Registered Number 04138203

Royal Mail Group Ltd

Annual Report and Accounts

2007-2008

Royal Mail Group Ltd

Contents

Royal Mail Group Ltd

Directors' Report

The Directors present the accounts of Royal Mail Group Ltd (the Company) These accounts relate to the 53 weeks ended 30 March 2008 (2007 52 weeks ended 25 March 2007)

Principal activities

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

Review of the business and future developments

Royal Mail processes and delivers over 80 million letters and packages to 28 million addresses every working day, in line with its unique Universal Service Obligation It is also responsible for designing and producing the UK's stamps and philatelic products Parcelforce Worldwide is a leading provider of collection and delivery services for urgent packages and parcels within the UK and throughout the world providing both business and private addresses with a range of timed delivery options

It has been a year of tough challenges and achievements involving a groundbreaking agreement with our people allowing the modernisation of Royal Mail to proceed and changes to the Pension Plan put in place Daunting challenges remain but the Company is now implementing plans to modernise the Letters business Royal Mail's quality of service had been at or above target levels in the first quarter of 2007-08 but fell as a result of industrial action last summer and autumn Despite the effects of industrial action, the large majority of mail was back to being delivered at above target levels by the year end

Key elements of the year were

- Landmark agreements with our people on pay, pensions and modernisation, enabling Royal Mail to launch the second phase of modernisation of the Letters operations - through automation - using the investment provided by the Shareholder in the form of commercial loans agreed in March 2007
- Reform of the Pension Plan to help the Company continue meeting the huge cash cost - of over £750million in the year - of both ongoing and deficit contributions, while providing the best pension benefits Royal Mail can afford for its people
- The launch of new products and services for customers including Tracked™ which allows the movement of parcels and packets through the Royal Mail network to be tracked and Online Business Account, which enables business customers to handle their accounts electronically instead of by dockets More new services are planned as the Company strengthens further its focus on customer service
- The first steps in the roll-out of new technology and equipment in delivery offices and mail centres - making the job better for our people, improving the business's efficiency and, above all, providing the foundation and capability for new products and services for customers
- Strong revenue growth by Parcelforce Worldwide which operates in highly competitive markets

The biggest change in performance across the Royal Mail Holdings plc Group of companies (the Group) was the move from profitability to loss by the Royal Mail Letters business which made a £3million operating loss on its £6 8billion revenue - down on the previous year despite the annual price increase in April 2007 The fall in mail volumes, continued downtrading by Royal Mail customers to lower priced products, and the increasing impact of competition, resulted in the Company moving from an operating profit of £136million in 2006-07 to the £3million loss in 2007-08 The huge cost of servicing the Pension Plan continues to bear heavily on the Company and has again had a huge impact on the operating profit

- Revenue in the Letters business fell by £27million The overall mail market declined again and volumes handled by Royal Mail fell 3 2% - more than the 2 3% volume fall in the Letters business the previous year The average daily mail bag now contains 80 million letters, it was 83 million in 2006-07 so Royal Mail is handling on average three million fewer letters a day
- Royal Mail regulated prices rose in April 2007 by around 5% on average However, there was continued downtrading in 2007-08 by customers, for example, from First Class to Second, or from premium business mail services to less expensive ones This trend together with volume falls, meant that overall revenue in the Letters business declined for the second year running

The Universal Service made an estimated loss - for the first time - of around £100million with the overall price controlled area of the business making an estimated loss of around £200million

Directors' Report (continued)

Parcelforce Worldwide grew its revenue in a market where competitive pressures got even tougher, and also increased its profit and maintained its operating margin Quality of service improved further to 96 5% for the year - an impressive performance in a crowded marketplace

New technology will, we are confident, improve efficiency and cut costs But we are very clear that one of the greatest benefits of modernisation is the foundation it provides from which to launch new products and services for customers, so meeting their needs and expectations, and improving Royal Mail's competitive edge in a market where competition is rapidly increasing We will be launching further new products and services this current year with the aim both of providing customers with innovative solutions while at the same time making it easier for them to do business with Royal Mail The costs of funding the new technology that is now being rolled out to the Letters business will increasingly be felt, as the Shareholder's financing package comprises loans at commercial rates that do, of course, have to be repaid from our earnings

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

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

The action taken to reform the Pension Plan, together with the establishment of a £1billion escrow account for the sole benefit of the Plan (£150m in the Company, £850m in Royal Mail Holdings plc), if needed, has enabled the Group to have an achievable funding programme based on the last actuarial valuation of the deficit of £3 4billion in March 2006 However our estimates indicate that the actuarial deficit has since increased significantly due to market changes, further underlining how pensions remain a significant and volatile risk to the Group and Company The Company's share of the Pension Plan deficit net of deferred tax fell in accounting terms from £4 4billion to £2 3billion

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

Royal Mail Group Ltd

Directors' Report (continued)

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

Results and dividends

The loss after taxation for the year was £63m (2007 £262m profit) The Directors do not recommend a dividend (2007 nil dividend) The movements in reserves are shown in note 23 to the accounts

Pensions

Royal Mail Group Ltd is 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 Retirement Savings Plan (a defined contribution scheme) Based on assets, the Royal Mail Pension Plan is the fourth largest pension scheme in the UK

The assets and liabilities of the defined benefit schemes, as measured under accounting standards, are reported as a net pension deficit in the consolidated balance sheet of Royal Mail Holdings plc, the ultimate parent company The gross assets and liabilities and Royal Mail Group Ltd's share of the net deficit are significantly larger than any of the Company's other assets and liabilities

