner in respect of the environment employees customers and local communities The ultimate parent company (Royal Mail Holdings plc) Board publishes details of its activities in its Annual Corporate Responsibility Report

Disabled employees

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

Post balance sheet events

On 1 April 2012 – after the granting of State Aid by the European Commission to the Government on 21 March 2012 - almost all of the pension liabilities and pension assets of the main pension scheme RMPP built up until 31 March 2012, were transferred to HM Government On this date the RMPP was also sectionalised, with Royal Mail Group Ltd and Post Office Limited each responsible for their own sections in future This arrangement left the RMPP fully funded on an actuarial basis in respect of historic liabilities at that date In addition on the same date all employees seconded from Royal Mail Group Ltd to Post Office Limited were formally transferred to Post Office Limited

Royal Mail Holdings plc continues to hold £1 2bn of investments which were previously held in pension escrow

At the end of March 2013, certain unused tax losses deriving from past pension contributions will be extinguished in accordance with regulations made under the Postal Services Act 2011

On 1 April 2012 Post Office Limited became a fully owned subsidiary of Royal Mail Holdings plc At that date the majority of Royal Mail Holdings plc Directors became Directors of Royal Mail Group Ltd Alice Perkins and Donald Brydon are the only Directors of Royal Mail Holdings plc at 1 April 2012

In accordance with the funding agreement with Government announced on 27 October 2010 for which State Aid approval was received on 28 March 2012 Post Office Limited received £410m of funding on 2 April 2012

Going Concern

After analysis of the financial resources available and cash flow projections for the Company, the Directors have concluded that it is appropriate that the financial statements have been prepared on a going concern basis Further details are provided in accordance with the fundamental accounting concept in note 1 to the financial statements

Auditor

The auditor is deemed to be reappointed under section 487(2) of the Companies Act 2006

By Order of the Board

Alwen Lyons

Alwen Lyons
Secretary
Post Office Limited (company number 2154540)
148 Old Street, London EC1V 9HQ
27 June 2012

Post Office Limited

Statement of Directors' responsibilities in respect of the 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 judgments 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
- 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

Post Office Limited

Independent Auditor's Report to the members of Post Office Limited

We have audited the financial statements of Post Office Limited for the year ended 25 March 2012 which comprise the Profit and Loss account, the Balance Sheet the Statement of Total Recognised Gains and Losses the Reconciliation of Movements in Shareholders Funds and the related notes 1 to 27 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 8, the Directors are responsible for the preparation of the 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 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 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 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 Company financial statements

- give a true and fair view of the state of the Company s affairs as at 25 March 2012 and of its profit for the year then ended,
- 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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the 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 or returns adequate for our audit have not been received from branches not visited by us or
- the Company financial statements 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

Ernst & Young LLP

Angus Grant (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
27 June 2012

Post Office Limited

Profit and loss account
for the year ended 25 March 2012 and 27 March 2011

	Notes	**2012** **£m**	2011 £m
Continuing operations			
Turnover	2	**980**	971
Network Subsidy Payment	2	**180**	150
Revenue		**1,160**	1,121
People costs excluding ColleagueShare and restructuring costs	3	**(254)**	(256)
Other operating costs	4	**(876)**	(854)
Operating profit from continuing operations before exceptional items		**30**	11
Modernisation costs – operating exceptional items	5	**(2)**	(15)
ColleagueShare – 'share' scheme value		-	8
- dividend		-	1
- business transformation		(3)	(10)
Restructuring costs		1	(14)
Operating profit/(loss) after modernisation costs before other operating exceptional items		**28**	(4)
Other operating exceptional items	5	**(36)**	(40)
Operating loss		**(8)**	(44)
Profit on disposal of property, plant and equipment		**1**	4
Loss before financing and taxation		**(7)**	(40)
Income from investments		**38**	30
Net interest payable	8	**(6)**	(7)
Net pensions interest	20	**2**	(12)
Profit/(loss) before taxation		**27**	(29)
Taxation credit	9	**10**	12
Profit/(loss) for the financial year from continuing operations	22	**37**	(17)

Post Office Limited

Statement of total recognised gains and losses
for the year ended 25 March 2012 and 27 March 2011

	Notes	**2012 £m**	2011 £m
Profit/(loss) for the financial year		**37**	(17)
Actuarial gains on defined benefit schemes	20	**108**	240
Total recognised gains for the financial year	22	**145**	223

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

Reconciliation of movements in shareholder's funds
for the year ended 25 March 2012 and 27 March 2011

	Notes	**2012 £m**	2011 £m
Opening shareholder's deficit	22	**(269)**	(492)
Total recognised gains for the financial year (see above)		**145**	223
Closing shareholder's deficit		**(124)**	(269)

