Royal Mail Holdings plc

Report and Accounts
Year ended 29 March 2009

Royal Mail Group is unique in reaching everyone in the UK through its mails, Post Office and parcels businesses – which directly employ over 176,000 people in the UK.

Every working day Royal Mail processes and delivers over 75 million items to 28 million addresses for prices that are amongst the lowest in Europe; each week we serve over 24 million customers through our network of 11,952 Post Office branches and each year our domestic and European parcels businesses – General Logistics Systems and Parcelforce Worldwide – handle some 404 million parcels.

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Chairman's Statement

"A robust and improved performance in the face of real economic and market challenges"

In the few months since I joined Royal Mail, I have been struck by the passion and commitment of people throughout the Company - to our customers and to the future success of the Company. The people I've met are keenly aware of the important role which our services play in daily life in all parts of the country. That drive to serve customers as best we can and the energy and determination our people bring to their jobs continue to be important assets as we go forward and I am determined to support and develop it.

Postal services are facing an unprecedented level of competition from electronic communications around the developed world. The average household spends just 50p a week on postage, a fraction of the amount spent on telephony and internet services. Yet the internet is also providing real growth opportunities as more goods are ordered online and while letter volumes are falling, our postmen and women have never delivered more packets and parcels. That trend will continue but it remains fundamentally important that we continue to be able to deliver any letter, posted anywhere in the UK, to any other address in the UK. We remain determined to provide a one-price-goes-anywhere Universal Service open to all, large and small customers - for without it, we will not be able to provide the services needed and relied on by the business customers who post the bulk of all mail and parcels, and who provide most of our revenues. Modernising and transforming Royal Mail is, we are certain, crucial to preserving the Universal Service.

We know too the cherished role that Post Office branches play in communities large and small. Post Office Limited has been rolling out a new product or service on average every three months and its new revenues are helping sustain the branch network. The business has already taken big steps on its road to long-term sustainability, a goal that looks closer in the light of these most recent results. Maintaining a network of branches within good reach of its customers nationwide will continue to be a key objective.

I am fortunate to be joining a Company that has performed well in the face of the recession and intensifying competition. The future will not be easy. But the progress we have made and continue to deliver gives me confidence as we tackle the challenges that lie ahead.

I welcome the analysis of the Postal Services Sector by Richard Hooper and his colleagues whose review recommended measures including:

- Regulatory change to reflect the broader communications market in which Royal Mail now operates;
- That the Government should tackle the historic pension deficit to allow the benefits of modernisation to flow through to our customers;
- Access to private capital to allow us to continue to modernise while protecting the Universal Service and grow our parcels operations to help offset the decline in traditional mail.

As we continue to accelerate our transformation, we are working closely with the Government to find a resolution to all these issues to enable Royal Mail to secure a strong and vibrant future, allowing us to continue to deliver a high quality, affordable six-days-a-week Universal Service to customers throughout the UK. Furthermore, the Board is fully aware of the Government's plan to introduce a partner into the equity of the Company and has been co-operating fully in this process.

I would like to thank all those who have contributed to the success of the Company so far including David Fish who left the Board in September 2008 after almost 6 years. It goes without saying that the recovery in the performance of the Company owes much to the leadership of Allan Leighton during his tenure as Chairman. There is no doubt that everyone owes him a considerable debt and on behalf of the Board I thank Allan for all his achievements.

Donald Brydon

Chairman

13 May 2009

All references to operating profit/(loss) are before exceptional items.

Chief Executive's Statement

Royal Mail Group and its people made real progress in 2008-09 with operating profit rising from £162 million to £321 million, the vast majority of mail was delivered at or ahead of target, and a raft of modernisation and efficiency measures implemented ranging from the roll-out of handheld tracking devices to the successful upgrading of automated sorting equipment. Competitive pressures intensified, with almost ten million fewer letters a day being handled than just three years ago, but the transformation of the business is well underway and on track to ensure it has the modern operation key to its future.

The Group's performance came in the face of the worst economic conditions in more than half a century, along with unprecedented competition from electronic media, but Royal Mail Group's results stand in contrast to those of other major postal administrations. The Group's performance in the face of such difficult market conditions underlines the effort and hard work by our people and the long journey we have taken from the time, seven years ago, when the business was losing more than £1 million a day and failing most of its quality targets to the position today where it is profitable and meeting quality targets.

However real challenges remain:

- The need for fairer regulation that reflects the market in which we now operate.
- Mail volumes are predicted to decline by around 10% this year due to competition from electronic communications and the economic downturn – with every 1% decline costing £70m in revenue.
- The pension fund deficit has more than doubled from £2.9 billion last year to £6.8 billion in accounting terms with the actuarial valuation also likely to have increased very significantly when it is revalued later this year.
- Cashflow is now negative as we step up our spending on modernising and transforming the business.
- The need to accelerate still further the modernisation of the mails business so that we can offset the challenges we face and continue to provide our customers with an affordable and high quality Universal Service.

Key performance highlights in 2008-09:

Business unit performance	External revenue		Operating profit/(loss)	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Royal Mail Letters	**6,707**	6,830	**58**	(3)
General Logistics Systems	**1,495**	1,232	**124**	114
Parcelforce Worldwide	**399**	379	**12**	8
Post Office Limited	**908**	911	**41**	(34)
Other businesses	**51**	36	**86**	77
Group	**9,560**	9,388	**321**	162

- Overall Group revenue increased by almost 2% to £9,560 million despite the recession.
- The Group made an operating profit of £321 million – a 98% improvement on 2007-08 performance.
- All four Group businesses are in full-year profit for the first time in two decades – with Royal Mail Letters and the Post Office both moving from loss the previous year into profit.
- There was strong progress in modernising the Letters business and improving its efficiency in both deliveries and in sorting the mail. Along with our people's commitment and dedication to customers, this helped the business to hit almost all its quality targets.
- Post Office Limited saw strong growth in Financial Services, and now has around two million customers for these services, while the award of a new contract for the Post Office Card Account underpinned the branch network's role in the provision of cash to millions of customers.
- There was an underlying 1.2% revenue increase in Post Office Limited and, when the annual £150 million Social Network Payment to support loss-making Post Office branches is taken into account, the business made a £41 million profit compared to a loss the previous year of £34 million – a £75 million improvement.
- GLS's revenue and profit both benefitted from the strengthening of the euro against Sterling. However, underlying profit declined by £10 million as trading got tougher in the second half of the year – in spite of an underlying revenue growth of £36 million (2.4%) when the impact of the beneficial exchange rate was excluded.
- Parcelforce Worldwide grew its revenues in the face of the economic recession and increased its efficiency, achieving a 57.5% increase in operating profit to £12 million. It also improved customer quality of service with a 97.5% performance achievement. However margins remain under severe pressure in an exceptionally tough market.

Chief Executive's Statement (continued)

Despite our improving performance we need to tackle some strategic and market challenges:

- There is an urgent need to tackle the escalating legacy pension fund deficit so that the financial benefits of modernisation and greater efficiency can flow through to our customers in the form of better services rather than being absorbed by unsustainable payments into a volatile fund.
- Although overall revenue rose in 2008-09, in Royal Mail Letters it fell by £123 million – nearly 2% - despite postage price rises in April 2008 averaging around 5%. This income fall was largely driven by a fall in mail volumes of 5.5% – a steep increase on the 3.2% fall the previous year.
- The average daily mailbag now holds just over 75 million letters, packets and parcels compared to 84 million three years ago in 2006, with e-substitution driving much of the loss as more customers switch from letters to email and the web.
- The exceptionally tough economic climate and the structural change in the way people and businesses communicate mean that volumes are likely to decline by up to 10% in 2009-10 as businesses - which send around 90% of all mail – tighten their belts. Revenue has also continued to suffer from downtrading as customers switch from premium products like First Class to lower-priced services.
- Although volumes in the overall mail market are falling, competitors have increased their own mail volumes with almost one in three of all letters now being collected and trunked by rivals before being presented to Royal Mail to deliver over the final mile under the business's access arrangements. The volume of this access mail rose by 30% last year – to 5.3 billion items - and Royal Mail continues to lose money on every item of this mail because of the uneconomic price we have to charge under the current regulatory framework.
- The one-price-goes-anywhere Universal Postal Service which involves collection of any stamped letter posted in any of our 114,000 postboxes for delivery under our six-days-a week service to the UK's 28 million addresses – made a loss for the first nine months of the year of around £100 million[1]. We know that completing our modernisation plans in the Letters business is essential in order to secure the future of this vital service which only Royal Mail provides.
- Cashflow is now negative with a cash outflow in the year of £373 million driven by continued investment in our operations and payments into the pension funds. Total cash paid into the pension funds in the year was £823 million. The pension reforms introduced in April 2008 and the change in market conditions had a materially beneficial effect at the operating profit level.

Royal Mail Letters – accelerating modernisation

Our strategy in Royal Mail Letters is:

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

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

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

[1] Full year figures for the Universal Service loss will be published in the Regulatory Financial Statements by the end of this July.

Chief Executive's Statement (continued)

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

Post Office - growing new business

The Post Office in 2008-09 ended the uncertainty over the future size of its network with a commitment to do everything possible to avoid further branch closures. It also moved into profitability after almost a decade of losses.

- The business continued to generate new income from Financial Services provided through its successful joint venture with the Bank of Ireland, and also from its telephony services, crucial to offset the decline in its traditional business. By the end of the financial year, over two million customers had chosen one of the Post Office's new savings or insurance products.
- Refurbishment of Crown branches - which handle around 15% of Post Office business - got underway with the innovations in selected branches including open plan counter layouts, queue management systems with customers being given a numbered ticket on arrival and dedicated areas for the sale of Financial Services products.
- Working with the subpostmasters who run the large majority of branches, 4,500 more Paystations were installed, bringing the total to 12,500, allowing customers visiting the shops in sub offices to pay bills outside the normal Post Office opening hours.
- The Post Office's free-to-use ATM network has expanded with 400 machines installed this year bringing the total to almost 1,700 ATMs in place at Post Office branches around the country.
- The focus on mails business - the single biggest source of revenue in branches - was increased with trials of the Fast Drop and Business Point service in selected branches and 41 Post & Go machines were installed, allowing customers to weigh parcels and print a postage label without going to a counter position.
- The Network Change programme to implement the Government's decision on the closure of some 2,500 branches was completed, providing a network going forward of c.11,500 branches along with 500 new Outreach services.

The future

Despite the pressures facing the whole of the Company, Royal Mail Group's robust performance – in both financial and quality terms – shows it is making good progress in building the base on which it cannot just withstand the pressures of recession and competition, but also provide the modern, transformed and efficient operations so crucial for a successful future. Royal Mail is getting on with modernisation. The Post Office is earning new revenues from new services and is working hard to maintain its current size which is providing access to a Post Office branch within a three miles radius for 99% of the population. GLS and Parcelforce Worldwide continue to be profitable and win new business in the face of intense competition. In a few years' time we predict that half Royal Mail's overall revenues and 75% of its profits will come from parcel and packet services, driven by the real opportunities of e-commerce and fulfilment.

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

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

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

Adam Crozier

Chief Executive

13 May 2009

All references to operating profit/(loss) are before exceptional items

Annual Review 2008-09

New postal technology on the doorstep…a Fifth Birthday for Post Office Financial Services…a postman who's saved hundreds of lives…and stamps celebrating the mini skirt

It was a year when millions of Royal Mail customers saw one of the benefits of modernisation arrive on their doorsteps. For the first time, delivery drivers used handheld devices at the point of delivery to capture an electronic signature to show that a tracked parcel or letter had been delivered on time and safely. This very visible sign of the progress Royal Mail's Letters business is making on modernisation also provided the customer who had sent the tracked mail with confirmation of delivery – often within 20 minutes of the item being signed for. The successful rollout of the new devices - Postal Digital Assistants - involved the training of 37,000 delivery postmen and women and it created one of the UK's biggest corporate WiFi networks. The business won an accolade for the deployment of the new technology by winning the inaugural Wireless and Mobility Excellence Award.

A further and very different innovation, underlining Royal Mail's determination to grow its already well-established role in the fulfilment of internet shopping orders, came at Christmas 2008 when postmen and women delivered tens of thousands of packets and parcels on selected evenings and on the Sunday just before December 25.

The Letters business also launched a series of initiatives to demonstrate the mail's continuing effectiveness as a powerful and versatile marketing medium. Matter - a box that fits the standard UK letterbox and containing a selection of samples and gifts from leading brand names – was mailed to thousands who had flocked to join the subscription list. More Matter boxes are being planned for 2009 to allow advertisers to get their goods and services into the hands of their target customers. The year also saw the launch of Royal Mail's online resource facility aimed at the direct mail industry to provide "intelligence, inspiration and innovation" on how advertisers can make the best use of mail in their campaigns. Mailshots Online, another new web resource, was launched to help small businesses. This internet tool allows smaller firms to create their own personalised mail campaigns in less than 30 minutes. Another initiative called Partners for Growth brought 100 successful firms together online to share their business tips with other small businesses.

Stamps – from the 1918 Armistice to the Anglepoise lamp

Royal Mail's special stamps attracted wide interest with an array of themes, subjects and events celebrated and commemorated. A stamp with a haunting image of a World War One soldier superimposed on a poppy went on sale in November 2008, the final issue in the "Lest we Forget" series, marking the 90th anniversary of the Armistice which ended the first World War. The Carry On and the Hammer horror films, which entertained and terrified audiences half a century ago on their first release and which have since become British cinema classics, were celebrated in six stamps based on the original advertising posters. British design was celebrated in a series of ten stamps featuring iconic design classics from the Twentieth century, including the Mini, the mini skirt and the Anglepoise lamp. The genius of Charles Darwin, whose book on the origin of species was one of the most important and influential ever written, was marked with a series of stamps issued in February 2009 on the bicentenary of his birth.

Neil Chesebrough from the Bude delivery office in Cornwall was named Royal Mail's Postman of the Year in recognition of his service to the community. A volunteer with the Coastguard service for 21 years, Neil has attended numerous rescues and has helped save hundreds of lives. Two dozen other postmen and women were honoured in Royal Mail's 2009 First Class People awards, including Pauline Eastment, from the St Athan delivery office in Wales, who has raised more than £23,000 for charity in a variety of daredevil adventures including skydiving and a trek to the Everest base camp, and Iain MacDonald, from Cowdenbeath delivery office, who has completed two tours of duty with the Territorial Army, most recently in the frontline in Afghanistan.

The generosity of employees giving their own money to good causes was reflected in the £3 million donated by people across the Company through payroll giving. One in four of our people makes contributions to charities in this way. In addition, a three-year partnership with Barnardo's was launched in June 2008 and by the end of March 2009, nearly £300,000 had been raised for the charity through payroll giving and as a result of a wide variety of fundraising activities. Around 300 employees also took part in volunteering projects to help Barnardo's while around 750 Post Office branches nationwide took part in a scheme to raise funds by collecting leftover foreign coins donated by customers.

Post Office Financial Services – more than two million customers

The Post Office's joint venture with the Bank of Ireland - Post Office Financial Services - reached its fifth birthday in March 2009 with more than two million customers. The portfolio of products and services continued to grow with Motorcycle Insurance launched in May 2008, joining a diverse range of other financial services including home, motor, pet and van insurance, a wide range of savings products, mortgages and credit cards.

In November 2008, the Post Office, which pioneered commission-free foreign currency and which now offers over 70 currencies, was named Britain's Best Foreign Exchange provider in the annual British Travel awards. For the third consecutive year, the Post Office was also voted Best Travel Insurance Company.

Millions of current account holders with Halifax/Bank of Scotland have benefited from being able to get access to their money free of charge and check their account balances at Post Office branches under an agreement with the bank in October 2008. The arrangement significantly increases the number of account holders who can use the Post Office branch network for similar services. It means more than 60% of all UK debit cardholders can now get access to their money at any Post Office branch.

The Post Office's free-to-use ATM network, provided in partnership with the Bank of Ireland, also expanded with 400 more machines installed during the year, bringing the total to almost 1700.

Colleagues across the business were shocked and deeply saddened at the death in January 2009 of Craig Hodson-Walker during a robbery at the Fairfield Post Office and Stores in Worcestershire where his mother is subpostmistress. His father also sustained a gun shot wound and his mother was attacked. A memorial fund has been established by the Post Office with the approval of Craig's family to provide a lasting memorial to Craig.

Annual Review 2008-09 (continued)

General Logistics Systems – further expansion
Royal Mail's European business, General Logistics Systems (GLS), continued to grow and develop its operations as the "Quality leader in European parcels logistics". GLS provides reliable, high quality parcel services, logistics and express services throughout Europe.

Through its own start-up companies, acquisitions and its network partners, GLS has created a strong European network providing customers with services in 36 European states.

In August 2008, two new franchise areas were acquired in Belluno and Padua - increasing the number of GLS managed depots in Italy to 28. In May 2008 a network partnership agreement with MNG Kargo in Turkey was implemented and in August 2008 a global partnership agreement with TF Logistics in Hong Kong was signed with immediate effect.

In addition to the investments in the physical network, the continuing development of information technology remains an area of specific focus. GLS's European parcel shops, where private or commercial customers can take parcels for delivery or pick them up, increased by more than 300 to 6,703 outlets.

GLS's network now comprises 32 central transhipment points and 680 depots, providing services through wholly owned and partner companies in 36 European states. A workforce of over 13,000 people and nearly 19,700 vehicles deliver 350 million parcels annually for 220,000 customers throughout Europe, generating £1.5bn of revenue in the last financial year.

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

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

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

Operating and Financial Review

Introduction

Royal Mail Holdings plc (the Company) is a public limited company wholly owned by the UK Government. It became a plc on 26 March 2001. The framework for change was the Postal Services Act 2000 that created a commercially focused company with a more strategic relationship with the Government. Royal Mail Holdings plc together with its subsidiaries, associates and joint ventures comprise 'the Group'. The Group operates within a regulatory framework comprising of an independent Regulator, Postcomm and Consumer Focus, a newly established statutory consumer organisation.

Royal Mail Group encompasses a set of trusted brands and companies that combine the best of a public service ethos, with the commercial requirement to operate effectively in the highly competitive communications and fulfilments markets. Through our brands we reach everyone in the UK by way of our mail, parcels and express services together with our Post Office branches.

The Group has made significant progress since 2003, turning the businesses around from operating loss making entities to profitable businesses, whilst improving quality of service. This has been achieved against a background of full market liberalisation in January 2006. However, the Group is facing major challenges including volume decline in mails, an unsustainable pension deficit and an unprofitable universal service obligation (USO). On 16 December 2008, Richard Hooper published his independent review of the UK postal services sector (the "Hooper Report"), highlighting the key issues facing the universal service and the inability of present policies to ensure its survival. He noted the only company capable of providing the USO in the UK is Royal Mail.

The Hooper Report proposed a package of recommendations including:

- a new regulatory regime to place postal regulation within the context of the broader communications market;
- a solution to the historic pension plan deficit to enable the Company and its customers to reap the benefits of modernisation; and
- a strategic partnership between Royal Mail and one or more private sector partners to provide capital, commercial confidence and corporate experience in transforming a network business.

The Group's strategic vision is to become an efficient world class operator of the mails universal service in the UK, and a true customer champion in the UK and European parcels markets. Within the context of an industry undergoing major structural change, the Group has six strategic objectives to deliver its vision:

- be increasingly focused on delivering customer needs and becoming the customer champion in its markets;
- develop an efficient world-class universal service in the UK;
- develop a leading role in the growing fulfilment market across Europe;
- provide integrated solutions to customers through an expanded presence across the supply chain;
- continue to develop green solutions for customers consistent with overall approach to corporate social responsibility; and
- achieve efficient retail distribution primarily through the network of Post Office outlets.

Performance Highlights

In the following analysis, all references to operating profit are before exceptional items.

Financial Highlights

Summary of Results £m unless stated otherwise	**2009**	2008
External Revenue	**9,560**	9,388
Operating Profit	**321**	162
Return on Sales (%)*	**3.4%**	1.7%
ColleagueShare costs	**(84)**	(277)
Other exceptional items	**(54)**	(106)
Net exceptional items	**(138)**	(383)
Profit/(Loss) before financing and taxation	**183**	(221)
Net finance (costs)/income	**(20)**	13
Net pensions interest (charge)/credit	**(114)**	131
Profit/(Loss) before taxation	**49**	(77)
Taxation (charge)/credit	**(278)**	212
(Loss)/Profit after taxation	**(229)**	135

*before exceptional items

Key Non-Financial Highlights

Area	**Key Performance Indicators (KPIs)**	**2009**	2008
Customer Service	1st Class Stamp & Meter Quality of Service	**93.0%**	85.2%
	No. of Complaints (millions)	**1.32**	1.44
	Post Office Limited Customer Satisfaction Index*	**-**	99.8%
	Post Office Limited Quality of Service*	**79.3%**	-
Great Place to Work	Engagement Index	**57%**	54%
	RIDDOR Accidents/1,000 staff	**25.6**	26.9
	Sick Absence	**4.5%**	4.9%
Good Corporate Citizen	CO_2 Emissions/1,000 items#	**18.1**	18.0
	Charitable donations (£m)	**2.0**	1.8

* In 2009, a revised Quality of Service measure replaced the Customer Satisfaction Index as a key non-financial KPI. #Represents preceding year

Operating and Financial Review (continued)

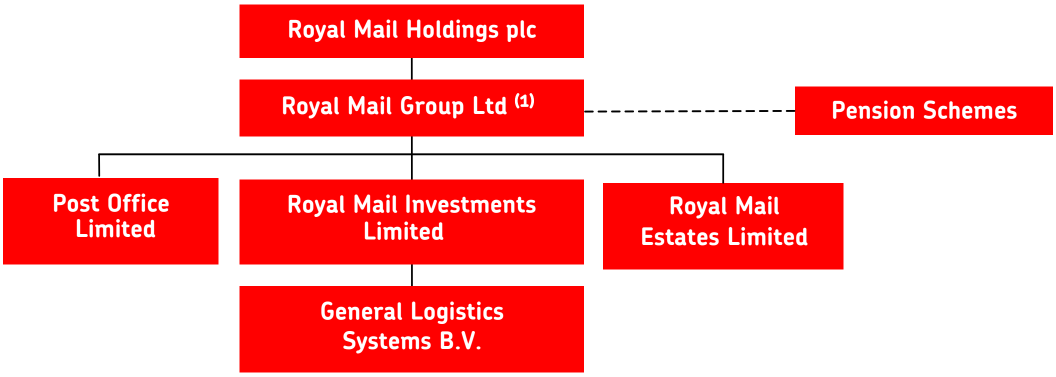
Governance

The EU Accounts Modernisation Directive (AMD) applies for all medium and large EU companies including listed companies and requires a mandatory inclusion to the existing Directors' Report to provide an enhanced review of a company's business.

The Directive states that the review should provide a balanced and comprehensive analysis of the development, performance and position of the Company's business, including the principal risks and uncertainties facing the organisation. The analysis should include both financial and, where appropriate, non-financial KPIs relevant to the particular business including information relating to environmental and employee matters. It is recognised that to the extent that this information appears in the Operating and Financial Review (OFR), it is incorporated by reference into the Directors' Report.

Legal Structure

Royal Mail Holdings plc is directly owned by HM Government and is the ultimate parent company of the Group. The Group primarily operates within the United Kingdom, having a number of subsidiaries, joint ventures, and associates, but also has presence in most European countries, mainly through General Logistics Systems B.V. Its basic legal structure is as follows:



(1) The Royal Mail and Parcelforce Worldwide business units included in Royal Mail Group Ltd are not separate legal entities

Further details on the principal subsidiaries are provided in note 30 to the accounts.

Our Operating Units

The Group is organised into four principal operating units:

Royal Mail

Royal Mail processes and delivers over 75 million letters and packages to 28 million addresses every working day, in line with its unique Universal Service Obligation (USO). It is also responsible for designing and producing the UK's stamps and philatelic products.

General Logistics Systems B.V. (GLS)

GLS is a pan-European company providing reliable, high quality parcel services, logistics and express services throughout Europe.

Parcelforce Worldwide

Parcelforce Worldwide is a leading provider of collection and delivery services for express packages and parcels within the UK and throughout the world, providing both business and private addresses with a full range of timed delivery options.

Post Office Limited

The Post Office's national network of branches is at the heart of communities across the country. They provide a trusted access point for everyday products, services and information in postal services, financial services, travel, banking, telephony, bill payments, Government information, retail and the secure transportation of cash. Post Office Limited owns the Group's investments in Midasgrange Limited (50% associate, financial services) and First Rate Exchange Services Holdings Limited (50% joint venture, Bureau de Change services).

Other

Further details are provided under the operating unit facts and figures section.

Our Pension Schemes

Royal Mail Group Ltd is the sponsoring employer for the Royal Mail Pension Plan and Royal Mail Senior Executives Pension Plan (both defined benefit schemes), and for the Royal Mail Retirement Savings Plan and the Royal Mail Defined Contribution Plan (both defined contribution schemes). Based on assets, the Royal Mail Pension Plan is one of the largest pension schemes in the UK. The assets and liabilities of the defined benefit schemes, as measured under accounting standards, are reported as a net pension deficit in the Group balance sheet. The gross assets and liabilities and the net deficit are significantly larger than any of the Group's other assets and liabilities. This results in the Group being one of the most exposed UK corporates to pension scheme volatility, particularly with respect to movements in equity values and bond rates.

Operating and Financial Review (continued)

Operating Unit Facts and Figures

Unit and % of Group External Revenue	No. of Employees	Region	Revenue* (£m) Profit* (£m) Margin (%)	Facts and Figures	Vision
Royal Mail **70.2% of Group External Revenue**	162,310	UK	**Revenue** £6,707m **Profit** £58m **Margin** 0.9%	• 114,375 pillar boxes; • 68 mail centres; • 1,392 delivery offices; • 30,484 vehicles; • 24,497 bicycles; • Over 75 million items handled every working day; • Deliver to 28 million addresses a day; • 1st Class Retail Quality of Service – 93.0%; and • 2nd Class Retail Quality of Service – 98.5%.	…to be 'demonstrably the best and most trusted postal services company in the world'.
GLS General Logistics Systems **15.6% of Group External Revenue**	13,059	Europe	**Revenue** £1,495m **Profit** £124m **Margin** 8.3%	• 32 hubs; • 680 depots; • 19,700 vehicles; • 220,000 customers; • Over 1 million parcels handled every working day; • 21 Subsidiaries; and • Covers 36 states in Europe.	…to be 'the best European B2B parcel logistics & express system with global reach'.
Parcel Force Worldwide **4.2% of Group External Revenue**	4,489	UK	**Revenue** £399m **Profit** £12m **Margin** 3.0%	• 2 hubs (1 national, 1 international); • 47 depots; 5 satellites; 1 parcel exchange area; • 1,850 vehicles; • 201,000 parcels delivered every day, 279,000 every day in December; and • Parcelforce 24 Quality of Service – 97.5%, delivered on time and with electronic proof of delivery.	…to 'be the UK's most reliable high value express carrier'.
Post Office **9.5% of Group External Revenue**	8,760	UK	**Revenue** £908m **Profit** £41m **Margin** 4.5%	• For every £1 transacted in the UK, 14p is handled through the Post Office network; • 11,952 branches, including 375 Crown Offices; • Over 30,000 customer facing positions – including those employed by Post Office Limited, by subpostmasters and/or by franchisees; • Each week over 23 million customers, make over 34 million visits, conducting almost 63 million transactions; • UK's leading supplier of foreign currency; and • 79.3% Quality of Service.	…'be at the heart of customers' thinking by becoming the most trusted provider of essential services to every person in the land' and focusing on 'a successful commercial business with a social purpose – one that is actively on the side of customers'.