Royal Mail Group Ltd has 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 provides employees engaged in the business of Post Office Limited Post Office Limited meets 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 Accordingly, Royal Mail Group Ltd recognised a balance sheet deficit on full adoption of FRS 17 that represented approximately 93% 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 93% 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

The balance sheet pension deficit (pre deferred tax) has decreased from £4,636m in March 2007 to £2,718m The decrease in the deficit of £1,918m principally relates to an actuarial gain of £1,674m and net pensions interest of £122m The actuarial gain reflects the Company s share of the total actuarial gain, which arose due to changes in market conditions giving rise to an increase in the assumed real discount rate, although this has been offset by a lower than expected return on the assets in line with general market movements This gain is recorded in the statement of total recognised gains and losses The net pensions interest reflects the Company's share of the total net pensions interest, which represents the long-term expected rate of return on the schemes' assets less the unwinding of the discount on the schemes liabilities Although liabilities are higher than assets, the expected rate of return on these assets (biased toward equities) was substantially higher than the discount rate for liabilities (high quality corporate bond rate) resulting in a net interest credit This interest is recorded in the profit and loss account after profit on ordinary activities before interest

Political and charitable contributions

During the year, the Company made charitable contributions amounting to £2m (2007 £1m) No political contributions were made in the year (2007 £nil)

Research and development

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

Policy on the payment of suppliers

The 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 with the agreed terms The Company has sought to comply with the Department for Business Enterprise and Regulatory Reform (BERR) Better Payment Practice Code Copies of this can be obtained from BERR

The number of days' purchases in creditors at the balance sheet date was 17 (2007 19 days)

Directors' Report (continued)

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 £10m (2007 £64m) In the opinion of the Directors, the aggregate market value of the Company's land and buildings exceeds this net book value by £19m (2007 £62m) On 23 September 2007 Royal Mail Group Ltd transferred most of its directly held property assets (excluding building fit-out) to Royal Mail Estates Limited Further details are provided in note 12 to the accounts

Directors and their interests

The following have served as Directors of the Company during the year ended 30 March 2008 and up to the date of approval of these accounts

Allan Leighton (Chairman)	
David Burden	Left on 31 July 2007
Alan Cook	
Adam Crozier	
Ian Duncan	
Ian Griffiths	Left on 30 April 2007
Mark Higson	Appointed 5 November 2007
Tony McCarthy	Left on 7 December 2007

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 auditors are unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Qualifying third party indemnity provisions for Directors

A partial qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006) was and remains in force for the benefit of all the Directors of Royal Mail Group Ltd and former Directors who held office during the year The indemnity is granted under article 129 of the Articles of Association of the Company's immediate parent company, Royal Mail Holdings plc 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

Financial risk management objectives and policies

The Company'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 Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from operations

The Company also enters into derivative transactions, principally commodity swaps and forward currency contracts The purpose is to manage the commodity and currency risks arising from the Company s operations It is, and has been throughout the year under review, the Company s policy that no speculative trading in financial instruments shall be undertaken

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

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 Company'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

Directors' Report (continued)

Foreign currency risk

The Company 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, and various sales and purchase contracts denominated in foreign currency These risks are mitigated by hedging programmes managed by Group Treasury Where possible, exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward contracts Hedging will not normally be considered for exposures of less than £1m hedging is normally confined to 80% of the forecast exposure where forecast cash flows are highly probable

Commodity price risk

The Company is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe, 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 Company 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

Credit risk

The Company 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 Company's appetite for risk

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

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 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 Company

Liquidity risk

The Company's primary objective is to ensure that it 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

People

Royal Mail Group Ltd employs approximately 181,000 people (2007 185,000) Our people are our strategic strength and competitive advantage

The Company s policy is to encourage effective communication and consultation between our people, particularly on matters relating to strategy, financial and economic factors that may influence the Company s performance This is achieved through the use of an extensive range of communication channels, including magazines, briefings, open forums and an intranet website 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 Company has worked with the unions to introduce several innovative working practices to improve efficiency

Royal Mail Group Ltd

Directors' Report (continued)

An Equal Opportunities policy is maintained in all respects including disability, age, religion colour sex, nationality, ethnic origin, sexual orientation, race, creed and marital status

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

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

Currently the way we monitor our progress towards becoming a 'Great Place to Work' is by using *Have Your Say*, our employee opinion survey, launched in January 2003 This is carried out on a rolling basis, across all employees and the results are reviewed monthly right through the business – from local level up to Board level

Corporate Social Responsibility

Royal Mail is committed to carrying out its activities in a socially responsible manner in respect of the environment employees, customers and local communities A Corporate and Social Responsibility (CSR) Governance Committee reports to the Board, which publishes an annual report of its activities Further details of our CSR governance structure and activities will be available in our 2008 CSR Report, due to be published later in the year

Disabled employees

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

Going concern

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

Auditors

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

By Order of the Board

Jonathan Evans
Secretary
London
4 July 2008

Statement of Directors' responsibilities in respect of the accounts

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

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

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

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

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

We have audited the Company's financial statements for the year ended 30 March 2008 which comprise the profit and loss account, statement of total recognised gains and losses, reconciliation of movement in shareholder's funds balance sheet and the related notes 1 to 28 These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of Directors and auditors

The Directors responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities

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

We report to you our opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information in the Directors' Report is consistent with the financial statements In addition we report to you if in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 March 2008 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
4 July 2008
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Royal Mail Group Ltd