Post Office Limited

Balance sheet
at 25 March 2012 and 27 March 2011

	Notes	2012 £m	2011 £m
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	**11**	12
Investments in joint ventures and associates	12	**5**	5
Total fixed assets		**16**	17
Current assets			
Stocks		**6**	5
Debtors - receivable within one year	13	**226**	241
Financial assets - investments	14	**62**	78
Cash at bank and in hand	15	**758**	704
		1,052	1 028
Current liabilities			
Creditors - amounts falling due within one year	16	**(587)**	(583)
Financial liabilities - interest bearing loans and borrowings	17	**(377)**	(375)
Net current assets		**88**	70
Total assets less current liabilities		**104**	87
Creditors - amounts falling due after more than one year	18	**(8)**	(14)
Provisions for liabilities and charges	19	**(14)**	(26)
Retirement benefit obligation	20	**(206)**	(316)
Net liabilities		**(124)**	(269)
Capital and reserves			
Called up share capital	21	-	-
Share premium	22	**465**	465
Profit and loss account	23	**(589)**	(734)
Shareholder's deficit		**(124)**	(269)

The financial statements on pages 10 to 30 were approved by the Board of Directors on 27 June 2012 and signed on its behalf by

P A Vennells
Chief Executive

C M Day
Chief Financial Officer

Notes to the financial statements

1. Accounting Policies

The following accounting policies apply throughout Post Office Limited (the Company)

Financial year

The financial year ends on the last Sunday in March and accordingly these financial statements are made up to the 52 weeks ended 25 March 2012 (2011 52 weeks ended 27 March 2011)

Basis of preparation

The financial statements on pages 10 to 30 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

The financial statements present information about the Company as an individual undertaking and not as a Group The Company has taken advantage of section 400 of the Companies Act 2006 not to prepare Group financial statements on the grounds that its ultimate parent undertaking (Royal Mail Holdings plc) makes its Group financial statements publicly available See note 27 for further details

No new UK accounting standards which affect the presentation of these financial statements, have been issued

The Company has taken advantage of the exemption conferred by FRS 29 not to disclose financial instrument information as the Company is a wholly-owned subsidiary of a company which has presented such disclosures in its Group financial statements

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

Changes in accounting policy

The accounting policies are consistent with those of the previous year

Fundamental accounting concept

Post Office Limited had net liabilities as at 25 March 2012 but has operated at a profit before exceptional items during 2011-12 for the fourth year running

On 24 March 2010 a funding agreement was agreed that provided 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

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

- Funding of £410m for 2012-13
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The Directors are satisfied that the plans in place and the substantial investment secured will enable Post Office Limited to modernise and to secure its future but note that the scale of change required is significant so not without risk

The Directors recognise that significant progress has been made in preparing for the coming years of investment in modernisation and after careful consideration continue to believe that Post Office Limited will be able to meet its liabilities as they fall due in the foreseeable future Accordingly, on that basis the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis

1 Accounting Policies (continued)

Interbusiness trading

The Company operates through business units that make use of the services of other companies within the Group in order to take advantage of group synergies having regard to the mutual dependencies that exist The interbusiness charges recognise these dependencies and are reached through negotiation between the respective businesses

Turnover

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

Intangible fixed assets

Intangible assets acquired separately or generated internally are initially recognised at cost and are reviewed for impairment An impairment loss is recognised in the profit and loss account 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

Software	1 to 6 years

Tangible fixed assets

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

Depreciation of tangible fixed assets is provided on a straight-line basis by reference to net book value and to the remaining useful economic lives of assets and their estimated residual values The lives assigned to major categories of tangible fixed assets are

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

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

Leases

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Company are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments Lease payments are apportioned between the finance charges and reduction of the lease liability so as 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 profit and loss account over the lease term The aggregate benefit of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis

Investments in joint ventures and associates

Investments in joint ventures and associates within the Company s financial statements are stated at cost less any accumulated impairment losses

1. Accounting Policies (continued)

Stocks

Stocks, which include printing and stationery, retail and lottery products are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock

Deferred tax

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

Deferred tax is not recognised in the following instances

- on gains on disposal of fixed assets where, on the basis of available evidence, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when there is a commitment to dispose of those replacement assets,
- on unremitted earnings of subsidiaries and associates where there is no commitment to remit those earnings, and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax assets and liabilities are not discounted Deferred tax is charged or credited directly to reserves if it relates to items that are credited or charged directly to reserves Otherwise it is recognised in the profit and loss account Further details on deferred tax can be found in note 9 to the financial statements

