Registered Number 04138203

Royal Mail Group Ltd

Annual Report and Financial Statements

2011-2012

Royal Mail Group Ltd

Contents

Royal Mail Group Ltd

Directors' Report

The Directors present the Annual Report and Financial Statements of Royal Mail Group Ltd ('the Company') These financial statements relate to the 52 weeks ended 25 March 2012 (2011 52 weeks ended 27 March 2011)

Principal activities

The Company continues to provide a nationwide and international distribution service, principally of parcels, letters and other mail and marketing mail

Review of the business and future developments

UK Parcels, International & Letters (UKPIL), the operating unit of the Company, comprises the activities of both Royal Mail and Parcelforce Worldwide focusing on parcels, traditional letters and other mail and marketing mail

UKPIL processes and delivers letters and parcels in line with its unique Universal Service Obligation It is also a leading provider of collection and delivery services for express parcels through Parcelforce Worldwide providing both businesses and consumers with a full range of timed delivery options UKPIL is responsible for the design and production of the UK's stamps and philatelic products It is also responsible for the processing of international mail under reciprocal arrangements with other overseas postal administrations

Royal Mail delivered around 58 million items every working day last year Its domestic parcels business handled 585 million parcels and Parcelforce Worldwide handled 66 million parcels last year In total these businesses employ 151,156 people in the UK

Royal Mail is the only provider of the UK's Universal Service for some of the lowest prices, yet highest service quality, in Europe It provides a daily collection and delivery service at uniform and affordable prices Royal Mail also provides the social and economic glue in every single community with its reach to over 29 million addresses

Royal Mail collects from nearly 126,000 collection points and delivers to over 29 million addresses It works through the night in a network of 57 operating mail centres, uses a fleet of nearly 39,300 vehicles and employs over 127,000 postmen and women in 1,356 operating delivery offices

Royal Mail achieved a 92 7 per cent First Class retail quality of service performance in 2011-12 At 93 0 per cent its First Class retail quality of service target is one of the highest of all major EU countries With a 98 7 per cent performance, Royal Mail exceeded the Second Class retail quality of Service target of 98 5 per cent.

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

Results and dividends

The profit after taxation for the year was £233m (2011 loss £392m) The Directors do not recommend a dividend (2011 nil dividend) The movements in reserves are shown in note 23 to the financial statements

Revenue increased by £304 million due to a 10 per cent improvement in parcel revenues driven by higher volumes and price increases The letter price increases in April and May 2011 have offset the volumes decrease in addressed letters of six per cent.

Modernising Royal Mail

Royal Mail s modernisation programme is one of the UK s biggest industrial transformation projects This work is having a positive impact on safety and customer service UKPIL headline injury accident frequency has reduced by around 40 per cent in the past two years and reduced gross frontline hours of three per cent (2011 two per cent)

Before the current modernisation programme started in 2006-07, most mail was hand-sorted – a slow and cumbersome process

Early in 2012 we completed our automation programme for letters on time and below budget This involved the installation, refurbishment and upgrading of over 900 highly efficient machines, including intelligent letter sorters processing up to 40,000 items per hour Nearly two thirds of this equipment consists of Compact Sequence Sorters, putting letters in the order which our postmen and women deliver mail out on the streets of the UK

We have made significant progress in changing the way Royal Mail delivers Traditionally, postmen and women carried the full mail weight on their shoulders and travelled on bicycles During the year, we continued to make greater use of safer high-capacity trolleys, lightweight trolleys and two-person vans, reducing the risk of back injury There are now more than 22 300 new trolleys and around 7,500 new vans in operation

And by the end of the year, we had also acquired an additional 10,600 Postal Digital Assistants (PDA) These hand-held electronic devices, issued to post men and women during collection and delivery rounds, enable us to track mail at key points throughout the pipeline

A market-led initiative

Why is modernisation on this scale so important for customers external stakeholders and Royal Mail employees?

While traditional 'white letters' have declined dramatically in numbers parcel volumes are increasing due to the growth in online retailing This changing mail mix inevitably presents challenges Parcels require more space to process and transport and demand more customer interaction in delivery Growth in parcels also provides opportunities, and modernisation is enabling us to provide more customer-focused solutions

Directors' Report (continued)

But, we have not let any of this activity distract us from our ongoing obligations By the end of the year, we had succeeded in creating an infrastructure of fully-modernised letter processing and exceeded our regulator's fourth quarter First Class retail delivery target – having narrowly missed the target for the full year during a period of substantial change

The modernisation programme we are implementing is affecting the working lives of more than 127,000 frontline colleagues in UKPIL. We understand that change is not always easy to accept, particularly when it means working in different ways and keeping different hours And as we become a smaller workforce better suited to changing market conditions, voluntary redundancies will mean the departure of many colleagues

To help those leaving as a result of this process, we have a comprehensive programme in place This involves help in finding new work through job searching skills and career advice as well as provision of financial advice Throughout the modernisation process we are committed to treating Royal Mail people with the dignity they deserve

Fewer, more productive facilities

By the end of the year Royal Mail had fewer, but more productive facilities As with everything to do with our modernisation programme, this reflected changes in market demand

In 2011-12 we closed four mail centres Hemel Hempstead Stevenage Southend and Watford Subject to consultation, we also announced plans to shut Derby, Leicester and Worcester and initiated review processes for Cambridge, Gloucester and Shrewsbury Modernising Royal Mail does not always mean closures Where appropriate, and to best serve our customers, we are also upgrading and opening new mail centres

We have completed the first phase of the £32 million investment programme at Mount Pleasant – our biggest mail centre in London This included the installation of four new Intelligent Letter Sorting Machines (iLSMs) Each can process over 40,000 items per hour To get the most out of these machines, we provided 96 Mount Pleasant employees with three days of comprehensive training

Royal Mail also opened the Medway Mail Centre in Kent and Home Counties North Mail Centre in Hemel Hempstead These flagship facilities represent major investment in our processing units with state-of-the-art machinery and modern working environments

In new and existing facilities the embedding of our World Class Mail programme is revolutionising the way we work.

Developed in-house and based on leading global practice and expert advice, World Class Mail is a comprehensive system for improving safety, customer service, quality and productivity

By the end of the year, 45 mail centres had launched World Class Mail continuous improvement of performance – almost four times as many as there were two years ago

Following an independent external audit, the progress made this year by teams at Leeds and Norwich Mail Centres was recognised with Bronze awards They join previous Bronze-winning colleagues in Belfast, Cardiff and Gatwick. All five mail centres are now working towards Silver status

Royal Mail achieved a great deal in 2011-12 We plan to do even more

In 2012-13 we are spreading the implementation of new delivery methods and associated equipment to more delivery offices

By 2016-17 we will have closed around half of our mail centres, with high productivity in place at the remaining sites

Modernisation is a key way to ensure that Royal Mail's core business – based on the Universal Service – is placed on a sound secure and sustainable footing This is already having a positive impact on our customers and our employees' working lives

Modernisation milestones since the programme began:

- Installed 574 sequencing machines,
- Introduced 64 Intelligent Letter Sorting Machines which can sort over 40 000 letters an hour, at nearly twice the speed of older machines,
- Upgraded and extended 225 Integrated Mail Processing machines
- Achieved sequencing of 75 per cent of the mail,
- Closed 16 mail centres since the modernisation began In 2011-12 we closed four mail centres announced the closure of a further three and began consultation on the closure of three more, and
- Completed delivery revision in 448 delivery offices

Directors' Report (continued)

Our people

Royal Mail Group Ltd employs over 151 000 people in the UK through UKPIL As part of our effort to improve efficiency and competitiveness, during the year we regretfully reduced our UK workforce by 4,000 people - a large proportion of whom were managers

Our inaugural annual employee engagement survey took place in Spring 2012, achieving a score of 56 per cent.