Profit and loss account

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

		2008			2007		
	Notes	**Pre exceptional items £m**	**Exceptional Items £m**	**Total £m**	Pre exceptional items £m	Exceptional Items £m	Total £m
Turnover from continuing operations	2	**7,230**	-	**7,230**	7 215	-	7 215
Costs		**(7,240)**	**(370)**	**(7,610)**	(7 017)	(145)	(7 162)
Staff costs	3/5	**(5,013)**	**(365)**	**(5,378)**	(4 990)	(142)	(5 132)
Depreciation and amortisation	10/11	**(182)**	-	**(182)**	(171)	-	(171)
Impairment	5/10	-	**(6)**	**(6)**	-	(4)	(4)
Other operating charges	4/5	**(2,045)**	**1**	**(2,044)**	(1 856)	1	(1 855)
Operating (loss)/profit from continuing operations		**(10)**	**(370)**	**(380)**	198	(145)	53
Impairment of subsidiary	6	-	-	-	-	(75)	(75)
Profit on disposal of property group	6	-	-	-	-	74	74
Profit on disposal of tangible fixed assets	6	-	**9**	**9**	-	21	21
(Loss)/profit on ordinary activities		**(10)**	**(361)**	**(371)**	198	(125)	73
Income from investments		**6**	-	**6**	11	-	11
Net interest (payable)/receivable	8	**(20)**	-	**(20)**	38	-	38
Net pensions interest	21	**122**	-	**122**	185	-	185
(Loss)/profit on ordinary activities before taxation		**98**	**(361)**	**(263)**	432	(125)	307
Taxation credit/(charge)	9			**200**			(45)
(Loss)/profit retained for the financial year	23			**(63)**			262

Statement of total recognised gains and losses
for the 53 weeks ended 30 March 2008 and 52 weeks ended 25 March 2007

	Notes	2008 £m	2007 £m
(Loss)/profit for the financial year		**(63)**	262
Actuarial gains on defined benefit schemes	21	**1,674**	315
Taxation on items taken directly to reserves	9	**64**	(71)
Gains/(losses) on cash flow hedges deferred into reserves	23	**36**	(9)
(Gains)/losses on cash flow hedges released from reserves to profit for the financial year	23	**(3)**	4
Gains on cash flow hedges released from reserves to the carrying amount of non-financial assets	23	**(1)**	-
Gains on financial asset investments	23	**2**	-
Total recognised gains for the financial year	23	**1,709**	501

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

Reconciliation of movements in shareholder's funds

	Notes	2008 £m	2007 £m
Opening shareholder's deficit	23	**(3,034)**	(2 740)
Total recognised gains for the financial year (see above)		**1,709**	501
Distribution to Royal Mail Holdings plc (immediate parent company)	23	**-**	(795)
Closing shareholder's deficit	23	**(1,325)**	(3 034)

Royal Mail Group Ltd

Balance Sheet
at 30 March 2008 and 25 March 2007

	Notes	2008 £m	2007 £m
Fixed assets			
Intangible assets	10	**53**	48
Tangible assets	11	**949**	963
Investments in subsidiaries and associates	12	**552**	524
Financial assets - pension escrow investments	13	**160**	150
Total fixed assets		**1,714**	1 685
Current assets			
Stocks		**17**	12
Debtors - receivable within one year	14	**771**	691
Debtors - receivable beyond one year	14	**526**	487
Financial assets - derivatives receivable within one year		**24**	-
Financial assets - derivatives receivable beyond one year		**8**	-
Financial assets - investments	15	**187**	340
Cash at bank and in hand		**8**	7
		1,541	1 537
Current liabilities			
Creditors - amounts falling due within one year	16	**(1,473)**	(1,155)
Corporation tax		**(4)**	(23)
Financial liabilities - derivatives		**(3)**	(7)
Net current assets		**61**	352
Total assets less current liabilities		**1,775**	2 037
Creditors - amounts falling due after more than one year	17	**(74)**	(27)
Financial liabilities - interest bearing loans and borrowings	18	**(500)**	(500)
Provisions for liabilities and charges	19	**(226)**	(114)
Retirement benefit obligation	20	**(2,300)**	(4 430)
Net liabilities		**(1,325)**	(3 034)
Capital and reserves			
Called up share capital	22	**-**	-
Share premium	23	**3,784**	3,784
Profit and loss account	23	**(5,138)**	(6 813)
Hedging Reserve	23	**27**	(5)
Financial Assets Reserve	23	**2**	-
Shareholder's deficit		**(1,325)**	(3,034)

The accounts on pages 10 to 34 were approved by the Board of Directors on 4 July 2008 and signed on its behalf by

Adam Crozier **Ian Duncan**

Notes to the accounts

1. Accounting policies

The following accounting policies apply throughout Royal Mail Group Ltd (the Company)

Financial year

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

Basis of preparation

The accounts on pages 10 to 34 have been prepared in accordance with applicable UK Accounting Standards and law, including the requirements of the Companies Act 1985 Unless otherwise stated in the accounting policies below, the accounts have been prepared under the historic cost accounting convention

The accounts present information about the Company as an individual undertaking and not as a Group The Company has taken advantage of section 228 of the Companies Act 1985 not to prepare Group accounts on the grounds that its ultimate parent undertaking makes its Group accounts publicly available

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

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

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

Fundamental accounting concept

The Company has net liabilities at 30 March 2008, primarily because of the deficit within its main pension plan, the Royal Mail Pension Plan

Royal Mail Group Ltd made a loss in 2007-08, after bearing losses relating to stamped mail and carrying out its Universal Service Obligations In addition it has been facing considerable cash requirements with respect to its proposed investment in plant and equipment and funding its pension deficit at a time when the market has been opened up to full competition

On 23 March 2007, the Company and Royal Mail Holdings plc (the Company's immediate parent) completed an agreement with Royal Mail Holdings plc's shareholder (the Government) for a new funding package, which will enable the transformation of Royal Mail Group Ltd to take place and has enabled the establishment of investments in escrow of £1bn provided as security to the Trustee of the Royal Mail Pension Plan in support of a 17 year deficit recovery period from March 2006 Of the investments in escrow, £850m is held by Royal Mail Holdings plc and £150m by Royal Mail Group Ltd