Pensions and other post-retirement benefits

People working for the Company are employed by Royal Mail Group Ltd and seconded to the Company Membership of occupational pension schemes is open to most permanent UK employees of the Company All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme

The pension plans assets of 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 net of any associated deferred tax balance 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

For defined benefit schemes, the amounts charged to operating profit as part of staff costs, 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 profit and loss account Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses (STRGL) Any deferred tax movement associated with the actuarial gains and losses is also recognised in the STRGL

For defined contribution schemes the Company s contributions are charged to operating profit, as part of staff costs, in the period to which the contributions relate

Foreign currencies

The functional and presentational currency of the Company is sterling (£)

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction (or at the contracted rate if the transaction is covered by a forward foreign currency contract) Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date (or the appropriate forward contract rate) All differences are taken to the profit and loss account

Debtors

Debtors 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 assets – investments (current assets)

Financial assets – investments in the balance sheet comprise short-term deposits and money market funds All financial assets – investments are classified as loans and receivables and are measured at amortised cost using the effective interest rate method Gains and losses are recognised in the profit and loss account when the investments are derecognised or impaired, as well as through the amortisation process

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1. Accounting Policies (continued)

Financial liabilities – interest-bearing loans and borrowings

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

Financial liabilities - obligations under finance lease and hire purchase contracts

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

Borrowing costs

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

Fair value measurement of financial instruments

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date Where there is no active market, fair value is determined using valuation techniques These include using recent arm's length market transactions reference to the current market value of another instrument which is substantially the same, and discounted cash flow analysis and pricing models

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

Government grants

Government grants of a revenue nature are recognised to match costs in relation to the performance of certain specified activities

2. Turnover

Turnover from Government financial mails and telephony services comprises the value of services provided Turnover from all other products comprises the commission received excluding VAT from the Company's principal activities in providing access to a wide range of financial and retail services through its network of post office branches across the UK and other channels Turnover relating to line rental for telephony services is recognised evenly over the period to which the charges relate and revenue from calls is recognised at the time the call is made Turnover from all other transactions is recognised when the transaction is completed The Company operates wholly within the United Kingdom

The Network Subsidy Payment is Government grant revenue recognised to match the related costs of making available the network of public Post Offices that the Secretary of State for Business Innovation and Skills considers appropriate

3 Staff costs and numbers

Under an agreement between the Company and Royal Mail Group Ltd Royal Mail Group Ltd provides employees engaged in the business of the Company The Company meets the full costs of employment The following information is provided about these staff

People costs excluding ColleagueShare and restructuring costs:	**2012 £m**	2011 £m
Wages and salaries	**213**	213
Social security costs	**17**	17
Pension costs (note 20)	**24**	26
Total	**254**	256

	Period end employees		**Average employees**	
	2012	2011	**2012**	2011
Total employees	**7,798**	7 782	**7,734**	8 066

4 Other operating charges

Other operating charges before exceptional items are stated after charging

	2012 £m	2011 £m
Subpostmasters' costs	**483**	475
Bureau de Change foreign currency exchange losses	**1**	1
Depreciation	**1**	-
Operating lease charges – Land and buildings	**25**	25
- Vehicles and equipment	**62**	65

	2012	2011
Total subpostmasters number	**8,125**	8,283

Auditor's remuneration amounted to £195,000 (2011 £195 000) for the audit of the statutory financial statements and was met by the immediate parent company, Royal Mail Group Ltd Auditor's remuneration relating to other services supplied to the Company is included in the Companys ultimate parent company, Royal Mail Holdings plc Group financial statements

5 Operating exceptional items

	2012 £m	2011 £m
Modernisation costs:		
ColleagueShare costs – 'share' scheme	-	8
- dividend	-	1
- business transformation	**(3)**	**(10)**
Restructuring costs		
Provision for restructuring – severance	**(1)**	(14)
- non severance	**2**	-
Total modernisation costs	**(2)**	(15)
Other operating exceptional costs		
Impairment of intangible fixed assets (note 10)	**(17)**	(11)
Impairment of tangible fixed assets (note 11)	**(19)**	(29)
Total other operating exceptional costs	**(36)**	(40)
Total operating exceptional items	**(38)**	(55)

The £nil release (2011 £8m release) for the share scheme and £nil release (2011 £1m release) for the dividend reflects the estimated liabilities relating to the Company ColleagueShare plan at the balance sheet date The £3m charge in respect of business transformation represents a provision for staff payments linked to changed working practices (2011 £10m amounts relevant to the third and final issue of 'shares linked to the achievement of key modernisation milestones)

Due to ongoing losses, the carrying value of all tangible fixed assets other than freehold and long leasehold property has been impaired to the recoverable amount