The survey will form the foundation of a specific engagement KPI for years to come We will publish the results annually to chart how our people are feeling about the Company, its leadership and strategic direction

A benchmark survey, conducted by Ipsos MORI in Autumn of 2011, provided initial findings that enabled us to take immediate action

We learned that employees want to know more about our organisation's strategy their role in it and what customers think of Royal Mail. We reacted and undertook a programme of activity to improve this There were plenty of encouraging outcomes Over three quarters of people understand the need for change within Royal Mail Two thirds of people feel their line manager treats them fairly and with respect and well over half are proud to work for Royal Mail.

Safety· an enduring priority

As Royal Mail changes one thing remains constant our commitment to the safety of our people We are pleased to report a 22 per cent reduction in RIDDORs (Reporting of Injuries, Diseases & Dangerous Occurrences Regulations) to 14 3 accidents per 1,000 employees during the year, compared to 18 3 accidents per 1,000 people in the previous year Efficiency gains in Royal Mail operations are actually helping to improve our safety performance

The World Class Mail programme is producing some encouraging results significantly reducing our accident rate One of the programme's ten work areas is safety We have found that when people are given the right time and tools to do their jobs, they work more safely

Safety on the roads is essential Royal Mail and Parcelforce Worldwide now have nearly 39,000 vehicles delivering the length and breadth of the UK It is our obligation to ensure that all of them are in the best road condition and under the control of people with professional driving skills Our Zero Accidents Programme (ZAP) focuses on specific road safety risks Primary training includes pre-use vehicles checks, followed by three hours of in-cab tuition with a qualified instructor targeting the main causes of collisions experienced by our drivers

These efforts are succeeding, with significantly reduced road traffic collision rates in the past year Among our younger drivers, collisions are down 52 per cent during the year Such progress notwithstanding it is with deep regret Royal Mail Group recorded seven road deaths associated with our operations in 2011-12, four of which were third-party fatalities

Developing skills for a changing business

As Royal Mail is modernising, so are the skills of our people We are achieving this through extensive development programmes internally, as well as through a policy of recruitment to help young people and the long-term unemployed to get into employment. In 2011-12, we invested a total of £11 2 million in training and skills development We have also spent £1 9 million on outplacement programmes for employees taking redundancy

Royal Mail's apprenticeship programme has been one of our most encouraging training endeavours It is open to current employees as well as the wider community In 2011-12 we revived our engineering apprentice scheme, which is now running in parallel with a similar programme for vehicle technicians Both lead to a Level 3 National Vocational Qualification (NVQ) within three years More advanced apprenticeship training is helping to identify and shape Royal Mail's future leaders This programme focuses on frontline operational colleagues who show an aptitude for managerial roles

To help get a better gender balance in Royal Mail, we have taken a proactive approach to developing women A new women s network is now raising both skills and awareness throughout the Group Royal Mail's determination in this area prompted a 2011 Silver rating in Business in the Community's (BITC) widely-respected Opportunity Now benchmark exercise

Our workforce is also diverse in terms of race and ethnicity, reflecting the communities in which our people live and work. The proportion of black and ethnic minorities (BEM) employees stands at over 10 per cent, which is slightly above the proportion of BEM citizens in the UK as a whole

Royal Mail s approach to diversity means that we work with several organisations to recruit in places where we have local opportunities One of those organisations is Remploy, which helps people with disabilities and health conditions rejoin the workplace

We are also involved with the Ready to Work programme, part of the Training Foundation Since 2005 more than 450 people have had Royal Mail work experience This year we agreed to take part in a HM Government initiative to offer work experience for up to 83 young people to spend four weeks working for us on a voluntary basis

We are additionally involved with BITC's Business Action on Homelessness, which supports people as they gain and sustain employment.

All of these efforts rightly promote fairness and opportunities for all in Royal Mail. But we never lose sight of our prime objective, which is to raise levels of customer service throughout the Company

Directors' Report (continued)

For instance in 2011-12 we identified a need to equip staff in our enquiry offices with the right skills for what is a key customer-facing role As a result, we introduced a new NVQ-based training scheme specifically targeted towards improving our performance in this area

At Royal Mail, learning is supported by the activities of our Learn Centres There are 100 of these throughout the nation

At our Glasgow Mail Centre, for example all 1,100 employees have access to lifelong learning opportunities in the workplace Since 2009, 482 postmen and women have taken part in over 50 courses covering a wide range of topics

During a recent visit to the facility, First Minister of Scotland Alex Salmond acknowledged the importance of the scheme

Improving career management

With such a huge workforce, it is critical that Royal Mail has the right people management system Our new end-to-end integrated People System Management Programme (PSP) went live during the reporting year Now we are better able to manage employees' careers from recruitment to departure and so significantly enhance working life at Royal Mail

More than 50 per cent of our workforce used PSP in 2011-12 Our aim is to have everyone on the system by August 2012

PSP won the Gold Award in SAPs 2011 UKI Quality Awards in the New Business Application Implementation category PSP is part of a wider effort to simplify working life at Royal Mail. Having accumulated over 200 human resources policies over time, in the past year we reviewed and simplified this portfolio

Today, we are concentrating on 39 core people policy areas, with revised policies and procedures in place that are easier to understand and implement for employees and managers alike We have accomplished all of this with the cooperation of our unions, CWU and Unite

Pension Plans

Royal Mail Group Ltd is the sponsoring employer for the Royal Mail Pension Plan (RMPP) and the Royal Mail Senior Executives Pension Plan (RMSEPP) (both defined benefit schemes albeit on a career average), and for the Royal Mail Defined Contribution Plan (RMDCP) (defined contribution scheme) At the balance sheet date, based on assets, the RMPP is one of the largest pension schemes in the UK

The assets and liabilities of the defined benefit plans, as measured under accounting standards, are reported as a net pension deficit in the Company's balance sheet at 25 March 2012

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

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

Government, Regulation and Legislation

The announcement by Ofcom of a new regulatory framework on 27 March 2012 has significantly increased Royal Mail's commercial freedom Direct price controls now affect 10 per cent of Royal Mail revenues

The past twelve months have marked an important transitional phase for the Company One of the most significant achievements this year has been the successful passage through Parliament of the Postal Services Act 2011, which received Royal Assent in June 2011 We are very grateful to both the Department of Business Innovation and Skills (BIS) and in particular the then Parliamentary Under-Secretary of State for Postal Affairs, Edward Davey, for their role in the successful passing of this important legislation

The Postal Services Act 2011

The Postal Services Act 2011 (The Act), which received Royal Assent on 13 June 2011, provided the framework for regulatory reform The Act's provisions came into force on 1 October 2011 This was when the old license-based regime was replaced by a General Authorisation regime with Regulatory conditions

The new law allows for a regulatory framework in which Royal Mail can compete in a liberalised market and to respond and adapt to structural decline in our core business revenues Importantly, the Act safeguards the 'one-price-goes anywhere' six-day-a-week Universal Service

The Act comprises three pillars:

- Regulatory reform,
- A solution to Royal Mail Group's historic pension deficit, and
- Restructuring of Royal Mail Group, providing a framework that allows for private capital investment

Two of the three key measures of the Act have already been implemented

Directors' Report (continued)

The legislation allowed for a change in regulator and regulatory approach In addition, on 1 April 2012 after the reporting date, almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP) were transferred to HM Government, following State aid approval

Preparation for the third measure - securing private investment for Royal Mail - is underway Post Office Limited formally separated from Royal Mail Group on 1 April 2012 It will remain publicly owned Royal Mail Group and Post Office Limited signed a long-term commercial agreement in January 2012 This secures the excellent existing relationship with Royal Mail's main retail partner - a benefit to both businesses and the customers we serve