The European Commission is continuing its investigation under the EC Treaty's rules on state aid into a series of funding measures taken by the United Kingdom Government in its capacity as shareholder of Royal Mail Holdings plc (the ultimate and immediate parent company) in favour of Royal Mail between 2001 and 2007, including the recent funding package In its response to the EC in relation to this investigation, the United Kingdom Government has stated that it believes that the measures being investigated by the EC were concluded on commercial terms

On this basis the Directors have concluded that it is appropriate that the accounts have been prepared on a going concern basis

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

1 Accounting policies (continued)

Turnover

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

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

ColleagueShare plan

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

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

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

Finite lives of intangible assets are in the range of 1-6 years Amortisation of intangible assets with finite lives is taken annually to the profit and loss account on a straight-line basis

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	1 - 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

1 Accounting policies (continued)

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 as the present value of the minimum lease payments Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the profit and loss account over the lease term

Investments in subsidiaries and associates

Investments in subsidiaries and associates within the Company's accounts are stated at cost less any accumulated impairment losses

Stocks

Stocks, which include uniforms, fuel, printing and stationery, mailbags and engineering spares 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 substantially enacted tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts

Deferred tax is not recognised in the following instances

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

Deferred tax assets and liabilities are not discounted 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

Pensions and other post-retirement benefits

Membership of occupational pension schemes is open to most permanent UK employees of the Company All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme

The 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

1. Accounting policies (continued)

Pensions and other post-retirement benefits (continued)

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

Research and development

Expenditure on research and development is written off in the year in which it is incurred (see note 4 to the accounts)

Foreign currencies

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

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 profit and loss account

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

Financial instruments

Financial assets within the scope of FRS 26 'Financial Instruments Measurement are classified as, financial assets at fair value through the profit and loss account (held for trading), held to maturity investments, loans and receivables or available for sale financial assets, as appropriate Financial liabilities within the scope of FRS 26 are classified as either financial liabilities at fair value through the profit and loss account or financial liabilities measured at amortised cost

The Company 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 profit and loss account, any directly attributable transactional costs

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

Financial assets at fair value through the profit and loss account (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 profit and loss account

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as 'held to maturity' when the Company 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 profit and loss account 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 profit and loss account' or available for sale Such assets are carried at amortised cost using the effective interest rate method if the time value of money is significant Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process

1 Accounting policies (continued)

Financial instruments (continued)

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 profit and loss account 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 reserves 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 reserves is included in the profit and loss account

Financial liabilities at fair value through the profit and loss account (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 profit and loss account

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 profit and loss account when the liabilities are derecognised or impaired, as well as through the amortisation process

Financial assets - pension escrow investments (fixed assets)

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 - investments (current assets)

Financial assets - other investments comprise, money market funds and short term deposits with Government, local government or banks They 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 Borrowing costs are recognised as an expense when incurred

Financial liabilities - Obligations under finance lease and hire purchase contracts

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

Borrowing costs are recognised as an expense when incurred

Derivative financial instruments

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

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

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

1. Accounting policies (continued)

Derivative financial instruments (continued)

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 reserves 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 reserves are transferred to the profit and loss account 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 profit and loss account in the period

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

Fair value measurement of financial instruments

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

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

Contingent liabilities and financial guarantee contracts

Financial guarantee contracts are initially measured at fair value and subsequently at the higher of amounts under FRS 12 or the amounts initially recognised less, when appropriate, cumulative amortisation

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

Government grants

Government grants of a capital nature are deducted from the cost of the related non-depreciable asset

2. Turnover

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

3. Staff costs before exceptional items

	2008 £m	2007 £m
Wages and salaries	**3,980**	3,972
Social security costs	**294**	295
Pension costs (note 21)	**654**	668
Temporary resource	**85**	55
Total	**5,013**	4,990

3. Staff costs before exceptional items (continued)

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

	Period end employees		Average employees	
	2008	2007	**2008**	2007
Mails and Parcels	**172,113**	174 777	**172,373**	177,449
Counter Services	**9,163**	9,990	**9,600**	10,640
Total employees	**181,276**	184,767	**181,973**	188,089

Included in the average number of employees are 9,600 (2007 10,640) who are seconded to subsidiaries and whose costs are borne by those companies

4 Other operating charges

	2008 £m	2007 £m
Other operating charges before exceptional items is stated after charging		
Research and development expenditure	**1**	1
Operating lease charges	**131**	164
Land and buildings	82	90
Vehicles and equipment	49	74
Regulatory body costs	**16**	19
Postcomm	9	10
Postwatch	7	9

Auditors' remuneration amounted to £291,000 (2007 £279,000) for the audit of the statutory accounts Auditors' remuneration relating to other services supplied to the Company was £52,000 (2007 £231,000)

5. Operating exceptional items

	2008 £m	2007 £m
ColleagueShare costs - phantom share scheme (note 19)	**(105)**	-
- stakeholder dividend (note 16)	**(145)**	-
Provision for restructuring - redundancy costs (note 19)	**(115)**	(142)
Within staff costs	**(365)**	(142)
Impairment of intangible fixed assets (note 10)	**(6)**	(4)
Provision for restructuring - other operating charges (note 19)	**(4)**	-
Provision for restructuring - property provision release (note 19)	**5**	1
Within impairment and other operating charges	**(5)**	(3)
Total operating exceptional items	**(370)**	(145)