6. Directors' emoluments

The Directors received the following emoluments

	2012 £000	2011 £000
Emoluments excluding pension contributions and LTIP*	**904**	598
Company contributions to pension schemes	**58**	88
Amounts receivable under Long-Term Incentive Plans	-	-

*Figures include any cash supplements received in lieu of pension

Directors accruing pension entitlements during the period under	2012 Number	2011 Number
Defined benefit schemes	**2**	3
Defined contribution schemes	-	-

The above excludes emoluments received by the Directors for their services to other parts of the Group

The highest paid Director received the following emoluments

	2012 £000	2011 £000
Emoluments and LTIP excluding pension contributions*	**463**	256
Company contributions to pension schemes	**47**	44
Transfer value of accrued pension benefits	**284**	316

* Figures include any cash supplements received in lieu of pensions

7. Income from investments

The £38m income from investments comprises a dividend from First Rate Exchange Services Limited a joint venture company (2011 £30m) There was no dividend receipt (2011 £nil) from Midasgrange Limited

8 Net interest payable

	2012 £m	2011 £m
Interest payable to parent company	-	(1)
Interest receivable	**1**	1
Interest charge, unwinding discount on provisions	**(1)**	
Interest payable on loans	**(6)**	(7)
Total	**(6)**	(7)

9. Taxation

(a) Taxation gains recognised in the year

	2012 £m	2011 £m
Taxation (credit)/charge in the profit and loss account		
Corporation tax credit for year	**(11)**	(13)
Tax over provided in previous years	**1**	1
Current tax (see table below)	**(10)**	(12)
Deferred tax	-	-
	(10)	(12)

9 Taxation (continued)

(b) Factors affecting current tax credit on loss on ordinary activities

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26% (2011 28%) The differences are explained below

	2012 £m	2011 £m
Profit/ (loss) on ordinary activities before tax	**27**	(29)
Profit/ (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26% (2011 28%)	**7**	(8)
Deferred relief for asset depreciation and impairment	**(13)**	8
Expenditure disallowable for tax	**2**	-
Accelerated relief for pension contributions*	**(1)**	(1)
Provision deductible when incurred	**(1)**	(3)
Share scheme amounts deductible when incurred	**-**	(3)
Adjustment in respect of prior period	**1**	1
Losses carried forward	**-**	2
Effect of group relief surrenders to other companies	**5**	-
Dividend not taxable	**(10)**	(8)
Total current tax (see above)	**(10)**	(12)

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

(c) Factors that may affect future tax charges

The Company has £128m (2011 £141m) of unrecognised deferred tax assets relating to tax losses that are available for offset against future trading profits The Company also has £52m (2011 £86m) of deferred tax assets relating to pensions and £157m (2011 £180m) relating to other timing differences neither of which have been recognised due to the uncertain trading outlook making future profits uncertain These deferred tax assets may be recognised in future if, and to the extent that suitable taxable profits are expected to become available

The Company has rolled over capital gains the tax effect of which totals £3m (2011 £4m) It is expected that gains on assets sold in the year will be fully rolled over in due course

Finance Act 2011 reduced the main rate of corporation tax to 25% with effect from 1 April 2012 The effect of this change on unrecognised deferred tax is included in these accounts and is detailed above In March 2012 the Chancellor of the Exchequer announced that the main rate of corporation tax will be 24% for the year commencing 1 April 2012 and that there will be successive annual one percentage point reductions until the rate reaches 22% 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 22% would based on losses and temporary differences at 25 March 2012, reduce the Company's unrecognised deferred tax assets by £40m

(d) Tax effect of exceptional items

There is a tax credit on exceptional items of £nil (2011 £6m credit) This is calculated on a "with and without" basis assuming that losses are surrendered firstly to joint ventures and secondarily to companies in the Royal Mail Group

The tax effect of the profit on disposal of tangible fixed assets of £1m (2011 £4m) is £nil (2011 £nil) as any gains can be covered by rollover or other forms of relief

10 Intangible assets

Cost	2012 £m	2011 £m
At 28 March 2011 and 29 March 2010	**166**	155
Additions	**17**	12
Disposals	**-**	(1)
At 25 March 2012 and 27 March 2011	**183**	166
Amortisation and impairment		
At 28 March 2011 and 29 March 2010	**166**	155
Impairment (see note 5)	**17**	11
At 25 March 2012 and 27 March 2011	**183**	166
Net book value		
At 25 March 2012 and 27 March 2011	**-**	-