The regulatory provisions of the Act respond directly to the significant financial challenge faced by Royal Mail in providing the Universal Service The provisions include three very clear protections to the Universal Service within the Act

- Ofcom's primary duty is to protect the provision of the Universal Service, which only Royal Mail is currently in a position to provide
- Ofcom must have regard for the need for the Universal Service Provider to earn a "reasonable commercial rate of return", and
- Ofcom has the power to impose conditions on anyone who seeks to enter the mails market to provide end-to-end competition where necessary to safeguard the provision of the universal service

Regulatory developments this year

Implementation of the reforms mandated by the Act has led to substantial change to both the nature and extent of postal services regulation The responsibility for regulating the postal sector transferred from Postcomm to Ofcom This reflects the changing position of post It is no longer a discrete sector, but one of several options open to consumers within the wider communications market

We have worked with Ofcom to help put in place a major new approach to regulation The direction taken is reassuring for the financial security of the six-day-a-week, one price goes anywhere Universal Service The reforms will allow Royal Mail's Universal Service Obligation to make a reasonable commercial rate of return This was a supplementary duty placed on Ofcom under the Postal Services Act 2011

Ofcom has lightened Royal Mail's regulatory load This includes ex-ante regulation of pricing, which Ofcom has scaled back to cover standard second class letters, second class large letters and (in future) standard parcels up to 2kg, intended to act as safeguard products We will also have to comply with an ex-ante price control set to meet the requirements for a margin differential between retail and wholesale services Removal of other price caps has allowed us to start the process of rebalancing our prices and redesigning our product portfolio to better meet the needs of customers These processes will also enable Royal Mail to cover all of its costs and earn a reasonable commercial rate of return

Ofcom has also revised another regulatory requirement that previously hindered Royal Mail's performance the regulatory obligation which established a guaranteed price differential for competing mail carriers From 2005, Royal Mail was obliged to process and deliver mail collected by our rivals This requirement, known as Downstream Access (DSA) was subject to strict price controls Nearly 48 per cent of the letters posted within the UK that we handle are now DSA mail While we are happy to do this, regulated access has cost Royal Mail hundreds of millions of pounds in recent years The removal of an explicit price advantage to other players provides a more level playing field Our competitors retain regulatory safeguards for access to the network through the margin control condition

Summary of developments:

- May 2010 Postcomm launched a set of consultations on changes for 2011 which resulted in a number of incremental changes to narrow price controls and started the process of reforming the regulatory framework,
- August 2011 bulk mail products were removed from the Universal Service,
- October 2011 and January 2012 Ofcom launched a set of consultations, which resulted in a substantially different regulatory framework,
- August 2011 bulk mail products were removed from the Universal Service,
- November 2011 start of delivery to neighbour trial, and
- March 2012 Ofcom set new regulatory framework

Next steps

Operating in a deregulated environment

Royal Mail welcomes Ofcom's acknowledgement that there are now strong commercial incentives to treat our customers fairly, that we understand their needs, and that we must offer services that customers want to buy at the right price Royal Mail is focused on reorienting the business to place customers at the heart of everything we do

Directors' Report (continued)

The new regulatory regime gives real incentives to innovate It provides the ability to respond to our customers' needs in a much more commercial way in terms of speed and price, whilst continuing to provide safeguards for users of the Universal Service

Further regulatory change

The reform of the regulatory framework over the past year represents a major step forward for the future sustainability of the Universal Service

However regulatory reform will continue as Ofcom seeks to more closely match regulatory requirements to a dynamic postal market Ofcom will be conducting a "Review of User Needs" as required by the Postal Services Act 2011 which will conclude by March 2013 Ofcom will also be conducting a number of further consultations on the regulatory framework.

Royal Mail will address a number of areas where we believe that further regulatory change in necessary This includes the framework around Access contracts and the process through which both mandated and non-mandated access services are provided

Ofcom will continue to closely scrutinise the postal services market, and our own performance, in order to ensure the new regulatory framework is correctly balanced to deliver a safe and sustainable Universal Service We will work closely with Ofcom to help achieve a better understanding of the rapidly changing marketplace and our place within it.

Political and charitable contributions

During the year, the Company made charitable contributions amounting to £5m (2011 £2m) No political contributions were made in the year (2011 £nil)

Research and development

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

Policy on the payment of suppliers

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

The number of days' purchases in creditors at the balance sheet date was 20 (2011 16 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 £8m (2011 £20m) In the opinion of the Directors, the aggregate market value of the Company's land and buildings exceeds this net book value by £26m (2011 £15m)

Directors and their interests

The following have served as Directors of the Company during the year ended 25 March 2012 and up to the date of approval of these financial statements

	Appointed	Resigned
Donald Brydon (Chairman)		
Moya Greene		
Matthew Lester		
Mark Higson		
David Currie	1 April 2012	
Nick Horler	1 April 2012	
Cath Keers	1 April 2012	
Paul Murray	1 April 2012	
Orna Ni-Chionna	1 April 2012	
Les Owen	1 April 2012	
David Smith		13 June 2011

No Director has a beneficial interest in the share capital of the Company

Directors' Report (continued)

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

Key Performance Indicators

In 2011-12 we introduced management assessment against a Corporate Balanced Scorecard featuring four quadrants

- People
- Customer,
- Performance, and
- Financial

Monthly updates against Scorecard criteria are now helping to drive responsiveness, accountability and alignment for all our managers throughout the UK This system is also ensuring that Royal Mail rewards those managers' performances and behaviours that will advance our key strategies

Principal business risks

Changes in Customer Preferences

Customer behaviours are constantly evolving and competition is increasing Consequently, there is a risk that our product offerings and revenue diversification initiatives, and the customer experience we provide, may not meet changing customer needs In addition, price increases could trigger significant volumes of physical mail bypassing Royal Mail, downtrading to lower revenue products and acceleration in e-substitution

Economic Environment

Historically, there has been a correlation between the state of the UK economy and the level of mail volumes There is a risk that the continuation of flat or adverse economic conditions could impact our ability to stay profitable, either by reducing volumes or by encouraging down trading to lower revenue products Our price rises though necessary, exacerbate this risk Additionally, we have significant European operations and current uncertainty and economic weakness in the Eurozone could impact these businesses

Preparing for attracting external capital

We need to be in a position to implement the provisions of the Postal Services Act 2011, including reaching a sufficient state of readiness to attract private capital, overseeing an efficient separation of Post Office Limited from the rest of the Group and delivering an effective pension solution As a recipient of State Aid, HM Government must submit to the European Commission annual reports about progress with our restructuring

Business Modernisation

We are undergoing a significant, extensive modernisation programme to improve our equipment and technical and IT infrastructure and operating models The success of the business strategy relies on successful extraction of benefits from the programme whilst maintaining key business outcomes such as quality of service levels

Risks inherent in the Postal Industry

The postal industry has specific characteristics that bring particular operational and commercial risks Operations are at risk of disruption by, for example, adverse weather, industrial action, operational change, terrorism (either as a target or a conduit), or failure of critical suppliers

In addition to the changing regulatory regime in the postal sector, there is a risk of non-compliance with a wide range of legal and regulatory requirements, such as procurement and competition law, and financial services and data security regulations

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

Directors' Report (continued)

The Company enters into derivative transactions, which create derivative assets and liabilities principally commodity price 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 Companys policy that no speculative trading in financial instruments shall be undertaken

The main risks arising from the Companys financial instruments are interest rate risk, liquidity risk, foreign currency risk, commodity price risk and credit 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 loans and borrowings 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 and 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, mainly on a combined basis