* Revenue is for subsidiaries only, profit is before exceptional items

Operating and Financial Review (continued)

Unit and % of Group External Revenue	No. of Employees	Region	Revenue* (£m) Profit (£m) Margin (%)	Facts and Figures
Other **0.5% of Group External Revenue**	597 in wholly owned subsidiaries 4,438 in part owned subsidiaries	UK	**Revenue** £51m **Profit** £86m	**Including:** • **Our Group Property unit** - including Royal Mail Estates Limited (100% subsidiary); • **PostCap Guernsey Limited** - captive insurers (100% subsidiary); • **iRed Partnership Limited** – end to end document management operation (100% subsidiary) • **Romec Limited** - facilities management operation (51% subsidiary); • **NDC 2000 Limited** - building engineering services operation (51% subsidiary); • **Quadrant Catering Limited** - catering services (51% associate); • **Camelot Group plc** - UK National Lottery operator (20% associate); and • **Group Centre –** comprising Company Secretariat, Strategy, Regulation, External Communications and staff in Finance, Human Resources and Group Technology - not a profit centre.

*Revenue is for subsidiaries only, profit is before exceptional items

Funding

Royal Mail Group Ltd

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

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

In making an assessment on Royal Mail Group Ltd's ability to continue as a going concern, the directors have assumed the successful execution of the transformation plan which is reflected in the detailed 5 year business plan approved by the Board. There are a number of uncertainties in relation to the funding and headroom requirements which are set out in Note 2 Accounting policies.

If risks in relation to the business plan materialise, the Directors have identified a portfolio of operational and strategic actions that could be taken to mitigate any headroom exposures.

Post Office Limited

As part of the funding package announced in May 2007, the Group received £152m during the year (2008 £313m) under the Industrial Development Act 1982, to compensate Post Office Limited for the other net costs of providing certain specified "services of general economic interest". An additional £150m (2008 £150m) was paid to Post Office Limited during the year to fund the maintenance of a social network of post offices, which was recorded within revenue as a Social Network Payment.

Both of the above payments made during the year were in accordance with approval received from the European Commission under relevant State Aid rules.

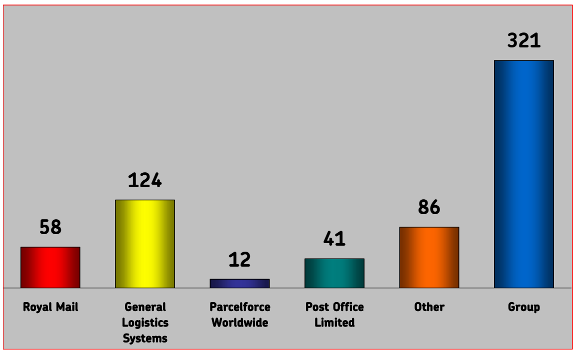
Operating and Financial Review (continued)

Group Financial Analysis

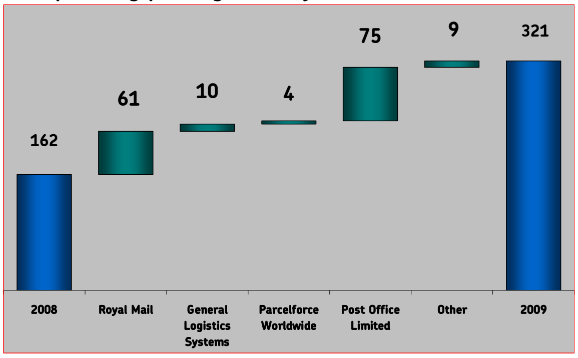
In the following analysis, all references to operating profit are before exceptional items.

This year we report an operating profit of £321m compared to £162m for 2008, an increase of £159m (98.1%). This was driven by the strong performance of all four business units, all reporting an operating profit for the first time in almost 20 years. Royal Mail and Post Office Limited have both delivered significantly improved performance year on year, returning to profitability, despite falling revenues driven by difficult trading conditions.

Operating profit by business unit – £m



Operating profit growth by business unit – £m



*The impact of the difference in FX rates year on year was £20m favourable in GLS

External Revenue

Group external revenue increased by £172m (1.8%) from £9,388m to £9,560m in 2009. Excluding the impact of foreign exchange (FX) in GLS, this drove an underlying decline of £55m. However, when also excluding the impact of a lower number of working days year on year, revenue is broadly flat. Increases in GLS, Parcelforce and other businesses (mainly iRed and Romec), were offset by declining revenues in Royal Mail and POL.

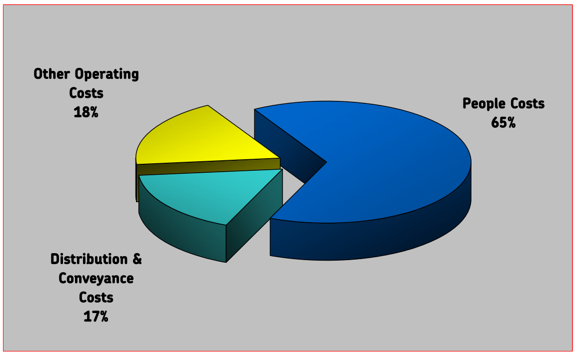
Royal Mail revenue outturned £123m lower, and even after adjusting for working days, has continued to decline year on year. A price increase of c.5% on the regulated area did not counter accelerated volume decline, further losses to competition and customers continuing to switch to lower priced products.

General Logistics Systems increased its revenue by £263m (21.3%), from £1,232m to £1,495m, largely driven by the strengthening of the euro. The remaining underlying growth was attributable to higher domestic and export parcel revenues. Parcelforce Worldwide increased its revenue by £20m (5.3%) to £399m, due to income growth in UK retail and export channels. Post Office Limited showed a revenue decrease of £3m (0.4%) from £911m to £908m, with all income streams impacted by a smaller network and an additional 53rd week in the prior year. Revenue decline in Government Services and Retail income was largely offset by growth in Telephony and Financial Services income streams.

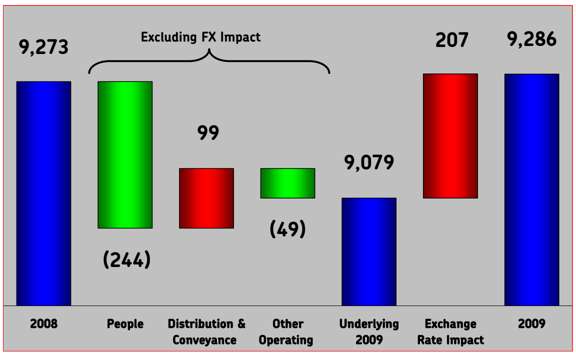
Costs (excluding exceptional items)

Total costs of £9,286m, have increased from £9,273m by £13m (0.1%). However, removing the impact of the exchange rate difference year on year, costs show an underlying decrease of £194m (2.1%). Costs will have been higher in the prior year due to the impact of the additional 53rd week in 2008.

Cost by type – %



Cost growth by type – £m



People costs of £6,012m represent 65% of the Group's cost base, and have fallen year on year by £244m (4.1%). In 2008, people costs comprised 67% of the cost base. The decrease is driven by reduced pension costs and management of headcount, which has fallen by c.5,000 in the wholly owned UK subsidiaries, principally within Royal Mail and Post Office Limited. Agents' costs are significantly lower year on year as a result of the network transformation programme.

Distribution and conveyance costs comprise 17% of the Group's cost base and have increased by £99m to £1,577m. This is largely as a result of higher international volumes and average weight, combined with higher costs associated with settling with overseas postal operators, including the impact of foreign exchange. Other operating costs make up 18% of total costs for the Group and have fallen by £49m, to £1,697m. Tight cost control measures including renegotiation of key supplier contracts have delivered efficiencies enabling inflationary pressures to be absorbed and savings to be delivered that offset the additional costs of investment in our transformation.

Operating and Financial Review (continued)

Pensions

Pension charges within operating profit	2009 £m	2008 £m
Within operating before exceptionals	**496**	701
Within exceptionals (relating to redundancy)	**31**	42
Within operating profit	**527**	743

Pension costs (pre-exceptionals) have reduced by 29.2% from £701m to £496m. The £205m reduction is principally due to pension costs being charged at 18.1% this year compared to 25.6% last year as a result of the pension reform and market conditions.

The balance sheet pension deficit has increased from £2,923m in March 2008 to £6,776m. The increase in the deficit of £3,853m principally relates to an actuarial loss of £4,084m.

The actuarial loss arose due to changes in market conditions giving rise to lower than expected asset values. This loss is recorded in the statement of recognised income and expense.

The net pensions interest charge reflects the unwinding of the discount on the schemes' liabilities less the long-term expected rate of return on the schemes' assets, This interest is recorded in the income statement after profit/(loss) before financing and taxation.

As part of the funding package, the Group established £1bn of investments in escrow shortly before the 2007 year end as security for the Royal Mail Pension Plan, in support of the 17 year deficit recovery period from 31 March 2006.

Pensions cash funding: Group contributions	2009 £m	2008 £m
Regular pension contributions	**551**	550
Funding of pension deficit	**290**	284
Payments relating to redundancy	**32**	36
Prepayment of 2009 regular pension contributions	**(50)**	50
Net cash payments	**823**	920

Regular pension contributions increased slightly (0.2%) from £550m to £551m. The regular rate of employer contributions for the Royal Mail Pension Plan has remained at 20.0% of pensionable pay, effective from April 2006. The regular rate of employee contributions for the Royal Mail Pension Plan remains unchanged at 6.0%.

Deficit recovery payments by the Group increased by £6m (2.1%). Deficit recovery payments are planned for the Royal Mail Pension Plan over the 17 years from the date of the latest full actuarial valuation. The planned payments are £260m per annum, increasing in line with RPI, for 16 years from the beginning of 2007-08. There have been no employee deficit contributions.

Share of Profits in Joint Ventures and Associates

The Group's share of profits in joint ventures and associates of £47m (2008 £47m) comprises profits from Post Office Limited's Bureau de Change joint venture (First Rate Exchange Services Holdings Limited), Camelot Group plc associate - UK National Lottery operator, Quadrant Catering Limited our catering associate, Post Office Limited's financial services associate (Midasgrange Limited) and G3 Worldwide N.V. (Spring)- our international mail distribution associate.

Net Exceptional Items

Net exceptional items of £138m (2008 £383m) comprise operating exceptionals of £149m (2008 £441m) offset in part by profits from property disposals of £11m (2008 £58m). Operating exceptional costs include £113m for restructuring costs (2008 £363m), £84m for ColleagueShare costs (2008 £277m), £77m for impairments (2008 £97m) and £27m for other exceptional write offs (2008 £17m). This was offset in part by Government grant income of £152m (2008 £313m) received to compensate Post Office Limited for providing certain specified "services of general economic interest".

ColleagueShare Scheme

The Company ColleagueShare scheme has now completed a second year. The costs of the scheme are treated as an operating exceptional item.

Fully eligible employees were allocated an additional 303 notional shares in the Company during the year following the issue of 408 notional shares in the first year of the scheme. The value of the ColleagueShares is based on the regularly updated Group share value plan model. In the year the scheme has generated a discounted charge to the income statement of £14m (2008 £116m) in exceptional items and a further £8m, relating to the unwinding of discounts from the first year of the scheme for ColleagueShares, in finance costs.

The provision in the balance sheet for share payments at the end of the scheme is now £134m. In line with the rules of the scheme all ColleagueShares will be redeemed by the Company by 2012.

The Company will again be making a related stakeholder dividend payment representing a payment of up to £400 to all eligible employees in recognition of achieving certain Group and business unit targets. The total charge to the income statement in exceptional items arising from the stakeholder dividend is £70m (2008 £161m) payable in 2009.

Net Finance Costs

Net finance costs of £20m (2008 £13m income) comprises finance costs of £56m (2008 £71m) offset by finance income of £36m (2008 £84m). The decrease in finance income of £48m is mainly due to lower investment yields (particularly on index linked gilts within the escrow portfolio of investments), lower investment volumes in Group excluding POL, partially offset by higher investment volumes in Post Office Limited and higher interest receivable within General Logistics Systems.

The decrease in finance costs of £15m is mainly due to lower borrowing rates partially offset by the first year unwinding of discounts on ColleagueShares.

Operating and Financial Review (continued)

Net pensions interest

Net pensions interest charge of £114m (2008 £131m interest credit), a non-cash item for the Group, has increased by £245m mainly due to the increase in expected interest on Plan liabilities as a result of the increase in the discount rate.

Taxation

The taxation charge in the income statement of £278m comprises £1m current tax payable with respect to UK operations, a £35m current tax charge on overseas profits, a UK deferred tax charge of £237m and an overseas deferred tax charge of £5m. A tax charge of £192m was taken directly to equity. Last year a taxation credit of £212m was recorded comprising £25m current tax credit with respect to UK operations, a £29m current tax charge on overseas profits, a £226m UK deferred tax credit and a £10m overseas deferred tax charge, with a charge of £18m being taken directly to equity. The tax charge reported in relation to the pre-tax profit is mainly due to the decreased amount of deferred tax asset recognised.

Cash Flow

The following table is a summary of the Group cash flow statement.

Summary of cash flows	2009 £m	2008 £m
Cash (outflow)/inflow from operations	**(154)**	483
Dividends from joint ventures and associates	**42**	36
Property, plant & equipment, intangibles purchases and disposal proceeds	**(494)**	(259)
Acquisition and sale of financial assets	**(5)**	(61)
Net drawdown/(repayment) of borrowings and financing	**310**	33
Tax, interest and other	**(72)**	(23)
Net cash (outflow)/inflow	**(373)**	209

Cash outflow from operations of £154m (2008 £483m inflow) comprises:

- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) inflows of £531m (2008 £351m);
- Government grant income of £152m (2008 £313m) to compensate Post Office Limited for providing certain specified "services of general economic interest";
- Payments relating to exceptional items of £412m (2008 £188m), comprising ColleagueShare payments of £158m (2008 £nil), restructuring costs of £222m (2008 £152m) and pension top ups of £32m (2008 £36m);
- Working capital outflows of £80m (2008 £140m inflow); and
- Outflow attributable to cash paid in respect of retirement benefit obligations in excess of that charged in operating profit £345m (2008 £133m).

Dividends received from joint ventures and associates of £42m (2008 £36m) are from First Rate Exchange Services Holdings Limited, £27m (2008 £24m), Quadrant Catering Limited, £5m (2008 £5m) and Camelot Group plc, £10m (2008 £7m).

Property, plant & equipment, intangibles purchases and disposal proceeds of £494m outflow (2008 £259m) comprises £514m (2008 £330m) of expenditure, including motor vehicles of £91m (2008 £67m), plant and equipment £207m (2008 £108m), £138m (2008 £88m) for property improvements and the remaining £78m (2008 £67m) on software. This analysis includes £54m (2008 £36m) in respect of GLS projects. The expenditure was offset by inflows of £20m (2008 £71m) from surplus property disposals.

Acquisition and sale of financial assets of £5m outflow (2008 £61m) represents the net purchase of investments made by the Group from cash and cash equivalent resources and comprises £19m outflow relating to the investments in escrow, provided as security for the Royal Mail Pension Plan, offset by the sale of £14m financial assets used for liquidity within the Group.

Net drawdown/(repayment) of borrowings and financing of £310m inflow (2008 £33m) principally comprises £300m drawdown (2008 £nil) of Government loans to Royal Mail Group Ltd, £48m net repayment (2008 £20m net repayment) of Government loans to Post Office Limited, £75m cash received (2008 £55m) on sale and leasebacks, offset by £18m payment (2008 £3m) of finance lease obligations.

Provisions

Provisions at the end of March 2009 were £310m (2008 £411m). The £101m net reduction comprises cash spend of £220m and transfers to short-term pension creditors of £32m, offset in part by new provisions relating to ColleagueShares, restructuring and onerous property contracts of £143m and the unwinding of the ColleagueShare provisions discount of £8m.

Operating and Financial Review (continued)

Group Strategy and Key Performance Indicators (KPIs)

Our success is measured by the four areas central to our operating units' objectives. These key strategies and objectives are communicated widely across the Group, embedded into its day-to-day activities and measured on a timely basis by appropriate KPIs and monitored by the Royal Mail Holdings plc Board and its sub Committees, as highlighted below:

Customer Service	Great Place to Work	Profitability and Cash Flow	Good Corporate Citizen
Our customers are at the heart of everything we do. The key to winning and keeping customers is to provide a consistently high quality of service. This has been the top priority of everyone in the business and is at the heart of our strategy moving forward. That means: • delivering a high quality of service and mails integrity; • developing products that match the needs of our customers; and • becoming easier to do business with.	This initiative established in 2003, works on the basis that we can only move forward and succeed as a business if we involve our people in making change happen. The initiative has undergone a refresh to keep aligned to our long term strategy and ensure maximum benefit to our people.	Funding from Government on commercial terms has been secured enabling the Group (excluding Post Office Limited) to support the capital investment programme which addresses the historic underinvestment in the Letters business. Post Office Limited and Government have agreed a long-term funding package which will maintain a national network and put Post Office Limited on a sustainable footing. Continuing to develop more efficient ways of working will empower us to succeed in a competitive marketplace, allowing us to maintain sustainable profitability and cash flow to eventually generate a return for our stakeholders.	Corporate Social Responsibility (CSR) is doing the right thing for our people, our business and the communities we operate in, as our: • customers want to buy from companies that share their values; • colleagues want to work for companies that provide a healthy and safe environment and whose values align to theirs; and • communities want companies that create the incomes, the jobs and contribute to the cohesion that builds the neighbourhoods where people want to live and work.
Customer	**People**	**Financial**	**Environmental**
Quality of Service targets Number of Complaints	Employee Survey	Turnover Operating profit* Return on sales* Return On Total operating Assets# Operating cash flow	CO_2 Emissions/1,000 items
	Health & Safety		**Social & Community**
	RIDDORs (reportable accidents)/1,000 staff Sick Absence		Charitable Donations

*before exceptional items
#*as defined in the Directors' Remuneration Report*

With the exception of the Post Office Limited Quality of Service measure, no change has been made to the sources of data or calculation methods used for the KPIs above.

Operating and Financial Review (continued)

Treasury Management

The Group operates a central Treasury function that manages £1.1bn of financial asset investments (substantially all of which are now held in escrow in favour of the pension fund trustees) and £1.1bn of cash and cash equivalent investments (including £720m cash in the Post Office network funded partly by a Government loan facility), in accordance with investment restrictions set by the Government. It also manages £1.2bn of financial liabilities and acts as internal banker for the Group's business units. The Group finances its operations largely through cash generated from its operations, borrowings and grants.

Group Treasury derives its authority from the Royal Mail Holdings plc Board, and provides quarterly monitoring reports for their review. It only has the authority to undertake financial transactions relating to the management of the underlying business risks; it does not engage in speculative transactions and does not operate as a profit centre. All strategies are risk averse, and the treasury policy has remained substantially unchanged during the year. The principal financial instruments are Treasury bills, Government gilt edged securities, deposits and long and short term borrowings.

At the balance sheet date the Group is financed from the following facilities provided by the Department for Business, Enterprise and Regulatory Reform (BERR):

Borrower	Purpose	Facility end date	Facility £m	Utilised £m	Average loan maturity date
Royal Mail Group Ltd	Acquisition funding	2021-2025	500	500	2023
Royal Mail Group Ltd	Capital Expenditure and Restructuring	2014	600	Nil	-
Royal Mail Group Ltd	General Purpose / Working Capital	2014	300	Nil	-
Royal Mail Group Ltd	General Purpose / Working Capital	*	300	300	*
Post Office Limited	Network cash	2011	1,150	232	2009

*Loan is repayable on the later of 2016 and the release of the pension escrow investments. This Royal Mail Group Ltd loan is subordinate to all other creditors.

The terms of the Government borrowing facility and the associated Framework Agreement impose strict constraints on the separation of cash funds within the Group and the purposes for which they can be used.

The principal treasury risks arising from the Group's activities are currency, counterparty, commodity (fuel) and liquidity risk. These are managed as follows:

- the Group is exposed to foreign currency risk due to trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in the UK, revaluation of the currency balances held to operate the Bureau de Change services within Post Office Limited and various sales and purchase contracts denominated in foreign currency. Hedging programmes managed by Group Treasury mitigate these risks. Where possible, exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward contracts;
- the Group's obligation to pay overseas postal operators is denominated in Special Drawing Rights (SDRs) – a basket currency comprising of US Dollar (US$), Japanese Yen, Sterling and euro. The Group has a policy of matching receipts and payments for individual currencies where possible and then hedging any material net exposure. The policy is that up to 80% of the forecast net exposure is hedged with agreement of the internal business unit. Group Treasury operates a rolling 18-month programme, which is subsequently reviewed on a quarterly basis. There has been no external hedge in place throughout the last financial year;
- Bureau de Change balances are grouped into baskets of closely correlated currencies. Each currency basket (e.g. US$ or euro) is then sold forward, up to 100% of the exposure, creating a liability to match the underlying asset;
- significant foreign currency risk arising from capital purchase contracts, primarily in euro, may be hedged up to 100% depending upon the reliability of the forecast of the underlying cash flows;
- the Group does not hedge the translation exposure created by the net assets of its overseas subsidiaries. However, it does hedge the transactional exposure created by inter-company loans with these subsidiaries;
- the Group is exposed to various commodity price risks namely fuel price risk arising from operating one of the largest vehicle fleets in Europe, jet fuel price risk arising from the purchasing of air freight services and electricity/gas price risks arising from the Group's power usage. The Group's commodity risk management strategy aims to reduce uncertainty created by the movements in the commodity and foreign currency markets. The strategy operates within the parameters set by the Board, which allow the use of over-the-counter derivative products together with fixed price purchase contracts to manage up to 100% of these exposures;
- the Group actively manages its liquidity risk through regular reviews of plan and budget projections against all available sources of funding. The projected headroom on these sources of financing is assessed regularly for adequacy; and
- counterparty risk is managed by limiting aggregate exposure to any individual counterparty based on their financial strength.

These exposures are reviewed regularly and adjusted as appropriate.

The policies for financial assets - investments and derivative financial instruments - are shown in note 2.

Operating and Financial Review (continued)

Business Environment

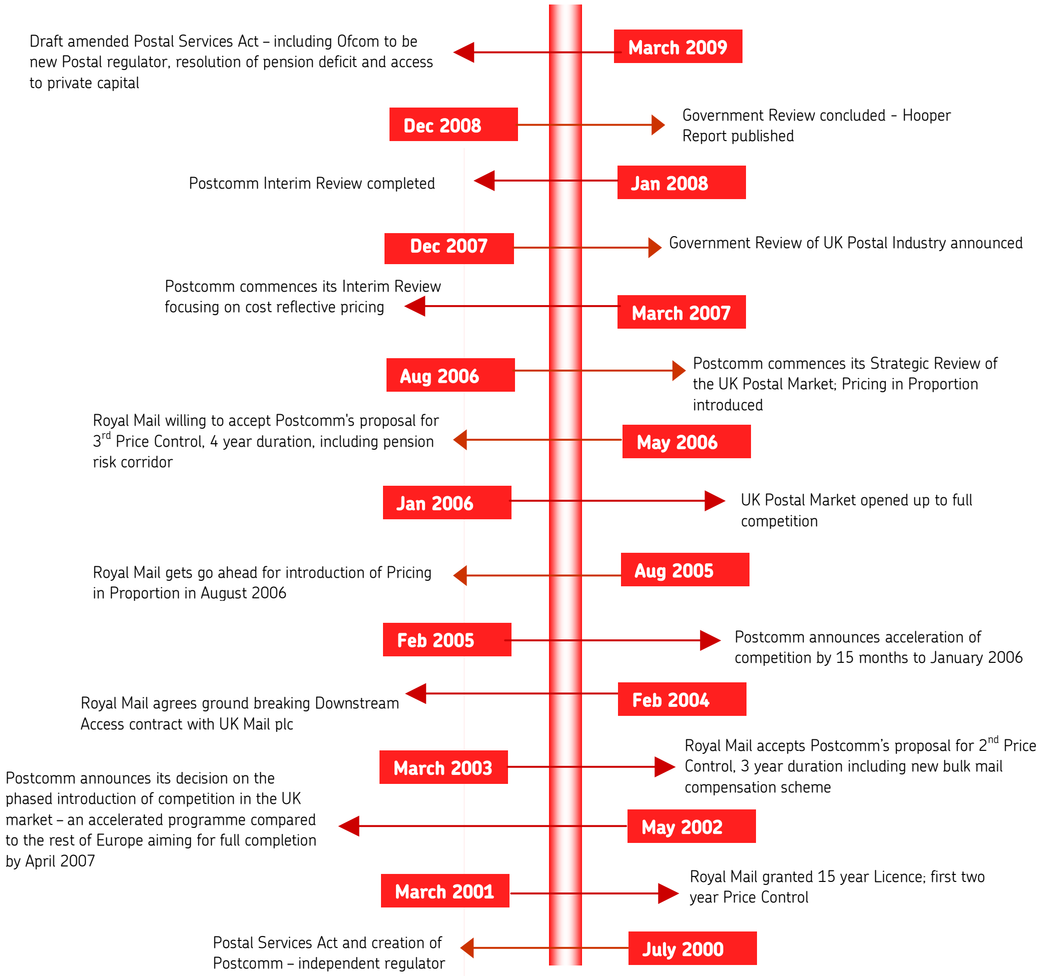
Regulation

The EU Postal Services Directive 97/67/EC ("PSD") establishes the legal framework applying to postal services throughout the EU. It requires the provision of a universal postal service across the EU within the framework of an internal EU postal market, with the gradual and controlled liberalisation of that postal market.

In 2000 the Postal Services Act came into force in the UK, creating an independent postal regulator – Postcomm which commenced a process of market liberalisation and licensing regime of Royal Mail and competitors. Postcomm currently regulates the prices of over 80% of the Royal Mail letters business, controls the terms and conditions for nearly all of its services, sets the quality of service targets and determines compensation arrangements.

Post Office Limited is subject to regulation in financial services (Financial Services Authority) and in telephony (Ofcom). Post Office Limited is an appointed representative of the Governor and Company of the Bank of Ireland, which in turn is regulated directly by both the Irish Financial Regulator and Financial Services Authority (FSA) for conduct in the UK.

The chart below shows the major regulatory changes since the Postal Services act came into force in 2000:



It is the Group's policy to be compliant with the regulatory framework in which we operate. During 2008-09, we have continued to strengthen our compliance activities working in close liaison with our Regulators.

Competition

The Group's business units operate in a competitive marketplace. Parcelforce Worldwide and GLS have been operating in an open market since their inception. These units have demonstrated their ability to perform in a non-regulated and competitive environment, which is reflected in their annual results.

Post Office Limited, due to a reduction in income from benefit payments and a significant and continuing decrease in Government use, has developed revenue streams from financial services products (including car and home insurance, a 'two-in-one' credit card and range of savings products) and its HomePhone and broadband services. These products are in direct competition with services offered by banks, insurance and telephony companies, as are many of the services it continues to offer, e.g. bill payments, renewal of car tax discs and travel services.

Operating and Financial Review (continued)

Since February 2004, Royal Mail's operating environment has gradually been opened up to competition, with the letters market fully liberalised in January 2006 - well in advance of the rest of Europe. Competitors are now able to offer customers the opportunity of end-to-end service for the collection, sorting and delivery of their mail.

Major Regulatory Activity in 2008-09

In December 2007, BERR announced an independent review of the UK postal services market to examine the impacts of liberalisation of UK postal services, trends in the future market development and the likely impact of this on Royal Mail, alternative carriers and consumers.

The terms of reference for the review were:

- To assess the impacts to date of liberalisation of the UK postal services market, including on the Royal Mail, alternative carriers and consumers;
- To explore trends in future market development and the likely impact of these on Royal Mail, alternative carriers and consumers; and
- To consider how to maintain the Universal Service Obligation in the light of trends and market developments identified.

In March and May 2008, Royal Mail submitted its responses. The review panel published an initial response to evidence in May 2008 and its final report to ministers in December 2008.

The key recommendations of the final report were:

- Regulation: the duty of regulating postal services will be transferred from Postcomm to Ofcom, with maintenance of the universal postal service its primary duty in relation to postal services;
- Pensions: as part of a coherent package to secure the Royal Mail's long term viability, Government will take full responsibility for pensions liabilities in the Royal Mail Pension Plan incurred prior to December 2008;
- Partnership: Government will invite offers to enter into a partnership with Royal Mail, but with a firm commitment that Royal Mail remains publicly owned; and
- Post Office Limited: the Royal Mail Group will be restructured so that Post Office Limited will remain entirely in Government ownership.