The above intangible assets relate to software

11 Tangible fixed assets

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 28 March 2011	78	17	113	34	1	696	939
Reclassification	-	-	-	-	-	-	-
Additions	4	-	-	1	-	13	18
Disposals - external	(4)	-	-	(1)	-	-	(5)
Transfers (to)/from parent	1	-	1	-	-	-	2
At 25 March 2012	**79**	**17**	**114**	**34**	**1**	**709**	**954**
Depreciation							
At 28 March 2011	67	16	113	34	1	696	927
Depreciation	1	-	-	-	-	-	1
Impairment (see note 5)	4	-	1	1	-	13	19
Disposals - external	(3)	-	-	(1)	-	-	(4)
At 25 March 2012	**69**	**16**	**114**	**34**	**1**	**709**	**943**
Net book value							
At 25 March 2012	**10**	**1**	**-**	**-**	**-**	**-**	**11**
At 28 March 2011	11	1	-	-	-	-	12

Depreciation rates are disclosed within accounting policies (note 1) No depreciation is provided on freehold land, which represents £3m (2011 £3m) of the total cost of properties

The Transfers from parent in the above table mainly relate to projects managed by the immediate parent (Royal Mail Group Ltd) and transferred at historic cost to Post Office Limited upon completion

12 Investments in joint ventures and associates

	2012 £m	2011 £m
Investment in joint ventures and associates	**5**	5

Joint ventures

During 2011-12 and 2010-11, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited with a carrying value of £0 6m (2011 £0 6m) whose principal activity is the provision of Bureau de Change First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom

Associates

During 2011-12 and 2010-11, the Company's only associate investment was a 49 99% interest (4,999 £0 01 ordinary A shares) in Midasgrange Limited with a carrying value of £4 6m (2011 £4 6m) whose principal activity is the provision of personal financial products Midasgrange Limited trades as Post Office Financial Services and is a company registered in the United Kingdom

13 Debtors - receivable within one year

	2012 £m	2011 £m
Trade debtors	**49**	45
Prepayments and accrued income	**39**	38
Client debtors	**138**	158
Total	**226**	241

14 Current financial assets - investments

	2012 £m	2011 £m
Money market funds	**43**	44
Short-term deposits - bank	**19**	34
Total	**62**	78

15. Cash at bank and in hand

	2012 £m	2011 £m
Cash in the Post Office Limited network	**758**	704

Post Office Limited

16 Creditors - amounts falling due within one year

	2012 £m	2011 £m
Trade creditors and accruals	**172**	157
Advance customer payments	**48**	67
Social security	**9**	10
Client creditors	**332**	314
Amounts due to pension schemes relating to redundancies	**-**	3
Obligations under finance lease and hire purchase contracts	**4**	4
Amount due to parent company	**8**	11
Amounts due to other group company	**1**	1
Capital creditors	**10**	6
Business transformation payments	**3**	10
Total	**587**	583

17. Financial liabilities - interest bearing loans and borrowings

Analysis of loans and committed facilities.

	2012 £m	2011 £m
Loans drawn down	**377**	375
Further committed facility	**773**	775
Total facility	**1,150**	1,150

The loans under the facility are short dated on a programme of liquidity management and mature on average 1 day after the year end (2011 1 day) On maturity it is expected that further loans will be drawn down under this facility which expires in 2016 The average interest rate on the drawn down loans is 0 8% (2011 0 8%)

The facility is currently restricted to funding the cash and near cash items held within the Post Office Limited network

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect

18 Creditors - amounts falling due after more than one year

	2012 £m	2011 £m
Obligations under finance lease and hire purchase contracts	**6**	9
Other payables	**2**	5
Total	**8**	14

19 Provisions for liabilities and charges

	Crown Conversions Project £m	Organisational review £m	Other £m	Total £m
At 28 March 2011	13	3	10	**26**
Charged in operating exceptional items	-	1	-	**1**
(Released) in operating exceptional items	(2)	-	-	**(2)**
(Released) in operating costs	-	-	(2)	**(2)**
Charged in financing costs	1	-	-	**1**
Utilisation	(3)	(4)	(3)	**(10)**
At 25 March 2012	9	-	5	**14**

Provisions include amounts in respect of the Crown conversions project £9m (2011 £13m) a programme to transfer 82 branches to WH Smith, and the organisational design review and other redundancy £nil (2011 £3m)

Other provisions of £5m (2011 £10m) include property contracts, comprising amounts from onerous lease obligations, and personal injury claims

Amounts charged in financing costs relate to the unwinding of discounted long-term provisions

The Crown Conversions project and onerous property lease provisions are expected to be utilised within 3 years

20. Pensions

On 1 April 2012, after the reporting period date, certain assets and liabilities of the Royal Mail Pension Plan (RMPP) were transferred to HM Government