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

Credit risk

The Company considers that a fair and equitable credit policy is in operation 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 0 3% (2011 0 1%) 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 invests/trades only with high quality financial institutions The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments

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

Legacy share scheme

The scheme (originally termed 'ColleagueShare') introduced in 2007-08, is a five-year scheme spanning the accounting years from April 2007 to March 2012 and comprises both a share' plan and a related stakeholder dividend throughout the life of the scheme

The costs of the scheme are included in the income statement as an exceptional item throughout the life of the scheme and corresponding liabilities are included within payables or provisions as appropriate

Royal Mail Group Ltd

Directors' Report (continued)

Corporate 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 Further details of our Corporate Responsibility (CR) activities will be available in our 2012 CR Report, when it is published

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

At March 2011 and September 2011 the Royal Mail Holdings plc year end and interim accounts respectively contained a specific note on going concern, highlighting that the Directors continued to rely on either the granting of State Aid by the European Commission to the Government to take on almost all of the historical pension liabilities and pension assets of the main pension scheme, Royal Mail Pension Plan (RMPP) or that if State Aid was not granted, the Government would continue to provide alternative financing arrangements which would allow Royal Mail Group Ltd to pay its liabilities as they fell due

In light of

- the post balance sheet event with respect to pensions as described in note 27,
- the return to profitability of the UKPIL businesses,
- the Company's return to cash generation,
- the recent price increases in April 2012 and
- a formal review by Directors of cash headroom forecasts including a "pessimistic but realistic" downside scenario, which confirmed there is sufficient cash headroom so the Company can meet its liabilities as they fall due

the Directors have concluded that the Company is a going concern and that it is appropriate to prepare the financial statements on this basis

Auditor

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

By Order of the Board

Jon Millidge
Secretary
London
27 June 2012

Royal Mail Group Ltd

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Directors Report and the financial statements in accordance with applicable law and regulations Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Moya Greene

Matthew Lester

Royal Mail Group Ltd

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

We have audited the financial statements of Royal Mail Group Ltd (the Company') for the year ended 25 March 2012 which comprise the profit and loss account, statement of total recognised gains and losses reconciliation of movements in shareholder s funds, balance sheet and the related notes 1 to 28 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors Responsibilities Statement set out on page 11 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Companys affairs as at 25 March 2012 and of its profit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

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

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

	Notes	2012 £m	2011 £m
Continuing operations			
Turnover	2	**7,167**	6 863
Staff costs	3	**(4,451)**	(4,554)
Other operating costs	4	**(2,524)**	(2,306)
Operating profit before exceptional items		**192**	3
Modernisation costs – operating exceptional items	5	**(229)**	(192)
Operating loss after modernisation costs before other operating exceptional items		**(37)**	(189)
Other operating exceptional items	5	**(38)**	(53)
Operating loss		**(75)**	(242)
Profit on disposal of property, plant and equipment		**111**	47
Profit/(loss) before financing and taxation		**36**	(195)
Income from investments	7	**287**	95
Net interest payable	8	**(108)**	(88)
Net pension interest	21	**24**	(155)
Profit/(loss) before taxation		**239**	(343)
Taxation charge	9	**(6)**	(49)
Profit/(loss) for the financial year from continuing operations	23	**233**	(392)

Royal Mail Group Ltd

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

	Notes	2012 £m	2011 £m
Profit/(loss) for the financial year		**233**	(392)
Actuarial gains on defined benefit schemes	21	**1,436**	3,184
Taxation on items taken directly to reserves	9	**8**	(4)
(Losses)/gains on cash flow hedges deferred into reserves		**(4)**	24
Gains on cash flow hedges released from reserves to profit for the financial year		**(15)**	(7)
Gains on cash flow hedges released from reserves to the carrying amount of non-financial assets		**(3)**	(3)
Gains on financial assets released from reserves to profit for the financial year		**-**	(6)
Gains on financial asset investments		**14**	3
Total recognised gains for the financial year		**1,669**	2,799

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

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

	Notes	2012 £m	2011 £m
Opening shareholder's deficit	23	**(4,597)**	(7,396)
Total recognised gains for the financial year (see above)		**1,669**	2,799
Closing shareholder's deficit		**(2,928)**	(4,597)

Royal Mail Group Ltd

Balance sheet
at 25 March 2012 and 27 March 2011

	Notes	2012 £m	2011 £m
Fixed assets			
Intangible assets (software)	10	**125**	122
Tangible assets	11	**1,069**	1 079
Investments in subsidiaries and associate	12	**1,004**	544
Financial assets - pension escrow investments	13	**149**	87
Financial assets - investments	16	**-**	44
Total fixed assets		**2,347**	1,876
Current assets			
Stocks		**27**	29
Debtors - receivable within one year	14	**801**	673
Debtors - receivable beyond one year	14	**-**	461
Financial assets - derivatives receivable within one year		**9**	36
Financial assets - derivatives receivable beyond one year		**2**	6
Financial assets - investments	15	**332**	220
Cash at bank and in hand		**55**	24
		1,226	1,449
Current liabilities			
Creditors - amounts falling due within one year	17	**(1,794)**	(1,704)
Financial liabilities - derivatives		**(4)**	(3)
Net current liabilities		**(572)**	(258)
Total assets less current liabilities		**1,775**	1 618
Creditors - amounts falling due after more than one year	18	**(251)**	(300)
Financial liabilities - derivatives		**(1)**	-
Financial liabilities - interest bearing loans and borrowings	19	**(1,522)**	(1 477)
Provisions for liabilities and charges	20	**(213)**	(253)
Retirement benefit obligation	21	**(2,716)**	(4 185)
Net liabilities		**(2,928)**	(4,597)
Capital and reserves			
Called up share capital	22	**-**	-
Share premium	23	**3,784**	3 784
Profit and loss account	23	**(6,742)**	(8,411)
Hedging Reserve	23	**8**	22
Financial Assets Reserve	23	**22**	8
Shareholder's deficit		**(2,928)**	(4 597)

The financial statements on pages 13 to 37 were approved by the Board of Directors on 27 June 2012 and signed on its behalf by

Moya Greene **Matthew Lester**

Notes to the financial statements

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 financial statements are made up to the 52 weeks ended 25 March 2012 (52 weeks ended 27 March 2011)

Basis of preparation

The financial statements on pages 13 to 37 have been prepared in accordance with applicable UK Accounting Standards and law, including the requirements of the Companies Act 2006 Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention

The financial statements present information about the Company as an individual undertaking and not as a Group The Company has taken advantage of section 400 of the Companies Act 2006 not to prepare Group financial statements on the grounds that its ultimate parent undertaking makes its Group financial statements publicly available

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

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

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

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

Going concern

At March 2011 and September 2011 the Royal Mail Holdings plc year end and interim accounts respectively contained a specific note on going concern, highlighting that the Directors continued to rely on either the granting of State Aid by the European Commission to the Government to take on almost all of the historical pension liabilities and pension assets of the main pension scheme, Royal Mail Pension Plan (RMPP), or that if State Aid was not granted, the Government would continue to provide alternative financing arrangements which would allow Royal Mail Group Ltd to pay its liabilities as they fell due

In light of

- the post balance sheet event with respect to pensions as described in note 27,
- the return to profitability of the UKPIL businesses,
- the Company s return to cash generation,
- the recent price increases in April 2012, and
- a formal review by Directors of cash headroom forecasts, including a "pessimistic but realistic" downside scenario, which confirmed there is sufficient cash headroom so the Company can meet its liabilities as they fall due

the Directors have concluded that the Company is a going concern and that it is appropriate to prepare the financial statements on this basis