In December 2008, Lord Mandelson confirmed to the House of Lords that the Government had accepted the findings of the independent review and had received an expression of interest to purchase a minority stake in Royal Mail. In April 2008, Royal Mail confirmed that a cash gap of £2.6bn existed between the cash flows Postcomm had predicted when setting the current four year price control and the latest projections. In July 2008, Royal Mail announced that, for the first time ever, the universal service obligation had reported a loss in excess of £100m.

In February 2009, the Government published legislation (the Postal Services Bill), in support of the independent review proposals and aimed at ensuring the maintenance of a universal postal service and securing the future of a healthy publicly owned Royal Mail. The draft bill is currently before Parliament.

As from October 2008, under the Consumer, Estate Agents and Redress Act 2007, Postwatch, the independent watchdog for postal services, has been replaced by Consumer Focus. Consumer Focus was set up to represent the interests of consumers across the UK economy at policy level. It was created through the merger of three consumer organisations – energywatch, Postwatch and the National Consumer Council (including the Welsh and Scottish Consumer Councils). It has strong new legislative powers, including the right to investigate any consumer complaint if it is of wider interest, the right to open up information from providers, the power to conduct research and the ability to make an official super-complaint about failing services.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a key component in supporting the business to be recognised as a responsible organisation that seeks to optimise the beneficial impacts inherent in our business and reduce the negative impacts. Through improving our CSR performance and ensuring it is integrated into the way we work, we can make ourselves more productive and competitive. We are working to reduce the number of accidents, reduce our production of CO_2 and make our people healthier. We recognise that the route to achieving and sustaining our goals is through our people and our relationship with customers, business partners, suppliers, communities and other stakeholders.

A more comprehensive overview of our CSR will be found in the annual Corporate Social Responsibility report, to be published later in the year.

Operating and Financial Review (continued)

Key Relationships

The Group has several key relationships that are critical to its day-to-day activities and its overall success.

People - Our people are the lifeblood of the organisation and brands. Without their continued support and dedication it will be impossible to function on a day-to-day basis and embrace the change within our markets. Training, diversity, flexible resourcing and making the business a great place to work are some of the ways we continue to improve this relationship.

Unions – The Communications Workers Union (CWU) represents non-managerial staff, with Unite the Union - Communication and Managers' Association (CMA) sector representing managerial staff. The Group's policy is to work with the CWU and CMA to engage staff in the development and execution of business decisions.

Pension trustees - Our pension trustee board for the main pension plan comprises an independent chairman plus 10 people including employees, union representatives, a pensioner and independent members. They take external professional advice, from Sacker & Partners LLP (legal), Watson Wyatt Limited (actuary), KPMG LLP (auditors) and PricewaterhouseCoopers LLP (financial). They are responsible for obtaining regular actuarial valuations of the plan to satisfy the statutory funding objective, which involves reaching agreement with Royal Mail Group on the statement of funding principles, the recovery plan and the schedule of contributions. There is a separate trustee board for the senior executives' pension plan which comprises the chairman plus 5 individuals including employees, pensioners and an independent member.

Customers – The Group's businesses and brands are used or recognised by almost everyone in the UK – from the largest of companies to individuals. However, the 30 largest customers generate c.13% of Royal Mail's turnover and consequently the business is reliant on a small customer base. As competition increases the Group will have to continue to simplify ways of doing business and design products around customers' needs. Customers are offered standard terms and conditions for the markets and countries in which the Group operates.

Subpostmasters - The vast majority of Post Office Limited's c.12,000 Post Office branches are operated by subpostmasters, franchise and multiple partners. The National Federation of Subpostmasters (NFSP) directly represents the interests of their members (typically independent subpostmasters) and NFSP membership currently stands at c.8,000. As a consequence of representation, the NFSP indirectly influences all other agents across the network through its negotiations conducted on behalf of the majority of independent subpostmasters. As part of the annual cycle, Post Office Limited conducts remuneration negotiations with the NFSP whilst also working closely with them on the many agent centric aspects of Post Office Limited's five year strategy - designed to deliver a viable physical network by 2010-11.

There are also several major retailers who are also significant Post Office partners - operating around 1,500 Post Office branches across the country. Post Office Limited liaises directly with these companies as well as deploying senior account managers and business development managers to maintain successful working relationships at all levels. It is through the combination of effective partnership with the NFSP, as well as with the National Multiple Partners, that Post Office Limited is able to take an overall view of the interests of the majority of agents, as it wrestles with the challenges associated with the longer term viability of the network.

Suppliers – The Group has a wide range of suppliers, with its primary reliance on those relating to outsourcing of non-core services, such as IT support. It works in partnership with its suppliers to ensure the right products and services are delivered at the right time at competitive costs. A Group purchasing team monitors compliance to Group policy in awarding contracts or new business and adheres to agreed credit terms.

The consumer body: Consumer Focus – In October 2008, Postwatch merged with energywatch and the Welsh, Scottish and National Consumer Councils to form Consumer Focus. It is the new statutory organisation campaigning for a fair deal for consumers in England, Wales, Scotland, and, for postal services, Northern Ireland. Consumer Focus wants to ensure postal consumers throughout the UK are receiving a fair deal. It has strong new legislative powers including the right to investigate any consumer complaint if it is of wider interest, the right to open up information from providers, the power to conduct research and the ability to make an official super-complaint about failing services.

The Regulator: Postcomm – The independent regulator for the postal market, Postcomm, set up by the Postal Services Act 2000, is responsible for setting a framework for Royal Mail's prices – the Price Control, in the form of a cap on the average price of a basket of products. The price increases or reductions allowed by Postcomm through the Price Control have a very material impact on the likely levels of cash flow the Company can generate. Postcomm also investigates compliance with Licence conditions and has broad powers to reprimand publicly or fine Royal Mail if it finds it in breach of those conditions.

Shareholder – The Company is a plc 100% owned by the Government. The Shareholder Executive (within BERR) manages the shareholder relationship with the Company as a commercial shareholder. While management of the Group therefore lies with the Company's Board of Directors, the Shareholder is kept up-to-date through quarterly performance reviews and is asked to approve the Group's strategic plan. Any new funding required by the Group (apart from short term borrowings of less than one year) can only be approved by Government if it meets commercial principles.

Operating and Financial Review (continued)

Segmental Analysis – Revenue and Profitability

In the following analysis, all references to operating profit are before exceptional items.

Group external revenue of £9,560m (2008 £9,388m) and operating profit before exceptionals of £321m (2008 £162m) are made up as follows:

Business unit performance	External revenue 2009 £m	External revenue 2008 £m	Operating profit/(loss) 2009 £m	Operating profit/(loss) 2008 £m
Royal Mail	**6,707**	6,830	**58**	(3)
General Logistics Systems	**1,495**	1,232	**124**	114
Parcelforce Worldwide	**399**	379	**12**	8
Post Office Limited	**908**	911	**41**	(34)
Other businesses	**51**	36	**86**	77
Group	**9,560**	9,388	**321**	162

A further analysis of results, by business unit, is shown below:

Royal Mail	**2009 £m**	2008 £m
External revenue	**6,707**	6,830
Operating profit/(loss) before exceptionals	**58**	(3)

External revenue of £6,707m was lower by £123m, and even after adjusting for working days, revenue has continued to decline year on year. A price increase on the regulated area averaging c.5% was offset by volume decline, customers switching to lower priced products and losses to competition. 2008-09 has seen acceleration in the downturn of Addressed Inland volumes (3.2% to 5.5%), driven by e-substitution and the impact of economic slowdown particularly in the financial services sector.

Profitability improved from an operating loss of £3m to a profit of £58m. The decline in revenue was offset by delivery of operational efficiencies resulting from continuation of strategic initiatives and investment in modernisation of the business. People costs were lower than prior year driven predominantly by reduced pension costs and a reduction in people employed.

General Logistics Systems	**2009 £m**	2008 £m
External revenue	**1,495**	1,232
Operating profit before exceptionals	**124**	114

External revenue rose by £263m (21.3%), from £1,232m to £1,495m, largely driven by the strengthening of the euro. Excluding the exchange rate impact, underlying growth of £36m (2.4%) results from an increase in domestic and export parcel revenues. Revenue growth has slowed relative to the previous year (9.7%), as recessionary conditions prevail across Europe.

Operating profit has increased by £10m (8.8%), from £114m last year to £124m. However, this includes the favourable impact of exchange rate movements, giving rise to an underlying profit decline of £10m. This has resulted from deteriorating trading conditions in the second half of the year.

Parcelforce Worldwide	**2009 £m**	2008 £m
External revenue	**399**	379
Operating profit before exceptionals	**12**	8

External revenue rose by £20m (5.3%), on 1.4% lower volumes (1.0% working day adjusted). Strong income growth in UK retail and export channels was only partially offset by lower UK contract sales. Revenue per parcel has increased by 3.8%, principally due to a greater proportion of volume being generated in UK retail and export channels. Revenue growth has been underpinned by continued focus on providing quality for the customer. Quality of service for the year has improved by 1.4%, to 97.5% and an ongoing emphasis on customer service has led to a 4.7% improvement in first time deliveries to 95.8%.

Operating profit of £12m has grown by 57.5%. Inflationary cost pressures have been more than offset by improvements in operating efficiencies and revenue growth in a difficult economic environment.

Operating and Financial Review (continued)

Post Office Limited	2009 £m	2008 £m
Turnover	**758**	761
Social Network Payment	**150**	150
External revenue	**908**	911
Operating profit/(loss) before exceptionals	**41**	(34)
Underlying operating loss before exceptionals	**(109)**	(184)

External revenue declined by £3m (0.3%) to £908m. This includes the impact of the 53rd week in the prior year (£14m), implying an underlying increase of £11m (1.2%). The Social Network Payment (SNP) of £150m is recognised in revenue in both years. This relates to a Government grant used to finance the loss during the year of providing the network of public post offices, which would not otherwise be provided.

Underlying revenue growth was driven by an increase in newer commercial revenue streams, mainly Financial Services and Homephone, partly offset by declining Government Services revenue. Card Account customers migrated to other banking services and Motoring revenues declined as customers moved to DVLA web applications, Retail income streams also saw a downturn as retail space and product ranges were refocused.

Operating profit saw an improvement of £75m from a loss of £34m to a profit of £41m. This was driven by transformation with programme benefits significantly reducing costs in line with expectations. Other tight cost control measures including renegotiation of key supplier contracts have delivered efficiencies enabling inflationary pressures to be absorbed and savings delivered.

Other businesses	2009 £m	2008 £m
External revenue	**51**	36
Operating profit before exceptionals	**86**	77

External revenue from other subsidiaries has increased by £15m to £51m (41.7%). This was driven by 2008-09 being the first full year of trading for the subsidiary iRed Partnership Limited and growth in Romec's revenue. This was partially offset by a decline in income year on year for National Design Consultancy 2000 Ltd. Operating profit is largely attributable to the activities of Royal Mail Estates Limited, which leases a portfolio of property interests to Group. The improvement in operating profit is driven by Romec's revenue performance.

Principal Risks and Uncertainties

The Group uses a business-wide framework for the identification, assessment, treatment, monitoring and reporting of risk. The process helps support business objectives by linking into business strategy, identifying and reacting to emerging risks, and developing cost effective solutions to the management of risk.

The following Group-level risks have been identified and are being managed to support the long-term sustainability of the Group. The impact of some of these risks could be impairment to the value of the Group's brands - Royal Mail, GLS, Parcelforce Worldwide and Post Office which are some of the most well known and trusted brands in the UK.

The financial restructuring package agreed with the Government needs to be managed effectively
The business has agreed a financial restructuring package that will allow it to restructure the business, invest in new equipment and meet instalments towards the pension fund deficit that has a major impact on Group profit and balance sheet. Effective management of this package is crucial for the business to remain within the agreed financial restructuring parameters and to avoid potential sanctions or penalties that could ensue.

Ineffective investment in the operational network could affect productivity levels and our ability to compete effectively
The business is embarking on a major investment programme to replace equipment and technology that is nearing the end of its life cycle. The investment programme needs to be deployed effectively and future ongoing investment in the Group's operational network maintained to ensure the Group's ability to compete effectively in the open market.

The Group has a large pension fund deficit that requires funding
The size and volatility of the Royal Mail's pension fund deficit is a major challenge for the modernisation of the Company. As part of the comprehensive package of reforms, Hooper recommended that action should be taken to reduce substantially the burden of Royal Mail's historic pension liabilities. There remain uncertainties over the impact of fluctuations in the equity and debt markets affecting the value of the funds' assets and liabilities and the ability of the business to achieve the required levels of profitability and maintain our contributions at the agreed level.

Weakness in the UK economy or recession is likely to have a detrimental impact on the Group's profits
Historically there has been a correlation between the state of the UK economy and level of mails revenue. Economic weakness or recession will have a direct impact on mail volumes and consequently on Group profit. In addition, there are certain critical suppliers to the Group. If any of them were unable in the current economic climate to meet their service obligations, this would adversely impact the Group's operations and results. Economic downturn may also impact the ability of key customers to continue trading, which would directly impact Group revenue and profits.

The Government is the Company's only shareholder and the Group may be affected by any future change in Government policy
The influence of public policy considerations on Government may adversely affect the Group's ability to promote an effective business strategy. This is particularly significant for Post Office Limited which is required to run its branch network as a commercial business and is reliant on Government support for loss making branches.

Operating and Financial Review (continued)

Group revenues and profit are subject to several uncertainties

The postal market has evolved rapidly as a result of liberalisation. Competitors are aggressively targeting business customers. Additionally business customers are downtrading using less profitable products. In addition overall mail market volumes are declining. Technological innovation is increasing, customers can now switch to alternative offerings and information can be sent or made available faster and, in many cases, at a lower cost than traditional mail services. If technological substitution continues, market volumes will decrease further. At the same time, increased awareness of and sensitivity to "green" issues, including the use of paper, may impact customer sentiment and drive down usage of mail or increase switching to alternatives.

Furthermore Royal Mail's regulatory regime impacts the business's profitability in two key areas:

- The Universal Service Obligation (USO) requires Royal Mail to maintain a national collection and delivery network, resulting in Royal Mail incurring a higher fixed cost base than our competitors. Unless the applicable regulatory restraints permit Royal Mail to recover from this imbalance, there is a risk that Royal Mail will always lose money on stamped mail, whilst competitors procure more profitable products such as business mail; and
- Royal Mail's prices for most of its letters products are determined by Price Control reviews and negotiation with the regulator, which can reduce our flexibility and profitability, leading to uncertainty over how the future Licence and regulatory regime will affect Royal Mail.

The Group is subject to regulatory restrictions on our operations and the risk of penalties for non-compliance

Royal Mail's postal operator's Licence contains material restrictions on the operation of the business. These include:

- Obligations over the delivery and collection of mail;
- Restrictions over the freedom to set prices; and
- Obligations to give competitors access to our network.

If Royal Mail breaches certain postal operator's Licence conditions or other regulatory requirements it may be subject to financial penalties. There is increased uncertainty as to how the regulatory regime will affect Royal Mail in the future as the proposed transition from Postcomm to Ofcom may lead to differences in regulatory approach.

In addition to our postal operator's Licence the Group is also subject to oversight by other regulators. This affects Post Office Limited which has to satisfy the FSA's requirements as an appointed representative of The Governor and Company of the Bank of Ireland who are regulated by the FSA in respect of investment, mortgage and insurance intermediation activity in the UK. It is also subject to anti-money laundering regulations issued under the Proceeds of Crime Act 2002 and enforced by HM Revenue and Customs. Post Office Limited is also licensed as a telephone service provider by Ofcom, which requires service providers to issue and adhere to Codes of Practice.

Without a continued change of culture within the organisation future development may be affected

The changing and uncertain postal market place, the impact of competition and regulation and increased customer expectations place major challenges on all employees to adapt and improve productivity to levels that will allow the business to compete effectively. These challenges need to be met by ongoing cultural change within the organisation.

Without a flexible, efficient and co-operative culture, Royal Mail could become loss making as mail volumes decline. Significant industrial action could have a major detrimental effect on the Group's reputation and profits.

The Group's business activities are time critical and, if key infrastructure facilities were disrupted, it could have an impact on results

The business is subject to a number of operational risks to its nationwide delivery and retail outlet networks, including natural disasters, fire, flood, explosion, possibility of work stoppages or civil unrest, transport infrastructure disruption, power failures, unavailability of key supplies, breakdown or failure of equipment, health pandemics, terrorism and the normal hazards associated with running a complex infrastructure. A major disruption could have an adverse impact on customer services as well as business and operating results.

The Group may be affected by future environmental and related fiscal measures

The Group operates a large vehicle fleet and a substantial property portfolio that consume large amounts of energy. Although the Group is disposing of surplus property and is deploying a Carbon Management Programme, it may be affected by future environmental measures and adverse fiscal impact from increased energy costs and "green" taxation.

The Group operates a substantial treasury operation and is exposed to foreign currency risk and fuel price risk

Foreign currency risk is due to trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in the UK, revaluation of currency balances held to operate the Bureau de Change services and various sales and purchase contracts denominated in foreign currency. The fuel price risk arises from operating a large vehicle fleet and, on jet fuel risk, from purchasing air freight services. If the treasury strategy does not fully cover the Group's exposures, this could result in funds not being readily available when required or a negative impact on profit due to increased costs.

The Group is exposed to credit risk

As a result of the economic recession the exposure of the business to credit risks with major trading partners has increased. Management have taken all the steps they believe to be practical and appropriate in the circumstances to guard against these risks and continue to monitor the situation carefully.

The Group is subject to changes in both domestic and European regulation and legislation, which could expose it to possible additional costs

Various changes to European or domestic law will have a direct impact on the Group; such as the European Working Time Directive, international financial reporting standards, speed restrictions on the Group's vehicles and increased liberalisation of the market for postal service providers.

Operating and Financial Review (continued)

Summary

The Group has produced a strong financial performance with an operating profit before exceptional items generated by all the businesses for the first time in nearly twenty years. This was against a backdrop of difficult trading conditions with a slowdown experienced in the global economy.

Royal Mail reversed its prior year loss position to deliver an operating profit despite falling revenues. Delivery of operating efficiencies as we progress with our transformation programme have offset the impact of accelerating volume decline, losses to competition and customers switching to lower priced products. Post Office Limited generated an operating profit compared to a loss in the previous year, attributable to cost saving benefits from deploying our strategy. Despite the tough economic environment, both parcels businesses – GLS and Parcelforce Worldwide – delivered revenue growth in highly competitive environments.

There was a net cash outflow for the Group this year, driven by payments into the pension funds and investment in modernisation of our operations.

Although we have made significant progress to date, challenges remain concerning the pension deficit, volume decline, financing of the USO and the continued delivery of our transformation plans. Access to funding to enable Royal Mail to accelerate modernisation is critical to the success of the Group. The implementation of the Hooper proposals will clearly have a major impact on the Group's future prospects.

Ian Duncan

Group Finance Director

13 May 2009

Understanding the Operating and Financial Review

Statement of compliance

This OFR is intended to develop the Group's narrative reporting to meet many of the recommendations of the Accounting Standards Board's 'Reporting Statement of Best Practice on the OFR'. This OFR ensures compliance with the legal requirement under the Companies Act to provide a Business Review and is referenced from the Directors' Report.

We will continue to review the narrative disclosures we provide in the annual Report and Accounts to ensure that the disclosures provided meet the requirements of our stakeholders.

Cautionary statement

The OFR focuses on matters that are relevant to the interest of the Shareholder of the Company. The purpose of the OFR is to assist the Shareholder of the Company in assessing the strategies adopted by the Company and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

Where this OFR contains forward looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with appropriate caution due to the inherent uncertainties underlying any such forward looking information.

Royal Mail Holdings plc Board

Chairman

DONALD BRYDON (63) became a Non-Executive Director on 27 January 2009 and Chairman on 26 March 2009. He is also Chairman of the London Metal Exchange, Smiths Group plc, the ifs School of Finance and the David Rattray Memorial Trust (UK). He had a 20-year career with Barclays Group, during which time he was Chairman and Chief Executive of BZW Investment Management and acting Chief Executive of BZW followed by ten years with the AXA Group including holding the posts of Chairman and Chief Executive of AXA Investment Managers and Chairman of AXA Framlington. He has also recently been Chairman of Amersham plc and Taylor Nelson Sofres plc and a Director of Allied Domecq plc and Scottish Power plc. He is a past Chairman of EveryChild.

ALLAN LEIGHTON (56) joined the Board in April 2001 as a Non Executive Director, becoming Chairman in March 2002. His term of office as Chairman ceased on 25 March 2009. He was also a Director of Post Office Limited, and a member of the GLS Supervisory Board. Allan began his career with Mars Confectionery and moved to Pedigree Petfoods as Sales Director. In 1992 he became Group Marketing Director of Asda Stores Limited, and Chief Executive in 1996, becoming President and CEO of Wal-Mart Europe when Wal-Mart bought Asda in 1999. He is currently President and Deputy Chairman of Loblaw Companies Ltd, Deputy Chairman of George Weston Limited and Selfridges and Co Ltd, as well as a Non Executive Director of BskyB.

Non Executive Directors

ANDREW CARR-LOCKE (55) joined the Board on 1 September 2008 as Non-Executive Director and is also a member of the Audit and Risk Committee, Nominations Committee and Remuneration Committee. Andrew was formerly Group Finance Director of George Wimpey plc for six years until July 2007 when the Company merged with Taylor Woodrow. A Fellow of the Chartered Institute of Cost and Management Accountants, Andrew's executive experience prior to joining George Wimpey included Group Finance Director of Courtaulds Textiles plc, European Finance Director at United Distillers and Vintners (now part of Diageo) and an earlier career at Eastman Kodak and Bowater Scott. Andrew was also a Non-Executive Director of AWG plc and is currently a Non Executive Director of Venture Production plc.

LORD CURRIE (62) joined the Board on 1 January 2009. Lord Currie was the founding Chairman of Ofcom and led the regulator from 2002 until April 2009. Lord Currie is also Chairman of Trillium Investment Partners, is a non-executive member of the board of the accountancy firm BDO Stoy Hayward and sits on the Board of the Dubai Financial Services Authority. His previous appointments include positions with Abbey National plc, Nomura, Terra Firma, Unisys and the Board of Ofgem.

RICHARD HANDOVER CBE (63) joined the Board in January 2003. He is the Senior Independent Director and is Chairman of the Remuneration Committee, and a member of the Nominations Committee and the Audit and Risk Committee. Richard was Chairman of WH Smith plc until January 2005, and is currently Non Executive Chairman of Alexon Group plc.

BARONESS PROSSER OBE (71) joined the Board in November 2004 and is Chair of the Nomination Committee and a member of the Audit and Risk Committee and Remuneration Committee. Baroness Prosser has been a Member of the House of Lords since 2004. She is a Non-Executive Director of the Trade Union Funds Managers and has been Chair of the Women and Work Commission since July 2004. She is also Deputy Chair of the Commission for Equality and Human Rights.

HELEN WEIR CBE (46) joined the Board in January 2006 and is Chair of the Audit and Risk Committee. Helen is Group Executive Director at Lloyds Banking Group plc with responsibility for UK Retail Banking, having joined as Group Finance Director in 2004. Prior to that she was Group Finance Director of Kingfisher plc. She is a member of the Said Business School Advisory Board, and previously sat on the Accounting Standards Board. Helen is a Fellow of the Chartered Institute of Management Accountants.

Executive Directors

ADAM CROZIER (45) joined the Company in February 2003. He is Group Chief Executive, and leads the Group Executive Team, and is the Company's Shareholder representative on the Board of Camelot Group plc. Adam is a Non-Executive Director of Debenhams plc, and Chairman of the Employers' Forum on Disability. He was Chief Executive of the Football Association from 2000-2003. Between 1988 and 1999 he held a number of senior roles at Saatchi and Saatchi Advertising, including that of Joint Chief Executive from 1995.

ALAN COOK CBE (55) joined the Company in March 2006 as Managing Director of Post Office Limited, having been a Non-Executive Director since February 2005. He is a member of the Group Executive Team, Chairman of Post Office Financial Services and First Rate Exchange Services Holdings Limited. Alan was previously Chief Executive of National Savings and Investments, prior to which he had been Chief Operating Officer of the Prudential Assurance Company. Alan is also on the boards of the Financial Ombudsman Service and the Department for Transport.

IAN DUNCAN (48) was appointed as Group Finance Director in September 2006, and is a member of the Group Executive Team and the GLS Supervisory Board. He joined from Westinghouse Electric Company based in the USA, where he had been Chief Financial Officer since 1999. Prior to joining Westinghouse, Ian was Corporate Finance Director at British Nuclear Fuels plc and before that in corporate finance with Dresdner Kleinwort Benson Ltd and Lloyds Merchant Bank Ltd. Ian started his career with Deloitte & Touche in London, and is a member of the Institute of Chartered Accountants of England and Wales.

MARK HIGSON (53) joined the Company in November 2007 as Managing Director of the Letters Business, and is a member of the Group Executive Team. Mark was previously divisional Chief Executive and Group Operations Director of BPB plc. Prior to that, he held senior positions at Courtaulds Plc, including CEO at its UK Coatings division. He has also worked at HJ Heinz and British Aerospace.

Royal Mail Holdings plc Board (continued)

Company Secretary

JONATHAN EVANS OBE (57) joined the Company directly from university in 1974 and has been Company Secretary since 1999, having held a wide range of management positions throughout the Group. He is a member of the Group Executive Team, Secretary to the Audit and Risk, Remuneration and Nomination Committees, a Trustee Director of the Royal Mail Pension Plan, Chairman of the Royal Mail Senior Executives Pension Plan and a member of the GLS Supervisory Board.

Directors who left during the year

ALLAN LEIGHTON

DAVID FISH – term of appointment ended on 30 September 2008.

Directors' Report

The Directors present the Group accounts for Royal Mail Holdings plc. These accounts relate to the 52 weeks ended 29 March 2009 (2008 53 weeks ended 30 March 2008).

Principal activities

The Group provides a nationwide and international distribution service, principally of mails and parcels. The Group also provides access to a wide range of financial and retail services through its network of Post Office branches across the United Kingdom.

Review of the business and future developments

A review of the Group's business and future developments is presented in the Chairman's Statement and the Chief Executive's Statement, Annual Review and the Operating and Financial Review.

Results and dividends

The profit before taxation amounted to £49m (2008 £77m loss). After taxation, the loss was £229m (2008 £135m profit). Of the loss after taxation, £3m profit (2008 £nil) is attributable to minority interests. The Directors do not recommend a dividend (2008 £nil dividend).

Directors

The names and biographies of the current Directors appear in the Royal Mail Holdings Board section pages 26 to 27.

Political and charitable contributions

During the year the Group made charitable contributions of £2m (2008 £2m). No political contributions were made in the year (2008 £nil).

Research and development

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

Policy on the payment of suppliers

The policy of the Company and its principal operating subsidiaries is to use their purchasing power fairly. Payment terms are agreed in advance for all major contracts. For lower value transactions, the standard payment terms of the supplier apply. It is the Company's policy to abide with the agreed terms. The Company and its principal operating subsidiaries in the UK have sought to comply with the Department for Business Enterprise and Regulatory Reform (BERR) Better Payment Practice Code. Copies of this can be obtained from BERR. As the Company is a non-operating company, the creditor days are zero. The creditor days of the operating subsidiaries are set out in their accounts.

Land and buildings

The net book value of the Group's land and buildings, based upon a historic cost accounting policy and excluding fit-out, is £721m (2008 £669m). In the opinion of the Directors, the aggregate market value of the Company's land and buildings exceeds this net book value by £470m (2008 £713m).

Financial instruments

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

Directors and their interests

The Directors of the Company and details of changes during the year are given on pages 26 and 27. The Secretary of State appoints the Chairman; all other Directors are appointed by the Company with the Secretary of State's consent.

