Registered Number 04138203

Royal Mail Group Ltd

Report and Accounts

2008-2009

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 52 weeks ended 29 March 2009 (2008 53 weeks ended 30 March 2008).

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

The Royal Mail Letters ('Letters') part of the business processes and delivers over 75 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 Royal Mail 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.

The Company and its people made real progress in 2008-09 with an operating profit before exceptional items of £58 million compared with a loss of £10 million in 2008, the vast majority of mail was delivered at or ahead of target, and a raft of modernisation and efficiency measures implemented ranging from the roll-out of handheld tracking devices to the successful upgrading of automated sorting equipment. Competitive pressures intensified, with almost ten million fewer letters a day being handled than just three years ago, but the transformation of the business is well underway and on track to ensure it has the modern operation key to its future.

The Company's performance came in the face of the worst economic conditions in more than half a century, along with unprecedented competition from electronic media. This performance in the face of such difficult market conditions underlines the effort and hard work by our people and the long journey we have taken from the time, seven years ago, when the business was making substantial losses and failing most of its quality targets to the position today where it is profitable and meeting quality targets.

However real challenges remain:

- The need for fairer regulation that reflects the market in which we now operate.
- Mail volumes are predicted to decline by around 10% this year due to competition from electronic communications and the economic downturn - with every 1% decline costing £70m in revenue.
- Revenue in Letters fell by £123 million - nearly 2% - despite postage price rises in April 2008 averaging around 5%. This income fall was largely driven by a fall in mail volumes of 5.5% - a steep increase on the 3.2% fall the previous year.
- The pension fund deficit has more than doubled from £2.3 billion last year to £6.3 billion in accounting terms with the actuarial valuation also likely to have increased very significantly when it is revalued later this year.
- Cashflow is now negative as we step up our spending on modernising and transforming the business.
- There was strong progress in modernising the Letters business and improving its efficiency in both deliveries and in sorting the mail. Along with our people's commitment and dedication to customers, this helped the business to hit almost all its quality targets.
- There is an urgent need to tackle the escalating legacy pension fund deficit so that the financial benefits of modernisation and greater efficiency can flow through to our customers in the form of better services rather than being absorbed by unsustainable payments into a volatile fund.
- Parcelforce Worldwide grew its revenues in the face of the economic recession and increased its efficiency, achieving a 57.5% increase in operating profit to £12 million. It also improved customer quality of service with a 97.5% performance achievement. However margins remain under severe pressure in an exceptionally tough market.
- The need to accelerate still further the modernisation of the mails business so that we can offset the challenges we face and continue to provide our customers with an affordable and high quality Universal Service.
- The average daily mailbag now holds just over 75 million letters, packets and parcels compared to 84 million three years ago in 2006, with e-substitution driving much of the loss as more customers switch from letters to email and the web.
- The exceptionally tough economic climate and the structural change in the way people and businesses communicate mean that volumes are likely to decline by up to 10% in 2009-10 as businesses - which send around 90% of all mail - tighten their belts. Revenue has also continued to suffer from downtrading as customers switch from premium products like First Class to lower-priced services.

Directors' Report (continued)

Royal Mail Letters – accelerating modernisation

Our strategy in Royal Mail Letters is:

- Maximise profitable revenue by meeting customer needs through innovation and efficiency
- Deliver market-leading quality of service
- Be the UK's lowest-cost operator with world-class productivity through investment in a modernised environment
- Deliver change through engaged, flexible and competitively paid people.

Good progress was made in 2008-09 on the drive to modernise the Letters business and expand its capabilities to improve service to customers. As part of the 2007 funding deal, Royal Mail was provided with £1.2 billion of loan facilities from Government and we have already invested around £800 million since 2006-07, with almost £400 million spent on capital expenditure during the year. Going forward we will fully utilise the Government financing as we invest a further £2 billion in modernising the business. The work underway includes:

- 27,000 handheld tracking devices were issued to Letters' drivers to record an electronic signature on delivery of Special Delivery and other tracked mail. The rollout in 2008 created one of the UK's biggest corporate WiFi networks and hundreds of thousands of items a day are now being tracked using the technology, which can provide the sender confirmation of delivery within 20 minutes after the mail is signed for at the doorstep.
- The upgrade of 138 Integrated Mail Processors was completed in mail centres nationwide to improve the equipment's performance. Work has now started on building extensions to up to 90 machines to expand further its sorting capabilities.
- The first "intelligent" Letter Sorting Machine - the forerunner of a new generation of automated sorting equipment - has been installed at the Jubilee mail centre in Kingston in Surrey and orders have been placed for a further 75 machines.
- After extensive consultations with our people, as well as with local authorities and MPs, the closure of 11 mail centres was announced last year and plans are well advanced to move the work to other more efficient centres as well as to build two new ones.
- The first walk sequencing machines - which can sort the mail sequentially to the route taken by a postman or woman - were installed in Bristol in preparation for a rollout to the rest of the delivery network. The workplans for over 34,000 walks have now been revised, resulting in efficiency gains.
- Within three years we will have 900 sophisticated automation machines and we will be able to sort 75% of addressed letters to the exact door-to-door sequence in which our postmen and women deliver - compared to the legacy 600 machines which have much more limited capability.