Changes in accounting policy

The accounting policies are consistent with those of the previous financial year

Interbusiness trading

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

Turnover

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

Legacy share scheme

The scheme (originally termed 'ColleagueShare') introduced in 2007-08, is a five-year scheme spanning the accounting years from April 2007 to March 2012 and comprises both a 'share' plan and a related stakeholder dividend throughout the life of the scheme

The costs of the scheme are included in the income statement as an exceptional item throughout the life of the scheme and are included within payables or provisions as appropriate

1. Accounting policies (continued)

Intangible fixed assets

Intangible assets acquired separately or developed internally are initially recognised at cost and are reviewed for impairment An impairment loss is recognised in the profit and loss account for the amount by which the carrying value of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use

Amortisation of intangible assets with finite lives is charged annually to the profit and loss account on a straight-line basis as follows

Software	1 to 6 years

Tangible fixed assets

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

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

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

Impairment reviews

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

Leases

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

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

Investments in subsidiaries and associate

Investments in subsidiaries and associate within the Company's financial statements are stated at cost less any accumulated impairment losses

Stocks

Stocks, which include uniforms, fuel, printing and stationery, stamps, mailbags and engineering spares are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock.

1. Accounting policies (continued)

Deferred tax

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

Deferred tax is not recognised in the following instances

- on gains on disposal of fixed assets where, on the basis of available evidence, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when there is a commitment to dispose of those replacement assets,
- on unremitted earnings of subsidiaries and associate 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 high quality corporate bond of equivalent currency and term The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the deficit disclosed

For defined benefit schemes, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs The net difference between the interest costs and the expected return on plan assets is recognised as net pensions interest in the 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

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

Debtors

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

Financial 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.

1. Accounting policies (continued)

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

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

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 or commodity price risk of firm commitments that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to relate to an effective hedge is recognised directly in 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

1. Accounting policies (continued)

Derivative financial instruments (continued)

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

Financial guarantee contracts and contingent liabilities

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 related to assets are recognised separately as deferred income that is amortised over the useful life of the 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 for mails and parcels The Company operates wholly within the United Kingdom

3. Staff costs

	2012 **£m**	2011 £m
Wages and salaries	**3,698**	3 771
Social security costs	**278**	280
Pension costs (note 21)	**390**	425
Temporary resource	**85**	78
Total	**4,451**	4,554

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

	Period end employees		**Average employees**	
	2012	2011	**2012**	2011
UK Letters & Parcels and International	**151,156**	155 181	**152,514**	157,317
Counter Services	**7,798**	7,782	**7,734**	8 066
Total employees	**158,954**	162,963	**160,248**	165,383

Up until 1 April 2012 employees who performed Counter Services within Post Office Limited were employed by the Company but were seconded to Post Office Limited, a wholly owned subsidiary of the Company On 1 April 2012, Post Office Limited transferred from the ownership of Royal Mail Group Ltd to Royal Mail Holdings plc the Company's parent company

4. Other operating costs

	2012 £m	2011 £m
Operating profit before exceptional items is stated after charging		
Depreciation and amortisation	**250**	232
Depreciation of owned tangible fixed assets	171	159
Depreciation of tangible fixed assets under finance lease and hire purchase contracts	50	44
Amortisation of intangible assets (software)	29	29
Operating lease charges	**116**	117
Land and buildings	95	91
Vehicles and equipment	21	26
Regulatory body costs	**11**	13
Postcomm	6	10
Ofcom	2	-
Consumer Focus	3	3

Auditor's remuneration amounted to £302,000 (2011 £302 000) for the audit of the statutory financial statements Auditor's remuneration relating to other services supplied to the Company was £746,000 (2011 £401 530) This includes £365,000 pursuant to legislation £78 000 tax and £303,000 other

5. Operating exceptional items

	2012 £m	2011 £m
Modernisation costs:		
Legacy share scheme - notional shares	-	101
- Business Transformation	**(57)**	(31)
Modernisation bonus - frontline costs	**(30)**	-
Restructuring costs		
Provision for restructuring - redundancy costs	**(77)**	(224)
Provision for restructuring - property provision charge (note 20)	**(5)**	(18)
Restructuring - other exceptional costs	**(60)**	(8)
Impairment of property, plant and equipment	-	(12)
Total modernisation costs	**(229)**	(192)
Other non-modernisation operating exceptional costs:		
Provision for restructuring - potential industrial diseases claims (note 20)	**(10)**	(30)
Impairment of intangible assets (note 10)	**(3)**	-
Impairment of investment in associate (note 12)	-	(8)
Other exceptional costs	**(25)**	(15)
Total other operating exceptional costs	**(38)**	(53)
Total operating exceptional items	**(267)**	(245)

The £57m charge (2011 £31m) mainly represents payments linked to the achievement of key modernisation milestones as part of the pay deal with the Communication Workers Union

A one-off modernisation bonus of £30m (2011 £nil) has been charged to recognise the progress on frontline efficiency

Of the £142m (2011 £250m) restructuring costs £77m (2011 £224m) relates to a provision for redundancy costs and £5m (2011 £18m) mainly in respect of onerous property lease costs The remaining £60m (2011 £8m) principally relates to excess travel expenses and one-off project costs in support of the modernisation of the business

5. Operating exceptional items (continued)

There is no current year impairment charge linked to modernisation The prior year charge related to the write-off of plant and equipment £10m and building fit-out £2m as a result of Business Transformation

Material costs of litigation requiring separate disclosure due to size and incidence amounted to £10m (2011 £30m) and relate to the costs of potential industrial diseases claims

Impairments in other exceptional costs comprise a charge to write down intangible assets of £3m (2011 £nil) and £nil (2011 £8m) for impairment of investment in associate (Quadrant Catering Limited)

Other exceptional costs of £25m (2011 £15m) were charged in the year mainly for specific costs relating to the Postal Services Bill, the State Aid process and the transfer of RMPP pension liabilities and pension assets to HM Government on 1 April 2012

6 Directors' emoluments

The Directors of the Company are also Directors of the holding company and fellow subsidiaries The directors received total remuneration for the year of £3 2m (2011 £2 4m), all of which was paid by the holding company The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the holding and fellow subsidiary companies

Further details of Directors remuneration can be found in the Royal Mail Holdings plc Group financial statements

7. Income from investments

The £287m (2011 £95m) income from investments comprises dividends of £167m (2011 £86m) from Royal Mail Estates Limited £96m (2011 nil) from Royal Mail Enterprises Limited, £19m (2011 £2m) from Romec Limited, £4m (2011 £6m) Quadrant Catering Limited and £1m (2011 £1m) from NDC 2000 Limited

8. Net interest payable

	2012 **£m**	2011 £m
Interest receivable on investments	**8**	9
Interest receivable from Group entities	**1**	1
Other miscellaneous interest receivable	**-**	12
Interest payable on loans	**(91)**	(80)
Interest payable to Group entities	**(8)**	(5)
Unwinding of discount relating to Legacy share scheme	**-**	(6)
Other miscellaneous interest payable	**(18)**	(19)
Total	**(108)**	(88)

9. Taxation

(a) Taxation (gains)/losses recognised in the year

	2012 £m	2011 £m
Taxation charge/(credit) in the profit and loss account.		
Corporation tax charge for year	(1)	-
Tax over provided in previous years	(1)	(1)
Current tax (see table below)	(2)	(1)
Deferred tax		
Origination and reversal of timing differences	8	50
	6	49

Taxation charge on items taken to reserves:

	2012 £m	2011 £m
Current tax	-	-
Deferred tax		
Origination and reversal of timing differences	(8)	4
	(8)	4
Total taxation (gains)/losses recognised in the year:		
Current tax	(2)	(1)
Deferred tax	-	54
	(2)	53

(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 26% (2011 28%) The differences are explained below

	2012 £m	2011 £m
Profit/(loss) on ordinary activities before tax	239	(343)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26% (2011 28%)	62	(96)
Deferred relief for asset depreciation and impairment	38	55
Expenditure disallowable for tax	(16)	(8)
Accelerated relief for pension contributions*	(60)	(30)
Provisions deductible when incurred	(2)	36
Share scheme amounts deductible when incurred	-	(28)
Adjustment in respect of prior period	(1)	(1)
Effect of group relief surrenders to other companies	52	39
Dividend not taxable	(75)	(26)
Deferred relief for interest payable	-	11
Hedging brought into profit and loss account in advance of tax effect	-	1
Losses carried forward	-	46
Total current tax (credit)/charge (see table above)	(2)	(1)

*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.