HM Government is the Company's sole shareholder and accordingly the Directors have no interest in shares of the Company.

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Qualifying third party indemnity provisions for Directors

A partial qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006) was and remains in force for the benefit of all the Directors of the Company and former Directors who held office during the year. The indemnity is granted under article 129 of the Company's Articles of Association. The indemnity is partial in that it does not allow the Company to cover the costs of an unsuccessful defence of a third party claim.

People

The Group employs over 176,000 people (2008 over 181,000) in our UK wholly owned subsidiaries. An analysis of the Group headcount is shown in note 4 to the accounts. Our people are our ambassadors, our brand and our service.

The Group's policy is to encourage effective communication and consultation between our people, particularly on matters relating to strategy, financial and economic factors that may influence their Business Unit's performance. This is achieved through the use of an extensive range of communication channels, including our employee opinion survey, magazines, briefings, open forums, TV screens and an intranet website. Our people have various bonus schemes, significant elements of which are based on business-related targets.

We actively encourage continuous training and skill development for all our people to ensure achievement of corporate and individual objectives. Management development and training programmes have been designed to attract and retain the best. The Group has worked with the unions to introduce several innovative working practices to improve efficiency.

Directors' Report (continued)

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

In 2003, we embarked on a business wide engagement programme to make Royal Mail Group a 'Great Place to Work'. The purpose of the programme is to encourage colleagues to contribute to improving their working environment; to equip them with the skills they need; to develop pride in and understanding of the business; and to drive respect for colleagues. In short, to ensure people considerations are at the heart of all major business decisions. The programme is ongoing and remains an integral part of our people strategy.

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

- creating interesting, meaningful jobs with more flexible working patterns;
- identifying and developing for all our people a set of core behaviours that determine how we treat each other, our customers and our Shareholder;
- building a fluid, innovative and agile organisation to improve our response to environmental and market changes;
- developing a high-performance culture in which everyone understands their contribution and is motivated to achieve their full potential;
- defining, recruiting and developing the core capabilities we need to thrive in a competitive, deregulated market;
- recruiting, attracting and developing the leadership and management capability we need to deliver our goals; and
- enhancing our ability to attract and retain the talent required to compete successfully.

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

Currently, the way we monitor our progress towards becoming a 'Great Place to Work' is by using *Have Your Say*, our colleague opinion survey, launched in January 2003. This is carried out on a rolling basis, reaching 1/12th of our people every month, and the results are reviewed monthly right through the business – from local level up to Board level.

Corporate Social Responsibility

The Group is committed to carrying out its activities in a socially responsible manner in respect of the environment, employees, customers and local communities. A Corporate Social Responsibility (CSR) Committee reports to the Board, which publishes an annual report of its activities. Further details of our CSR governance structure and activities will be available in our 2009 CSR Report, due to be published later in the year.

Disabled employees

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

Going concern

After analysis of the financial resources available and cash flow projections for the Group, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis. Further details are provided under funding in note 2 to the accounts.

Auditor

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

By Order of the Board

Jonathan Evans

Company Secretary

13 May 2009

Corporate Governance

Statement by the Directors on compliance with the Combined Code

The Board is committed to high standards of Corporate Governance and supports the Combined Code on Corporate Governance (the Code), published in July 2003 and revised in June 2006. The Company has fully complied with the Code during the year. The following statement is intended to explain our governance policies and practices in light of the Code principles and provisions in so far as they are appropriate to a public company with a single Shareholder, and to provide insight into how the Board and management run the business for the benefit of the Shareholder.

The Board

The Board is responsible for setting the objectives and strategy of the Group and for monitoring performance. At the end of the year, the Board comprised a Chairman, four Executive Directors and five Non Executive Directors. At that date there were one executive and one non-executive Director vacancies. The biographies of each of the Directors, setting out their current roles, commitments and previous experience, are on pages 26 and 27. The Board usually meets monthly, and has defined those matters that are reserved exclusively for its consideration. These include the approval of strategic plans, financial statements, acquisitions and disposals, major contracts, projects, and capital expenditure. It delegates responsibilities to the Board Committees detailed below. For each scheduled meeting of the Board, the Company Secretary, on behalf of the Chairman, collates and circulates the papers, aiming to allow sufficient time for the Directors to review the information provided. The Board is confident that all its members have the knowledge, talent and experience to perform the functions required of a Director of the business. Executive Directors have rolling 12-month contracts and Non Executive Directors are generally appointed for three-year terms.

The Board considers that each of the Non Executive Directors is independent. This means that in the view of the Board, they have no links to the Executive Directors and other managers, and no business or other relationship with the Company that could interfere with their judgement. Richard Handover is the Senior Independent Director. There is also a clear division of responsibilities between the Chairman and the Chief Executive. Performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis. This is led by the Senior Independent Director with the support of the Company Secretary. The evaluation is conducted by way of a formal questionnaire that enables Directors' perspectives on the effectiveness of the Board and its Committees to be fed back to the full Board. Performance evaluations of Board Committees are conducted by the Chairmen of the respective Board Committees. The Non Executive Directors, led by the Senior Independent Director, review the performance of the Chairman and the Executive Directors. The Executive Directors, led by the Group Chief Executive, review the performance of the Non Executive Directors.

Directors may take independent professional advice in the furtherance of their duties, at the Group's expense. All Directors have access to the advice and services of the Company Secretary, the appointment and removal of whom is a matter for the Board as a whole.

All Directors appointed by the Board are required by the Company's Articles of Association to be elected by the Shareholder at the first AGM after their appointment. On appointment, the Directors take part in an induction programme in which they receive information about the Group, the role of the Board and matters reserved for its decision, the role of the principal Board Committees, the Group's Corporate Governance arrangements and the latest financial information about the Group. This is supplemented by visits to key business locations. The Group engages in two-way communication with the Shareholder to discuss information on its strategy, performance and policies. The Board receives feedback on these meetings from the Directors attending them.

Corporate Governance (continued)

Number of meetings

During the year, the Directors attended the following number of meetings of the Board and its main Committees with the maximum number that each could have attended shown in brackets.

	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings during the year	**12**	**4**	**9**	**9**
Chairman				
Donald Brydon	3(3)	-	-	-
Executive		-	-	-
Adam Crozier	12(12)	-	-	-
Alan Cook	12(12)	-	-	-
Ian Duncan	12(12)	-	-	-
Mark Higson	12(12)	-	-	-
Non Executive				
Andrew Carr-Locke	8(8)	2(2)	5(5)	5(5)
Lord Currie	3(4)	-	-	-
Richard Handover	12(12)	2(4)	9(9)	9(9)
Baroness Prosser	12(12)	4(4)	9(9)	9(9)
Helen Weir	11(12)	4(4)	-	-
Former Directors				
Allan Leighton	10(12)	-	-	-
David Fish	5(5)	-	4(4)	4(4)

Outside appointments

The Board believes that there are significant benefits to both the Group and the individual from Executive Directors accepting Non Executive Directorships of companies outside of the Group. The Board's policy is normally to limit Executive Directors to one Non Executive Directorship, for which the Director may retain the fees (see the Directors' Remuneration Report on page 41 for details).

Board Committees

The following Committees deal with specific aspects of the Group's governance. The full terms of reference for each of the principal Committees are available on the Company's website (www.royalmailgroup.com) or on written request from the Company Secretary. The details of Committee membership shown are as at 29 March 2009.

Corporate Governance (continued)

Group Executive Team

Chair	Adam Crozier
Membership	Stephen Agar (Managing Director Wholesale), Alan Cook (Managing Director Post Office Limited), Robin Dargue (Chief Information Officer), Ian Duncan (Group Finance Director), Doug Evans (General Counsel), Jonathan Evans (Company Secretary), Mary Fagan (Group Corporate and Government Affairs Director), Mark Higson (Managing Director Letters), Jon Millidge (Acting Group HR Director), Alex Smith (Strategy & Commercial Director - Letters) and David Smith (Managing Director Parcelforce Worldwide)
Role	The Committee's responsibilities include: ▪ to develop and monitor deployment of the Group's strategy, annual operating plans and budgets; ▪ to review operational activities, and set policies where these are not reserved to the Board; and ▪ to allocate resources, both people and financial, across the Group. The Holdings Board has delegated authority to the Investment Committee of the Group Executive Team to make investment decisions of up to £20m.

Audit and Risk Committee

Chair	Helen Weir
Membership	Richard Handover, Baroness Prosser, Andrew Carr-Locke The Board is confident that the collective experience of the Audit and Risk Committee members enables them, as a group, to act as an effective Audit and Risk Committee. The Committee also has access to the financial expertise of the Group and its auditor, and can seek further professional advice at the Company's expense if required.
Role	The Committee, which is assisted by the Corporate Risk Management Committee, provides a forum for reporting by both internal and external auditors and is responsible for a wide range of matters including: ▪ to monitor the integrity of the financial statements of the Group; ▪ to review the Group's internal financial control system and, unless addressed by the Corporate Risk Management Committee or by the Board itself, internal control and risk management systems; ▪ to monitor and review the effectiveness of the Group's Internal Audit function; ▪ to recommend to the Board for Shareholder approval the appointment of the external auditor, and to approve its remuneration and terms of engagement; ▪ to monitor and review the external auditor's independence, objectivity and the effectiveness of the audit process; ▪ to develop and implement policy on the engagement of the external auditor to supply non-audit services; and ▪ where the Committee's monitoring and review activities reveal cause for concern or scope for improvement, to make recommendations to the Board or management on action needed to address the issue.

Audit & Risk Committee report

See Internal control on page 35

Non-audit services provided by the external auditor

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

Corporate Governance (continued)

Remuneration Committee

Chair	Richard Handover
Membership	Andrew Carr-Locke, Baroness Prosser
Role	The Committee's responsibilities include: ▪ to determine and recommend for the Board's approval, the framework for the remuneration of the senior executives of the Group; ▪ to determine the individual remuneration arrangements for the Chairman, the Executive Directors and the Company Secretary, subject where necessary to the consent of the Secretary of State; and ▪ to agree the targets for any performance-related incentive schemes applicable to senior executives.

Remuneration Committee Report

See page 36.

Nomination Committee

Chair	Baroness Prosser
Membership	Andrew Carr-Locke, Richard Handover
Role	The Committee's responsibilities include: ▪ to lead a formal, rigorous and transparent process for appointments to the Board of the Company, to the boards of subsidiaries and to other senior executive positions; ▪ to advise the Board on succession planning for the positions of Chairman, Chief Executive and all other Board appointments and other senior appointments; and ▪ to keep under review the balance of Board membership to ensure that it has the required mix of skills, knowledge and experience.

Nomination Committee Report

The Committee met 9 times during the year. The Committee's main focus was on the selection and recruitment of Directors and other senior executives. The Committee took external advice from executive search consultants and considered internal candidates where appropriate. All Board appointments require the consent of the Shareholder.

In addition to the principal Committees above there are also the following Committees:

Corporate Social Responsibility Committee

Chair	Adam Crozier
Membership	Group HR Director, Managing Directors of business units, Director of Corporate Responsibility, Head of Social Action & Inclusion, and other senior executives from across the Group
Role	The Committee's responsibilities include: ▪ to provide an overview of the social environmental and ethical impacts of the Group's activities; and ▪ to make recommendations on Corporate and Social Responsibility standards and policies.

Corporate Social Responsibility Committee Report

The Committee is chaired by the Group Chief Executive and met on four occasions during the year. The principal activity of the Committee was to undertake a thorough review of the Group's CSR Strategy, Engagement & Inclusion and Social policies.

Corporate Governance (continued)

Pensions Committee

Chair	Ian Duncan
Membership	Doug Evans (General Counsel), Jon Millidge (Acting Group HR Director)
Role	The Committee's responsibilities include: ▪ to review funding, benefits, scheme structure and strategic developments impacting on the Group's occupational pension schemes; and ▪ to represent the Group in discussions with the Trustees of the Group's occupational pension schemes.

Internal control

Overview

The Directors are responsible for the Group's system of risk management and internal control as well as the timely review of its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group's approach to internal control is based on the underlying principle of line management accountability for control and risk management. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the guidance detailed by the Turnbull Committee as part of the Combined Code, including financial, operational, compliance risks and risks to reputation. The Board regularly reviews this process. The process has been in place throughout the year and up to the date of approval of these accounts. The responsibility for joint ventures and associates rests, on the whole, with the senior management of those operations. The Company monitors its investments and exerts influence through Board representations.

The Board has reviewed the effectiveness of the system of risk management and internal control. The key elements include a review of Internal Audit reports, regular confirmations from local management and communications from the Chair of the Audit & Risk Committee on the outcome of Audit & Risk Committee meetings.

Audit and Risk Committee

The Committee reports to the Board and meets as a minimum on a quarterly basis to monitor and review the effectiveness of the risk management processes and the control environment. The Committee reviews the scope of work, authority and resources of the Internal Audit and Risk Management function. The Audit & Risk Committee regularly reviews the Group risk profile.

Corporate Risk Management Committee

The Committee acts as a sub-committee to the Audit & Risk Committee and meets quarterly to support the Group Executive Team in ensuring pro-active management of risks within the business. The committee promotes the establishment, communication and embedding of risk management throughout the business, as well as regularly reviewing emerging risks.

Key control processes

The key control processes are ongoing and include the following:

- the Group's Code of Business Standards sets the principles of professionalism and integrity for our people;
- the business units have authority to manage within the limits set by the Board and within the scope of reserved powers.
- the Board discuss and approve the strategic direction plans and objectives of the Group and each operating company, and the risks to achieving them;
- the Board and Group Executive Team review and approve budgets and forecasts;
- the Group Executive Team and executive business unit management review performance monthly by reference to key performance indicators, updated forecasts and information on the key risk areas;
- the Audit & Risk Committee review quarterly the scope and results of internal audit work across the Group. The scope of the work covers all key activities of the Group and concentrates on higher risk areas;
- the Audit & Risk Committee review the scope of the work of the external auditor and any significant issues arising; and
- the Audit & Risk Committee review key accounting policies and delegated authority levels.

Risk Management process

The process consists of formal identification by management at each level of the Group of the key risks to achieving their business objectives and the controls in place to manage them. The likelihood and potential impact of each risk is evaluated. Risk management action plans are monitored at executive level to ensure key risks are being mitigated. The process also includes:

- bi-annual certification by management that they are responsible for managing the risks to their business objectives and that the internal controls are such that they provide reasonable but not absolute assurance that the risks are appropriately identified, evaluated and managed; and
- independent assurance by Internal Audit as to the existence and effectiveness of the risk management activities described by management.

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

Directors' Remuneration Report

This Report provides the information required by the Directors' Remuneration Report Regulations 2002 (the Regulations). The Company's remuneration policy follows the Combined Code and best practice in other UK organisations. The Royal Mail Group strategic plan requires fundamental change to make sure that customers are given high quality services which are good value for money. The Board believes that to achieve this it is necessary to have people of the right calibre who are given incentives to produce results which benefit customers and the Shareholder.

The parts of this Report that have been audited are:

- Directors' emoluments with respect to 2008-09;
- Performance-related, annual bonuses outturn for 2008-09;
- Company Awards and Bonus Awards under Long Term Incentive Plans (LTIP); and
- Pensions.

Directors' emoluments with respect to 2008-09

			Annual performance bonus					Total excluding LTIP and Pensions		Total emoluments plus amounts payable on vesting of the 2005-2008 LTIP scheme	
	Current annual salary /fees	Salary/ fees	Performance-related bonus including ColleagueShare	Waived into LTIP*	Annual performance bonus payable in June	Benefits	Cash supplement in lieu of pension	2009	2008	2009	2008
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Chairman											
Donald Brydon[1]	200	8	-	-	-	-	-	**8**	-	**8**	-
Executive											
Adam Crozier	633	633	453	(314)	139	17	206	**995**	1,051	**995**	3,044
Alan Cook	282	276	166	(90)	76	18	110	**480**	452	**480**	892
Ian Duncan	325	319	186	(100)	86	13	80	**498**	535	**498**	862
Mark Higson	428	426	231	(121)	110	15	171	**722**	285[4]	**722**	369[4]
Non Executive											
Andrew Carr-Locke	50	28	-	-	-	-	-	**28**[5]	-	**28**	-
Lord Currie	39	9	-	-	-	-	-	**9**[6]	-	**9**	-
Richard Handover	65	64	-	-	-	-	-	**64**[7]	48	**64**	48
Baroness Prosser	55	51	-	-	-	-	-	**51**[8]	43	**51**	43
Helen Weir	48	46	-	-	-	-	-	**46**	43	**46**	43
Former Directors											
Allan Leighton[2]	-	20	80	-	80	-	-	**100**	200	**100**	200
David Fish[3]	-	23	-	-	-	-	-	**23**	45	**23**	45
David Burden	-	-	-	-	-	-	-	**-**	98	**-**	98
Ian Griffiths	-	-	-	-	-	-	-	**-**	556	**-**	556
Tony McCarthy	-	-	-	-	-	-	-	**-**	250	**-**	250
Lord Carter	-	-	-	-	-	-	-	**-**	11	**-**	11
Sir Michael Hodgkinson	-	-	-	-	-	-	-	**-**	34	**-**	34
John Neill	-	-	-	-	-	-	-	**-**	15	**-**	15
Total 2009	**2,125**	**1,903**	**1,116**	**(625)**	**491**	**63**	**567**	**3,024**	-	**3,024**	-
Total 2008	1,823	1,991	927	(372)	555	151	469		3,666		6,510

* The annual performance bonus waived into LTIP is explained on page 39. Adam Crozier waived a total of 70% of his annual bonus into LTIP. See page 41 for details.

[1] Donald Brydon joined the Board on 27 January 2009 and became Chairman on 26 March 2009

[2] Allan Leighton left the Board on 25 March 2009 and waived £98,000 of his annual bonus. See page 40 for details

[3] David Fish left the Board on 30 September 2008

[4] Mark Higson joined the Board on 5 November 2007. This therefore represents a pro-rata payment for the prior year

[5] Andrew Carr-Locke joined the Board on 1 September 2008, and became a member of the Audit and Risk Committee on 1 September 2008 and the Nomination and Remuneration Committees on 1 October 2008

[6] Lord Currie joined the Board on 1 January 2009

[7] Richard Handover became Senior Independent Director on 13 March 2008, a member of the Audit and Risk Committee on 1 September 2007 and Chairman of the Remuneration Committee on 1 October 2008

[8] Baroness Prosser became Chair of the Nomination Committee on 1 October 2008

The total emoluments plus amounts payable on vesting of the 2005-2008 LTIP scheme columns have been included as they represent the total that is paid or payable in respect of the year.

Directors' Remuneration Report (continued)

The figures in the table represent emoluments earned and receivable as Directors during the financial year, whenever paid. Such emoluments are normally paid in the same financial year with the exception of the annual, performance-related bonus, which is paid in the year following that in which it is earned and the amount deferred into LTIP that is not paid until the LTIP matures.

These payments are consistent with the policy of the Remuneration Committee. The following sections describe the Committee, its general policy and the main elements of remuneration.

Remuneration Policy

The Remuneration Committee

The Board retains overall accountability for the framework and costs of executive remuneration and the terms of the service contracts offered to all Executive Directors. These also require the consent of the Secretary of State for Business, Enterprise and Regulatory Reform. The Secretary of State also gives consent for the remuneration arrangements for Non Executive Directors. The Remuneration Committee's role is to develop the remuneration policy for Executive Directors and their immediate reports and specifically to make recommendations on their salary, benefits, bonuses and other terms and conditions of employment. The Committee also recommends appropriate compensation on the ending of employment, giving careful consideration to the circumstances of the particular case and the ability of the individual to mitigate.

The Remuneration Committee is made up wholly of independent Non Executive Directors. Membership of the Committee is given on page 33. The Chief Executive, Adam Crozier, and the Group HR Director, may attend these meetings by invitation and are not present at the discussion of their own remuneration.

Advice to the Remuneration Committee

The Committee calls for information and advice from inside and outside the Group. It takes advice from those independent, professional organisations that are best able to assist it on the particular topic under discussion.

During 2008-09, advice on the performance of key executives was given by the Chairman and the Chief Executive. Information on the external marketplace was given by Monks Partnership (a trading name of PricewaterhouseCoopers), Deloitte LLP, Hay Management Consultants and Watson Wyatt Limited. Internal support is primarily provided by the Acting Group HR Director, Jon Millidge, and from the Company Secretary, Jonathan Evans. Other advice and information has been provided by specialists from the HR and Finance Departments.

During the year, advice was given to the Company by Watson Wyatt Limited on pensions and actuarial matters.

Remuneration policy

The Company's policy on Directors' remuneration is that:

- the overall remuneration package should be sufficiently competitive to attract and retain executives of the necessary quality in a complex business and a competitive market place, who will deliver success for the Shareholder and high levels of customer service, safety and environmental performance;
- a significant proportion of the remuneration package should be dependent on performance - both short and long-term; and
- the system of remuneration should bring together the interests of senior executives, customers and the Shareholder.

The policy for senior executives takes into account pay and employment conditions elsewhere in the Group.

The Committee regularly reviews the package and its competitiveness against appropriate marketplaces. The Committee aims to ensure that the package is proportionate and effective, and that it follows accepted best practice.

The main components of remuneration

The main components for Executive Directors are: basic salary, an annual performance-related bonus, a Long-Term Incentive Plan (LTIP), pension and other benefits. The Committee believes that there should be a particular emphasis on performance-related elements.

Directors' Remuneration Report (continued)

Base salaries

The Committee believes that base salaries should be set at levels that are sufficient to recruit and retain high calibre executives. In making its judgement, the Committee considers information from several sources so that a fair comparison can be made with enterprises of a similar size and complexity to Royal Mail. This data is provided by independent consultancies, usually based on the published annual reports of other organisations. Increases are recommended where the Committee believes that it is necessary to reflect contribution, increased individual responsibilities and market levels. The Secretary of State's consent is required for all material changes to Directors' remuneration.

The Chief Executive asked the Remuneration Committee to waive his salary increase for 2008-09 and 2009-10 making three consecutive years in which his pay will remain the same. Mark Higson received an increase of 2% with effect from 1 July 2008. Ian Duncan and Alan Cook were awarded increases to £350,000 and £300,000 respectively to reflect their performance and accountabilities. These increases were due to be phased so that with effect from 1 July 2008 their base salaries moved to £325,000 and £282,000 respectively, with the remainder of their increase due from 1 July 2009. Alan Cook and Ian Duncan have asked, however, that the Remuneration Committee exercise its discretion to postpone their increases from July 2009. Consequently no Executive Director will receive a pay increase in 2009-10.

Performance-related, annual bonus 2008-09

For 2008-09, the annual bonus plan followed the model of the previous year, which included the following weightings:

- all Business roles had a weighting of 30% on Group performance and 70% Business performance. This applied to the Managing Directors of Letters and Post Office Limited; and
- all Group roles had a weighting of 90% on Group performance and a further 10% weighting given to Post Office Limited's performance in view of the importance of supporting the recovery of that business.

The following tables show the make up of the annual bonus plan as percentages of annual salary.

Maximum levels	Profit	Service Quality	Total
Chief Executive	70%	30%	**100%**
Other Executive Directors	56%	24%	**80%**

On-target levels	Profit	Service Quality	Total
Chief Executive	36%	24%	**60%**
Other Executive Directors	29%	19%	**48%**

Threshold levels	Profit	Service Quality	Total
Chief Executive	15%	15%	**30%**
Other Executive Directors	12%	12%	**24%**

The financial target was based on Group profit.

The Service Quality measures were:

- Retail First Class;
- Retail Second Class;
- Bulk First Class;
- Bulk Second Class;
- Bulk Third Class;
- Special Delivery;
- Wholesale Access;
- Parcelforce 24;
- A Post Office Limited Customer Service Effectiveness measure;
- A Post Office Limited measure of new products sold; and
- A Post Office Limited measure of call centre performance.

Executive Directors also participate in the ColleagueShare plan on the same terms as all other eligible employees. This is explained in note 2 on page 53.

Long-Term Incentive Plans

A three-year LTIP is in place for the period 2007-08 to 2009-10.

Performance is measured by Return on Total operating Assets (ROTA).

The principles of the plan are as follows:

(a) Company Performance Awards can be made each year which accrue on a sliding scale above a threshold level of performance, beginning at 12.5% of annual base salary. For on-target performance, the Company Award is 25% of annual base salary and for exceptional performance this rises to a maximum of 37.5%.

Directors' Remuneration Report (continued)

(b) Bonus Awards. A Bonus Award can be made each year by the Remuneration Committee. These are only made if the Director waives a proportion of their annual bonus. LTIP Bonus Awards do not exceed the amount of annual bonus waived. A Director has the discretion to waive a maximum of one half of any annual bonus up to the on-target level. If a bonus above on-target would otherwise be payable, then three quarters of this additional amount above the on-target level will be compulsorily waived.

(c) A Multiplying Factor. Company and Bonus Awards may be increased by a factor that measures ROTA across the plan. If the on-target level is achieved for the relevant period then each of the Company Awards and Bonus Awards to which it applies are increased by an additional one third. In the case of exceptional performance, then up to a maximum addition of 100% is added.

Payments under the plan will be made in June 2010.

The Company and Bonus Awards for 2007-08 are effectively shared equally between this plan and the previous arrangement.

The performance targets for the 2009-10 year of the plan are still under discussion with the Government.

Company Awards

These are measured against an annual ROTA target. ROTA incentivises the productive value of the business and emphasises the need to make efficient use of all operational assets. It covers the need to make a proper return both on any new investments that are made and on the existing asset base.

For 2007-08 the following table against annual ROTA applied:

	Royal Mail ROTA achievement	Percentage of Base Salary
On target	2.1%	25%
Maximum	5.1%	37.5%

The outturn achievement was 3.9%, resulting in a Company Award of 32.5%.

For 2008-09 the following applied:

	Royal Mail ROTA achievement	Percentage of Base Salary
On target	8.2%	25%
Maximum	12.0%	37.5%

The outturn achievement was 10.1% resulting in a Company Award of 30.6%.

Bonus Awards

As described above, a Director may waive a maximum of one half of any annual bonus up to the on-target level and must waive three quarters of any bonus earned above the on-target level. If a proportion of annual bonus is waived then a Bonus Award may be made within the LTIP, not exceeding that value.

Multiplying Factor

The Multiplying Factor is dependent upon cumulative ROTA over 2007-08 to 2009-10.

Benefits

Benefits include the provision of a company car, health insurance, relocation costs, or the cash equivalent of any benefits not taken.

Pensions

The Group has a liability to pay pensions in respect of Directors' services and, for some Executive Directors, makes contributions to pension schemes for this purpose. The Company pays a cash supplement to Directors whose contributions to the Company scheme are restricted by the scheme-specific earnings cap. The Company continues to apply the scheme-specific earnings cap, indexed by inflation each year, as a constraint on the amount of salary that is pensionable through the Company scheme.

Following a review of its pension arrangements, the Company has introduced changes to its pension provision for all employees including Executive Directors with effect from 1 April 2008. From 1 April 2008 the defined benefit pension plans have been closed to new members and pension for future service accrues on a career salary basis. Furthermore from 1 April 2010 the normal retirement age under the plans will increase to age 65 and the earliest age for receipt of a reduced pension will be 55.

Directors' Remuneration Report (continued)

Fixed and performance-related elements of Executive Directors' remuneration (excluding pensions)

For 2008-09, 33% of Directors' potential annual earnings related to fixed elements whilst 67% related to annualised performance elements, for the Group Chief Executive 30% was fixed and 70% was variable. The element of remuneration at risk to performance is that available through the Long-Term Incentive Plan and the performance-related annual bonus.

Service contracts

The Committee's policy is that Executive Directors appointed to the Board are offered notice periods of one year. The Committee has a defined policy on compensation and mitigation, to be applied in the event of a Director's contract being prematurely terminated. In such circumstances, steps would be taken to ensure that poor performance is not rewarded.