We are already half way through our modernisation, but given the sharp downturn in the postal market and the difficult economic conditions, we clearly need to accelerate our transformation plan. The scale of modernisation Royal Mail Letters is going through makes it more important than ever that we engage with our people and the trade unions we work with to secure a real commitment to change on the ground - and to ensure the Company has a strong future in the competitive market while at the same time protecting the one-price-goes-anywhere Universal Service.

Parcelforce Worldwide – record customer quality of service

Against a backdrop of significant economic pressure in its chosen markets affecting many key competitors, Parcelforce Worldwide continued to grow both revenue and profits. An intense focus on driving a customer orientated culture throughout the business resulted in the best ever customer retention levels, best ever quality of service and highest first time delivery success. A drive to deepen and widen the customer offer resulted in three new products being launched during the year:

- a new Business to Consumer afternoon delivery product - aimed at providing greater choice of delivery time certainty,
- a specialist service for handling large items over a 48 hour period,
- a new pay-as-you-go offer for business customers.

Trials continued with low/zero emission vehicles and with energy efficiency projects to inform the journey required for the Group to move towards carbon neutrality by 2015.

Royal Mail Group Ltd

Directors' Report (continued)

The future

Despite the pressures facing the Company, its robust performance - in both financial and quality terms - shows it is making good progress in building the base on which it cannot just withstand the pressures of recession and competition, but also provide the modern, transformed and efficient operations so crucial for a successful future. Royal Mail Letters is getting on with modernisation and Parcelforce Worldwide continues to be profitable and win new business in the face of intense competition. In a few years' time we predict that half the Letters business' overall revenues and 75% of its profits will come from parcel and packet services, driven by the real opportunities of e-commerce and fulfilment.

The huge effort to modernise the Letters business provides the best opportunity to secure the future of the Universal Service. And as we remain convinced that a Universal Service - that only we have both the willingness and means to provide - is essential for a thriving and flourishing mails market, we will continue to do all we can to protect and nurture this key service on which the whole country depends.

Critical to our success is working with our shareholder, the Government, to find the right solution to the issues already identified in the review of the industry by Richard Hooper - the need for fairer regulation, a resolution to the escalating legacy pension fund deficit, and timely and flexible access to capital.

The year past has been an important one and the year ahead will be no less so. The challenges from the difficult and uncertain markets in which we operate remain, but we have the funding and the determination to continue our journey to transformation. Our vision, fully achievable with our continued commitment and progress on modernisation, remains: to be demonstrably the world's best postal company.

Results and dividends

The operating profit before exceptional items of £58m has improved from a loss in 2008 of £10m, driven by reduced people costs mainly due to lower pension costs as a result of pension reform and market conditions, and a decrease in headcount, offset by an overall decline in turnover. The loss after taxation for the year was £559m (2008 £63m). This loss includes a tax charge of £271m (2008 £200m tax credit), which is largely due to the decreased amount of deferred tax asset recognised.

The Directors do not recommend a dividend (2008 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). A new defined contribution plan (RMDCP) was launched in April 2009. New recruits joining 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. Based on assets, the Royal Mail Pension Plan is one of the largest pension schemes in the UK.

The assets and liabilities of the defined benefit schemes, as measured under accounting standards, are reported as a net pension deficit in the 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 increased from £2,718m in March 2008 to £6,301m. The increase in the deficit of £3,583m principally relates to an actuarial loss of £3,798m. The actuarial loss reflects the Company's share of the total Group actuarial loss, which arose due to changes in market conditions giving rise to lower than expected asset values. This loss 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 £1m (2008 £2m). No political contributions were made in the year (2008 £nil).

Research and development

Research and development expenditure during the year amounted to £nil (2008 £1m).

Directors' Report (continued)

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

The number of days' purchases in creditors at the balance sheet date was 16 (2008 17 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 £12m (2008 £10m). In the opinion of the Directors, the aggregate market value of the Company's land and buildings exceeds this net book value by £14m (2008 £19m).

Directors and their interests
The following have served as Directors of the Company during the year ended 29 March 2009 and up to the date of approval of these accounts:

Donald Brydon (Chairman)	Appointed to the Board 27 January 2009, appointed Chairman on 26 March 2009
Allan Leighton	Chairman until leaving the Board on 25 March 2009
Alan Cook	
Adam Crozier	
Ian Duncan	
Mark Higson	

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 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.

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.

Directors' Report (continued)

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. Credit controls in place have limited the level of bad debt incurred to around 0.1% (2008 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 176,000 people (2008 181,000). 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.

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, we embarked on a business wide engagement programme to make Royal Mail Group a 'Great Place to Work'. The purpose of the programme is to encourage people to contribute to improving their working environment; to equip them with the skills they need, to develop pride in and understanding of the business; and to drive respect for colleagues. In short, to ensure people considerations are at the heart of all major business decisions. The programme is ongoing and will remain an integral part of our people strategy.

This strategy will ensure we realise our full potential through the strength of our people by developing a high-performing, sustainable culture where everyone feels involved and valued.