The disclosures in this note relate to the year ending 25 March 2012 and show how the value of the assets and liabilities have been calculated at the balance sheet date

The Company participates in pension schemes as detailed below

Name	Eligibility	
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

All references to the Group in this note refer to the combined total of the defined benefit plans disclosed in the Royal Mail Holdings plc financial statements

Defined Contribution

The charge in the profit and loss account for the defined contribution schemes and the Company contributions to these schemes was £1m (2011 less than £1m) during the year 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

Further disclosures and information in relation to the defined benefit schemes including the computation of the Company s share of the deficit, are contained in the Directors Report accompanying these financial statements and in note 9 of the Royal Mail Holdings plc Group financial statements

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 RMPP includes sections A, B and C each with different terms and conditions

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971,
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to members of Section A who chose to receive Section B benefits,
- Section C is for members (or beneficiaries of members) who joined after 1 April 1987 and before 1 April 2008

A series of changes to RMPP and RMSEPP began to take effect on 1 April 2008

20. Pensions (continued)

The changes encompass

- the Plans 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 increased to 65 for benefits earned from 1 April 2010, and
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age at 55 and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached

Payment of £23m (2011 £24m) was made by the Company during the year in respect of regular future service contributions nearly all relating to RMPP The regular future service contributions for RMPP expressed as a percentage of pensionable pay, has remained at 17 1% (2011 17 1%), effective from April 2010 This rate is not expected to change materially during 2012-13 For RMSEPP these contributions have remained at 35 9% (2011 35 9%) effective from April 2010

Payment of less than £1m (2011 £21m) was made by the Company during the year to fund the deficit in the schemes all relating to RMSEPP Deficit recovery payments are planned for RMPP over the 38 years from the date of the latest full actuarial valuation Following the State Aid clearance granted on 21 March 2012 and the subsequent transfer of the historical pension deficit to HM Government on 1 April 2012 no RMPP deficit payment was made during the year For RMSEPP, deficit recovery payments will be £1m per annum less future service contributions from 1 April 2010 to 31 January 2024

A current liability of £nil (2011 £3m) has been recognised for payments to the pension schemes relating to redundancy During the year, payments of £3m (2011 £1m) relating to redundancy were made

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

a) Major long-term assumptions

The size of the pension deficit, which is large in the context of the Company 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 profit and loss charge The major long-term assumptions were

	At 25 March 2012 **% pa**	At 27 March 2011 % pa
Rate of increase in salaries*	**4.3**	4 5
Rate of pension increases - RMPP sections A/B	**2.3**	2 8
Rate of pension increases - RMPP section C	**3.3**	3 5
Rate of pension increases - RMSEPP all members	**3.3**	3 5
Rate of increase for deferred pensions - RMSEPP members not transferred from Section A or B of RMPP	**3.3**	3 5
Rate of increase for deferred pensions - all members	**2.3**	2 8
Discount rate	**5.1**	5 5
Inflation assumption	**3.3**	3 5
Expected average rate of return on assets	**5.9**	6 5

**The rate of increase in salaries for 2012-13 reflects the Royal Mail Business Transformation 2010 and Beyond agreement From 2013-14 the rate of increase in salaries assumption is RPI + 1%*

In June 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 from April 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

20. Pensions (continued)

Mortality

The mortality assumptions for the larger scheme are based on the latest self administered pension scheme (SAPS) mortality tables with appropriate scaling factors (106% for male pensioners and 101% for female pensioners) For future improvements the assumptions allow for medium cohort' projections with a 1 25% floor These are detailed below

Average expected life expectancy from age 60	2012	2011
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**	29 years
For a current 40 year old female RMPP member	**32 years**	32 years

b) Plans' assets and expected rates of return

The assets in the plan and the expected rates of return for the Group were

At 25 March 2012

	Market value		Long-term expected rate of return	
	2012	2011	**2012**	2011
	£m	£m	**% pa**	% pa
Equities	**3,385**	4,268	**7.7**	8 2
Bonds	**25,610**	21,409	**5.7**	6 2
Property	**1,417**	1,590	**6.8**	6 5
Other assets	**333**	418	**3.4**	4 2
Fair value of plans' assets for the Group	**30,745**	27,685		
Present value of plans liabilities for the Group	**(33,667)**	(32,186)		
Deficit in schemes for the Group	**(2,922)**	(4 501)		
Deficit in schemes for the Company (at approximately 7%)	**(206)**	(316)		