The rolling service contracts and letters of appointment of the Directors include the following terms as at 29 March 2009:

	Date of contract	Expiry date of current service contract	Unexpired term (months)
Chairman			
Donald Brydon	26 March 2009	25 March 2012	36
Executive Directors			
Adam Crozier	1 February 2003		12
Alan Cook	1 March 2006		12
Ian Duncan	1 September 2006		12
Mark Higson	5 November 2007		12

The Non Executive Directors do not have service contracts. The dates of the current Non Executive Director appointments are as follows:

Non Executive Directors			
Andrew Carr-Locke	1 September 2008	31 August 2011	29
Lord Currie	1 January 2009	31 December 2011	33
Richard Handover	1 January 2003	30 April 2010	13
Baroness Prosser	1 November 2004	31 October 2010	19
Helen Weir	1 January 2006	31 December 2011	33

The Chairman's term of appointment is subject to 4-months' notice by either party. All Executive Directors have a contracted 12-month notice period from the Company; the Director must give 6-months' notice. The compensation for loss of office is a payment of 12-months' basic salary, which may be subject to mitigation.

Donald Brydon was appointed as Non Executive Director on 27 January 2009.

Richard Handover's appointment was extended for a period of 18 months effective from 1 October 2008.

Baroness Prosser's appointment was extended for a period 3 years effective from 1 November 2007.

Helen Weir's appointment was extended for a period of 3 years effective from 1 January 2009.

Non Executive Directors

The Company is committed for the full term of appointments for Non Executive Directors, including the Chairman. The fees paid to the Non Executive Directors are determined by the Executive Directors and approved by the Secretary of State. Independent market surveys are consulted in determining them. Fees comprise a basic fee for Board membership and, as appropriate, additional fees for the membership or chairmanship of the Audit and Risk, Remuneration and Nomination Committees, and for the Senior Independent Director. Details of the fees are given below.

Performance-related, annual bonuses outturn for 2008-09

The details of the bonus plan are given on page 39. Despite economic conditions causing letters volumes to decline, the Group exceeded its targets. In the case of Adam Crozier and Ian Duncan the bonus awarded was 71.5% of the maximum. For Alan Cook 73.2% and for Mark Higson 67.3%. As the Company had exceeded its financial target it was decided to award Allan Leighton, former Non Executive Chairman a bonus of £178,000, which is pro-rata to service in the year. However, Allan Leighton has decided to ask the Remuneration Committee to waive £98,000 of his bonus.

Adam Crozier, Alan Cook, Mark Higson and Ian Duncan were awarded £400 ColleagueShare stakeholder dividend for the year.

Directors' Remuneration Report (continued)

Company Awards and Bonus Awards under the Long Term Incentive Plans

The Remuneration Committee policy is that a high proportion of total remuneration is at risk to performance.

Awards under the plan are payable in June 2010.

	Company and Bonus Awards held at 31 March 2008 £000	Bonus Awards in respect of 2008-09 for 2007-10 plan £000	Company Awards in respect of 2008-09 for 2007-10 plan £000	Total LTIP at 29 March 2009 £000
Executive				
Adam Crozier	198	314[1]	194	706
Alan Cook	77	90	86	253
Ian Duncan	84	100	99	283
Mark Higson	47	121	132	300

[1] Adam Crozier asked the Remuneration Committee to exercise its discretion to waive 70% of his annual bonus and receive instead Bonus Award in the LTIP. The additional amount waived beyond the plan rules will not attract Multiplying Factor.

Non Executive Directors

The fees of the Chairman and the Non Executive Directors are agreed with the Secretary of State, and are currently £200,000 per annum and £35,000 per annum respectively.

The annual fee for committee membership is £5,000, £10,000 for chairmanship and £12,500 in the case of the chairman of the Audit and Risk Committee. The annual fee for the Senior Independent Director is £10,000.

Executive Directors' outside appointments

The Executive Directors may retain fees from their Directorships. The annual rate payable as at 29 March 2009 to Executive Directors in respect of their Non Executive Directorships are shown in the table below:

	Directorship	2009 £000	2008 £000
Adam Crozier	Debenhams plc	45	45
Alan Cook	Financial Ombudsman Service	20	20
	The Board of the Department for Transport [1]	20	-

[1] Appointed 1 January 2009

Pensions

The Group previously offered its most senior people membership of the Royal Mail Senior Executive Pension Plan (the Plan) which is now closed to new members. Details of the Plan are set out in note 26 to the accounts. The Plan is a funded, Inland Revenue-registered defined benefit occupational pension scheme. The Plan provides for a pension on a final salary basis for service up to 31 March 2008 and for subsequent service on a career salary basis. The pension is payable from normal retirement age (currently age 60) and is subject to the maximum pensionable service and the scheme-specific earnings cap. Pensions in payment are increased annually in line with Retail Prices Index (RPI), subject in some cases to a cap of 5%. Pensions are also payable to dependants on the death of the member and a lump sum is payable if death in service occurs.

For senior executives whose membership of the Plan is restricted by the earnings cap, pension provision is made by a combination of the Company scheme and a cash pension supplement or its equivalent. Ian Duncan and Adam Crozier receive a cash supplement of 40% of base pay above the earnings cap. Alan Cook and Mark Higson are not members of the Plan and receive a cash supplement of 40% of base pay.

Directors' Remuneration Report (continued)

The following table is designed to indicate the increase in the value of Directors' accrued benefits during the period. The transfer value is calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and excludes Directors' contributions.

The pension entitlements of the Directors at the year end were:

	Age at Year end	Accumulated accrued benefit at 29 March 2009 £000	Increase in accrued benefits during the period £000	Increase in accrued benefits during the period (net of inflation) £000	Transfer value of increase before inflation less Directors' contributions £000
Executive Directors					
Adam Crozier	45	78	7	3	34
Ian Duncan	48	10	4	4	46

The following table is designed to assess the change in transfer values during the year, taking into account movement in investment market conditions. Falls in market values may generate a negative movement in the transfer values.

	Age at Year end	Transfer value at 30 March 2008 or at date of appointment to Board if later £000	Plus transfers-in received £000	Sub total £000	Transfer value at 29 March 2009 £000	Movement in the period less Directors' contributions £000
Executive Directors						
Adam Crozier	45	1,156	-	1,156	963	(200)
Ian Duncan	48	109	-	109	137	21

The transfer values disclosed represent a potential liability of the pension plan rather than any remuneration due to the individual and cannot be meaningfully aggregated with annual remuneration, as it is not money the individual is entitled to receive.

By Order of the Board

Jonathan Evans

Company Secretary

13 May 2009

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

The Directors are responsible for preparing the Annual Report and the Group financial statements, in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period.

In preparing those Group financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Group's financial position and financial performance; and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement pursuant to chapter 4 of the Disclosure and Transparency Rules (DTR)

The Directors confirm that, to the best of each persons knowledge:

- the financial statements, which have been prepared in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union or, in the case of the Company's accounts, UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole; and
- the Operating and Financial Review contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as whole, together with a description of the principal risks and uncertainties that they face.

Independent Auditor's Report to the members of Royal Mail Holdings plc

We have audited the Group financial statements of Royal Mail Holdings plc for the year ended 29 March 2009 which comprise Group Income Statement, the Group Statement of Recognised Income and Expense, the Group Balance Sheet, the Group Cash Flow Statement and the related notes 1 to 31. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Royal Mail Holdings plc for the year ended 29 March 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Group Operating and Financial Review that is cross referred from the 'Review of the business and future developments' section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

The Company has also instructed us to review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's Statement and the Chief Executive's Statement, the Annual Review, the Operating and Financial Review, the Directors' Report, the Corporate Governance Statement, the Internal Control Statement, the unaudited part of the Directors' Remuneration Report and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion :

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 29 March 2009 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Ernst & Young LLP
Registered auditor
London
13 May 2009

Group income statement for the 52 weeks ended 29 March 2009 and 53 weeks ended 30 March 2008

	Notes	**2009 £m**	2008 £m
Continuing operations			
Turnover		**9,410**	9,238
Social Network Payment		**150**	150
Revenue		**9,560**	9,388
People costs excluding ColleagueShare and restructuring costs		**(6,012)**	(6,209)
Royal Mail Group people:			
Wages and salaries		**(4,605)**	(4,550)
Pensions	5(a)	**(496)**	(701)
Social security		**(317)**	(319)
Subpostmasters		**(510)**	(550)
Temporary resource		**(84)**	(89)
Distribution and conveyance operating costs	5(b)	**(1,577)**	(1,341)
Other operating costs	5(c)	**(1,697)**	(1,723)
Share of post tax profit from joint ventures and associates	15	**47**	47
Operating profit before exceptional items		**321**	162
Operating exceptional items	7	**(149)**	(441)
Government grant income		**152**	313
ColleagueShare costs		**(84)**	(277)
Other restructuring costs		**(217)**	(477)
Operating profit/(loss)		**172**	(279)
Profit on disposal of property, plant and equipment		**11**	58
Profit/(loss) before financing and taxation		**183**	(221)
Finance costs	8	**(56)**	(71)
Finance income	8	**36**	84
Net pensions interest	26(c)	**(114)**	131
Profit/(loss) before taxation		**49**	(77)
Taxation (charge)/credit	9	**(278)**	212
(Loss)/profit for the financial year from continuing operations		**(229)**	135
(Loss)/profit attributable to:			
Equity holder of the parent company		**(232)**	135
Minority interest	28	**3**	-

Group statement of recognised income and expense for the 52 weeks ended 29 March 2009 and 53 weeks ended 30 March 2008

	Notes	**2009 £m**	2008 £m
Translation differences on foreign currency net investments	28	**88**	63
Actuarial (losses)/gains on defined benefit schemes	26/28	**(4,084)**	1,798
Gains on cash flow hedges deferred into equity	25/28	**8**	36
Gains on cash flow hedges released from equity to income	25/28	**(9)**	(3)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	25/28	**(14)**	(1)
Taxation on items taken directly to equity	9/28	**(192)**	(18)
Gains on financial assets deferred into equity	28	**17**	13
Net (expense)/income recognised directly in equity		**(4,186)**	1,888
(Loss)/profit for the financial year from continuing operations	28	**(229)**	135
Total recognised (expense)/income for the period		**(4,415)**	2,023
Attributable to:			
Equity holder of the parent company	28	**(4,418)**	2,023
Minority interest	28	**3**	-

Group balance sheet at 29 March 2009 and 30 March 2008

	Notes	**2009 £m**	2008 £m
Non-current assets			
Property, plant and equipment	10	**1,886**	1,671
Leasehold land payment	11	**4**	-
Goodwill	12	**206**	173
Intangible assets	13	**78**	67
Investments in joint ventures and associates	15	**141**	136
Financial assets – pension escrow investments	25	**1,106**	1,070
– derivatives	25	**22**	8
Other receivables		**1**	1
Deferred tax assets	9	**154**	608
		3,598	3,734
Non-current assets held for sale	16	**3**	1
Current assets			
Inventories	17	**32**	33
Trade and other receivables	18	**1,172**	1,114
Financial assets - investments	25	**7**	21
- derivatives	25	**43**	24
Cash and cash equivalents	19/25	**1,060**	1,427
		2,314	2,619
Total assets		**5,915**	6,354
Current liabilities			
Trade and other payables	22	**(2,231)**	(2,354)
Financial liabilities – interest bearing loans and borrowings	20/25	**(234)**	(289)
– obligations under finance lease and hire purchase contracts	20/25	**(29)**	(10)
– derivatives	20/25	**(56)**	(3)
Income tax payable		**(13)**	(15)
Provisions	21	**(136)**	(248)
		(2,699)	(2,919)
Non-current liabilities			
Financial liabilities - interest bearing loans and borrowings	20/25	**(803)**	(502)
- obligations under finance lease and hire purchase contracts	20/25	**(81)**	(43)
- derivatives	20/25	**(5)**	-
Provisions	21	**(174)**	(163)
Retirement benefit obligation – pension deficit	26	**(6,776)**	(2,923)
Other payables	23	**(32)**	(40)
Deferred tax liabilities	9	**(1)**	(5)
		(7,872)	(3,676)
Total liabilities		**(10,571)**	(6,595)
Net liabilities		**(4,656)**	(241)
Equity			
Share capital	27	**-**	-
Share premium	28	**430**	430
Retained earnings	28	**(5,331)**	(863)
Reserves	28	**239**	189
Equity attributable to equity holder of parent company		**(4,662)**	(244)
Minority interest	28	**6**	3
Total equity		**(4,656)**	(241)

The accounts on pages 45 to 96 were approved by the Board of Directors on 13 May 2009 and signed on its behalf by:

Adam Crozier **Ian Duncan**

Statement of cash flows for the 52 weeks ended 29 March 2009 and 53 weeks ended 30 March 2008

	Notes	2009 £m	2008 £m
Cash flow from operating activities			
Operating profit before exceptional items		**321**	162
Add back:			
Depreciation and amortisation	5(c)	**257**	236
Share of post tax profit from joint ventures and associates	15	**(47)**	(47)
		531	351
Working capital and other non-cash movements:		**(80)**	140
Decrease/(increase) in inventories		**2**	(7)
Decrease/(increase) in receivables		**66**	(52)
(Decrease)/increase in payables		**(61)**	86
Increase in client debtors	18	**(74)**	-
(Decrease)/increase in client creditors	22	**(50)**	123
Net increase in derivative liabilities/(assets)		**24**	(4)
Increase/(decrease) in non-exceptional provisions		**13**	(6)
Cash paid in respect of retirement benefit obligations in excess of that charged in operating profit		**(345)**	(133)
Receipt of Government grant		**152**	313
Cash payments in respect of operating exceptional items (see note (a) below):		**(412)**	(188)
ColleagueShare		**(158)**	-
Other		**(254)**	(188)
Cash (outflow)/inflow from operations		**(154)**	483
Income tax paid		**(36)**	(33)
Net cash (outflow)/inflow from operating activities		**(190)**	450
Cash flows from investing activities			
Dividends received from joint ventures and associates	15	**42**	36
Finance income received		**38**	82
Proceeds from sale of property, plant and equipment		**20**	71
Purchase of property, plant and equipment		**(436)**	(263)
Leasehold land payment		**(4)**	-
Investment in associate	15	**-**	(10)
Acquisition of businesses	14	**(2)**	(5)
Purchase of intangible assets		**(78)**	(67)
Payment of deferred consideration in respect of prior years' acquisitions		**(6)**	-
Net purchase of financial assets investments (non-current)	25	**(19)**	(57)
Net movement in financial assets investments (current)		**14**	(4)
Net cash outflow from investing activities		**(431)**	(217)
Net cash (outflow)/inflow before financing activities		**(621)**	233
Cash flows from financing activities			
Finance costs paid		**(62)**	(57)
Payment of capital element of obligations under finance lease contracts		**(18)**	(3)
Cash received on sale and leasebacks		**75**	55
New loans		**301**	2
Repayment of borrowings		**(48)**	(21)
Net cash inflow/(outflow) from financing activities		**248**	(24)
Net (decrease)/increase in cash and cash equivalents		**(373)**	209
Effect of exchange rates on cash and cash equivalents		**13**	15
Cash and cash equivalents at the beginning of the period		**1,420**	1,196
Cash and cash equivalents at the end of the period	19/25	**1,060**	1,420

The £1,420m cash and cash equivalents balance at the beginning of the period is net of a £7m overdrawn bank balance relating to the General Logistics Systems (GLS) subsidiary. This £7m is included in the Financial liabilities - interest bearing loans and borrowings balance of £289m in the 2007-08 balance sheet. The £7m overdrawn bank balance has been repaid during the 2008-09 financial year.

(a) Cash flows relating to operating exceptional items charged to the income statement in current and prior years

The net cash outflows relating to the above were as follows:

Net cash outflow relating to:	**2009 £m**	2008 £m
Current year operating exceptional items	**38**	121
Prior years' operating exceptional items	**374**	67
Total	**412**	188

The net cash outflow of £412m (2008 £188m) comprises £217m (2008 £144m) relating to cash utilised to settle exceptional provisions, (£4m relates to ColleagueShare leavers), £154m (2008 £nil) relating to ColleagueShare dividends, £1m (2008 £4m) relating to current year pension redundancy liabilities, £31m (2008 £32m) relating to prior year pension redundancy liabilities, £9m (2008 £8m) in respect of other costs which were recorded within creditors.

Notes to the Group accounts

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

The Group's financial statements for the 52 weeks ended 29 March 2009 were authorised for issue by the Board on 13 May 2009 and the balance sheet was signed on the Board's behalf by Adam Crozier and Ian Duncan.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as they apply to the financial statements of the Group for the 52 weeks ended 29 March 2009. The principal accounting policies adopted by the Group are set out in note 2.

2. Accounting policies

Basis of preparation and accounting
The Group comprises Royal Mail Holdings plc (the Company) – which is wholly owned by HM Government – and its subsidiaries. The Company is incorporated in the United Kingdom under the Companies Act 1985 (the Act) and the accounts are produced in accordance with the Act and applicable IFRSs.

The Group financial statements are presented in sterling and all values are rounded to the nearest £m except where otherwise indicated.

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

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

The Group has adopted the following new IFRIC interpretation during the year.

IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 on Employee Benefits. The adoption of this revised interpretation did not have any effect on the financial performance or position of the Group in the current or prior periods as the Group's defined benefit schemes are in deficit and the Group has an absolute right to any assets left over after benefits have been secured.

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

The key sources of uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the measurement of the defined benefit pension obligations, deferred tax and ColleagueShare plan costs.

Defined benefit pension obligations
Measurement of the defined benefit obligations requires certain assumptions to be made including on life expectancy, future changes in salaries, inflation and a suitable discount rate. The size of these obligations, and therefore the pension deficit, is materially sensitive to the assumptions adopted. The assumptions which have the most significant impact on the measurement of the defined benefit obligations are the real discount rate and the mortality rates. A 0.1 percentage point change to the discount rate could change the liabilities by approximately £420m. An additional one year on the life expectancy could increase liabilities by approximately £620m. The major assumptions and carrying value of the obligations are disclosed in note 26.

Deferred tax
Assessment of the deferred tax asset requires an estimation of future profitability. Such estimation is inherently uncertain in a market subject to various competitive pressures. Should estimates of future profitability change in future years, the amount of deferred tax recognised will also change accordingly. The carrying values of the deferred tax assets and liabilities are included within note 9.

ColleagueShare plan
The calculation of the ColleagueShare costs and liabilities is reliant on a number of judgements, estimates and assumptions. These include in particular forecasts for the potential equity value of ColleagueShares, forecasts of joiners and leavers throughout the life of the plan and judgements on when participants are likely to exercise their rights for the Company to redeem the ColleagueShares that they hold. The magnitude of the costs involved is sensitive to these forecasts and assumptions. The carrying values of the ColleagueShare liabilities are included within notes 21 and 22.

2. Accounting policies (continued)

Funding

Royal Mail Group Ltd

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

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

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

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

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

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

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

On the basis of careful consideration of the cash flow projections and the above considerations the Directors have concluded that it is appropriate that the accounts have been prepared on a going concern basis.

Post Office Limited

Post Office Limited had net liabilities as at 29 March 2009 and, excluding government funding, had a cash outflow in the year but has operated at a profit before exceptional items during 2008-09 for the first time for a number of years.

To become viable in the longer-term, new business areas continue to be developed and grown in order to replace the lost contribution from traditional income sources and significant cost reduction programmes continue to be implemented.

During the year, Post Office Limited has updated its strategic plan and will continue with the implementation of a number of radical programmes which are designed to improve the profitability of the company. The branch closure programme is completed and no further closures are planned but further work on efficiency improvements and improving the business model continues. These programmes include:

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

The current plan 2006-2011 is supported by a funding agreement with Government announced on 17 May 2007, which provided for:

- £465m funding to compensate Post Office Limited for the other net costs of providing certain specified "services of general economic interest". £313m was received on 31 July 2007, £77m on 1 April 2008 and £75m on 15 April 2008;
- funding of £150m per year to compensate for losses sustained in parts of the network; and
- the extension, on 18 April 2008, of the existing working capital facility of £1.15bn to 2011.

State Aid approval has been received for the above funding which runs to 2011.

Whilst the Directors are satisfied with the progress that has been made it should be noted that the completion of the regeneration programmes will take several years to achieve. Accordingly there will be a need to gain agreement with respect to the continuation of the £150m network subsidy payment for the period beyond March 2011, as well as the replacement or extension of the working capital facilities. These arrangements will need State Aid approval.

Notwithstanding these uncertainties, the Directors recognise that significant progress has been made in delivering its Plan for which funding is in place and, after careful consideration, continue to believe that Post Office Limited will be able to meet its liabilities as they fall due in the foreseeable future. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements are prepared on a going concern basis.

After analysis of the financial resources available and cash flow projections for the Group, including consideration of the financing arrangements outlined above, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

2. Accounting policies (continued)

Basis of consolidation
The consolidated financial statements comprise the accounts of the Company and its subsidiary undertakings. The financial statements of the major subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intragroup balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full. Transfer prices between business segments are set on a basis of charges reached through a negotiation with the respective businesses.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group. Where the Group ceases to hold control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group held control.

Minority interests represent the portion of profit/loss, gains/losses and net assets relating to subsidiaries that are not attributable to members of the Company. The minority interests balance is presented separately within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Investments in joint ventures and associates
The Group's investments in its joint ventures and associates are accounted for under the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the joint ventures/associates, less any impairment in value. The income statement reflects the Group's share of post tax profits from the joint ventures/ associates.

Any goodwill arising on acquisition of an associate, representing the excess of the cost of the investment compared to the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is included in the carrying amount and not amortised. To the extent that the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Revenue
Revenue reported in the income statement comprises of Turnover and the Social Network Payment. Turnover principally relates to the rendering of services as follows:

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

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

Post Office Limited
Revenue is recognised when retail and financial services are provided.

General Logistics Systems
Revenue is derived from specific contracts and is recognised at the time of delivery.

The Social Network Payment is Government grant revenue recognised to match the related costs of providing the network of public post offices that the Secretary of State for Business, Enterprise and Regulatory Reform considers appropriate and which would otherwise not be provided.

Distribution and conveyance
Distribution and conveyance costs relate to third party costs incurred in carrying mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers and Parcelforce Worldwide delivery operators. These costs are disclosed separately on the face of the income statement.

Operating profit before exceptional items
Operating profit is the profit arising from the normal, recurring operations of the business. This incorporates revenue, people costs, distribution and conveyance costs, other operating costs and the Group's post tax share of profits from joint ventures and associates. Operating exceptional items are separately identified.

Operating exceptional items
Operating exceptional items are material items of income and expenditure arising from the operations of the business which, due to the nature of the events giving rise to them, require separate presentation on the face of the income statement to allow a better understanding of financial performance in the year, in comparison to prior years.

2. Accounting policies (continued)

ColleagueShare plan

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

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

Operating profit

Operating profit is the profit arising from the normal, recurring operations of the business and after charging operating exceptional items defined above. It excludes the non operating exceptional items for profit or loss on disposal of businesses and profit or loss on disposal of property, plant and equipment. These items are not part of the normal recurring operations of the business but are material, so are presented separately on the face of the income statement to allow a better understanding of financial performance in the year, in comparison to prior years.

Goodwill

Business combinations on or after 29 March 2004 are accounted for under IFRS 3 'Business Combinations' using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised in the balance sheet as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

An impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use. For the purpose of such impairment reviews, goodwill is allocated to the relevant cash generating units.

Goodwill arising on the acquisition of equity accounted entities is included in the cost of those entities and therefore not reported in the balance sheet as goodwill.

Intangible assets

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have either a finite or indefinite useful life. Those with a finite life are amortised over their useful life and those with an indefinite life are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Amortisation of intangible assets with finite lives is charged annually to the income statement. The useful lives of such intangible assets are in the range of 1–6 years.

Research and development

Expenditure on research is written off in the year it is incurred. Development costs are capitalised where they meet the criteria required under IFRSs. If these criteria are not met, then the costs are recognised in the income statement as they are incurred.

Property, plant and equipment

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. Depreciation of property, plant and equipment is provided on a straight-line basis by reference to net book value and to the remaining useful economic lives of assets and their estimated residual values. The useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. The lives assigned to major categories of property, plant and equipment are:

	Range of asset lives
Land and buildings:	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life
Plant and machinery	3-15 years
Motor vehicles and trailers	1-12 years
Fixtures and equipment	2-15 years

An individual property that the Group has identified as surplus is reclassified within 'non-current assets held for sale', a separate category on the balance sheet, when a sale is highly probable. This has been determined to be when authority to market the property has been approved and the property is vacant and therefore available for immediate sale and occupation by a third party. Such properties are expected to generate economic cash flow primarily by sale of the asset rather than by operational activities, and are expected generally to be disposed of within a year.

2. Accounting policies (continued)

For a disposal group of properties or other assets and liabilities, the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations' are applied to the specific circumstances of the disposal group.

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

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

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefit of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

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

Inventories
Inventories are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock. Cost includes all costs in bringing each item to its present location and condition and comprises weighted average cost for supplies and materials and purchase cost for merchandise.

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

Financial instruments
Financial assets within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' are classified as; financial assets at fair value through the income statement (held for trading); held to maturity investments, loans and receivables or available for sale financial assets as appropriate. Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through the income statement or financial liabilities measured at amortised cost.

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial year end.

When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial instruments not at 'fair value through the income statement', any directly attributable transactional costs.

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

Financial assets at fair value through the income statement (held for trading)
Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as 'held to maturity' when the Group has the positive intention and ability to hold to maturity. Held to maturity investments are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process. Investments intended to be held for an undefined period are not included in this classification.

Loans and receivables
Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, do not qualify as trading assets and have not been designated as either 'fair value through the income statement' or available for sale. 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 income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available for sale financial assets
'Available for sale financial assets' are non-derivative financial assets that are designated as such or are not classified in any of the three preceding categories. After initial recognition, interest is taken to the income statement using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised, or until the investment is deemed to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2. Accounting policies (continued)

Financial liabilities at fair value through the income statement (held for trading)
Derivatives liabilities are classified as held for trading unless they are designated as hedging instruments. They are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Financial liabilities measured at amortised cost
All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. Non-derivative financial liabilities are initially recognised at the fair value of the consideration received, less directly attributable issue costs. After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Group uses Money Market funds as a readily available source of cash, which are bought and sold on a daily basis to meet the cash requirements of the business. These funds are also categorised as cash equivalents.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

Cash equivalents are classified as loans and receivables financial instruments.

Financial assets – pension escrow investments
Financial assets – pension escrow investments comprise; short term deposits with banks; conventional gilt edged securities, index-linked gilt edged securities and Treasury bills.

Short term deposits with banks (pension escrow investments) are classified as loans and receivables financial instruments.

Conventional gilt edged securities, index-linked gilt edged securities and Treasury bills are classified as available for sale financial instruments on the basis that they are quoted investments that are not held for trading and may be disposed of prior to maturity.

Financial assets – other investments
Financial assets – other investments comprise; short term deposits (other investments) with Government, local government or banks with an original maturity of three months or more. Short term deposits are classified as loans and receivables financial instruments.

Financial liabilities – interest-bearing loans and borrowings
All loans and borrowings are classified as financial liabilities measured at amortised cost. Borrowing costs are recognised as an expense when incurred.

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

Borrowing costs are recognised as an expense when incurred.

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

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

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

When the hedged firm commitment results in the recognition of a non financial asset or non financial liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit/loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement in the period.

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

2. Accounting policies (continued)

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).

For the purposes of disclosing the fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates as at close of business on the balance sheet date.

Derecognition of financial instruments
A financial asset or liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Income tax and deferred tax
The charge for current taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Other than stated below, deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets, and unused tax losses can be utilised. Deferred tax assets are not recognised in respect of:

- deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference will be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and increased or reduced to the extent that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Current and deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise it is recognised in the income statement.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate.

Pensions and other post-retirement benefits
The pension plans' assets for the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the deficit disclosed. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme.

2. Accounting policies (continued)

For defined benefit schemes, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The net difference between the interest costs and the expected return on plan assets is recognised as net pensions interest in the income statement. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense (SORIE). Any deferred tax movement associated with the actuarial gains and losses is also recognised in the SORIE.