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.

Directors' Report (continued)

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 2009 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 within the fundamental accounting concept in note 1 to the accounts.

Auditor

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

By Order of the Board

Jonathan Evans

Jonathan Evans
Secretary
London
17 June 2009

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.

Royal Mail Group Ltd

Independent Auditor's Report to the members of Royal Mail Group Ltd

We have audited the Company's financial statements for the year ended 29 March 2009 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 29 March 2009 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
17 June 2009

Royal Mail Group Ltd

Profit and loss account
for the 52 weeks ended 29 March 2009 and the 53 weeks ended 30 March 2008

		2009			2008		
	Notes	**Pre exceptional items £m**	**Exceptional Items £m**	**Total £m**	Pre exceptional items £m	Exceptional Items £m	Total £m
Turnover from continuing operations	2	**7,126**	-	**7,126**	7,230	-	7,230
Costs:		**(7,068)**	**(204)**	**(7,272)**	(7,240)	(370)	(7,610)
Staff costs	3/5	**(4,808)**	**(179)**	**(4,987)**	(5,013)	(365)	(5,378)
Depreciation and amortisation	10/11	**(200)**	-	**(200)**	(182)	-	(182)
Impairment	5/10	-	-	-	-	(6)	(6)
Other operating charges	4/5	**(2,060)**	**(25)**	**(2,085)**	(2,045)	1	(2,044)
Operating profit/(loss) from continuing operations		**58**	**(204)**	**(146)**	(10)	(370)	(380)
Profit on disposal of tangible fixed assets	6	-	-	-	-	9	9
Profit/(loss) on ordinary activities		**58**	**(204)**	**(146)**	(10)	(361)	(371)
Income from investments		**6**	-	**6**	6	-	6
Net interest payable	8	**(42)**	-	**(42)**	(20)	-	(20)
Net pensions interest	21	**(106)**	-	**(106)**	122	-	122
(Loss)/profit on ordinary activities before taxation		**(84)**	**(204)**	**(288)**	98	(361)	(263)
Taxation (charge)/credit	9			**(271)**			200
Loss retained for the financial year	23			**(559)**			(63)

Royal Mail Group Ltd

Statement of total recognised gains and losses
for the 52 weeks ended 29 March 2009 and 53 weeks ended 30 March 2008

	Notes	2009 £m	2008 £m
Loss for the financial year		**(559)**	(63)
Actuarial (losses)/gains on defined benefit schemes	21	**(3,798)**	1,674
Taxation on items taken directly to reserves	9	**(168)**	64
Gains on cash flow hedges deferred into reserves	23	**8**	36
Gains on cash flow hedges released from reserves to profit for the financial year	23	**(9)**	(3)
Gains on cash flow hedges released from reserves to the carrying amount of non-financial assets	23	**(14)**	(1)
Gains on financial asset investments	23	**3**	2
Total recognised (losses)/gains for the financial year	23	**(4,537)**	1,709

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	2009 £m	2008 £m
Opening shareholder's deficit	23	**(1,325)**	(3,034)
Total recognised (losses)/gains for the financial year (see above)		**(4,537)**	1,709
Closing shareholder's deficit	23	**(5,862)**	(1,325)

Royal Mail Group Ltd

Balance Sheet
at 29 March 2009 and 30 March 2008

	Notes	2009 £m	2008 £m
Fixed assets			
Intangible assets	10	**64**	53
Tangible assets	11	**1,097**	949
Investments in subsidiaries and associates	12	**552**	552
Financial assets - pension escrow investments	13	**166**	160
Total fixed assets		**1,879**	1,714
Current assets			
Stocks		**20**	17
Debtors - receivable within one year	14	**673**	771
Debtors - receivable beyond one year	14	**498**	526
Financial assets - derivatives receivable within one year		**43**	24
Financial assets - derivatives receivable beyond one year		**22**	8
Financial assets - investments	15	**108**	187
Cash at bank and in hand		**8**	8
		1,372	1,541
Current liabilities			
Creditors - amounts falling due within one year	16	**(1,576)**	(1,473)
Corporation tax		**(5)**	(4)
Financial liabilities - derivatives		**(56)**	(3)
Net current (liabilities)/assets		**(265)**	61
Total assets less current liabilities		**1,614**	1,775
Creditors - amounts falling due after more than one year	17	**(116)**	(74)
Financial liabilities - derivatives		**(5)**	-
Financial liabilities - interest bearing loans and borrowings	18	**(800)**	(500)
Provisions for liabilities and charges	19	**(254)**	(226)
Retirement benefit obligation	20	**(6,301)**	(2,300)
Net liabilities		**(5,862)**	(1,325)
Capital and reserves			
Called up share capital	22	**-**	-
Share premium	23	**3,784**	3,784
Profit and loss account	23	**(9,663)**	(5,138)
Hedging Reserve	23	**12**	27
Financial Assets Reserve	23	**5**	2
Shareholder's deficit		**(5,862)**	(1,325)

The accounts on pages 10 to 32 were approved by the Board of Directors on 17 June 2009 and signed on its behalf by:

Adam Crozier **Ian Duncan**

Royal Mail Group Ltd

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 52 weeks ended 29 March 2009 (53 weeks ended 30 March 2008).