9 Taxation (continued)

(c) Factors that may affect future tax charges

The Company has £178m (2011 £172m) of unrecognised deferred tax assets relating to tax losses that are available for offset against future trading profits The Company also has £632m (2011 £1,133m) of unrecognised deferred tax assets relating to pensions, £331m (2011 £306m) relating to deferred capital allowances and £42m (2011 £67m) relating to other timing differences

Finance Act 2011 reduced the main rate of corporation tax to 25% with effect from 1 April 2012 The effect of this change on unrecognised deferred tax is reflected in these accounts In March 2012 the Chancellor of the Exchequer announced that the main rate of corporation tax will be 24% for the year commencing 1 April 2012 and that there will be successive annual reductions until the rate reaches 22% with effect from 1 April 2014 However, in accordance with accounting standards the effect of these rate reductions on deferred tax balances has not been reflected in these accounts due to the relevant legislation not having been substantively enacted at the balance sheet date A reduction to 22% would, based on losses and temporary differences at 25 March 2012, reduce the Company's unrecognised deferred tax assets by £142m

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

The Company has access to group capital losses carried forward, the tax effect of which is approximately £5m (2011 £15m)

(d) Net deferred tax asset

	2012 £m	2011 £m
Deferred capital allowances	-	8
Hedging	-	(8)
Losses	-	-
Total (within Debtors - receivable beyond one year (note 14))	-	-

The movement on the deferred tax asset is shown below

	£m	**Total £m**
At 28 March 2011		-
Deferred tax charge in profit and loss account (see note 9 (a))	(8)	
Deferred tax credit on items taken to reserves (see note 9 (a))	8	
Total deferred tax charge recognised (see note 9 (a))		-
At 25 March 2012		-

10. Intangible assets

	2012 £m	2011 £m
Cost		
At 28 March 2011 and 29 March 2010	207	164
Additions	35	59
Disposals	(4)	(16)
At 25 March 2012 and 27 March 2011	238	207
Amortisation and impairment		
At 28 March 2011 and 29 March 2010	85	72
Amortisation	29	29
Impairment	3	-
Disposals	(4)	(16)
At 25 March 2012 and 27 March 2011	113	85
Net book value		
At 25 March 2012 and 27 March 2011	125	122
At 28 March 2011 and 29 March 2010	122	92

The above intangible assets relate to software

11. Tangible fixed assets

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 28 March 2011	361	77	580	392	1 034	219	2,663
Reclassification	(33)	-	32	-	1	-	-
Additions	104	1	30	25	104	17	281
Disposals - external	(48)	(1)	(8)	(13)	(57)	(1)	(128)
Legal entity transfer	(29)	-	(1)	-	-	-	(30)
At 25 March 2012	355	77	633	404	1,082	235	2,786
Depreciation							
At 28 March 2011	197	61	357	198	633	138	1,584
Reclassifications	(9)	-	9	-	-	-	-
Depreciation	23	3	45	50	71	29	221
Disposals - external	(9)	(1)	(8)	(12)	(57)	(1)	(88)
At 25 March 2012	202	63	403	236	647	166	1,717
Net book value							
At 25 March 2012	153	14	230	168	435	69	1,069
At 28 March 2011	164	16	223	194	401	81	1 079

Depreciation rates are disclosed within accounting policies (note 1) No depreciation is provided on freehold land, which represents £1m (2011 £1m) of the total cost of properties The net book value of the Company's land and buildings includes £389m (2011 £383m) 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 £319m (2011 £244m) During the year depreciation of £50m (2011 £44m) was charged in respect of the Companys tangible fixed assets held under finance leases

The legal entity transfer amounts relate to net property transfers in from its relevant subsidiaries

11. Tangible fixed assets (continued)

On 24 March 2011 an agreement was implemented to substitute £102m pension escrow financial investments with mortgages against certain property assets owned by the Company and by its subsidiary Royal Mail Estates Limited Subsequently, during the year, one of the properties, Rathbone Place was sold and the mortgage against that property was replaced with cash in the pension escrow The carrying value of the remaining property assets of £2m is included within the £153m freehold land and buildings total above The fair value of these property assets, based on a residual cashflow analysis*, exceeds their carrying value by £21m During April 2012 after the pension solution with Government was effected, these mortgages, pledged as security to the RMPP Trustee, were released

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

12. Investments in subsidiaries and associate

	Subsidiaries £m	Associate £m	Total £m
Cost			
At 28 March 2011	1,066	26	1,092
Addition	460	-	460
At 25 March 2012	**1,526**	**26**	**1,552**
Impairment			
At 28 March 2011	540	8	548
At 25 March 2012	**540**	**8**	**548**
Net book value			
At 25 March 2012	**986**	**18**	**1,004**
At 28 March 2011	526	18	544

Details of the Company's principal investments in subsidiaries and associate are provided in note 26

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 the 38 year deficit recovery period from March 2009 At 25 March 2012, Royal Mail Holdings plc had £1 234m (2011 £1,074m) of financial assets in the pension escrow and Royal Mail Group Ltd had £149m (2011 £87m) of financial assets plus mortgages on certain Group properties Charges over these assets have been registered Further details on the Royal Mail Pension Plan, are contained in note 21

14. Debtors

	2012 £m	2011 £m
Receivable within one year:		
Trade debtors	**530**	591
Prepayments and accrued income	**259**	67
Interest	**1**	-
Amounts owed by subsidiaries	**11**	15
Total	**801**	673

	2011 £m	2011 £m
Receivable beyond one year.		
Amounts owed by subsidiaries	-	461

15. Current financial assets - investments

	2012 £m	2011 £m
Money market funds	**271**	98
Short-term deposits - Government/local government	**1**	30
Short-term deposits - bank	**60**	92
Total	**332**	220

16 Non-current financial assets - investments

	2012 £m	2011 £m
Bank deposits	**-**	44

The £44m bank deposits in 2011 were pledged as collateral to a counterparty bank which had provided a letter of credit in support of a lease creditor obligation

17. Creditors - amounts falling due within one year

	2012 £m	2011 £m
Trade creditors and accruals	**759**	729
Advanced customer payments	**292**	241
Social security	**74**	69
Obligations under finance leases (note 25)	**86**	61
Amounts due to subsidiaries	**530**	548
Capital creditors	**47**	44
Other	**6**	12
Total	**1,794**	1 704

18 Creditors - amounts falling due after more than one year

	2012 £m	2011 £m
Obligations under finance leases (note 25)	**212**	166
Amounts due to subsidiaries	**13**	109
Other	**26**	25
Total	**251**	300

19. Financial liabilities - interest bearing loans and borrowings

	2012 £m	2011 £m
Amounts falling due in		
More than 2 years but not more than 5 years	**600**	600
More than 5 years	**922**	877
Total	**1,522**	1,477

19 Financial liabilities - interest bearing loans and borrowings (continued)

Analysis of loans and facilities

	2012 Facility £m	**Facility end date**	2011 Facility £m	Facility end date	**Security**
Royal Mail Group Ltd senior debt facility	**900**	**2014**	900	2014	Fixed charges over Royal Mail Holdings plc's shares in Royal Mail Group Ltd and Royal Mail Group Ltd's shares in Royal Mail Estates Limited Floating charges over all assets of Royal Mail Holdings plc, Royal Mail Group Ltd and Royal Mail Estates Limited excluding certain Group properties over which mortgages of £60m (2011 £102m) are held as security to the Royal Mail Pension Plan
Royal Mail Group Ltd Shareholder loan facility	**422**	*	377		None
Royal Mail Group Ltd other drawn down loans	**500**	**2021-2025**	500	2021-2025	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
	1,822		1,777		

*Loan facilities are repayable on the later of March 2016 and the release of the pension escrow investment.