For defined contribution schemes, the Group's contributions are charged to operating profit within people costs in the period to which the contributions relate. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

Foreign currencies
The functional and presentational currency of Royal Mail Holdings plc is sterling (£). The functional currency of the overseas subsidiaries in Europe is mainly the euro (€).

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. The trading results of foreign operations are translated at the average rates of exchange for the reporting period, being a reasonable approximation to the actual transaction rate. The exchange differences arising on the translation, since the date of transition to IFRSs, are taken directly to the Foreign Currency Translation Reserve in equity.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Currently hedge accounting is not claimed for any monetary assets and liabilities. All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined.

Contingent liabilities and financial guarantee contracts
Financial guarantee contracts are initially measured at fair value and subsequently at the higher of amounts under IAS 37 or the amounts initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 'Revenue'.

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

Government grants
Government grants of a revenue nature are credited to the income statement and are shown separately to the expenditure to which they relate.

Segment information
The Group's primary reporting format is by business segments and its secondary reporting format is by geographical segments. The business segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a business unit that offers different products and serves largely different markets. The five business segments are:

Royal Mail: Delivers letters to all addresses in the United Kingdom. Royal Mail offers a number of products to both business and domestic users.

Parcelforce Worldwide: The parcels business unit operating within the UK.

Post Office Limited: A limited company responsible for the network of Post Office branches offering a series of retail services.

General Logistics Systems: The European parcels business which, via its subsidiaries and partners, offers its services in 36 European states.

Other businesses: Includes PostCap Guernsey Limited and iRed Partnership Limited, both wholly owned subsidiaries, Romec Limited, and NDC 2000 Limited, both part owned subsidiaries, investments in the following associates – Quadrant Catering Limited, Camelot Group plc and Camelot International Services Limited, and our Group Property unit. The Group Property unit includes Royal Mail Estates Limited, a wholly owned subsidiary.

Transfer prices between business segments are set on a basis of charges reached through negotiation with the respective businesses.

The two geographical segments are UK operations and European operations. The latter consists of the GLS business segment. The former includes the other four business segments plus Corporate, representing central shared services for the UK and the corporate centre. Corporate is not a revenue or profit centre but incurs certain costs on behalf of the business segments, which are passed on, and manages certain assets and liabilities of the Group.

2. Accounting policies (continued)

Accounting standards and interpretations not applied

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued accounting standards and interpretations with an effective date for accounting periods beginning after the commencement date of the period to which these financial statements relate. The Group has considered the impact of these below:

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
IAS 32 & IAS 1	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 9	Amendments to IFRIC 9 and IAS 39 Embedded Derivatives	30 June 2009
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 15	Agreement for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009

IFRS 2 Vesting Conditions and Cancellations
The amendment to IFRS 2 deals with vesting conditions and cancellations for shares. Although the Group operates the ColleagueShare phantom share scheme (see policy note above) this does not constitute a share based payment arrangement under IFRS 2. Consequently the Group has no share based payment arrangements, and therefore, this amendment will have no impact on the financial position or performance of the Group.

IFRS 3 Business Combinations
The Group does not anticipate early adopting the revised IFRS 3 and so will apply it prospectively to all business combinations on or after 29 March 2010. Whilst it is not possible to estimate the outcome of adoption, the key features of the revised IFRS 3 include a requirement for acquisition-related costs to be expensed and not included in the purchase price; and for contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill). The standard also changes the treatment of non-controlling interest (formerly minority interests) with an option to recognise these at full fair value as at the acquisition date and a requirement for previously held non-controlling interests to be fair valued as at the date control is obtained, with gains and losses recognised in the income statement.

IFRS 7 Financial Instruments: Disclosures
The amendments to IFRS 7 require enhanced disclosures about fair value measurements and liquidity risk. The amendments will be adopted with a commencement date of 30 March 2009 and will have no impact on the financial position or performance of the Group.

IFRS 8 Operating Segments
This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments. It is anticipated that the operating segments will be the same as the business segments previously reported under IAS 14. This new standard will be adopted with a commencement date of 30 March 2009 and will have no impact on the financial position or performance of the Group.

IAS 1 Presentation of Financial Statements
This revised standard sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. Hence it is expected that this new standard, which will be adopted with a commencement date of 30 March 2009, will have no impact on the financial position or performance of the Group.

2. Accounting policies (continued)

IAS 23 Borrowing Costs
This standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This new standard has had no impact on the financial position or performance of the Group in the prior or current years although the standard will be adopted with a commencement date of 30 March 2009, from when its application is likely to become relevant as the business continues to modernise its operations through automation, using the investment provided by the Shareholder in the form of commercial loans.

IAS 27 Consolidated and Separate Financial Statements
IAS 27 revised is effective for annual periods beginning on or after 1 July 2009, with earlier application only permitted when the revised IFRS 3 is applied. The revised standard applies retrospectively with some exceptions. IAS 27 revised no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of the non-controlling equity investment in the subsidiary. A partial disposal of equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to any gain or loss. Where there is loss of control of a subsidiary, any retained interest will have to be remeasured to fair value, which will impact the gain or loss recognised on disposal. It is expected that this standard which will be adopted with a commencement date of 29 March 2010, will have no impact on the financial position or performance of the Group.

IAS 32 & IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
The amendments to IAS 32 & IAS 1 require that puttable financial instruments and instruments that impose an obligation to deliver to another party a pro-rata share of net assets on liquidation are classified as equity provided that they have particular features and meet specific conditions. It is expected that these amendments will be adopted with a commencement date of 30 March 2009 and will have no impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. It is expected that this standard will have no impact on the financial position or performance of the Group.

Improvements to IFRSs
In May 2008 the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has not yet adopted the following relevant amendments and anticipates that these changes will have no material effect on the financial statements.

- *IFRS 7 Financial Instruments: Disclosure:* Removal of reference to 'total interest income' as a component of finance cost.
- *IAS 1 Presentation of Financial Statements :* Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the balance sheet.
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:* Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 10 Events after the Reporting Period:* Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment:* Replace the term "net selling price" with "fair value less costs to sell". Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- *IAS 18 Revenue:* Replacement of the term 'direct costs' with 'transaction costs' as defined by IAS 39.
- *IAS 19 Employee Benefits:* Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted in future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- *IAS 23 Borrowing Costs*: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- *IAS 27 Consolidated and Separate Financial Statements:* When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- *IAS 28 Investment in Associates:* If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

2. Accounting policies (continued)

- *IAS 31 Interest in Joint ventures:* If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- *IAS 36 Impairment of Assets:* When discounted cash flows are used to estimate 'fair value less costs to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- *IAS 38 Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.
- *IAS 39 Financial Instruments: Recognition and Measurement:* Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit and loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

IFRIC 9 Amendment - Embedded Derivatives
This amendment to IFRIC 9 and IAS 39 clarifies the consequences if the fair value of an embedded derivative that would have to be separated cannot be measured separately. The Group has no such embedded derivatives and hence there will be no impact on the financial position or performance of the Group when this interpretation is adopted.

IFRIC 13 Customer Loyalty Programmes
The Group has no schemes involving customer loyalty awards hence there will be no impact on the Group's financial statements when this IFRIC is adopted.

IFRIC 15 Agreement for the Construction of Real Estate
IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sales of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statements because the Group does not conduct such activity.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group does not undertake this activity and therefore this interpretation will not have an impact on the financial position or performance of the Group.

IFRIC 17 Distributions of Non-Cash Assets to Owners
IFRIC 17 covers the accounting for the distribution of non-cash assets to the owners of an entity. The interpretation provides guidance as to the valuation of such distributions, including where the owners are given a choice of cash or non-cash alternatives. The Group does not undertake this form of activity and hence the interpretation will have no impact on the Group.

IFRIC 18 Transfers of Assets from Customers
IFRIC 18 provides guidance relating to an arrangement whereby an entity receives from a customer an item of property, plant and equipment or the cash to construct an equivalent asset, to either connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. Government grants and infrastructure used in a service concession arrangement are not applicable to this interpretation. It is expected that this interpretation will be adopted with a commencement date of 29 March 2010 and will have no impact on the financial position or performance of the Group.

The Directors do not anticipate that the adoption of these standards, amendments and interpretations will have a material impact on the Group's primary financial statements. Certain of the above standards will require amendment to disclosures in the period of initial application.

3. Segment information

Analysis of segment revenue and segment result by class of business and geographic area

52 weeks to 29 March 2009	**UK operations**					**European operations**	
Segment revenue:	**Royal Mail**	**Parcelforce Worldwide**	**Post Office Limited**	**Other businesses**	**Total**	**General Logistics Systems**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
External revenue	**6,707**	**399**	**908**	**51**	**8,065**	**1,495**	**9,560**
Revenue between segments	**102**	**3**	**353**	**159**	**617**	**-**	**617**
Segment revenue	**6,809**	**402**	**1,261**	**210**	**8,682**	**1,495**	**10,177**
Segment result:							
Operating profit before exceptional items	**58**	**12**	**41**	**86**	**197**	**124**	**321**
Less share of post tax profits from joint ventures and associates	**(1)**	**-**	**(34)**	**(12)**	**(47)**	**-**	**(47)**
Operating exceptional items - Government grant	**-**	**-**	**152**	**-**	**152**	**-**	**152**
- other	**(184)**	**(2)**	**(96)**	**(19)**	**(301)**	**-**	**(301)**
Profit on disposal of property, plant and equipment	**-**	**-**	**8**	**3**	**11**	**-**	**11**
Segment result	**(127)**	**10**	**71**	**58**	**12**	**124**	**136**
Share of post tax profits from joint ventures and associates	**1**	**-**	**34**	**12**	**47**	**-**	**47**
Segment result after share of post tax profits from joint ventures and associates	**(126)**	**10**	**105**	**70**	**59**	**124**	**183**

Not included in segment result after share of post tax profits from joint ventures and associates is net pensions interest costs of £114m (2008 £131m credit), finance income of £36m (2008 £84m), finance costs of £56m (2008 £71m) and a taxation charge of £278m (2008 £212m credit), which when added reconciles to the loss for the financial year from continuing operations in the income statement of £229m (2008 £135m profit).

53 weeks to 30 March 2008	UK operations					European operations	
Segment revenue:	Royal Mail	Parcelforce Worldwide	Post Office Limited	Other businesses	Total	General Logistics Systems	Total
	£m	£m	£m	£m	£m	£m	£m
External revenue	6,830	379	911	36	8,156	1,232	9,388
Revenue between segments	106	4	358	246	714	-	714
Segment revenue	6,936	383	1,269	282	8,870	1,232	10,102
Segment result:							
Operating (loss)/profit before exceptional items	(3)	8	(34)	77	48	114	162
Less share of post tax profits from joint ventures and associates	(1)	-	(36)	(10)	(47)	-	(47)
Operating exceptional items - Government grant	-	-	313	-	313	-	313
- other	(353)	(17)	(382)	(2)	(754)	-	(754)
Profit on disposal of property, plant and equipment	-	-	5	53	58	-	58
Segment result	(357)	(9)	(134)	118	(382)	114	(268)
Share of post tax profits from joint ventures and associates	1	-	36	10	47	-	47
Segment result after share of post tax profits from joint ventures and associates	(356)	(9)	(98)	128	(335)	114	(221)

3. Segment information (continued)

Analysis of net assets/(liabilities) by class of business and geographic area

At 29 March 2009	UK operations						European operations		
	Royal Mail	Parcelforce Worldwide	Post Office Limited	Other businesses	Corporate*	Total	General Logistics Systems	Total Unallocated assets/ (liabilities)	Total assets/ (liabilities)
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets	**1,643**	**100**	**1,088**	**660**	**16**	**3,507**	**730**	**1,678**	**5,915**
Liabilities	**(7,207)**	**(455)**	**(1,228)**	**(128)**	**(70)**	**(9,088)**	**(259)**	**(1,224)**	**(10,571)**
At 30 March 2008 (restated)									
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets (restated)	1,555	101	1,203	656	22	3,537	595	2,222	6,354
Liabilities (restated)	(3,848)	(226)	(1,166)	(130)	(116)	(5,486)	(226)	(883)	(6,595)

*In the context of the above table, Corporate, as defined in the accounting policies note, holds certain assets and liabilities that do not form part of any business segment but which do form part of the UK geographic segment.

Assets include 'Non-current assets held for sale' of £3m relating to Post Office Limited (2008 £1m Other businesses).

The above analysis of allocated assets and liabilities at 30 March 2008 has been restated to reflect the business' reorganisation of certain central support functions previously within Corporate (£34m assets, £132m liabilities) and Other businesses (£44m liabilities), into the Royal Mail segment at the end of the 2007-08 financial year.

Unallocated assets and liabilities comprise the following items:

	2009		2008	
	Unallocated assets £m	**Unallocated liabilities £m**	Unallocated assets £m	Unallocated liabilities £m
Cash and cash equivalents – interest bearing	**329**	**-**	489	-
Financial assets – investments	**1,113**	**-**	1,091	-
Loans and borrowings	**-**	**(1,037)**	-	(791)
Obligations under finance leases and hire purchase contracts	**-**	**(110)**	-	(53)
Derivative financial assets/(liabilities)	**65**	**(61)**	32	(3)
Interest receivable/(payable)	**-**	**(2)**	2	(16)
Income tax receivable/(payable)	**17**	**(13)**	-	(15)
Deferred tax assets/(liabilities)	**154**	**(1)**	608	(5)
Total	**1,678**	**(1,224)**	2,222	(883)

3. Segment information (continued)

Other segment information

At 29 March 2009	UK operations						European operations	
	Royal Mail	Parcelforce Worldwide	Post Office Limited	Other businesses	Corporate	Total	General Logistics Systems	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Additions								
Property, plant and equipment	**334**	**6**	**38**	**27**	**-**	**405**	**52**	**457**
Intangible assets	**31**	**-**	**39**	**2**	**-**	**72**	**2**	**74**
Non cash expenses								
Depreciation and amortisation	**193**	**3**	**1**	**27**	**-**	**224**	**33**	**257**
Impairment	**-**	**-**	**77**	**-**	**-**	**77**	**-**	**77**
At 30 March 2008								
	£m	£m	£m	£m	£m	£m	£m	£m
Additions								
Property, plant and equipment	178	4	40	32	(6)	248	36	284
Intangible assets	14	4	51	-	9	78	1	79
Non cash expenses								
Depreciation and amortisation	166	1	1	36	3	207	29	236
Impairment	-	6	91	-	-	97	-	97

4. People information

(a) Headcount

The number of people employed, calculated on a headcount basis, were:

	Period end employees		Average employees	
	2009	2008	**2009**	2008
Royal Mail	**162,310**	164,995	**164,435**	165,257
Parcelforce Worldwide	**4,489**	4,464	**4,531**	4,384
Post Office Limited	**8,760**	9,163	**8,899**	9,600
Corporate and Group Property	**597**	2,654	**565**	2,732
UK wholly owned subsidiaries	**176,156**	181,276	**178,430**	181,973
UK partially owned subsidiaries	**4,438**	4,313	**4,504**	4,330
General Logistics Systems	**13,059**	13,135	**12,871**	12,715
Group total	**193,653**	198,724	**195,805**	199,018

	2009	2008
Number of subpostmasters at year end	**8,682**	10,768

(b) Directors' emoluments

	2009 £000	2008 £000
Directors' emoluments	**3,024**	3,666
Amounts receivable under Long-Term Incentive Plans	**1,136**	1,120

Number of Directors accruing benefits under defined benefit schemes	**2**	4

The Directors' Remuneration Report discloses full details of Directors' emoluments and can be found on pages 36 to 42.

5. Operating costs

Operating profit before exceptional items is stated after charging:

	2009 £m	2008 £m
(a)		
Pensions charge (note26):	**496**	701
Cash	551	550
Non-cash	(55)	151
(b)		
Distribution and conveyance operating costs:	**1,577**	1,341
Operating lease charges on vehicles	37	38
Other distribution and conveyance	1,540	1,303
(c)		
Depreciation and amortisation:	**257**	236
Depreciation of owned property, plant and equipment	199	189
Depreciation of property, plant and equipment under finance lease and hire purchase contracts	30	22
Total depreciation (note 10)	229	211
Amortisation of intangible assets (note 13)	28	25
Property, facilities and maintenance costs	**290**	261
Computers and telephones costs	**274**	281
Consultancy, marketing and legal fees	**177**	263
Operating lease charges on property, plant and equipment (excluding vehicles)	**203**	191
Foreign currency exchange gains	**(3)**	(3)
Research and development expenditure	**-**	1
Regulatory body costs:	**14**	16
Postcomm	9	9
Postwatch	3	7
Consumer Focus	2	-

6. Auditor's remuneration

	2009 £000	2008 £000
Audit of statutory financial statements	**712**	647
Other fees to the auditor:		
Statutory audits for subsidiaries	**1,504**	1,359
Other services supplied pursuant to such legislation	**383**	388
Taxation services	**162**	283
Corporate finance services	**63**	109
Litigation services	**9**	245
Other services	**31**	51
Total	**2,864**	3,082

The Group paid an additional £221,000 in 2009 in respect of the 2008 audit (£185,000 in 2008 in respect of the 2007 audit).

7. Operating exceptional items

	2009		2008	
	£m	£m	£m	£m
Government grant income		**152**		313
ColleagueShare costs - phantom share scheme	**(14)**		(116)	
- stakeholder dividend	**(70)**		(161)	
		(84)		(277)
Other restructuring costs:				
Provision for restructuring (note 21)	**(113)**		(363)	
Other exceptional write-offs	**(27)**		(17)	
Impairment of property, plant and equipment (note 10)	**(38)**		(40)	
Impairment of intangible assets (note 13)	**(39)**		(57)	
		(217)		(477)
Total operating exceptional items		**(149)**		(441)

The £152m (2008 £313m) relates to a non-recurring Government grant received by the Group under the Industrial Development Act (IDA) 1982. This amount was used during the year to compensate Post Office Limited for providing certain specified "services of general economic interest".

The £14m (2008 £116m) phantom share scheme costs and £70m (2008 £161m) stakeholder dividend costs are the estimated costs relating to the Company ColleagueShare plan this year. The stakeholder dividend earned will be paid to qualifying employees in 2009-10 whilst the costs of the phantom share scheme are discounted and will be redeemed by the Group by 2012.

The £113m (2008 £363m) restructuring charge is in respect of employee related redundancy costs of £113m (2008 £165m) resulting mainly from operational efficiency initiatives in Royal Mail and in Post Office Limited. There were also exceptional write-backs relating to property in the Group of £4m (2008 £10m charge) offset by other Group restructuring exceptional charges of £4m (2008 £4m) during the year. Last year's additional restructuring charge related to subpostmasters' compensation paid through the Agency Network Change (ANC) programme (2008 £141m) and project fees for the WH Smith and the ANC programmes (2008 £43m).

Impairments of £77m (2008 £91m) relate to Post Office Limited comprising £38m (2008 £40m) property, plant and equipment and £39m (2008 £51m) intangible assets. Due to ongoing losses, the carrying values of asset purchases made by Post Office Limited during the year have been impaired to their recoverable amount.

Other exceptional write-offs of £27m (2008 £17m) include £18m (2008 £9m) relating to professional fees in connection with Government funding and £9m (2008 £8m) for other restructuring items charged in the current year.

8. Net finance income (excluding net pensions interest)

	2009 £m	2008 £m
Unwinding of discount relating to ColleagueShare scheme	**(8)**	-
Interest payable on financial liabilities carried at amortised cost	**(48)**	(71)
Finance costs	**(56)**	(71)
Interest received on available for sale financial assets	**17**	12
Interest received on loans and receivables financial assets	**19**	72
Finance income	**36**	84
Net finance (costs)/income (excluding net pensions interest)	**(20)**	13

No gains/losses on available for sale financial assets were released from equity and recognised in the income statement for the year.

The finance costs of £56m (2008 £71m) include £5m (2008 £1m) in respect of finance charges payable under finance lease and hire purchase contracts.

9. Income tax

The major components of income tax charge/(credit) for the years ended 29 March 2009 and 30 March 2008 are:

	2009 £m	2008 £m
Tax charged to the income statement		
Current income tax:		
Current UK income tax charge/(credit)	**3**	(22)
Foreign tax	**35**	29
Adjustments in respect of current income tax of prior years	**(2)**	(3)
	36	4
Deferred income tax:		
Relating to origination and reversal of temporary differences	**242**	(246)
Effect of change in tax rate	**-**	30
Income tax charge/(credit) reported in the income statement	**278**	(212)
Tax charged to equity		
Income tax related to items charged or credited directly to equity:		
Deferred income tax charge related to actuarial movements on pension deficit	**209**	-
Effect of change in tax rate on deferred tax in equity	**-**	15
Current income tax relief for pension deficit recovery payment	**(21)**	-
Current income tax charge for fair value adjustments on fixed asset investments	**4**	3
Income tax charge reported in equity	**192**	18
Total taxation losses/(gains) recognised		
Current income tax charge	**19**	7
Deferred income tax charge/(credit)	**451**	(201)
Total income tax charge/(credit) reported	**470**	(194)

A reconciliation between tax expense and the product of accounting profit multiplied by the UK rate of Corporation Tax for the years ended 29 March 2009 and 30 March 2008 is as follows:

	2009 £m	2008 £m
Accounting profit/(loss) before tax from continuing operations	**49**	(77)
At UK standard rate of Corporation Tax of 28% (2008 30%)	**14**	(23)
Overseas current tax rates	**(1)**	1
Tax overprovided in prior years	**(2)**	(3)
Non-taxable income	**(43)**	(94)
Non-allowable expenses	**16**	(4)
Associates'/joint venture's profit after tax charge included in Group pre-tax profit	**(13)**	(14)
Net increase/(decrease) in tax charge resulting from derecognition/(recognition) of deferred tax assets	**197**	(97)
Effect of change in tax rate on deferred tax	**-**	30
Effect of withdrawal of Industrial Buildings Allowances on deferred tax	**108**	-
Profit from asset disposals eligible for relief	**(3)**	(4)
Other	**5**	(4)
Tax charge/(credit) in the income statement	**278**	(212)
Effective income tax rate	**567%**	n/a

9. Income tax (continued)

Deferred tax relates to the following:

	Balance sheet		Income statement	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Liabilities				
Accelerated capital allowances	**(1)**	(3)	**2**	-
Goodwill qualifying for tax allowances	**-**	(2)	**2**	(2)
Gross deferred tax liabilities	**(1)**	(5)		
Assets				
Deferred capital allowances	**104**	62	**42**	35
Provisions	**36**	26	**10**	16
Pensions temporary differences	**8**	470	**(253)**	140
Losses available for offset against future taxable income	**3**	41	**(38)**	34
Goodwill qualifying for tax allowances	**3**	9	**(7)**	(7)
Gross deferred tax assets	**154**	608		
Net deferred tax asset	**153**	603		
Consolidated income statement			**(242)**	216

The Group has unrecognised deferred tax assets of £2,373m (2008 £816m), comprising £1,892m (2008 £338m) relating to the retirement benefit obligation, £228m (2008 £289m) relating mainly to fixed asset timing differences, and £253m (2008 £189m) relating to tax losses in subsidiaries that are available to offset against future taxable profits. The Group has capital losses carried forward, the tax effect of which is £22m (2008 £16m) and temporary differences related to capital losses of £108m. The Group has rolled over capital gains of £72m (2008 £74m); no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise. The adverse tax effect of the phased abolition of Industrial Buildings Allowances has resulted in a reduction of the Group's deferred tax asset by £108m and a corresponding amount has been recorded within the current year's income statement tax charge.

At 29 March 2009, there was no recognised or unrecognised deferred income tax liability (2008 £nil) for taxes that would be payable on the unremitted earnings of certain of the Group’s subsidiaries, associates or joint ventures, as the Group has no liability to additional taxation should such amounts be remitted due to the availability of double taxation relief or other exemptions and reliefs.

10. Property, plant and equipment

	Land and buildings						2009
Cost	**Freehold £m**	**Long leasehold £m**	**Short leasehold £m**	**Plant and machinery £m**	**Motor vehicles £m**	**Fixtures and equipment £m**	**Total £m**
At 31 March 2008	1,538	263	530	928	322	888	4,469
Exchange movements	30	3	-	21	4	14	72
Reclassification	4	(8)	9	4	-	(9)	-
Additions	108	8	18	163	94	66	457
Disposals	(6)	(1)	(8)	(12)	(30)	(12)	(69)
Reclassification to non-current assets held for sale (note 16)	(5)	(2)	-	-	-	-	(7)
At 29 March 2009	**1,669**	**263**	**549**	**1,104**	**390**	**947**	**4,922**
Depreciation and impairment							
At 31 March 2008	780	154	308	580	161	815	2,798
Exchange movements	9	1	-	13	3	10	36
Reclassification	12	(3)	(3)	3	-	(9)	-
Depreciation (note 5)	48	6	32	57	58	28	229
Impairment (note 7)	10	1	9	-	8	10	38
Disposals	(5)	-	(8)	(11)	(25)	(12)	(61)
Reclassification to non-current assets held for sale (note 16)	(3)	(1)	-	-	-	-	(4)
At 29 March 2009	**851**	**158**	**338**	**642**	**205**	**842**	**3,036**
Net book value							
At 29 March 2009	**818**	**105**	**211**	**462**	**185**	**105**	**1,886**
At 31 March 2008	758	109	222	348	161	73	1,671

Depreciation rates are disclosed within accounting policies (note 2). No depreciation is provided on freehold land, which represents £197m (2008 £156m) of the total cost of properties. The net book value of the Group's property, plant and equipment held under hire purchase contracts and finance leases amounts to £176m comprising £100m vehicles (2008 £46m), £69m (2008 £31m) plant and machinery and £7m (2008 £6m) land and buildings. The net book value of the Group's property, plant and equipment includes £180m (2008 £156m) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £427m (2008 £433m) in respect of building fit-out.

	Land and buildings						2008
Cost	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
At 26 March 2007	1,486	258	503	842	274	858	4,221
Exchange movements	23	1	-	13	3	11	51
Reclassification	(15)	-	14	1	-	-	-
Additions	64	10	20	85	63	42	284
Disposal of subsidiaries	-	-	-	-	-	1	1
Disposals	(18)	(6)	(7)	(13)	(18)	(24)	(86)
Reclassification to non-current assets held for sale (note 16)	(2)	-	-	-	-	-	(2)
At 30 March 2008	1,538	263	530	928	322	888	4,469
Depreciation and impairment							
At 26 March 2007	736	151	272	522	124	797	2,602
Exchange movements	5	1	-	9	2	9	26
Reclassification	(1)	-	1	-	-	-	-
Depreciation (note 5)	54	6	29	62	45	15	211
Impairment (note 7)	3	1	12	-	6	18	40
Disposals	(16)	(5)	(6)	(13)	(16)	(24)	(80)
Reclassification to non-current assets held for sale (note 16)	(1)	-	-	-	-	-	(1)
At 30 March 2008	780	154	308	580	161	815	2,798
Net book value							
At 30 March 2008	758	109	222	348	161	73	1,671
At 26 March 2007	750	107	231	320	150	61	1,619

11. Leasehold land payment

Net book value	2009 £m	2008 £m
At 31 March 2008 and 26 March 2007	-	-
Additions	4	-
Amortisation	-	-
Exchange movements	-	-
At 29 March 2009 and 30 March 2008	**4**	-

12. Goodwill

Cost	2009 £m	2008 £m
At 31 March 2008 and 26 March 2007	565	487
Exchange movements	96	70
Acquisition of businesses (note 14)	2	8
At 29 March 2009 and 30 March 2008	**663**	565
Impairment		
At 31 March 2008 and 26 March 2007	392	344
Exchange movements	65	48
At 29 March 2009 and 30 March 2008	**457**	392
Net book value		
At 29 March 2009 and 30 March 2008	**206**	173
At 31 March 2008 and 26 March 2007	173	143

The carrying value of goodwill arising on business combinations of £206m (2008 £173m) at the balance sheet date includes £205m (2008 £172m) relating to the General Logistics Systems (GLS) business segment. In line with the accounting policy (see note 2), this goodwill has been reviewed for impairment. An impairment loss is recognised for the amount by which the carrying value of an asset or cash generating unit exceeds the recoverable amount. The recoverable amount is the higher of net realisable value and value in use. The carrying value of GLS, excluding interest bearing and tax related assets and liabilities, is £471m (2008 £369m) at year end (see note 3) and the operating profit before exceptional items is £124m (2008 £114m) for the year (see note 3). The carrying value represents a multiple of 3.8 (2008 3.2) on operating profit before exceptional items. The net realisable value of GLS, for the purposes of the impairment review (i.e. the 'fair value less costs to sell'), has been assessed with reference to earnings multiples for quoted entities in a similar sector. On this basis, the net realisable value of GLS has been assessed to be in excess of the carrying value. No reasonable possible change in the earnings multiples referenced would reduce the net realisable value to below the carrying value.