Basis of preparation

The accounts on pages 10 to 32 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 may be 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. In this situation the amount of such fines and compensation will be determined by the Regulator after further representations from the Company and no further information will be disclosed on the grounds that it can be expected to prejudice the outcome of that process.

Fundamental accounting concept

Royal Mail Group Ltd has net liabilities at 29 March 2009, primarily because of the deficit within its main pension plan, the Royal Mail Pension Plan.

The Company is facing considerable cash requirements with respect to its investment in plant and equipment and funding its worsening pension deficit at a time when the market has been opened up to full competition.

On 23 March 2007, a funding package totalling £1.2bn up until 2016 was completed with Government and for which State Aid approval was received in April 2009. The £900m senior debt facility expires in March 2014. It has been assumed that another facility will be negotiated to be available at this time.

In making an assessment on Royal Mail Group Ltd's ability to continue as a going concern, the directors have assumed the successful execution of the transformation plan which is reflected in the detailed 5 year business plan approved by the Royal Mail Holdings plc Board. There are a number of uncertainties in relation to the funding and headroom requirements which are set out below.

In December 2008 an independent review of the UK postal services sector was published. Further to the recommendations in the review, Royal Mail is in discussion with its Shareholder about how it may transfer the historic pension liabilities to the Government. The Government has indicated that this transfer will only take place if a minority stake in Royal Mail is sold to a third party.

If the transfer of historic pension liabilities to Government does not happen, the Directors will have to review the cash requirements of the strategic plan and discuss and agree an affordable payment profile with the Royal Mail Pension Plan Trustees. Due to the worsening pension deficit position the payment of the deficit is likely to need to extend beyond the 14 years remaining of the 17 year repayment profile agreed in 2006 and it is assumed that the pension escrow established in 2007 will continue to be required.

Current projections suggest that the Loan to Value (LTV) covenant may be breached in 2010-11 following the recent decline in property values and assuming that this value decline does not reverse. If the property values do not recover the Directors have informed Government that they would seek to negotiate a waiver to the covenant. Any waiver or changes will be on a commercial basis.

If the waiver discussed above was not available or other risks in relation to the business plan materialise, the Directors have identified a portfolio of operational and strategic actions that could be taken to reduce the loan requirements and enable the covenant to be met or provide additional funding to mitigate any headroom exposures.

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 Royal Mail Holdings Group plc (the "Group") 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 Company 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.

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.

1. Accounting policies (continued)

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.

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.

1. Accounting policies (continued)

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.

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.

1. Accounting policies (continued)

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.

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

	2009 £m	2008 £m
Wages and salaries	**3,980**	3,980
Social security costs	**291**	294
Pension costs (note 21)	**460**	654
Temporary resource	**77**	85
Total	**4,808**	5,013

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

	Period end employees		Average employees	
	2009	2008	**2009**	2008
Royal Mail and Parcelforce Worldwide	**167,396**	172,113	**169,531**	172,373
Post Office Limited	**8,760**	9,163	**8,899**	9,600
Total employees	**176,156**	181,276	**178,430**	181,973

Employees at Post Office Ltd are employed by the Company but are seconded to Post Office Limited, a subsidiary of Royal Mail Group Ltd.

4. Other operating charges

	2009 £m	2008 £m
Other operating charges before exceptional items is stated after charging:		
Depreciation and amortisation:	**200**	182
Depreciation of owned tangible fixed assets	150	144
Depreciation of tangible fixed assets under finance lease and hire purchase contracts	29	22
Amortisation of intangible assets	21	16
Research and development expenditure	-	1
Operating lease charges:	**119**	131
Land and buildings	80	82
Vehicles and equipment	39	49
Regulatory body costs:	**13**	16
Postcomm	9	9
Postwatch	2	7
Customer Focus	2	-

Auditor's remuneration amounted to £300,000 (2008 £291,000) for the audit of the statutory accounts. Auditor's remuneration relating to other services supplied to the Company was £95,000 (2008 £52,000).

5. Operating exceptional items

	2009 £m	2008 £m
ColleagueShare costs – phantom share scheme (note 19)	**(13)**	(105)
- stakeholder dividend (note 16)	**(61)**	(145)
Provision for restructuring – redundancy costs (note 19)	**(105)**	(115)
Within staff costs	**(179)**	(365)
Impairment of intangible fixed assets (note 10)	**-**	(6)
Other exceptional write-offs	**(25)**	-
Provision for restructuring – other operating charges (note 19)	**-**	(4)
Provision for restructuring - property provision release (note 19)	**-**	5
Within impairment and other operating charges	**(25)**	(5)
Total operating exceptional items	**(204)**	(370)

The £13m (2008 £105m) phantom share scheme costs and £61m (2008 £145m) stakeholder dividend costs are the estimated costs relating to the second year of the Group's ColleagueShare plan. The stakeholder dividend will be paid to qualifying employees in 2009-10 whilst the costs of the phantom share scheme are discounted and will be redeemed by the Group by 2012.