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

c) Movement in plans' assets and liabilities

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

Assets	2012 £m	2011 £m
Share of assets in plans at beginning of period for the Company	**1,923**	1,797
Company contributions paid	**26**	46
Movement in Company contributions accrued	**(3)**	2
Employee contributions	**10**	11
Interest receivable	**124**	120
Actuarial gains	**131**	33
Benefits paid	**(82)**	(86)
Share of assets in plans at end of period for the Company	**2,129**	1 923

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

Liabilities	2012 £m	2011 £m
Share of liabilities in plans at beginning of period for the Company	**(2,239)**	(2,361)
Current service cost	**(23)**	(25)
Curtailment costs*	**-**	(3)
Interest payable	**(122)**	(132)
Employee contributions	**(10)**	(11)
Actuarial gain/(loss)	**(23)**	207
Benefits paid	**82**	86
Share of liabilities in plans at end of period for the Company	**(2,335)**	(2 239)

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20. Pensions (continued)

*The curtailment costs in the profit and loss account 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 profit and loss account

d) History of experience gains and losses

The cumulative amount of actuarial gains and losses recognised since transition to FRS 17 at 29 March 2004 in the statement of total recognised gains and losses is £32m gain (2011 a loss of £76m) The Directors are unable to determine how much of the pension scheme deficit recognised in transition to FRS 17 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 total recognised gains and losses between inception of the pension schemes and transition to FRS 17

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of assets for the Group	**30,745**	27 685	25,814	20,071	23,923
Present value of liabilities for the Group	**(33,667)**	(32 186)	(33,855)	(26,847)	(26,846)
Deficit in schemes for the Group	**(2,922)**	(4 501)	(8,041)	(6,776)	(2,923)
Deficit in the schemes for the Company (at approximately 7%)	**(206)**	(316)	(564)	(475)	(205)
Experience adjustment on assets for the Company* (at approximately 7%)	**131**	33	313	(384)	(92)
Experience adjustment on liabilities for the Company* (at approximately 7%)	-	(1)	47	(1)	(12)

* Experience adjustments for the Group pro-rated for the share of actuarial gains/(losses) recognised in the STRGL for the Company in that year

	2012 %	2011 %	2010 %	2009 %	2008 %
Experience adjustment on assets as a % of scheme assets for the Company	**6 1**	1 7	17 4	(27 3)	(5 5)
Experience adjustment on liabilities as a % of scheme liabilities for the Company	**0.0**	0 0	(2 0)	0 1	0 6
Deficit in the scheme as a % of scheme liabilities for the Company	**8.8**	14 1	23 9	25 3	10 9

20 Pensions (continued)

e) Recognised charges

An analysis of the separate components of the amounts recognised in the performance statements of the Company is as follows

	2012 £m	2011 £m
Analysis of amounts recognised in the profit and loss account		
Analysis of amounts charged to operating profit before exceptional items.		
Current service cost	**23**	25
Total charge to operating profit before exceptional items	**23**	25
Analysis of amounts charged to operating exceptional items·		
Loss due to curtailments (within provision for organisational review – note 19)	**-**	2
Total charge to operating profit	**23**	27
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plans liabilities for the Group	**1,749**	1 881
Expected return on plans' assets for the Group	**(1,775)**	(1,714)
Net pensions interest for the Group	**(26)**	167
Share of net pensions interest for the Company (at approximately 7%)	**(2)**	12
Net charge to profit and loss account before deduction for tax	**21**	39
Analysis of amounts recognised in the statement of comprehensive income (SOCI) in the Group financial statements		
Actual return on plans' assets for the Group	**3,644**	2,184
Less expected return on plans assets for the Group	**(1,775)**	(1 714)
Actuarial gains on assets for the Group (all experience adjustments)	**1,869**	470
Experience adjustments on liabilities for the Group	**(5)**	(8)
Effects of changes in actuarial assumptions on liabilities for the Group	**(320)**	2 962
Actuarial (losses)/ gains on liabilities for the Group	**(325)**	2 954
Total actuarial gains recognised in SOCI for the Group	**1,544**	3,424
Share of actuarial gains/(losses) recognised in statement of total recognised gains and losses (STRGL) for the Company (at approximately 7%)	**108**	240

21. Called up share capital

	2012 £	2011 £
Authorised		
Ordinary shares of £1 each	**51,000**	51,000
Total	**51,000**	51,000
Allotted and issued		
Ordinary shares of £1 each	**50,003**	50,003
Total	**50,003**	50,003

22 Reserves

	Share premium £m	Retained earnings £m	2012 Total £m	2011 Total £m
Balance at 28 March 2011 and 29 March 2010	465	(734)	**(269)**	(492)
Profit/ (Loss) for the financial year	-	37	37	(17)
Actuarial gains on defined benefit schemes (note 20)	-	108	108	240
Total recognised gains for the financial year	-	145	**145**	223
At 25 March 2012 and 27 March 2011	**465**	**(589)**	**(124)**	(269)