The £105m (2007 £nil) phantom share scheme costs and £145m (2007 £nil) stakeholder dividend costs are the estimated costs relating to the first year of the Group's ColleagueShare plan The stakeholder dividend will be paid to qualifying employees in 2008-09 whilst the costs of the phantom share scheme are discounted and will be redeemed by the Group by 2012

5. Operating exceptional items (continued)

The provision for restructuring charge of £114m (2007 £141m) comprises redundancy costs of £115m (2007 £142m), relating mainly to operational efficiency initiatives in Royal Mail and £4m (2007 £nil) for other operating exceptional charges, net of £5m (2007 £1m) exceptional property provision release

6. Non operating exceptional items

During the year there was no impairment of a subsidiary (2007 £75m) or disposal of a property group (2007 £74m profit) The profit on disposal of tangible fixed assets relating to land and buildings amounted to £9m (2007 £21m)

7. Directors' emoluments

The emoluments of all Directors of the Company who were also Directors of Royal Mail Holdings plc are disclosed in the Royal Mail Holdings plc Group accounts

8. Net interest (payable)/receivable

	2008 £m	2007 £m
Interest receivable on investments	**24**	53
Interest receivable from Group entities	**12**	12
Other miscellaneous interest receivable	**1**	4
Interest payable on loans	**(42)**	(30)
Interest payable to Group entities	**(2)**	-
Other miscellaneous interest payable	**(13)**	(1)
Total	**(20)**	38

9. Taxation

(a) Taxation (gains)/losses recognised

	2008 £m	2007 £m
Taxation (credit)/charge in the profit and loss account:		
Corporation tax charge for year	-	77
Tax over provided in previous years	**(3)**	(1)
Current tax (see table below)	**(3)**	76
Deferred tax		
Origination and reversal of timing differences	**(217)**	(31)
Effect of change in tax rate	**20**	-
	(200)	45
Taxation (credit)/charge on items taken to reserves.		
Current tax	-	(66)
Deferred tax		
Origination and reversal of timing differences	**(78)**	137
Effect of change in tax rate	**14**	-
	(64)	71
Total taxation (gains)/losses recognised:		
Current tax	**(3)**	10
Deferred tax	**(261)**	106
	(264)	116

9. Taxation (continued)

(b) Factors affecting the current tax (credit)/charge on profit on ordinary activities

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2007 30%) The differences are explained below

	2008 £m	2007 £m
(Loss)/profit on ordinary activities before tax	**(263)**	307
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2007 30%)	**(79)**	92
Deferred relief for asset depreciation and impairment	**49**	15
Expenditure disallowable for tax	**3**	2
Accelerated relief for pension contributions	**(88)**	(18)
Provisions not deductible until incurred	**(1)**	2
Share scheme amounts not deductible until incurred	**31**	-
Provision movement non-taxable	**(9)**	1
Adjustment in respect of prior period	**(3)**	(1)
Effect of group relief surrenders from other companies	**18**	(36)
Dividend not taxable	**(2)**	(3)
Impairment not deductible	**-**	22
Losses carried forward	**78**	-
Total current tax (credit)/charge (see table above)	**(3)**	76

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

(c) Tax effect of non operating exceptional items

The tax effect of the profits on disposal of tangible fixed assets of £9m (2007 £95m) is £nil (2007 £nil), as any gains can be covered by rollover relief and losses

(d) Factors that may affect future tax charges

The Company has £38m (2007 £nil) of unrecognised deferred tax assets relating to tax losses that are available for offset against future trading profits The Company also has £343m (2007 £1,185m) of unrecognised deferred tax assets relating to pensions, £161m (2007 £110m) related to deferred capital allowances and £8m (2007 £9m) relating to other timing differences

The Company has access to group capital losses carried forward, the tax effect of which is approximately £16m (2007 £13m)

(e) Deferred tax asset

	2008 £m	2007 £m
Deferred capital allowances	**-**	-
Provisions	**-**	4
Share scheme	**18**	-
Losses	**35**	-
Within Debtors - receivable beyond one year (note 14)	**53**	4
Pension deficit (within Retirement benefit obligation) (note 20)	**418**	206
Total	**471**	210

9 Taxation (continued)

(e) Deferred tax asset (continued)

The movement on the deferred tax asset is shown below

	£m	Total £m
At 26 March 2007		**210**
Deferred tax credit in profit and loss account (see note 9(a))	197	
Deferred tax charge on items taken to reserves (see note 9(a))	64	
Total deferred tax charge recognised (see note 9(a))		**261**
At 30 March 2008		**471**

From 1 April 2008 the rate of corporation tax decreased from 30% to 28%. the 2008 amounts stated above reflect the lower future value of deferred tax assets

10. Intangible fixed assets

	2008 £m	2007 £m
Cost		
At 26 March 2007 and 27 March 2006	**57**	27
Additions	**27**	30
Disposals	**(3)**	-
At 30 March 2008 and 25 March 2007	**81**	57
Amortisation and impairment		
At 26 March 2007 and 27 March 2006	**9**	-
Amortisation	**16**	5
Impairment	**6**	4
Disposal	**(3)**	-
At 30 March 2008 and 25 March 2007	**28**	9
Net book value		
At 30 March 2008 and 25 March 2007	**53**	48
At 26 March 2007 and 27 March 2006	48	27