The provision for restructuring charge of £105m (2008 £114m) comprises redundancy costs of £105m (2008 £115m) relating mainly to operational efficiency initiatives in Royal Mail. There were no charges/releases this year in restructuring provisions for other operating charges (2008 £4m charge) or property provisions (2008 £5m release).

Other exceptional write-offs of £25m (2008 £nil) are operating exceptional charges in respect of professional fees in connection with strategic initiatives and other one-off costs charged in the current year.

6. Non operating exceptional items

The profit on disposal of tangible fixed assets relating to land and buildings amounted to £nil (2008 £9m).

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

	2009 £m	2008 £m
Interest receivable on investments	**7**	24
Interest receivable from Group entities	**3**	12
Other miscellaneous interest receivable	**-**	1
Interest payable on loans	**(18)**	(42)
Interest payable to Group entities	**(7)**	(2)
Other miscellaneous interest payable	**(27)**	(13)
Total	**(42)**	(20)

9. Taxation

(a) Taxation losses/(gains) recognised

	2009 £m	2008 £m
Taxation charge/(credit) in the profit and loss account:		
Corporation tax charge for year	**21**	-
Tax under (over) provided in previous years	**1**	(3)
Current tax (see table below)	**22**	(3)
Deferred tax:		
Origination and reversal of timing differences	**249**	(217)
Effect of change in tax rate	**-**	20
	271	(200)
Taxation charge/(credit) on items taken to reserves:		
Current tax	**(21)**	-
Deferred tax:		
Origination and reversal of timing differences	**189**	(78)
Effect of change in tax rate	**-**	14
	168	(64)
Total taxation losses/(gains) recognised:		
Current tax	**1**	(3)
Deferred tax	**438**	(261)
	439	(264)

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2008 30%). The differences are explained below:

	2009 £m	2008 £m
Loss on ordinary activities before tax	**(288)**	(263)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008 30%)	**(81)**	(79)
Deferred relief for asset depreciation and impairment	**54**	49
Expenditure disallowable for tax	**9**	3
Accelerated relief for pension contributions	**(23)**	(88)
Provisions not deductible until incurred	**2**	(1)
Share scheme amounts not deductible until incurred	**2**	31
Provision movement non-taxable	**-**	(9)
Adjustment in respect of prior period	**1**	(3)
Effect of group relief surrenders from other companies	**34**	18
Dividend not taxable	**(2)**	(2)
Losses carried forward	**26**	78
Total current tax (see table above)	**22**	(3)

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 £nil (2008 £9m) is £nil (2008 £nil); gains in 2008 were covered by rollover relief and losses.

9. Taxation (continued)

(d) Factors that may affect future tax charges

The Company has £97m (2008 £38m) of unrecognised deferred tax assets relating to tax losses that are available for offset against future trading profits. The Company also has £1,767m (2008 £343m) of unrecognised deferred tax assets relating to pensions, £199m (2008 £161m) related to deferred capital allowances and £47m (2008 £8m) relating to other timing differences.

The Company has access to group capital losses carried forward, the tax effect of which is approximately £22m (2008 £16m).

(e) Deferred tax asset

	2009 £m	2008 £m
Deferred capital allowances	**29**	-
Share scheme	**4**	18
Losses	**-**	35
Within Debtors - receivable beyond one year (note 14)	**33**	53
Pension deficit (within Retirement benefit obligation) (note 20)	**-**	418
Total	**33**	471

The movement on the deferred tax asset is shown below:

	£m	**Total £m**
At 31 March 2008		**471**
Deferred tax charge in profit and loss account (note 9(a))	(249)	
Deferred tax charge on items taken to reserves (note 9(a))	(189)	
Total deferred tax charge recognised (note 9(a))		**(438)**
At 29 March 2009		**33**

From 1 April 2008 the rate of corporation tax decreased from 30% to 28%. This reduced the value of the company's deferred tax assets; the effect of this was reflected in the 2008 accounts.

10. Intangible fixed assets

	2009 £m	2008 £m
Cost		
At 31 March 2008 and 26 March 2007	**81**	57
Additions	**32**	27
Disposals	**(1)**	(3)
At 29 March 2009 and 30 March 2008	**112**	81
Amortisation and impairment		
At 31 March 2008 and 26 March 2007	**28**	9
Amortisation	**21**	16
Impairment	**-**	6
Disposal	**(1)**	(3)
At 29 March 2009 and 30 March 2008	**48**	28
Net book value		
At 29 March 2009 and 30 March 2008	**64**	53
At 31 March 2008 and 26 March 2007	53	48

The above intangible fixed assets relate to software licences.