23 Commitments

Capital commitments contracted for but not provided in the financial statements amount to £15m (2011 £19m)

The Company is committed to the following minimum lease payments during the next twelve months under non-cancellable operating leases

	Land and buildings		IT equipment	
	2012 £m	2011 £m	**2012 £m**	2011 £m
For leases which expire				
Within one year	**2**	2	**16**	16
Between one and five years	**6**	6	**-**	-
Beyond five years	**8**	8	**-**	-
Total	**16**	16	**16**	16

24 Obligations under finance leases and hire purchase contracts

	2012		2011	
	Minimum payments £m	**Present value of minimum lease payments £m**	Minimum payments £m	Present value of minimum lease payments £m
Within one year	**4**	**4**	4	4
Between one and five years	**7**	**6**	11	9
Beyond five years	**-**	**-**	-	-
Total minimum lease payments	**11**	**10**	15	13
Less amounts representing finance charges	**(1)**	**-**	(2)	-
Present value of minimum lease payments	**10**	**10**	13	13

The aggregate finance charges allocated for the period in respect of finance leases was £1,011 232 (2010 £1,301,511)

Post Office Limited has finance lease contracts for equipment The leases have no terms for renewal purchase options or escalation clauses and there are no restrictions concerning dividends, borrowings or additional leases The leases have an average term of six years

25 Related party disclosures

Joint venture

The following company is a joint venture of Post Office Limited

Company	Country of incorporation	% Holding	Principal activities
First Rate Exchange Services Holdings Limited	United Kingdom	50	Bureau de Change

Associates

The following company is an associate of Post Office Limited

Company	Country of incorporation	% Holding	Principal activities
Midasgrange Limited	United Kingdom	50	Financial services

Management control lies with the Bank of Ireland partner in the operation of the Midasgrange Limited company and therefore the company is not a joint venture

All shareholdings are equity shares

Related party transactions

The Company has taken advantage of one of the exemptions conferred by FRS 8 Related Party Disclosures', whereby certain details regarding transactions with 100% owned subsidiaries within the same Group do not have to be disclosed where Group financial statements are publicly available

During the year the Company entered into transactions with other entities within the same Group but which are less than 100% owned The transactions were in the ordinary course of business 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	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Romec Limited	**-**	-	**8**	8	**-**	-	**1**	1
Camelot Group plc	**-**	10	**-**	-	**-**	-	**-**	-
Midasgrange Limited	**41**	30	**1**	3	**14**	10	**1**	-
First Rate Exchange Services Holdings Limited	**31**	30	**128**	132	**3**	9	**8**	1

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 disposed of its 20% shareholding in Camelot Group plc in July 2010

The Company 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 Company has certain loan facilities with Government (note 17), and
- the Company has received the Network Subsidy Payment from Government (note 1)

26 Post balance sheet events

On 1 April 2012 – after the granting of State Aid by the European Commission to the Government on 21 March 2012 - almost all of the pension liabilities and pension assets of the main pension scheme, RMPP, built up until 31 March 2012, were transferred to HM Government On this date the RMPP was also sectionalised with Royal Mail Group Ltd and Post Office Limited each responsible for their own sections in future This arrangement left the RMPP fully funded on an actuarial basis in respect of historic liabilities at that date In addition, on the same date all employees seconded from Royal Mail Group Ltd to Post Office Limited were formally transferred to Post Office Limited

Royal Mail Holdings plc continues to hold £1 2bn of investments which were previously held in pension escrow

At the end of March 2013 certain unused tax losses deriving from past pension contributions will be extinguished in accordance with regulations made under the Postal Services Act 2011

On 1 April 2012 Post Office Limited became a fully owned subsidiary of Royal Mail Holdings plc At that date the majority of Royal Mail Holdings plc Directors became Directors of Royal Mail Group Ltd Alice Perkins and Donald Brydon are the only Directors of Royal Mail Holdings plc at 1 April 2012

In accordance with the funding agreement with Government announced on 27 October 2010 for which State Aid approval was received on 28 March 2012 Post Office Limited received £410m of funding on 2 April 2012

27 Immediate and ultimate parent company

At 25 March 2012 the Directors regarded Royal Mail Group Ltd as the immediate parent company and Royal Mail Holdings plc as the ultimate parent company The results of the Company form part of the Royal Mail Holdings plc Group financial statements which are available from that company s website (www royalmailgroup com) or from the Company Secretary 100 Victoria Embankment EC4Y 0HQ

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