The above intangible fixed assets relate to software licences

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 26 March 2007	446	84	428	223	757	142	2,080
Reclassification	(19)	-	18	-	1	-	-
Additions	51	9	12	57	68	20	217
Disposals - external	(25)	(6)	(2)	(16)	(10)	(16)	(75)
Transfers to subsidiaries*	(55)	(5)	-	-	-	-	(60)
Legal entity transfer	(19)	(2)	(4)	-	-	(2)	(27)
At 30 March 2008	**379**	**80**	**452**	**264**	**816**	**144**	**2,135**
Depreciation							
At 26 March 2007	205	63	197	79	470	103	1,117
Reclassification	(5)	-	5	-	-	-	-
Depreciation	28	2	30	43	56	7	166
Disposals - external	(18)	(5)	(2)	(14)	(10)	(16)	(65)
Transfers to subsidiaries*	(28)	(4)	-	-	-	-	(32)
Legal entity transfer	-	-	-	-	-	-	-
At 30 March 2008	**182**	**56**	**230**	**108**	**516**	**94**	**1,186**
Net book value							
At 30 March 2008	**197**	**24**	**222**	**156**	**300**	**50**	**949**
At 26 March 2007	241	21	231	144	287	39	963

* Of the £28m (2007 £504m) net book value of transfers to subsidiaries, £28m (2007 £482m) relates to transfers to Royal Mail Estates Limited (see note 12)

Depreciation rates are disclosed within accounting policies (note 1) No depreciation is provided on freehold land, which represents £nil (2007 £8m) of the total cost of properties The net book value of the Companys land and buildings includes £433m (2007 £429m) in respect of building fit-out The net book value of the Companys tangible fixed assets held under hire purchase contracts and finance leases amount to £82m (2007 £37m) During the year depreciation of £22m (2007 £17m) was charged in respect of the Company's tangible fixed assets held under hire purchase contracts and finance leases

12 Investments in subsidiaries and associates

	Subsidiaries £m	Associates £m	Total £m
Cost			
At 26 March 2007	573	26	599
Investment in POL - share subscription	313	-	313
Transfer of tangible fixed assets for shares	28	-	28
At 30 March 2008	**914**	**26**	**940**
Impairment			
At 26 March 2007	75	-	75
Utilisation of Government grant relating to POL	313	-	313
At 30 March 2008	**388**	**-**	**388**
Net book value			
At 30 March 2008	**526**	**26**	**552**
At 26 March 2007	498	26	524

As part of the funding agreement between the Government and Post Office Limited, announced on 17 May 2007, Royal Mail Group Ltd received on 31 July 2007 a payment of £313m in cash from the Secretary of State for Trade and Industry (now Secretary of State for Business Enterprise and Regulatory Reform) under section 8 of the Industrial Development Act 1982, on the basis that immediately upon receipt of that payment the Company would use those funds to subscribe for shares in Post Office Limited

Royal Mail Estates Limited, a wholly owned subsidiary, was formed during the 2006-07 financial year The security on the Royal Mail Group Ltd senior debt facility includes a fixed charge over shares in Royal Mail Estates Limited and a floating charge over all the assets of Royal Mail Estates Limited (see note 18) On 23 September 2007, Royal Mail Group Ltd transferred most of its directly held property assets (excluding building fit-out) to Royal Mail Estates Limited in exchange for shares The net book value of the transferred property assets amounted to £28m (2007 £482m)

Details of the Company's principal investments in subsidiaries and associates are provided in note 27

13. 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 a 17 year deficit recovery period from March 2006 At 30 March 2008, Royal Mail Holdings plc had £909m of investments in pension escrow and Royal Mail Group Ltd had £160m 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 21

14. Debtors

	2008 £m	2007 £m
Receivable within one year:		
Trade debtors	624	595
Prepayments and accrued income	129	96
Interest debtor	1	-
Amounts owed by subsidiaries	17	-
Total	771	691

	2008 £m	2007 £m
Receivable beyond one year:		
Amounts owed by subsidiaries	472	479
Deferred tax asset (note 9 (e))	53	4
Other	1	4
Total	526	487

15. Current financial assets - investments

	2008 £m	2007 £m
Money market funds	52	77
Short-term deposits - Government/local government	45	263
Short-term deposits - bank	90	-
Total	187	340

16 Creditors - amounts falling due within one year

	2008 £m	2007 £m
Trade creditors and accruals	801	790
Advanced customer payments	199	207
Social security	93	72
Amounts due to pension schemes relating to redundancies	2	1
Interest	15	-
Obligations under finance leases and hire purchase contracts (note 25)	8	-
Amounts due to subsidiaries	142	23
Capital	68	62
ColleagueShare	145	-
Total	1,473	1,155

17. Creditors - amounts falling due after more than one year

	2008 £m	2007 £m
Obligations under finance leases and hire purchase contracts (note 25)	**32**	-
Amounts due to subsidiaries	**18**	19
Capital	**12**	-
Other	**12**	8
Total	**74**	27

18. Loans

	2008 £m	2007 £m
Amounts falling due in		
More than 5 years	**500**	500
Total	**500**	500

Analysis of loans and facilities:

	2008 £m	2007 £m	Security
Royal Mail Group Ltd drawn down loans	**500**	500	Fixed charges over Royal Mail Group Ltd's loans to General Logistics Systems B V, Royal Mail Group Ltd's loans to subsidiaries of General Logistics Systems B V and Royal Mail Investments Limited's shares in General Logistics Systems B V Floating charge over non regulated assets of Royal Mail Group Ltd
Royal Mail Group Ltd senior debt facility	**900**	900	Fixed charges over Royal Mail Holdings plc s shares in Royal Mail Group Ltd and Royal Mail Group Ltd s shares in Royal Mail Estates Limited Floating charges over all assets of Royal Mail Holdings plc, Royal Mail Group Ltd and Royal Mail Estates Limited
Royal Mail Group Ltd Shareholder loan facility	**300**	300	None
	1,700	1,700	

The £500m drawn down loan is at an average fixed interest rate of 5 8% (2007 5 8%) and has an average maturity date of 2023 (2007 2023)