The £600m (2011 £600m) drawn down against the senior debt facility is at an average interest rate of 2 2% (2011 3 0%) The related facility has a maturity date of 2014

The shareholder loan was drawn down during 2009 and is at an average interest rate of 12% and has a maturity date of 2016 The shareholder loan increased by £45m (2011 £40m) as a result of accrued interest added to the loan

The £500m other drawn down loan is at an average fixed interest rate of 5 8% (2011 5 8%) and has an average maturity date of 2023 (2011 2023)

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

	2012 £m	2011 £m
Expiring in one year or less	-	-
Expiring in more than one year but not more than two years	**300**	-
Expiring in more than two years	-	300
Total	**300**	300

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

20. Provisions for liabilities and charges

	At 28 March 2011 £m	Charged/ (released) in operating exceptional items £m	Discount rate adjustment £m	Charged/ (released) in other operating costs £m	Utilised non-cash £m	Utilised cash £m	At 25 March 2012 £m
Total	253	92	2	30	(30)	(134)	**213**

The provisions include amounts relating to redundancies of £87m (2011 £156m), potential industrial diseases claims of £39m (2011 £30m) legacy share scheme of £nil (2011 £2m) with the balance of £87m (2011 £65m) for estimated exposures resulting from legal claims incurred in the normal course of business, onerous property 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 exceptional items are contained in note 5

The cash utilisation of £134m (2011 £129m) includes £119m (2011 £109m) of spend relating to exceptional rationalisation £2m for legacy share scheme leavers (2011 £4m) and £13m (2011 £16m) relating to other costs The non-cash utilised amount of £30m (2011 £33m) principally relates to transfers from provisions to current payables for amounts due to the pension scheme for redundancies with early retirement. There are no deferred redundancy settlements in the current year (2011 £13m)

The majority of provisions are expected to be utilised in 2012-13, with the remainder within two to three years except £4m of onerous property contracts expected to be utilised within 3 to 5 years, and a further £10m expected to be utilised over a period greater than 5 years

The provision for potential industrial diseases claims of £39m is expected to be utilised over a period greater than 5 years, except for £3m expected to be spent in the next financial year

21. Pensions

On 1 April 2012 after the reporting end date almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP) were transferred to HM Government.

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

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 Defined Contribution Plan (RMDCP)	UK employees	Defined contribution
Various other small-scale schemes operated by overseas subsidiaries	Overseas subsidiary 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 Group financial statements of which 93% is attributable to the Company

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

Defined contribution

A charge for the defined contribution plan of £11m (2011 £8m) was recognised in operating profit before exceptional items within the profit and loss account The Company contributions to these schemes was £11m (2011 £8m) A new defined contribution plan (RMDCP) was launched in April 2009 New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Company for a year

21 Pensions (continued)

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds RMPP includes sections A, B and C each with different terms and conditions

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

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

- the Plans closed to new members from 31 March 2008
- all pensions and benefits earned before 1 April 2008 are still linked to final salary at the time of retirement,
- from 1 April 2008, defined benefits building up for employee members of the Plan are earned on a career salary basis,
- employees can continue to take their pension on reaching 60 but the normal retirement age will increase to 65 for benefits earned from 1 April 2010, and
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age from 55, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached

Payment of £380m (2011 £402m) 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, remained at 17 1% (2011 17 1%), effective from April 2010 This rate is not expected to change materially during 2012-13 For RMSEPP, these contributions have remained at 35 9% (2011 35 9%) effective from April 2010

Payment of £8m (2011 £278m) was made by the Company during the year to fund the deficit in the plans, with £nil relating to RMPP (2011 £272m) Deficit recovery payments were agreed for RMPP over the 38 years from the date of the latest full actuarial valuation at March 2009 Following the State Aid clearance granted on 21 March 2012 and the subsequent transfer of almost all of the pension liabilities and pension assets to HM Government on 1 April 2012, no RMPP deficit payment was made during the year For RMSEPP deficit recovery payments will be £10m per annum less regular future service contributions from 1 April 2012 to 31 January 2024

A current liability of £4m (2011 £10m) has been recognised for payments to the pension plans relating to redundancy (note 17) During the year, payments of £36m (2011 £29m) relating to redundancy were made

The following disclosures relate to the gains/losses and deficit in the plans 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 25 March 2012 **% pa**	At 27 March 2011 % pa
Rate of increase in salaries*	4 3	4 5
Rate of pension increases – RMPP sections A/B	2 3	2 8
Rate of pension increases – RMPP section C	3 3	3 5
Rate of pension increases – RMSEPP all members	3 3	3 5
Rate of increase for deferred pensions – RMSEPP members not transferred from Section A or B of RMPP	3 3	3 5
Rate of increase for deferred pensions – all members	2 3	2 8
Discount rate	5 1	5 5
Inflation assumption	3 3	3 5
Expected average rate of return on assets	5 9	6 5

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

In June 2010, the Government announced that it was intending to change the inflation measure used to determine statutory minimum indexation in deferment and in payment from RPI to CPI from April 2011 Where relevant, the inflation assumption has changed from RPI to CPI

21 Pensions (continued)

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)

Mortality

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

Average expected life expectancy from age 60	2012	2011
For a current 60 year old male RMPP member	**26**	26 years
For a current 60 year old female RMPP member	**29**	29 years
For a current 40 year old male RMPP member	**29**	29 years
For a current 40 year old female RMPP member	**32**	32 years

b) Plans' assets and expected rates of return

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

At 25 March 2012	Market value		Long-term expected rate of return	
	2012	2011	**2012**	2011
	£m	£m	**% pa**	% pa
Equities	**3,385**	4 268	**7.7**	8 2
Bonds	**25,610**	21,409	**5 7**	6 2
Property	**1,417**	1 590	**6.8**	6 5
Other assets	**333**	418	**3.4**	4 2
Fair value of plans' assets for the Group	**30,745**	27 685		
Present value of plans' liabilities for the Group	**(33,667)**	(32,186)		
Deficit in Plans for the Group	**(2,922)**	(4,501)		
Deficit in Plans for the Company (at approximately 93%)	**(2,716)**	(4 185)		

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

c) Movement in plans' assets and liabilities

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

Liabilities	2012 £m	2011 £m
Share of liabilities in plans at beginning of period for the Company	**(29,927)**	(31,480)
Current service cost	**(379)**	(417)
Curtailment costs*	**(31)**	(33)
Interest payable	**(1,627)**	(1,749)
Employee contributions	**(134)**	(141)
Actuarial (loss)/gain (recognised in STRGL)	**(302)**	2,747
Benefits paid	**1,093**	1,146
Share of liabilities in plans at end of period for the Company	**(31,307)**	(29,927)