13. Intangible assets

	2009				2008			
Cost	**Master franchise licences £m**	**Customer listings £m**	**Software licences £m**	**Total £m**	Master franchise licences £m	Customer listings £m	Software licences £m	Total £m
At 31 March 2008 and 26 March 2007	22	21	183	226	19	15	107	141
Additions	-	-	74	74	-	-	79	79
Disposals	-	-	(2)	(2)	-	-	(3)	(3)
Acquisition of businesses (note 14)	-	2	-	2	-	4	-	4
Exchange movements	3	5	-	8	3	2	-	5
At 29 March 2009 and 30 March 2008	**25**	**28**	**255**	**308**	22	21	183	226
Amortisation and impairment								
At 31 March 2008 and 26 March 2007	18	11	130	159	12	6	59	77
Impairment	-	-	39	39	-	-	57	57
Amortisation	1	5	22	28	4	4	17	25
Disposals	-	-	(2)	(2)	-	-	(3)	(3)
Exchange movements	3	3	-	6	2	1	-	3
At 29 March 2009 and 30 March 2008	**22**	**19**	**189**	**230**	18	11	130	159
Net book value								
At 29 March 2009 and 30 March 2008	**3**	**9**	**66**	**78**	4	10	53	67
At 31 March 2008 and 26 March 2007	4	10	53	67	7	9	48	64

The intangible assets recognised in the Group's balance sheet, none of which have been internally generated, have finite lives and are being written down on a straight-line basis over their remaining economic lives as follows:

Intangible asset	Remaining economic life in years
Master franchise licences	1 to 2
Customer listings	1 to 3
Software licences	1 to 5

The amortisation charge of £28m (2008 £25m) relating to intangible assets is aggregated within 'other operating costs' in the income statement and disclosed in note 5 to the accounts. Details of impairments are disclosed in note 7 to the accounts.

14. Business combinations

The acquisitions during the current or prior years are not material and therefore, the following disclosures are made on an aggregated basis. The table below sets out the identifiable assets and liabilities that were acquired at their fair values to the Group as at the date of acquisition.

	Book value/ fair value Total 2009 £m	Book value/ fair value Total 2008 £m
Trade and other receivables	**-**	-
Trade and other payables	**-**	(1)
Net working capital acquired	**-**	(1)
Property, plant and equipment	**-**	1
Cash and cash equivalents	**-**	-
Net assets acquired	**-**	-
Intangible assets recognised on acquisition	**2**	4
Goodwill recognised on acquisition	**2**	8
Total cost recognised	**4**	12
Gross consideration	**4**	12
Acquisition costs	**-**	-
Total costs	**4**	12
Less: deferred consideration	**(2)**	(7)
cash and cash equivalents acquired	**-**	-
Net cash outflow	**2**	5

On 1 August 2008 the General Logistics Systems (GLS) subsidiary acquired certain assets of Belluno and Padua franchise area businesses in Italy. If these combinations had taken place at the beginning of the financial year, Group revenue from continuing operations would have been £9,565m. The goodwill of £2m arising on these acquisitions is indicative of the relative quality of the acquired entities.

On 9 March 2009 the Romec Limited subsidiary acquired 100% of MDP Engineering Limited. If this combination had taken place at the beginning of the financial year, Group revenue from continuing operations would have increased by a further £1m to £9,566m.

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

15. Investments in joint ventures and associates

Joint ventures

During 2008–09 and 2007-08, the Group's only joint venture investment was a 50% interest in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change.

Associates

Details of the Group's 2008-09 and 2007-08 associate investments are provided in note 30. The reporting dates for these investments is 31 March 2009 except for Quadrant Catering Limited (30 September 2008) and G3 Worldwide Mail N.V. (Spring) (31 December 2008). Estimates of the profits of Quadrant Catering Limited and G3 Worldwide Mail N.V. (Spring), from their reporting date to 29 March 2009 (and 30 March 2008 for the prior year), have been included to ensure that the reported share of profits of associates aligns with the Group's financial year. There are no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends, repayment of loans or advances.

	At 31 March 2008 £m	**Share of post tax pre dividend profit £m**	**Investment in associates £m**	**Dividend £m**	**Exchange movements £m**	**At 29 March 2009 £m**
Joint ventures						
Share of net assets	68	30	-	(27)	-	**71**
Goodwill	1	-	-	-	-	**1**
Net investments	69	30	-	(27)	-	**72**
Associates						
Share of net assets	58	17	-	(15)	-	**60**
Goodwill	9	-	-	-	-	**9**
Net investments	67	17	-	(15)	-	**69**
Total net investments in joint ventures/associates	136	47	-	(42)	-	**141**

	At 26 March 2007 £m	Share of post tax pre dividend profit £m	Investment in associates £m	Dividend £m	Exchange movements £m	At 30 March 2008 £m
Joint ventures						
Share of net assets	58	34	-	(24)	-	68
Goodwill	1	-	-	-	-	1
Net investments	59	34	-	(24)	-	69
Associates						
Share of net assets	46	13	10	(12)	1	58
Goodwill	9	-	-	-	-	9
Net investments	55	13	10	(12)	1	67
Total net investments in joint ventures/associates	114	47	10	(36)	1	136

15. Investments in joint ventures and associates (continued)

	2009			2008		
Share of assets and liabilities:	**Joint ventures £m**	**Associates £m**	**Total £m**	Joint ventures £m	Associates £m	Total £m
Current assets	**170**	**138**	**308**	139	113	252
Non-current assets	**3**	**51**	**54**	2	47	49
Share of gross assets	**173**	**189**	**362**	141	160	301
Current liabilities	**(102)**	**(127)**	**(229)**	(73)	(101)	(174)
Non-current liabilities	**-**	**(2)**	**(2)**	-	(1)	(1)
Share of gross liabilities	**(102)**	**(129)**	**(231)**	(73)	(102)	(175)
Share of net assets	**71**	**60**	**131**	68	58	126
Share of revenue and profit:						
Revenue	**69**	**1,155**	**1,224**	68	1,095	1,163
Profit after tax	**30**	**17**	**47**	34	13	47

16. Non-current assets held for sale

	Assets		
Net book amount	**Freehold £m**	**Long leasehold £m**	**Total £m**
At 31 March 2008	1	-	1
Reclassification from property, plant and equipment	2	1	3
Disposals	(1)	-	(1)
At 29 March 2009	**2**	**1**	**3**

	Assets		
Net book amount	Freehold £m	Long leasehold £m	Total £m
At 26 March 2007	7	-	7
Reclassification from property, plant and equipment	1	-	1
Disposals	(7)	-	(7)
At 30 March 2008	1	-	1

The expected disposal of these properties is as a result of the rationalisation of the portfolio.

Non-current assets held for sale are reported in the relevant business segment. Further details are provided in note 3.

During the year a gain of £7m (2008 £11m) was recognised in the income statement in relation to the disposal of assets held for sale.

17. Inventories

	2009 £m	2008 £m
Supplies and materials (uniforms, fuel, printing and stationery, mailbags, engineering spares)	**26**	23
Merchandise (Post Office Limited retail and lottery products)	**6**	10
Total	**32**	33

During the year £4m (2008 £3m) of inventory items were written off. Engineering spares items are included net of a provision for impairment of £5m (2008 £2m). The cost of inventories recognised as an expense in the income statement is £41m (2008 £49m).

18. Current trade and other receivables

	2009 £m	2008 £m
Trade receivables	**869**	859
Prepayments and accrued income	**151**	191
Sub total	**1,020**	1,050
Client debtors	**135**	61
Interest	**-**	2
Income tax receivable	**17**	1
Total	**1,172**	1,114

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

	2009 £m	2008 £m
At 31 March 2008 and 26 March 2007	**33**	36
Foreign exchange rate adjustment	**3**	(1)
Receivables provided for during the year	**13**	20
Release of provision	**(10)**	(6)
Utilisation of provision	**(10)**	(16)
At 29 March 2009 and 30 March 2008	**29**	33

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

	2009 £m	2008 £m
Past due not more than one month	**55**	78
Past due more than one month and not more than two months	**10**	12
Past due more than two months	**20**	16
Total past due but not impaired	**85**	106
Provided for or not yet overdue	**813**	786
Provision for bad and doubtful debts	**(29)**	(33)
Total trade receivables	**869**	859

19. Cash and cash equivalents

	2009 £m	2008 £m
Cash in the Post Office Limited network	**720**	933
Other cash in hand	**11**	5
Cash at bank	**96**	138
Total cash at bank, in hand or in Post Office Limited network	**827**	1,076
Cash equivalent investments: Short-term deposits	**233**	351
Total	**1,060**	1,427

Other than cash in the Post Office Limited network and in hand of £731m (2008 £938m), the cash and cash equivalent balances of £329m (2008 £489m) are interest bearing. Cash at bank of £96m (2008 £138m) earns interest at either floating or short-term fixed rates based upon bank deposit rates. Short-term deposits of £233m (2008 £351m) are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalent investments is not materially different from the carrying value of £1,060m (2008 £1,427m).

The £1,427m cash and cash equivalents balance in 2007-08 does not include a £7m overdrawn bank balance relating to the General Logistics Systems (GLS) subsidiary. This £7m is included in the Financial liabilities - interest bearing loans and borrowings balance of £289m in the 2007-08 balance sheet. The £7m overdrawn bank balance has been repaid during the 2008-09 financial year.

20. Financial liabilities

				2009
	Loans and borrowings £m	**Finance lease/hire purchase contracts £m**	**Derivative liabilities £m**	**Total £m**
Amounts falling due in:				
One year or less or on demand (current)	**234**	**29**	**56**	**319**
More than one year (non-current)	**803**	**81**	**5**	**889**
More than one year but not more than two years	**2**	**30**	**5**	**37**
More than two years but not more than five years	**1**	**47**	**-**	**48**
More than five years	**800**	**4**	**-**	**804**
Total	**1,037**	**110**	**61**	**1,208**

Included within the £1,037m (2008 £791m) loans and borrowings is an overdrawn bank balance of £nil (2008 £7m).

				2008
	Loans and borrowings £m	Finance lease/hire purchase contracts £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	289	10	3	302
More than one year (non-current)	502	43	-	545
More than one year but not more than two years	-	11	-	11
More than two years but not more than five years	2	25	-	27
More than five years	500	7	-	507
Total	791	53	3	847

Analysis of loans and committed facilities					**2009**
	Loans and borrowings £m	**Further Committed facility £m**	**Total facility £m**	**Average interest rate of loan drawn down %**	**Average maturity date of loan drawn down Year**
BERR loans to Royal Mail Group Ltd	**800**	**900**	**1,700**	**8.1**	**2020**
BERR loans to Post Office Limited	**232**	**918**	**1,150**	**0.9**	**2009**
Committed facilities	**1,032**	**1,818**	**2,850**		
Miscellaneous loans and borrowings in subsidiaries	**5**	**-**	**5**	**3.6**	**2011**
Total	**1,037**	**1,818**	**2,855**		

20. Financial liabilities (continued)

	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average Interest rate of loan drawn down %	2008 Average maturity date of loan drawn down Year
BERR loans to Royal Mail Group Ltd	500	1,200	1,700	5.8	2023
BERR loans to Post Office Limited	280	870	1,150	5.6	2008
Committed facilities	780	2,070	2,850		
Miscellaneous loans and borrowings in subsidiaries	11	-	11	4.5	2009
Total	791	2,070	2,861		

The miscellaneous loans and borrowings in subsidiaries are either unsecured or secured on various assets (mainly property) of the overseas subsidiaries. The loans are repayable in variable and fixed amounts over their maturity periods.

The obligations under finance leases and hire purchase contracts are either unsecured or secured on the leased assets. These are repayable in variable and fixed amounts over their maturity periods. The average interest rate is 6% (2008 6%). The average maturity date is within two to three years (2008 – within two to three years).

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

	2009 £m	2008 £m
Expiring in one year or less	**-**	-
Expiring in more than one year, but not more than two years	**-**	-
Expiring in more than two years	**1,818**	2,070
Total	**1,818**	2,070

The following securities apply to the Group's committed facilities:

	2009 £m	2008 £m	**Security**
Royal Mail Group Ltd senior debt facility	**900**	900	Fixed charges over Royal Mail Holdings plc's shares in Royal Mail Group Ltd and Royal Mail Group Ltd's shares in Royal Mail Estates Limited. Floating charges over all assets of Royal Mail Holdings plc, Royal Mail Group Ltd and Royal Mail Estates Limited
Royal Mail Group Ltd Shareholder loan facility	**300**	300	None
Royal Mail Group Ltd other drawn down loans	**500**	500	Fixed charges over Royal Mail Group Ltd's loans to General Logistics Systems B.V., Royal Mail Group Ltd's loans to subsidiaries of General Logistics Systems B.V. and Royal Mail Investments Limited's shares in General Logistics Systems B.V. Floating charge over non regulated assets of Royal Mail Group Ltd
	1,700	1,700	
Post Office Limited facility	**1,150**	1,150	Floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items*
Total	**2,850**	2,850	

* The negative pledge is an agreement not to grant security over these assets or to set up a vehicle that has the same effect.

The Post Office Limited facility of £1,150m is restricted to funding the cash and near cash items held within the Post Office Limited network. As at 29 March 2009, the balance of this cash was £720m (2008 £933m) as shown in note 19.

The BERR loans to Post Office Limited under the facility are short dated on a programme of liquidity management and mature on average 1 day after the year end (2008 1 day). On maturity it is expected that further loans will be drawn down under this facility, which expires in 2011.

The security in place in the previous year was as disclosed above.

The BERR loans to Royal Mail Group Ltd and Post Office Limited become repayable immediately on the occurrence of an event of default under the loan agreements. These events of default include non-payment, insolvency and breach of covenant relating to interest and total indebtedness. It is not anticipated that the Company is at risk of breaching any of these obligations, except as discussed in note 2.

21. Provisions

	Restructuring £m	Employee Costs £m	Other £m	Total £m
At 31 March 2008	271	116	24	411
Arising during the year:				
- charged in operating exceptional items	144	14	-	158
- charged in other operating costs	-	-	20	20
Unused amounts reversed	(31)	-	(4)	(35)
Utilised in the year	(245)	(4)	(3)	(252)
Discount rate adjustment	-	8	-	8
At 29 March 2009	**139**	**134**	**37**	**310**
Reported as:				
Current provisions	110	-	26	**136**
Non-current provisions	29	134	11	**174**
At 29 March 2009	**139**	**134**	**37**	**310**
Current provisions	239	-	9	248
Non-current provisions	32	116	15	163
At 30 March 2008	271	116	24	411

Restructuring
The provision for restructuring principally comprises redundancy schemes of £108m (2008 £117m). The remainder relates to onerous property and commercial contracts associated with restructuring projects.

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

Employee Costs
Royal Mail operates a phantom share scheme referred to as ColleagueShare. This is a five-year scheme running to March 2012. The provision at 29 March of £134m (2008 £116m) represents the potential liability for the financial years up to 2011-12 and has been discounted to recognise the long-term nature of the scheme.

Other
Other provisions of £37m (2008 £24m) are those recognised principally for the expected liabilities arising from property exits in the normal course of business. These principally comprise onerous lease obligations and decommissioning costs. Further provision amounts arise from estimated exposures resulting from legal claims.

In the main, provision amounts are expected to be utilised in 2009-10 with the remainder within 2 to 3 years except for £134m relating to ColleagueShare, expected to be utilised within 4 years and £2m of onerous property contracts, expected to be utilised over a period longer than 5 years.

22. Current trade and other payables

	2009 £m	2008 £m
Trade payables and accruals	**1,223**	1,251
Advance customer payments	**300**	274
Social security	**123**	122
Sub total	**1,646**	1,647
Deferred consideration on business combinations	**7**	5
Client creditors	**376**	426
Amounts due to pension schemes relating to redundancies	**8**	7
Interest	**2**	16
Capital creditors	**115**	92
ColleagueShare accrual	**77**	161
Total	**2,231**	2,354

The Group, through Post Office Limited, receives and disburses cash on behalf of Government agencies and other clients to customers through its Post Office branch network. Amounts owed to these parties are separately shown as client creditors above. The level of cash held and the related creditors can vary significantly at each balance sheet date.

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

23. Non-current other payables

	2009 £m	2008 £m
Deferred consideration	**-**	4
Capital creditors	**6**	12
Other payables	**26**	24
Total	**32**	40

24. Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise short-term deposits, money market liquidity investments, Government gilt edged securities, loans, finance leases and hire purchase contracts and cash. The main purposes of these financial instruments are to raise finance and manage the liquidity needs of the business operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from operations.

The Group enters into derivative transactions, principally commodity swaps and forward currency contracts. The purpose is to manage the commodity and currency risks arising from the Group's operations.

It is, and has been throughout the year under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

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

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates to the Group's debt obligations and interest bearing financial assets. The BERR loans to Royal Mail Group Ltd of £800m (2008 £500m) are at a fixed interest rate to maturity with an average maturity date of 2020 (2008 – average date of 2023). The BERR loans to Post Office Limited of £232m (2008 £280m) are at short-dated fixed interest rates – average maturity 1 day (2008 average 1 day). The total interest bearing financial assets of the group (excluding the pension escrow investments) of £336m (2008 £510m) are at short-dated fixed or variable interest rates with average maturity 9 days (2008 average 12 days). These short-dated financial instruments are maturity managed to obtain the best value out of the interest yield curve.

The Group's policy is to manage its net interest expense using an appropriate mix of fixed and variable rate financial instruments. No external hedging of interest rate risk is undertaken.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, of the Group's profit before taxation and equity based upon the financial instruments held at the balance sheet date.

The effect from available for sale (whether floating or fixed rate) financial assets is calculated as the change in fair value at the balance sheet date and impacts equity.

24 Financial risk management objectives and policies (continued)

The effect from other floating rate financial instruments is calculated as the balance of the instruments multiplied by the change in interest rates and impacts profit before taxation.

There is no effect on either profit before taxation or equity from other financial instruments.

	2009		2008	
	Effect on profit before taxation gains/(losses) £m	**Effect on equity gains/(losses) £m**	Effect on profit before taxation gains/(losses) £m	Effect on equity gains/(losses) £m
Effect of an increase in GBP interest rates of 100 basis points (1%)	**2**	**(142)**	4	(52)
Effect of a decrease in GBP interest rates of 50 basis points (0.5%)	**(1)**	**86**	(2)	33

Foreign currency risk

The Group is exposed to foreign currency risk due to trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in the UK, the balances held to operate the Bureau de Change services within Post Office Limited and various purchase contracts denominated in foreign currency. These risks are mitigated by hedging programmes managed by Group Treasury. Where possible, exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward contracts. Hedging will not normally be considered for exposures of less than £1m; hedging is normally confined to 80% of the forecast exposure where forecast cash flows are highly probable.

The Group's obligation to settle with overseas postal operators is denominated in Special Drawing Rights (SDRs) – a basket of currencies comprising of US Dollar (US$), Japanese Yen, Sterling and euro. Group Treasury operates a rolling 18-month hedge programme, which is subsequently reviewed on a quarterly basis. There has been no external SDR hedge in place throughout the financial year 2008-09 due to there being no material net exposure.

For the Bureau de Change business, balances of major currency holdings are hedged along with minor currencies showing a closely correlated movement.

The Group's obligations to settle conveyance charges in US$ has been hedged (to April 2011).

The Group has four active hedge programmes covering obligations to settle euro invoices on automation projects.

The Group does not hedge the translation exposure created by the net assets of its overseas subsidiaries. However it does hedge the transactional exposure created by inter-company loans with these subsidiaries.

The following table demonstrates the sensitivity to reasonably possible changes in exchange rates, with all other variables held constant, of the Group's profit before taxation and equity based upon the financial instruments held at the balance sheet date.

The effect from financial instruments owned by GLS denominated in foreign currency and held at amortised cost in the balance sheet is calculated as the balance of the instruments multiplied by the change in exchange rates and impacts equity.

The effect from other financial instruments denominated in foreign currency and held at amortised cost in the balance sheet is calculated as the balance of the instruments multiplied by the change in exchange rates and impacts profit.

The effect from derivative assets and liabilities is calculated as the change in fair value at the balance sheet date and impacts equity (for derivatives within an effective hedging relationship) or profit before taxation for ineffective hedges and derivatives not designated in hedging relationships.

There is no effect on either profit before taxation or equity from other financial instruments.

	2009		2008	
	Effect on profit before taxation gains/(losses) £m	**Effect on equity gains/(losses) £m**	Effect on profit before taxation gains/(losses) £m	Effect on equity gains/(losses) £m
Effect of an increase in USD/GBP exchange rates of 20 cents	**2**	**(12)**	(2)	(12)
Effect of a decrease in USD/GBP exchange rates of 20 cents	**(2)**	**16**	2	15
Effect of an increase in GBP/euro exchange rates of 10 pence	**(3)**	**16**	(1)	28
Effect of a decrease in GBP/euro exchange rates of 10 pence	**3**	**(16)**	1	(28)

24 Financial risk management objectives and policies (continued)

Commodity price risk

The Group is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe, which consumes over 140 million litres of fuel per year, and a jet fuel price risk arising from the purchasing of air freight services. The Group's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses over-the-counter derivative products (in both US$ commodity price and US$/Sterling exchange rate) to manage these exposures.

In addition, the Group is exposed to the commodity price risk of purchasing electricity and gas. The Group's risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets. These exposures are managed by locking into fixed rate price contracts with suppliers and using over-the-counter derivative products to manage these exposures.

The following table demonstrates the sensitivity to reasonably possible changes in commodity prices, with all other variables held constant, of the Group's profit before taxation and equity based upon the financial instruments held at the balance sheet date.

The effect from derivative assets and liabilities is calculated as the change in fair value at the balance sheet date and impacts equity (for derivatives within an effective hedging relationship) or profit before taxation for ineffective hedges and derivatives not designated in hedging relationships.

There is no effect on either profit before taxation or equity from other financial instruments.

	2009		2008	
	Effect on profit before taxation gains/(losses) £m	**Effect on equity gains/(losses) £m**	Effect on profit before taxation gains/(losses) £m	Effect on equity gains/(losses) £m
Effect of an increase in Diesel fuel prices of 10 US cents per litre	**-**	**13**	-	5
Effect of a decrease in Diesel fuel prices of 10 US cents per litre	**-**	**(13)**	-	(5)
Effect of an increase in Jet fuel prices of 10 US cents per litre	**3**	**-**	1	-
Effect of a decrease in Jet fuel prices of 10 US cents per litre	**(3)**	**-**	(1)	-

Credit risk

Royal Mail operates a Credit Policy, which provides a fair and equitable arrangement for all its account customers. The level of credit granted is based on a customer's risk profile assessed by an independent credit referencing agent. The Credit Policy is applied rigidly within the regulated products area so as to ensure that Royal Mail is not in breach of compliance legislation. Assessment of credit for the non-regulated products is based on commercial factors, which are commensurate with the Group's appetite for risk.

Royal Mail has a dedicated credit management team, which sets and monitors credit limits, and takes corrective action as and when appropriate. Credit controls in place have limited the level of bad debt incurred to around 0.1% (2008 0.2%) of turnover.

With respect to credit risk arising from other financial assets of the Group, which comprise cash, cash equivalent investments, available for sale financial assets, held to maturity financial assets, held for trading financial assets, loans and receivables financial assets and certain derivative instruments, the Group invests/trades only with high quality financial institutions. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include money market funds, time deposits with approved counterparties, UK Government gilts and Treasury bills. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The unused facilities for Royal Mail Group Ltd of £900m expire in 2014 (2008 £1,200m expiring between 2014 and 2016). The unused facility for Post Office Limited of £918m (2008 £870m) expires in 2011. Additionally, the Group has £200m (2008 £300m) of uncommitted lines of credit which are reviewed annually.

Capital management

Royal Mail Holdings plc is a public limited company which is not traded and regards its capital as share capital, share premium, retained earnings and debt provided by the UK Government. The sole shareholder and the provider of the majority of debt to the Group is the UK Government. The management of capital is closely linked to the Group's relationship with its Shareholder. The Group maintains its liquidity requirements by the management of its internal funds and by the drawing down of equity and debt from its Shareholder as well as drawing on limited external debt facilities. The Group's debt to equity ratio is determined by its Shareholder.

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 17 year deficit recovery period from March 2006. At 29 March 2009, Royal Mail Holdings plc had £940m (2008 £909m) of investments in the pension escrow and Royal Mail Group Ltd had £166m (2008 £161m). Charges over these assets have been registered. Further details on the Royal Mail Pension Plan, including the latest full actuarial valuation, are contained in note 26.

25. Financial instruments

Carrying amounts and fair values

Set out below is a summary by category of the carrying amounts of all the Group's financial instruments. Trade debtors, creditors, prepayments, accruals and client creditors have been omitted from this analysis on the basis that carrying value is a reasonable approximation for fair value. Pension scheme assets and liabilities are also excluded. Fair values have been calculated using current market prices (forward exchange rates/commodity prices) and discounted using appropriate discount rates. There are no material differences between the fair value (transaction price) of all financial instruments at initial recognition and the fair value calculated using these valuation techniques. The fair value of the BERR loans to Royal Mail Group Limited is £875m at 29 March 2009 (2008 £507m). The fair value of 'Obligations under finance leases and hire purchase contracts' is £116m (2008 £53m). For all other financial instruments fair value is equal to the carrying amount.