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

	2008 £m	2007 £m
Expiring in one year or less	-	-
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years	**1,200**	1,200
Total	**1,200**	1,200

The Royal Mail Group Ltd drawn down loans 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

19. Provisions for liabilities and charges

	At 26 March 2007 £m	Charged/ (released) in operating exceptional items (see note 5) £m	Reclassification £m	Charged/ (released) in other operating costs £m	Utilised Non-cash £m	Utilised cash £m	At 30 March 2008 £m
Total	114	219	(1)	(3)	(20)	(83)	**226**

The provision includes amounts relating to ColleagueShare £105m (2007 £Nil) onerous property contracts £23m (2007 £35m) and decommissioning costs, £7m (2007 £9m) with the balance of £91m (2007 £70m) principally relating to redundancy During the year £219m (2007 £141m) was charged to operating exceptional items and £3m released (2007 charged £20m) to other operating costs Details of amounts charged as operating and non-operating exceptional items are contained in notes 5 and 6 respectively The amounts released in other operating costs relate to onerous property contracts and decommissioning costs The non-cash utilised amounts of £20m (2007 £29m) principally relates to transfers from provisions to current payables for amounts due to the pension scheme for redundancies with early retirement The cash utilisation of £83m (2007 £102m) includes £79m (2007 £93m) of spend relating to exceptional rationalisation and £4m (2007 £9m) relating to other costs

The provision in the main is expected to be utilised in 2008-09 with the remaining amounts expected to be utilised over the next two to three years, except for £105m (2007 £Nil) relating to ColleagueShare expected to be utilised within 5 years and £2m relating to onerous property contracts expected to be utilised over a period longer than 3 years The timing of cash flows for such provisions are by their nature uncertain and dependent upon the outcome of related events

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

20. Retirement benefit obligation

	2008 £m	2007 £m
Deficit in schemes (note 21)	**2,718**	4 636
Related deferred tax asset (note 9(e))	**(418)**	(206)
Total	**2,300**	4,430

21. Pensions

The Company participates in pension schemes as detailed below

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

All references to the Group in this note refer to the combined totals of the defined benefit plans disclosed in Royal Mail Holdings plc accounts of which 93% is attributable to the Company

Defined contribution

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

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 25 of the Royal Mail Holdings plc Group accounts

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

Payment of £510m (2007 £498m) 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 20 0%, effective from the beginning of the previous year This rate is not expected to change materially during 2008-09 For RMSEPP, these contributions have been at 48 2% (2007 20 9%)

Payment of £263m (2007 £223m) was made by the Company during the year to fund the deficit in the schemes, nearly all relating to RMPP Deficit recovery payments are planned for RMPP over the 17 years from the date of the latest full actuarial valuation These payments will be made before each 31 March, and may therefore span across the Company s year end (the last Sunday in March) Over the 16 years from 31 March 2007 planned deficit payments are some £242m per annum, increasing in line with RPI (base year is 2006-07) For RMSEPP, deficit recovery payments will be £5m per annum from 1 April 2007 to 31 December 2015

A current liability of £2m (2007 £1m) has been recognised for payments to the pension schemes relating to redundancy (see note 16) During the year payments of £19m (2007 £66m) relating to redundancy were made

On 23 March 2007, the Company and Royal Mail Holdings plc established £150m and £850m of investments in escrow respectively as security to the Royal Mail Pension Plan in support of a 17 year deficit recovery period

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

21 Pensions (continued)

a) Major 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 assumptions were

	At 30 March 2008	At 25 March 2007
	% pa	% pa
Rate of increase in salaries	**4 6**	4 1
Rate of increase in pensions and deferred pensions	**3.6**	3 1
Discount rate	**6 5**	5 3
Inflation assumption	**3.6**	3 1
Expected average rate of return on assets	**6.8**	7 0

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

Mortality

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

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

b) Plans' assets and expected rates of return

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

At 30 March 2008

	Market value		**Long-term expected rate of return**	
	2008	2007	**2008**	2007
	£m	£m	**% pa**	% pa
Equities	**11,090**	15 372	**8.3**	8 0
Bonds	**10,064**	5,693	**5.2**	4 6
Property	**2,565**	2,484	**6.7**	6 2
Other assets	**204**	29	**4 6**	4 1
Fair value of plans' assets for the Group	**23,923**	23 578		
Present value of plans' liabilities for the Group	**(26,846)**	(28,563)		
Deficit in schemes for the Group	**(2,923)**	(4 985)		
Deficit in schemes for the Company (at approximately 93%)	**(2,718)**	(4,636)		

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

21. Pensions (continued)

c) Recognised charges

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

	2008 £m	2007 £m
Analysis of amounts recognised in the profit and loss account		
Analysis of amounts charged to operating profit before exceptional items:		
Current service cost	**652**	651
Past service cost	**-**	15
Total charge to operating profit before exceptional items	**652**	666
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments (within provision for restructuring charge – note 5)	**22**	39
Total charge to operating profit	**674**	705
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plans' liabilities for the Group	**1,509**	1 342
Expected return on plans' assets for the Group	**(1,640)**	(1,541)
Net pensions interest for the Group	**(131)**	(199)
Share of net pensions interest for the Company (at approximately 93%)	**(122)**	(185)
Total charge to profit and loss account before deduction for tax	**552**	520
Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL)		
Actual return on plans assets for the Group	**313**	1,713
Less expected return on plans' assets for the Group	**(1,640)**	(1 541)
Actuarial (losses)/gains on assets for the Group (all experience adjustments)	**(1,327)**	172
Experience adjustments on liabilities for the Group	(169)	(122)
Effects of changes in actuarial assumptions on liabilities for the Group	3,294	290
Actuarial gains on liabilities for the Group	**3,125**	168
Actuarial gains recognised in STRGL for the Group	**1,798**	340
Share of actuarial gains recognised in STRGL for the Company (at approximately 93%)	**1,674**	315