11. Tangible fixed assets

	Land and Buildings						
	Freehold	Long leasehold	Short leasehold	Motor vehicles	Plant and machinery	Fixtures and equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 31 March 2008	379	80	452	264	816	144	2,135
Reclassification	(9)	(3)	11	-	1	-	-
Additions	90	2	11	83	146	49	381
Disposals - external	(2)	-	(3)	(27)	(9)	(6)	(47)
Legal entity transfer	(45)	(1)	(3)	-	-	-	(49)
At 29 March 2009	**413**	**78**	**468**	**320**	**954**	**187**	**2,420**
Depreciation							
At 31 March 2008	182	56	230	108	516	94	1,186
Reclassification	1	1	(2)	-	-	-	-
Depreciation	22	2	32	57	48	18	179
Disposals - external	(1)	-	(3)	(23)	(9)	(6)	(42)
Legal entity transfer	-	-	-	-	-	-	-
At 29 March 2009	**204**	**59**	**257**	**142**	**555**	**106**	**1,323**
Net book value							
At 29 March 2009	**209**	**19**	**211**	**178**	**399**	**81**	**1,097**
At 31 March 2008	197	24	222	156	300	50	949

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £1m (2008 £nil) of the total cost of properties. The net book value of the Company's land and buildings includes £427m (2008 £433m) in respect of building fit-out. The net book value of the Company's tangible fixed assets held under hire purchase contracts and finance leases amount to £174m (2008 £82m). During the year depreciation of £29m (2008 £22m) was charged in respect of the Company's tangible fixed assets held under hire purchase contracts and finance leases.

The legal entity transfer amounts relate to additions by the Company and subsequently transferred to its relevant subsidiary companies during the year.

12. Investments in subsidiaries and associates

	Subsidiaries £m	Associates £m	Total £m
Cost			
At 31 March 2008	914	26	940
Investment in Post Office Limited - share subscription	152	-	152
At 29 March 2009	**1,066**	**26**	**1,092**
Impairment			
At 31 March 2008	388	-	388
Utilisation of Government grant relating to Post Office Limited	152	-	152
At 29 March 2009	**540**	**-**	**540**
Net book value			
At 29 March 2009	**526**	**26**	**552**
At 31 March 2008	526	26	552

As part of the funding agreement between the Government and Post Office Limited, announced on 17 May 2007, Royal Mail Group Ltd received during April 2009 payments totalling £152m (2008 £313m) in cash from the 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.

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 29 March 2009, Royal Mail Holdings plc had £940m of investments in pension escrow and Royal Mail Group Ltd had £166m. 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

	2009 £m	2008 £m
Receivable within one year:		
Trade debtors	**596**	624
Prepayments and accrued income	**60**	129
Interest debtor	**-**	1
Amounts owed by subsidiaries	**17**	17
Total	**673**	771

	2009 £m	2008 £m
Receivable beyond one year:		
Amounts owed by subsidiaries	**464**	472
Deferred tax asset (note 9 (e))	**33**	53
Other	**1**	1
Total	**498**	526

15. Current financial assets - investments

	2009 £m	2008 £m
Money market funds	**100**	52
Short-term deposits - Government/local government	**8**	45
Short-term deposits - bank	**-**	90
Total	**108**	187

16. Creditors - amounts falling due within one year

	2009 £m	2008 £m
Trade creditors and accruals	**758**	801
Advanced customer payments	**213**	199
Social security	**88**	93
Amounts due to pension schemes relating to redundancies	**7**	2
Interest	**2**	15
Obligations under finance leases and hire purchase contracts (note 25)	**26**	8
Amounts due to subsidiaries	**318**	142
Capital creditors	**94**	68
ColleagueShare	**70**	145
Total	**1,576**	1,473

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

	2009 £m	2008 £m
Obligations under finance leases and hire purchase contracts (note 25)	**73**	32
Amounts due to subsidiaries	**28**	18
Capital creditors	**6**	12
Other	**9**	12
Total	**116**	74

18. Loans

	2009 £m	2008 £m
Amounts falling due in:		
More than 5 years	**800**	500
Total	**800**	500

18. Loans (continued)

Analysis of loans and facilities:

	2009 £m	2008 £m	Security
Royal Mail Group Ltd senior debt facility	**900**	900	Fixed charges over Royal Mail Holdings plc's shares in Royal Mail Group Ltd and Royal Mail Group Ltd's shares in Royal Mail Estates Limited. Floating charges over all assets of Royal Mail Holdings plc, Royal Mail Group Ltd and Royal Mail Estates Limited.
Royal Mail Group Ltd Shareholder loan facility	**300**	300	None
Royal Mail Group Ltd other 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.
	1,700	1,700	

The £500m drawn down loan is at an average fixed interest rate of 5.8% (2008 5.8%) and has an average maturity date of 2023 (2008 2023). The £300m shareholder loan was drawn down during the year is at an average interest rate of 12% and has a maturity date of 2016.

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

	2009 £m	2008 £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	**900**	1,200
Total	**900**	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, other than as explained in note 1.

19. Provisions for liabilities and charges

	At 31 March 2008 £m	Charged/ (released) in operating exceptional items (see note 5) £m	Discount Rate adjustment £m	Charged/ (released) in other operating costs £m	Utilised Non-cash £m	Utilised cash £m	At 29 March 2009 £m
Total	226	118	7	16	(25)	(88)	**254**

The provision includes amounts relating to ColleagueShare £122m (2008 £105m) and redundancies of £95m (2008 £91m), with the balance of £37m (2008 £30m) comprising provisions for estimated exposures resulting from legal claims, onerous contracts and decommissioning.