*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

21. Pensions (continued)

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

Assets	2012 £m	2011 £m
Share of assets in plans at beginning of period for the Company	**25,742**	24 003
Company contributions paid	**424**	709
Movement in company contributions accrued	**(5)**	4
Employee contributions	**134**	141
Interest receivable	**1,651**	1,594
Actuarial gain (recognised in STRGL)	**1,738**	437
Benefits paid	**(1,093)**	(1,146)
Share of assets in plans at end of period for the Company	**28,591**	25 742

d) History of experience gains and losses

The cumulative amount of actuarial gains and losses recognised since transition to FRS 17 at 29 March 2004 in the statement of total recognised gains and losses is £430m gain (2011 a loss of £1,006m)

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of assets for the Group	**30,745**	27,685	25,814	20,071	23,923
Present value of liabilities for the Group	**(33,667)**	(32,186)	(33,855)	(26 847)	(26,846)
Deficit in schemes for the Group	**(2,922)**	(4,501)	(8 041)	(6,776)	(2,923)
Deficit in the schemes for the Company (at approximately 93%)	**(2,716)**	(4 185)	(7,477)	(6 301)	(2,718)
Experience adjustment on assets for the Company*	**1,738**	437	4,156	(5 097)	(1,235)
Experience adjustment on liabilities for the Company*	**(5)**	(7)	626	(9)	(157)

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

	2012 %	2011 %	2010 %	2009 %	2008 %
Experience adjustment on assets as a % of plans' assets for the Company	**6.1**	1 7	17 3	(27 3)	(5 6)
Experience adjustment on liabilities as a % of plans' liabilities for the Company	**0.0**	0 0	(2 0)	0 0	0 6
Deficit in the plans' as a % of scheme liabilities for the Company	**8.7**	14 0	23 8	25 2	10 9

21. Pensions (continued)

e) Recognised charges

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

	2012 £m	2011 £m
Analysis of amounts recognised in the profit and loss account		
Analysis of amounts charged to operating profit before exceptional items·		
Current service cost	379	417
Total charge to operating profit before exceptional items	379	417
Analysis of amounts charged to operating exceptional items·		
Loss due to curtailments (within provision for restructuring charge – note 20)	15	45
Total charge to operating profit	394	462
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plans' liabilities for the Group	1,749	1 881
Expected return on plans' assets for the Group	(1,775)	(1,714)
Net pensions interest for the Group	(26)	167
Share of net pensions interest for the Company (at approximately 93%)	(24)	155
Total charge to profit and loss account before deduction for tax	370	617
Analysis of amounts recognised in the statement of comprehensive income (SOCI) in the Group financial statements		
Actual return on plans' assets for the Group	3,644	2,184
Less expected return on plans' assets for the Group	(1,775)	(1,714)
Actuarial gains on assets for the Group (all experience adjustments)	1,869	470
Experience adjustments on liabilities for the Group	(5)	(8)
Effects of changes in actuarial assumptions on liabilities for the Group	(320)	2,962
Actuarial (losses)/gains on liabilities for the Group	(325)	2,954
Total actuarial gains recognised in SOCI for the Group	1,544	3,424
Share of actuarial gains recognised in STRGL for the Company (at approximately 93%)	1,436	3 184

22. Called up share capital

	2012 £000	2011 £000
Authorised		
Ordinary shares of £1 each	100	100
Total	100	100
Allotted and fully paid		
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	2012 Total £m	2011 Total £m
Balance at 28 March 2011 and 29 March 2010	3,784	(8,411)	22	8	(4,597)	(7 396)
Profit/(loss) for the financial year	-	233	-	-	233	(392)
Actuarial gains on defined benefit schemes	-	1,436	-	-	1,436	3 184
Taxation on items taken directly to reserves	-	-	8	-	8	(4)
(Losses)/gains on cash flow hedges deferred into reserves	-	-	(4)	-	(4)	24
Gains on cash flow hedges released from reserves to profit for the financial year	-	-	(15)	-	(15)	(7)
Gains on cash flow hedges released from reserves to the carrying amount of non-financial assets	-	-	(3)	-	(3)	(3)
Gains on financial assets released from reserves to profit for the financial year	-	-	-	-	-	(6)
Gains on financial asset investments deferred into reserves	-	-	-	14	14	3
Total recognised gains/(losses) for the financial year	-	1,669	(14)	14	1,669	2,799
At 25 March 2012 and 27 March 2011	3,784	(6,742)	8	22	(2,928)	(4,597)

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 financial statements amount to £77m (2011 £135m)

Operating lease commitments - Company as lessee

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	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
For leases which expire						
Within one year	**5**	6	**3**	6	**-**	-
Between one and five years	**110**	115	**1**	1	**10**	16
Beyond five years	**70**	69	**-**	-	**3**	-
Total	**185**	190	**4**	7	**13**	16

25. Obligations under finance leases

	2012		2011	
	Minimum payments £m	**Present value of minimum lease payments £m**	Minimum Payments £m	Present value of minimum lease payments £m
Within one year	**96**	**86**	71	61
Between one and five years	**208**	**193**	160	148
Beyond five years	**20**	**19**	18	18
Total minimum lease payments	**324**	**298**	249	227
Less amounts representing finance charges	**(26)**	**-**	(22)	-
Present value of minimum lease payments	**298**	**298**	227	227

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 7 years, depending on the class of vehicle, with the average term being 2 years Property leases have a term of between 1 and 15 years with the average term being 10 years The term of the plant and equipment leases range from 5 to 8 years with the average being 5 years

The aggregate finance charges allocated for the period in respect of finance leases was £15m (2011 £10m)

26 Related party information

Royal Mail Holdings plc is the ultimate parent company of the Company. Royal Mail Group Ltd Investments in subsidiaries and associate (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
Associate			
Quadrant Catering Limited	UK	51	Catering services

All the above subsidiaries and associate 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 March year end date

The principal subsidiary that is not an investment held directly by the Company is General Logistics Systems B V - 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

Related party transactions

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

During the year the Company entered into transactions which included administration and investment services recharged to the Group's Pension Plan by Royal Mail Pensions Trustees Limited The Company also entered into transactions with other entities within the same Group but which are less than 100% owned The transactions were in the ordinary course of business The transactions entered into and the balances outstanding at the financial year end were as follows

	Sales/recharges to related party		Purchases/ recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Royal Mail Pension Plan	**9**	9	**-**	-	**-**	-	**-**	-
Romec Limited	**3**	4	**141**	133	**-**	-	**17**	19
G3 Worldwide Mail N V (Spring)	**-**	-	**6**	6	**4**	3	**-**	1
Quadrant Catering Limited	**-**	-	**35**	34	**-**	-	**3**	3
NDC 2000 Limited	**-**	-	**10**	10	**-**	-	**3**	2

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

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

The Company also has certain loan facilities with Government (note 19)

27. Post balance sheet events

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

Royal Mail Holdings plc continues to hold £1 2bn of investments which previously were held in pension escrow and which will not be transferred to Royal Mail Group Ltd or Post Office Limited The £149m of investments which were previously held in pension escrow in Royal Mail Group Ltd were made available to the Company on 1 April 2012

27. Post balance sheet events (continued)

On 1 April 2012 Post Office Limited transferred from under the ownership of the Company to become a directly owned subsidiary of the Companys parent company, Royal Mail Holdings plc At that date the majority of Royal Mail Holdings plc Directors became Directors of Royal Mail Group Ltd Alice Perkins and Donald Brydon are the only Directors of Royal Mail Holdings plc at 1 April 2012

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

28. Immediate and ultimate parent company

At 25 March 2012, 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 financial statements which are available from that company's website www royalmailgroup com or from the Company Secretary, 100 Victoria Embankment, London EC4Y 0HQ

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