21. Pensions (continued)

d) Movement in (deficit)/surplus in the plans

	2008 £m	2007 £m
Share of deficit in plans at beginning of period for the Company	**(4,636)**	(5,190)
Company contributions paid	**842**	787
Movement in company contributions accrued	**1**	(37)
Company contributions prepaid for 2008-09	**(50)**	-
Current service cost	**(652)**	(651)
Past service cost	-	(15)
Curtailment costs*	**(20)**	(29)
Net pensions interest	**122**	185
Actuarial gain/(loss) (recognised in STRGL)	**1,674**	315
Deficit transferred	**1**	1
Other	-	(2)
Share of deficit in plans at end of period for the Company	**(2,718)**	(4 636)

*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

e) 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 £828m gain (2007 a loss of £846m) 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

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of assets for the Group	**23,923**	23,578	21,847	17,357	15,200
Present value of liabilities for the Group	**(26,846)**	(28,563)	(27 435)	(21,315)	(19,594)
Deficit in schemes for the Group	**(2,923)**	(4,985)	(5,588)	(3,958)	(4,394)
Deficit in the schemes for the Company (at approximately 93%)	**(2,718)**	(4,636)	(5,190)	(3,678)	(4,086)

	2008 £m	2007 £m	2006 £m	2005 £m
Experience adjustment on assets for the Company*	**(1,235)**	159	3 182	970
Experience adjustment on liabilities for the Company*	**(157)**	(113)	(150)	(281)

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

22. Called up share capital

	2008 £000	2007 £000
Authorised		
100,000 ordinary shares of £1 each	**100**	100
Total	**100**	100
Allotted and fully paid		
50,000 ordinary shares of £1 each	**50**	50
Total	**50**	50

23. Reserves

	Share premium £m	Retained earnings £m	Hedging Reserve £m	Financial Assets Reserve £m	2008 Total £m	2007 Total £m
Balance at 26 March 2007 and 27 March 2006	3 784	(6 813)	(5)	-	(3 034)	(2 740)
(Loss)/Profit for the financial year	-	(63)	-	-	**(63)**	262
Actuarial gain on defined benefit schemes	-	1 674	-	-	**1,674**	315
Taxation on items taken directly to reserves	-	64	-	-	**64**	(71)
Gains/(losses) on cash flow hedge deferred into reserves	-	-	36	-	**36**	(9)
(Gains)/losses on cash flow hedges released from reserves to profit for the financial year	-	-	(3)	-	**(3)**	4
Gains on cash flow hedges released from reserves to the carrying amount of non-financial assets	-	-	(1)	-	**(1)**	-
Gains on financial asset investments	-	-	-	2	**2**	-
Total recognised gains for the financial year	**-**	**1,675**	**32**	2	**1,709**	501
Distribution to Royal Mail Holdings plc (immediate parent company)	-	-	-	-	**-**	(795)
At 30 March 2008 and 25 March 2007	**3,784**	**(5,138)**	**27**	2	**(1,325)**	(3 034)

Hedging Reserve

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

Financial Assets Reserve

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

24. Commitments

Capital commitments contracted for but not provided in the accounts amount to £220m (2007 £109m)

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

	Land and buildings		Vehicles and equipment		IT equipment	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
For leases which expire.						
Within one year	**3**	4	**9**	9	**-**	-
Between one and five years	**113**	12	**13**	24	**13**	-
Beyond five years	**61**	156	**1**	-	**-**	14
Total	**177**	172	**23**	33	**13**	14

25. Obligations under finance leases and hire purchase contracts

	2008		2007	
	Minimum payments £m	**Present value of minimum lease payments £m**	Minimum payments £m	Present value of minimum lease payments £m
Within one year	**9**	**8**	-	-
Between one and five years	**33**	**29**	-	-
Beyond five years	**5**	**3**	-	-
Total minimum lease payments	**47**	**40**	-	-
Less amounts representing finance charges	**(7)**	**-**	-	-
Present value of minimum lease payments	**40**	**40**	-	-

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

The aggregate finance charges allocated for the period in respect of finance leases was £926,414

26 Related party transactions

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

27. Principal investments in subsidiaries and associates

Investments in subsidiaries and associates (note 12) comprise principally of the following investments held directly by the Company

	Country of incorporation	% Holding	Principal activities
Subsidiaries			
Post Office Limited	UK	100	Counter services
Royal Mail Investments Limited	UK	100	Holding company
Royal Mail Estates Limited	UK	100	Property company
Romec Limited	UK	51	Facilities management
Associates			
Quadrant Catering Limited	UK	51	Catering services

All the above subsidiaries and associates have a year end date of the last Sunday in March with the exception of Quadrant Catering Limited which has a 30 September year end date and Romec Limited which has a 31 December year end date

The principal subsidiary that is not an investment held directly by the Company is General Logistics Systems B V General Logistics Systems B V is a holding company incorporated in the Netherlands which has investments in other operational companies based in Europe Royal Mail Investments Limited has a 100% holding in General Logistics Systems B V

All shareholdings are equity shares

28. Immediate and ultimate parent company

At 30 March 2008, the Directors regarded Royal Mail Holdings plc as the immediate and ultimate parent company The results of the Company form part of the Royal Mail Holdings plc Group accounts which are available from that company s website (www royalmailgroup com) or from the Company Secretary, 148 Old Street, London EC1V 9HQ