The amounts charged in other operating costs principally relate to onerous property contracts and estimated exposures resulting from legal claims. Details of amounts charged as operating and non-operating exceptional items are contained in notes 5 and 6 respectively.

The cash utilisation of £88m (2008 £83m) includes £79m (2008 £79m) of spend relating to exceptional rationalisation, £2m for ColleagueShare leavers (2008 £nil) and £7m (2008 £4m) relating to other costs. The other non-cash amount of £25m (2008 £20m) principally relates to transfers from provisions to current payables for amounts due to the pension scheme for redundancies with early retirement.

19. Provisions for liabilities and charges (continued)

The provision in the main is expected to be utilised in 2009-10 with the remaining amounts expected to be utilised over the next two to three years, except for £122m (2008 £105m) relating to ColleagueShare expected to be utilised within 4 years and £2m relating to onerous property contracts expected to be utilised over a period longer than 5 years. The timing of cash flows for such provisions are by their nature uncertain and dependent upon the outcome of related events.

20. Retirement benefit obligation

	2009	2008
	£m	£m
Deficit in schemes (note 21)	**6,301**	2,718
Related deferred tax asset (note 9(e))	**-**	(418)
Total	**6,301**	2,300

21. Pensions

The Company participates in pension schemes as detailed below:

Scheme	**Eligibility**	**Type**
Royal Mail Pension Plan (RMPP)	UK employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	UK senior executives	Defined benefit
Royal Mail Retirement Savings Plan (RMRSP)	UK employees	Defined contribution
Royal Mail Defined Contribution Plan (RMDCP)	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 £1m (2008 £2m) was recognised in operating profit before exceptional items within the profit and loss account. The Company contributions to these schemes was £1m (2008 £2m). A new defined contribution plan (RMDCP) was launched in April 2009. New recruits joining 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.

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 26 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 to RMPP and RMSEPP began to take effect on 1 April 2008 as follows:

- the Plan closed to new members from 31 March 2008;
- all pensions and benefits earned before 1 April 2008 are still linked to final salary at the time of retirement;
- from 1 April 2008, defined benefits building up for employee members of the Plan are earned on a career salary basis;
- employees can continue to take their pension on reaching 60 but the normal retirement age will increase to 65 for benefits earned from 1 April 2010; and
- from 1 April 2010 it will be possible to draw pension earned before the change to normal retirement age at 60, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached.

Payment of £510m (2008 £510m) 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 2009-10. For RMSEPP, these contributions have remained at 48.2% (2008 48.2%).

Payment of £270m (2008 £263m) 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.

21. Pensions (continued)

A current liability of £7m (2008 £2m) has been recognised for payments to the pension schemes relating to redundancy (note 16). During the year, payments of £20m (2008 £19m) 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:

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 29 March 2009	At 30 March 2008	At 25 March 2007
	% pa	% pa	%pa
Rate of increase in salaries	**4.2**	4.6	4.1
Rate of increase in pensions and deferred pensions	**3.2**	3.6	3.1
Discount rate	**6.4**	6.5	5.3
Inflation assumption	**3.2**	3.6	3.1
Expected average rate of return on assets	**6.9**	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:	**2009**	2008	2007
For a current 60 year old male RMPP member	**26 years**	26 years	26 years
For a current 60 year old female RMPP member	**29 years**	29 years	29 years
For a current 40 year old male RMPP member	**28 years**	28 years	28 years
For a current 40 year old female RMPP member	**31 years**	31 years	30 years

b) Plans' assets and expected rates of return

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

At 29 March 2009

	Market value			**Long-term expected rate of return**		
	2009	2008	2007	**2009**	2008	2007
	£m	£m	£m	**% pa**	% pa	%pa
Equities	**5,864**	11,090	15,372	**8.4**	8.3	8.0
Bonds	**12,311**	10,064	5,693	**6.3**	5.2	4.6
Property	**1,631**	2,565	2,484	**6.8**	6.7	6.2
Other assets	**265**	204	29	**4.2**	4.6	4.1
Fair value of plans' assets for the Group	**20,071**	23,923	23,578			
Present value of plans' liabilities for the Group	**(26,847)**	(26,846)	(28,563)			
Deficit in schemes for the Group	**(6,776)**	(2,923)	(4,985)			
Deficit in schemes for the Company (at approximately 93%)	**(6,301)**	(2,718)	(4,636)			

21. Pensions (continued)

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

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

c) Recognised charges
An analysis of the separate components of the amounts recognised in the performance statements of the Company is as follows:

	2009 £m	2008 £m
Analysis of amounts recognised in the profit and loss account		
Analysis of amounts charged to operating profit before exceptional items:		
Current service cost	**459**	652
Past service cost	**-**	-
Total charge to operating profit before exceptional items	**459**	652
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments (within provision for restructuring charge - note 5)	**29**	22
Total charge to operating profit	**488**	674
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plans' liabilities for the Group	**1,734**	1,509
Expected return on plans' assets for the Group	**(1,620)**	(1,640)
Net pensions interest for the Group	**114**	(131)
Share of net pensions interest for the Company (at approximately 93%)	**106**	(122)
Total charge to profit and loss account before deduction for tax	**594**	552
Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL)		
Actual return on plans' assets for the Group	**(3,861)**	313
Less: expected return on plans' assets for the Group	**(1,620)**	(1,640)
Actuarial losses on assets for the Group (all experience adjustments)	**(5,481)**	(1,327)
Experience adjustments on liabilities for the Group	**(10)**	(169)
Effects of changes in actuarial assumptions on liabilities for the Group	**1,407**	3,294
Actuarial gains on liabilities for the Group	**1,397**	3,125
Actuarial (losses)/gains recognised in STRGL for the Group	**(4,084)**	1,798
Share of actuarial gains recognised in STRGL for the Company (at approximately 93%)	**(3,798)**	1,674

21. Pensions (continued)

d) Movement in plans' assets and liabilities

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

	2009 £m	2008 £m
Plans' liabilities at beginning of period	**(24,960)**	(26,564)
Current service cost	**(459)**	(652)
Curtailment costs*	**(25)**	(20)
Interest payable	**(1,613)**	(1,403)
Employee contributions	**(156)**	(154)
Actuarial gain (recognised in STRGL)	**1,299**	2,909
Benefits paid	**957**	923
Deficit transferred	**-**	1
Plans' liabilities at end of period	**(24,964)**	(24,960)

*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.

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

	2009 £m	2008 £m
Plans' assets at beginning of period	**22,242**	21,928
Company contributions paid	**750**	842
Movement in company contributions accrued	**5**	1
Company contributions prepaid in 2008 for 2009	**50**	(50)
Employee contributions	**156**	154
Interest receivable	**1,507**	1,525
Actuarial loss (recognised in STRGL)	**(5,097)**	(1,235)
Benefits paid	**(957)**	(923)
Plans' assets at end of period	**18,663**	22,242

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 £2,970m loss (2008 a gain of £828m). 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.

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of assets for the Group	**20,071**	23,923	23,578	21,847	17,357
Present value of liabilities for the Group	**(26,847)**	(26,846)	(28,563)	(27,435)	(21,315)
Deficit in schemes for the Group	**(6,776)**	(2,923)	(4,985)	(5,588)	(3,958)
Deficit in the schemes for the Company (at approximately 93%)	(6,301)	(2,718)	(4,636)	(5,190)	(3,678)
Experience adjustment on assets for the Company*	(5,097)	(1,235)	159	3,182	970
Experience adjustment on liabilities for the Company*	(9)	(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.

21. Pensions (continued)

	2009 %	2008 %	2007 %	2006 %	2005 %
Experience adjustment on assets as a % of scheme assets for the Company	**(27.3)**	(5.6)	0.7	15.7	6.0
Experience adjustment on liabilities as a % of scheme liabilities for the Company	**0.0**	0.6	0.4	0.6	1.4
Deficit in the scheme as a % of scheme liabilities for the Company	**25.2**	10.9	17.5	20.3	18.6

22. Called up share capital

	2009 £000	2008 £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	2009 Total	2008 Total £m
Balance at 31 March 2008 and 26 March 2007	**3,784**	**(5,138)**	**27**	**2**	**(1,325)**	**(3,034)**
Loss for the financial year	-	(559)	-	-	**(559)**	(63)
Actuarial (loss)/gain on defined benefit schemes	-	(3,798)	-	-	**(3,798)**	1,674
Taxation on items taken directly to reserves	-	(168)	-	-	**(168)**	64
Gains on cash flow hedge deferred into reserves	-	-	8	-	**8**	36
(Gains) on cash flow hedges released from reserves to profit for the financial year.	-	-	(9)	-	**(9)**	(3)
Gains on cash flow hedges released from reserves to the carrying amount of non-financial assets	-	-	(14)	-	**(14)**	(1)
Gains on financial asset investments	-	-	-	3	**3**	2
Total recognised (losses)/gains for the financial year	**-**	**(4,525)**	**(15)**	**3**	**(4,537)**	1,709
At 29 March 2009 and 30 March 2008	**3,784**	**(9,663)**	**12**	**5**	**(5,862)**	(1,325)

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 £192m (2008 £220m).

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	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
For leases which expire:						
Within one year	**7**	3	**6**	9	**11**	-
Between one and five years	**112**	113	**7**	13	**-**	13
Beyond five years	**60**	61	**1**	1	**-**	-
Total	**179**	177	**14**	23	**11**	13

25. Obligations under finance leases and hire purchase contracts

	2009		2008	
	Minimum payments £m	**Present value of minimum lease payments £m**	Minimum payments £m	Present value of minimum lease payments £m
Within one year	**30**	**26**	9	8
Between one and five years	**75**	**70**	33	29
Beyond five years	**5**	**3**	5	3
Total minimum lease payments	**110**	**99**	47	40
Less amounts representing finance charges	**(11)**	**-**	(7)	-
Present value of minimum lease payments	**99**	**99**	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 £4,778,180 (2008 £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 holdings
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 29 March 2009, 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, 100 Victoria Embankment, London EC4Y 0HQ.