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

Financial assets	Classification	Sterling £m	US$ £m	euro £m	Other £m	2009 Total £m
Cash at bank, in hand or in Post Office Limited network		**680**	**14**	**106**	**27**	**827**
Cash equivalent investments						
- Money market funds	Loans and receivables	**176**	**-**	**-**	**-**	**176**
- Short-term deposits – Government/local government	Loans and receivables	**7**	**-**	**-**	**-**	**7**
- Short-term deposits – bank	Loans and receivables	**50**	**-**	**-**	**-**	**50**
Cash equivalent investment		**233**	**-**	**-**	**-**	**233**
Cash and cash equivalents		**913**	**14**	**106**	**27**	**1,060**
Financial assets – investments (current)						
- Short-term deposits – bank	Loans and receivables	**6**	**-**	**-**	**-**	**6**
- Short-term deposits – Government/local government	Loans and receivables	**1**	**-**	**-**	**-**	**1**
Financial assets – investments (current)		**7**	**-**	**-**	**-**	**7**
Financial assets – pension escrow investments (non-current)						
- Treasury bills	Available for sale	**255**	**-**	**-**	**-**	**255**
- Gilt edged securities (conventional)	Available for sale	**144**	**-**	**-**	**-**	**144**
- Gilt edged securities (index linked)	Available for sale	**707**	**-**	**-**	**-**	**707**
Financial assets – pension escrow investments (non-current)		**1,106**	**-**	**-**	**-**	**1,106**
Derivative assets – current		**-**	**32**	**11**	**-**	**43**
- non-current		**-**	**13**	**9**	**-**	**22**
Total		**2,026**	**59**	**126**	**27**	**2,238**

Financial liabilities						
BERR loans to Post Office Limited	Amortised cost	**(232)**	**-**	**-**	**-**	**(232)**
Miscellaneous loans in subsidiaries (current)	Amortised cost	**(2)**	**-**	**-**	**-**	**(2)**
Financial liabilities – loans and borrowings (current)		**(234)**	**-**	**-**	**-**	**(234)**
Obligations under finance leases and hire purchase contracts (current)	Amortised cost	**(28)**	**-**	**(1)**	**-**	**(29)**
BERR loans to Royal Mail Group Ltd	Amortised cost	**(800)**	**-**	**-**	**-**	**(800)**
Miscellaneous loans in subsidiaries (non-current)	Amortised cost	**-**	**-**	**(3)**	**-**	**(3)**
Financial liabilities – loans and borrowings (non-current)		**(800)**	**-**	**(3)**	**-**	**(803)**
Obligations under finance leases and hire purchase contracts (non-current)	Amortised cost	**(81)**	**-**	**-**	**-**	**(81)**
Derivative liabilities – current		**(1)**	**(54)**	**(1)**	**-**	**(56)**
– non-current		**-**	**(5)**	**-**	**-**	**(5)**
Total		**(1,144)**	**(59)**	**(5)**	**-**	**(1,208)**
Net total financial assets		**882**	**-**	**121**	**27**	**1,030**

25. Financial instruments (continued)

Financial assets	Classification	Sterling £m	US$ £m	euro £m	Other £m	2008 Total £m
Cash at bank, in hand or in Post Office Limited network		847	15	189	25	1,076
Cash equivalent investments						
- Money market funds	Loans and receivables	88	-	-	-	88
- Short-term deposits – Government/local government	Loans and receivables	122	-	-	-	122
- Short-term deposits – bank	Loans and receivables	141	-	-	-	141
Cash equivalent investment		351	-	-	-	351
Cash and cash equivalents		1,198	15	189	25	1,427
Financial assets – investments (current)						
- Short-term deposits – bank	Loans and receivables	20	-	-	-	20
- Short-term deposits – Government/local government	Loans and receivables	1	-	-	-	1
Financial assets – investments (current)		21	-	-	-	21
Financial assets – pension escrow investments (non-current)						
- Short-term deposits – bank	Loans and receivables	187	-	-	-	187
- Treasury bills	Available for sale	640	-	-	-	640
- Gilt edged securities (conventional)	Available for sale	32	-	-	-	32
- Gilt edged securities (index linked)	Available for sale	211	-	-	-	211
Financial assets – pension escrow investments (non-current)		1,070	-	-	-	1,070
Derivative assets – current		-	14	10	-	24
- non-current		-	3	5	-	8
Total		2,289	32	204	25	2,550

Financial liabilities						
BERR loans to Post Office Limited	Amortised cost	(280)	-	-	-	(280)
Miscellaneous loans in subsidiaries (current)	Amortised cost	(2)	-	(7)	-	(9)
Financial liabilities – loans and borrowings (current)		(282)	-	(7)	-	(289)
Obligations under finance leases and hire purchase contracts (current)	Amortised cost	(9)	-	(1)	-	(10)
BERR loans to Royal Mail Group Ltd	Amortised cost	(500)	-	-	-	(500)
Miscellaneous loans in subsidiaries (non-current)	Amortised cost	-	-	(2)	-	(2)
Financial liabilities – loans and borrowings (non-current)		(500)	-	(2)	-	(502)
Obligations under finance leases and hire purchase contracts (non-current)	Amortised cost	(43)	-	-	-	(43)
Derivative liabilities (current)		-	-	(3)	-	(3)
Total		(834)	-	(13)	-	(847)
Net total financial assets		1,455	32	191	25	1,703

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

Derivative assets £43m current, £22m non-current (2008 current £24m, non-current £8m) and liabilities £56m current, £5m non-current (2008 £3m current, £nil non-current) are valued at fair value. Effective changes in the fair value of derivatives, which are part of a designated cash flow hedge under IAS 39, are deferred into equity. All other changes in derivative fair value are taken straight to the income statement.

None of the financial assets listed above are either past due or considered to be impaired.

The movements in pension escrow investments of £36m (2008 £70m) consists of £19m (2008 £57m) interest on the investments and £17m (2008 £13m) movement in fair value deferred into the Financial Assets Reserve.

25. Financial instruments (continued)

Interest rate risk

Interest on financial instruments classified as floating is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The table below sets out the carrying amount by maturity of the Group's financial instruments that are exposed to interest rate risk. The pension escrow investments mature between 8 days and 47 years but have been disclosed as maturing in greater than 5 years as the investments have been provided as security to the Royal Mail Pension Plan in support of the 17 year deficit recovery period from March 2006.

Financial year ended 29 March 2009

Fixed rate	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Cash at bank	7.6	7	-	-	-	7
Cash equivalent investments:						
- Short-term deposits – Government/local government	0.5	7	-	-	-	7
Financial assets – investments (current)						
- Short-term deposits – bank	6.0	6	-	-	-	6
- Short-term deposits – Government/local government	7.7	1	-	-	-	1
Financial assets – pension escrow investments (non-current)						
- Gilt edged securities (conventional)	4.8	-	-	-	144	144
BERR loans to Post Office Limited	0.9	(232)	-	-	-	(232)
BERR loans to Royal Mail Group Ltd	8.1	-	-	-	(800)	(800)
Obligations under finance lease and hire purchase contracts	5.7	(29)	(30)	(47)	(4)	(110)
Miscellaneous loans in subsidiaries	3.9	(2)	(1)	-	-	(3)
Total		(242)	(31)	(47)	(660)	(980)
Floating rate						
Cash at bank	0.9	89	-	-	-	89
Cash equivalent investments:						
- Money market funds	1.0	176	-	-	-	176
- Short-term deposits – bank	0.8	50	-	-	-	50
Financial assets – pension escrow investments (non-current)						
- Treasury bills	0.4	-	-	-	255	255
- Gilt edged securities (index linked)	5.0	-	-	-	707	707
Miscellaneous loans in subsidiaries	2.8	-	(1)	(1)	-	(2)
Total		315	(1)	(1)	962	1,275
Non-interest bearing						
Cash in hand or in Post Office Limited network		731	-	-	-	731
Derivative assets		43	21	1	-	65
Derivative liabilities		(56)	(5)	-	-	(61)
Total		718	16	1	-	735
Net total financial assets/(liabilities)		791	(16)	(47)	302	1,030

25. Financial instruments (continued)

Financial year ended 30 March 2008

Fixed rate	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Cash at bank	7.3	4	-	-	-	4
Cash equivalent investments:						
- Short-term deposits – Government/local government	5.2	122	-	-	-	122
- Short-term deposits – bank	5.0	41	-	-	-	41
Financial assets – investments (current)						
- Short-term deposits – bank	5.8	20	-	-	-	20
- Short-term deposits – Government/local government	7.7	1	-	-	-	1
Financial assets – pension escrow investments (non-current)						
- Gilt edged securities (conventional)	4.8	-	-	-	32	32
BERR loans to Post Office Limited	5.6	(280)	-	-	-	(280)
BERR loans to Royal Mail Group Ltd	5.8	-	-	-	(500)	(500)
Obligations under finance lease and hire purchase contracts	5.8	(10)	(11)	(25)	(7)	(53)
Miscellaneous loans in subsidiaries	5.8	(2)	-	(1)	-	(3)
Total		(104)	(11)	(26)	(475)	(616)
Floating rate						
Cash at bank	3.7	134	-	-	-	134
Cash equivalent investments:						
- Money market funds	5.4	88	-	-	-	88
- Short-term deposits – bank	5.4	100	-	-	-	100
Financial assets – pension escrow investments (non-current)						
- Short-term deposits – bank	5.2	-	-	-	187	187
- Treasury bills	5.1	-	-	-	640	640
- Gilt edged securities (index linked)	4.4	-	-	-	211	211
Miscellaneous loans in subsidiaries	3.9	(7)	-	(1)	-	(8)
Total		315	-	(1)	1,038	1,352
Non-interest bearing						
Cash in hand or in Post Office Limited network		938	-	-	-	938
Derivative assets		24	4	4	-	32
Derivative liabilities		(3)	-	-	-	(3)
Total		959	4	4	-	967
Net total financial assets/(liabilities)		1,170	(7)	(23)	563	1,703

25. Financial instruments (continued)

Contractual maturity analysis for gross financial liabilities

The table below sets out the gross (undiscounted) contractual cash flows of the Group's financial liabilities. For overdrafts, loans and finance leases/hire purchase contracts, these cash flows represent the undiscounted total amounts payable including interest. For derivatives which are settled gross, these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow. For derivatives which are settled net, these cash flows represent the undiscounted forecast outflow.

					2009
	Gross loans and borrowings commitments £m	**Gross finance lease/hire purchase instalments £m**	**Gross payments on derivatives settled gross £m**	**Gross payments on derivatives settled net £m**	**Total £m**
Amounts falling due in:					
One year or less or on demand (current)	**264**	**33**	**225**	**55**	**577**
More than one year (non-current)	**1,555**	**91**	**46**	**5**	**1,697**
More than one year but not more than two years	**31**	**34**	**43**	**5**	**113**
More than two years but not more than five years	**89**	**50**	**3**	**-**	**142**
More than five years	**1,435**	**7**	**-**	**-**	**1,442**
Total	**1,819**	**124**	**271**	**60**	**2,274**

				2008
	Gross loans and borrowings commitments £m	Gross finance lease/hire purchase instalments £m	Gross payments on derivatives settled gross £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	317	12	191	520
More than one year (non-current)	919	51	99	1,069
More than one year but not more than two years	30	13	53	96
More than two years but not more than five years	89	29	46	164
More than five years	800	9	-	809
Total	1,236	63	290	1,589

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

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

ii) The air conveyance hedge programme uses US$ and euro forward currency purchase contracts to hedge the exposure arising from US$/GBP and GBP/euro exchange rates for forecast air conveyance purchases.

iii) Four capital programmes using euro forward currency purchase contracts to hedge the exposure arising from GBP/euro exchange rates for contracted capital expenditure on automation projects.

iv) The electricity hedge programme uses forward commodity price swaps to hedge the exposure arising from electricity prices.

v) The gas hedge programme uses forward commodity price swaps to hedge the exposure arising from gas prices.

25. Financial instruments (continued)

The following table shows the movements on the hedging reserve for each of these hedge programmes:

2009	**Gains/(losses) deferred into equity during year £m**	**Gains released from equity to income during year £m**	**Gains released from equity to the carrying value of non-financial assets during year £m**
Diesel fuel	**(19)**	**(7)**	**-**
Air Conveyance	**10**	**(2)**	**-**
Capital programmes	**19**	**-**	**(14)**
Electricity	**(2)**	**-**	**-**
Total	**8**	**(9)**	**(14)**
2008			
Diesel fuel	19	(3)	-
Air conveyance	1	-	-
Capital programmes	16	-	(1)
Total	36	(3)	(1)

The £9m gains released from equity to income during year (2008 gains of £3m) are included within the distribution and conveyance operating costs in the income statement.

There is no material ineffectiveness recognised in the income statement relating to cash flow hedges.

For all the above cash flow hedge programmes, the underlying cash flows being hedged are expected to occur at the same dates as the hedge instruments (derivatives) mature. For the non-capital programmes (Diesel, Electricity and Air Conveyance), the profit or loss will be taken on maturity. For capital programmes, the impact on the income statement will be through the depreciation charge over the life of the asset being hedged.

The following table shows the derivatives outstanding at the year end:

2009	**Commodity/ currency**	**Nominal amount**	**Maturity date**	**Average contracted commodity price/ exchange rate**	**Derivative asset non-current fair value £m**	**Derivative asset - current fair value £m**	**Derivative Liability non-current fair value £m**	**Derivative Liability current fair value £m**
Diesel fuel	**Diesel fuel**	**159k tonnes**	**Apr 09-Jan 11**	**US$983/tonne**	**-**	**-**	**(3)**	**(45)**
Diesel fuel	**US $**	**$172m**	**Apr 09-Apr 11**	**US$1.93/£**	**8**	**22**	**-**	**-**
Air conveyance	**US $**	**$45m**	**Apr 09-Apr 11**	**US$1.97/£**	**3**	**5**	**-**	**-**
Capital programmes	**euro**	**€113m**	**Apr 09-Apr 11**	**£0.76/€**	**9**	**10**	**-**	**-**
Electricity	**Electricity**	**271k MWH**	**Oct 09-Feb 11**	**£53/MWH**	**-**	**-**	**(1)**	**(1)**
Cash flow hedges					**20**	**37**	**(4)**	**(46)**
Other derivatives					**2**	**6**	**(1)**	**(10)**
Total					**22**	**43**	**(5)**	**(56)**
2008								
Diesel fuel	Diesel fuel	79k tonnes	Apr 08-Jan 09	US$684/tonne	-	12	-	-
Diesel fuel	US $	$182m	Apr 08-Apr 11	US$1.96/£	2	-	-	-
Air conveyance	US $	$69m	Apr 08-Apr 11	US$1.97/£	1	-	-	-
Air conveyance	euro	€0.3m	Apr 08	£0.69/€	-	-	-	-
Capital programmes	euro	€214m	Apr 08-Apr 11	£0.73/€	5	10	-	-
Cash flow hedges					8	22	-	-
Other derivatives					-	2	(3)	-
Total					8	24	(3)	-

Other derivatives represent hedges by the Group of other foreign exchange and commodity price exposures, which are not designated as hedges under IAS 39 (including the hedge of jet fuel costs arising from the purchasing of air freight services, the hedge of the Bureau de Change currency holdings within Post Office Limited and the hedge of inter-company loans with overseas subsidiaries).

25. Financial instruments (continued)

The Group had outstanding forward transactions to hedge foreign currency and fuel purchases at contracted rates as follows:

	In currency (millions)		Sterling equivalents (millions)	
	2009	2008	**2009**	2008
Maturing within one year				
euro	**218**	210	**191**	153
US Dollars	**204**	142	**111**	72
Australian Dollars	**4**	9	**2**	4
Diesel and Jet fuel (US Dollars)	**150**	65	**78**	33
Electricity and Gas (Sterling)	**-**	-	**7**	-
Maturing after one year				
euro	**50**	101	**37**	76
US Dollars	**73**	182	**37**	92
Diesel and Jet fuel (US Dollars)	**38**	-	**20**	-
Electricity and Gas (Sterling)	**-**	-	**10**	-

The Group's fuel hedges, which fix the GBP cost of purchasing fuel, consist of two elements which may be hedged jointly or separately:

- a commodity forward transaction fixing the cost in US Dollars of purchasing fuel; and
- a currency forward transaction fixing the GBP cost of these US Dollars.

The table above contains both of these transactions. The commodity forward transactions are shown under the heading Fuel (US Dollars) - $150m (2008 $65m) maturing within one year and $38m (2008 $nil) maturing after one year. The related currency forward transactions are contained within the total of US Dollars – $204m (2008 $142m) maturing within one year and $73m (2008 $182m) maturing after one year.

26. Employee benefits – pensions

The Group operates pension schemes as detailed below.

Scheme	Eligibility	Type
Royal Mail Pension Plan (RMPP)	UK employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	UK senior executives	Defined benefit
Royal Mail Retirement Savings Plan (RMRSP)	UK employees	Defined contribution
Royal Mail Defined Contribution Plan (RMDCP)	UK employees	Defined contribution
Various other small-scale schemes operated by overseas subsidiaries	Overseas subsidiary employees	Defined contribution

Defined Contribution
A charge for the defined contribution schemes of £2m (2008 £2m) was recognised in operating profit before exceptional items within the income statement. The Company contributions to these schemes was £2m (2008 £2m). A new defined contribution plan (RMDCP) was launched in April 2009. New recruits joining from 31 March 2008 will be able to begin paying contributions to the new plan after they have worked for the Company for a year.

Defined Benefit
Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds. The latest full actuarial valuations of both schemes have been carried out as at 31 March 2006 using the projected unit method. For RMPP, this valuation has been concluded at £3.4bn deficit. For RMSEPP, the valuation has been concluded at £43m deficit. A series of changes to RMPP and RMSEPP began to take effect on 1 April 2008.

The changes encompass:

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

26. Employee benefits – pensions (continued)

Payment of £549m (2008 £548m) was made during the year in respect of regular future service contributions, with £543m (2008 £542m) relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 20.0%, effective from April 2006. This rate is not expected to change materially during 2009-10. For RMSEPP, these contributions have remained at 48.2% (2008 48.2%).

Payment of £290m (2008 £284m) was made during the year to fund the deficit in the schemes, with £285m (2008 £276m) relating to RMPP. Deficit recovery payments are planned for RMPP over the 17 years from the date of the latest full actuarial valuation. These payments will be made before each 31 March, and may therefore span across the Group's year end (the last Sunday in March). Over the 16 years from 31 March 2007, planned deficit payments are £260m per annum, increasing in line with RPI (base year is 2006-07). For RMSEPP, deficit recovery payments will be £5m per annum from 1 April 2007 to 31 December 2015.

A current liability of £8m (2008 £7m) has been recognised for payments to the pension schemes relating to redundancy (see note 22). During the year, payments of £32m (2008 £36m) relating to redundancy were made.

On 23 March 2007, the Group established £1bn of investments in escrow as security to the Royal Mail Pension Plan in support of the 17 year deficit recovery period.

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

a) Major assumptions

The size of the pension deficit, which is large in the context of the Group and its finances, is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on the deficit and overall income statement charge. The major assumptions were:

	At 29 March 2009 **% pa**	At 30 March 2008 % pa
Rate of increase in salaries	**4.2**	4.6
Rate of increase in pensions and deferred pensions	**3.2**	3.6
Discount rate	**6.4**	6.5
Inflation assumption	**3.2**	3.6
Expected average rate of return on assets	**6.9**	6.8

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

Mortality

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

Average expected life expectancy from age 60:	**2009**	2008
For a current 60 year old male RMPP member	**26 years**	26 years
For a current 60 year old female RMPP member	**29 years**	29 years
For a current 40 year old male RMPP member	**28 years**	28 years
For a current 40 year old female RMPP member	**31 years**	31 years

26. Employee benefits – pensions (continued)

b) Plans' assets and expected rates of return

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

At 29 March 2009

	Market value		Long-term expected rate of return	
	2009 £m	2008 £m	**2009 % pa**	2008 % pa
Equities	**5,864**	11,090	**8.4**	8.3
Bonds	**12,311**	10,064	**6.3**	5.2
Property	**1,631**	2,565	**6.8**	6.7
Other assets	**265**	204	**4.2**	4.6
Fair value of plans' assets	**20,071**	23,923		
Present value of plans' liabilities	**(26,847)**	(26,846)		
Deficit in schemes	**(6,776)**	(2,923)		

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

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

c) Recognised charges

An analysis of the separate components of the amounts recognised in the income statement and statement of recognised income and expense (SORIE) is as follows:

	2009 £m	2008 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptional items:		
Current service cost	**494**	699
Past service cost	**-**	-
Total charge to operating profit before exceptional items	**494**	699
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments (within provision for restructuring charge – note 7)	**31**	42
Total charge to operating profit	**525**	741
Analysis of amounts charged/(credited) to financing:		
Interest on plans' liabilities	**1,734**	1,509
Expected return on plans' assets	**(1,620)**	(1,640)
Total net charge/(credit) to financing	**114**	(131)
Net charge to income statement before deduction for tax	**639**	610
Analysis of amounts recognised in the statement of recognised income and expense (SORIE)		
Actual return on plans' assets	**(3,861)**	313
Less: expected return on plans' assets	**(1,620)**	(1,640)
Actuarial losses on assets (all experience adjustments)	**(5,481)**	(1,327)
Experience adjustments on liabilities	**(10)**	(169)
Effects of changes in actuarial assumption on liabilities	**1,407**	3,294
Actuarial gains on liabilities	**1,397**	3,125
Total actuarial (losses)/gains recognised in SORIE before deduction for tax	**(4,084)**	1,798

26. Employee benefits – pensions (continued)

d) Movement in plans' assets and liabilities

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

	2009 **£m**	2008 £m
Plans' liabilities at beginning of period	**(26,846)**	(28,563)
Current service cost	**(494)**	(699)
Past service cost	**-**	-
Curtailment costs*	**(33)**	(29)
Finance cost	**(1,734)**	(1,509)
Employee contributions	**(166)**	(164)
Actuarial gain (recognised in SORIE)	**1,397**	3,125
Benefits paid	**1,029**	993
Plans' liabilities at end of period	**(26,847)**	(26,846)

*The curtailment costs in the income statement are recognised on a consistent basis with the associated compensation costs. Estimates of both are included, for example, in any redundancy provisions raised. The curtailment costs above represent the costs associated with those people paid compensation in respect of redundancy during the accounting period. Such payments may occur in an accounting period subsequent to the recognition of costs in the income statement.

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

	2009 **£m**	2008 £m
Plans' assets at beginning of period	**23,923**	23,578
Company contributions paid	**821**	918
Movement in company contributions accrued	**1**	(7)
Company contributions prepaid in 2008 for 2009	**50**	(50)
Employee contributions	**166**	164
Finance income	**1,620**	1,640
Actuarial loss (recognised in SORIE)	**(5,481)**	(1,327)
Benefits paid	**(1,029)**	(993)
Plans' assets at end of period	**20,071**	23,923

e) History of experience gains and losses

The cumulative amount of actuarial gains and losses recognised since transition to IFRSs at 29 March 2004 in the statement of recognised income and expense is £3,194m loss (2008 £890m gain). The Directors are unable to determine how much of the pension scheme deficit recognised in transition to IFRSs is attributable to actuarial gains and losses since inception of the pension schemes. Consequently, the Directors are unable to determine the cumulative amount of actuarial gains and losses that would have been recognised in the statement of recognised income and expense between inception of the pension schemes and transition to IFRSs.

	2009 **£m**	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of assets	**20,071**	23,923	23,578	21,847	17,357
Present value of liabilities	**(26,847)**	(26,846)	(28,563)	(27,435)	(21,315)
Deficit in schemes	**(6,776)**	(2,923)	(4,985)	(5,588)	(3,958)

	2009 **£m**	2008 £m	2007 £m	2006 £m	2005 £m
Experience adjustment on assets	**(5,481)**	(1,327)	172	3,421	1,043
Experience adjustment on liabilities	**(10)**	(169)	(122)	(161)	(302)

27. Share capital

Authorised	**2009** **£**	2008 £
Ordinary shares of £1 each	**100,000**	100,000
Special Rights Redeemable Preference Share (Special Share) of £1 each	**1**	1
Total	**100,001**	100,001

Issued and called up	**2009** **£**	2008 £
Ordinary shares of £1 each	**50,005**	50,005
Special Rights Redeemable Preference Share (Special Share) of £1 each	**1**	1
Total	**50,006**	50,006

The Special Share can be redeemed at any time by its holder (the Secretary of State for Business, Enterprise and Regulatory Reform), subject to such redemption being compliant with the Companies Act 1985. The Company cannot redeem the Special Share without the prior consent of its holder. No premium is payable on redemption.

On distribution in a winding up of the Company, the holder of the Special Share is entitled to repayment of the capital paid up on the Special Share in priority to any repayment of capital to any other member. The Special Share does not carry any rights to vote.

Under section 63(7) of the Postal Services Act 2000, for the purposes of the Companies Act 1985, certain shares issued shall be treated as if their nominal value had been fully paid up.

Under sections 72 and 74 of the Postal Services Act 2000, the Secretary of State for Business, Enterprise and Regulatory Reform may issue directions to the Company which, depending on the direction issued could result in the recognition of a distribution.

28. Total equity

	Share premium £m	Retained earnings £m	Financial Assets Reserve £m	Rural Network Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Other Reserves £m	Equity holder of the parent £m	Minority interest £m	Total equity £m
At 31 March 2008	**430**	**(863)**	**10**	**36**	**69**	**27**	**47**	**(244)**	**3**	**(241)**
Loss for the period	-	(232)	-	-	-	-	-	**(232)**	**3**	**(229)**
Translation differences on foreign currency net investments	-	-	-	-	88	-	-	**88**	**-**	**88**
Actuarial loss on defined benefit schemes	-	(4,084)	-	-	-	-	-	**(4,084)**	**-**	**(4,084)**
Gains on cash flow hedges deferred into equity	-	-	-	-	-	8	-	**8**	**-**	**8**
Gains on cash flow hedges released from equity to income	-	-	-	-	-	(9)	-	**(9)**	**-**	**(9)**
Gains on cash flow hedges released from equity to the initial carrying value of fixed assets	-	-	-	-	-	(14)	-	**(14)**	**-**	**(14)**
Gains on financial assets deferred into equity	-	-	17	-	-	-	-	**17**	**-**	**17**
Taxation on items taken directly to equity	-	(188)	(4)	-	-	-	-	**(192)**	**-**	**(192)**
Recognised (expense)/ income for the period	**-**	**(4,504)**	**13**	**-**	**88**	**(15)**	**-**	**(4,418)**	**3**	**(4,415)**
Transfer from Rural Network Reserve	-	36	-	(36)	-	-	-	**-**	**-**	**-**
At 29 March 2009	**430**	**(5,331)**	**23**	**-**	**157**	**12**	**47**	**(4,662)**	**6**	**(4,656)**

	Share premium £m	Retained earnings £m	Financial Assets Reserve £m	Rural Network Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Other Reserves £m	Equity holder of the parent £m	Minority interest £m	Total equity £m
At 26 March 2007	430	(2,775)	-	30	6	(5)	47	(2,267)	3	(2,264)
Profit for the period	-	135	-	-	-	-	-	135	-	135
Translation differences on foreign currency net investments	-	-	-	-	63	-	-	63	-	63
Actuarial gains on defined benefit schemes	-	1,798	-	-	-	-	-	1,798	-	1,798
Gains on cash flow hedges deferred into equity	-	-	-	-	-	36	-	36	-	36
Gains on cash flow hedges released from equity to income	-	-	-	-	-	(3)	-	(3)	-	(3)
Gains on cash flow hedges released from equity to the initial carrying value of fixed assets	-	-	-	-	-	(1)	-	(1)	-	(1)
Gains on financial assets deferred into equity	-	-	13	-	-	-	-	13	-	13
Taxation on items taken directly to equity	-	(15)	(3)	-	-	-	-	(18)	-	(18)
Recognised income for the period	-	1,918	10	-	63	32	-	2,023	-	2,023
Allocation to Rural Network Reserve	-	(150)	-	150	-	-	-	-	-	-
Transfer from Rural Network Reserve	-	150	-	(150)	-	-	-	-	-	-
Transfer of interest income to Rural Network Reserve	-	(6)	-	6	-	-	-	-	-	-
At 30 March 2008	430	(863)	10	36	69	27	47	(244)	3	(241)

Rural Network Reserve

The Rural Network Reserve was created by Post Office Limited, following directions issued by the Secretary of State under section 72 of the Postal Services Act 2000 (the Act). The amounts allocated to this Reserve are applied as if they were profits available for distribution. The purposes for which the Rural Network Reserve may be utilised are stated in the directions issued, and principally relate to the maintenance of a rural network of post offices. A total of £780m has been used from this Reserve towards the maintenance of a rural network between March 2003 and the end of the 2008-09 financial year. There will be no further amounts allocated to this Reserve which has now therefore, been fully utilised.

28. Total equity (continued)

Interest

The transfer of interest relates to income recorded in the income statement, which has been earned on the assets that support the Rural Network Reserve.

Financial Assets Reserve

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

Foreign Currency Translation Reserve

The Foreign Currency Translation Reserve is used to record the gains and losses arising from 29 March 2004 on translation of assets and liabilities of subsidiaries denominated in currencies other than the reporting currency.

Hedging Reserve

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

Other Reserves

Other Reserves of £47m (2008 £47m) comprise £2m (2008 £2m) unrealised gain on First Rate Exchange Services Holdings Limited, a joint venture transaction, and £45m (2008 £45m) relating to unrealised gains on Midasgrange Limited, an associate company.

29. Commitments

Operating lease commitments

The Group is committed to the following future minimum lease payments under non-cancellable operating leases as at 29 March 2009:

	Land and Buildings		**Vehicles and equipment**		**IT equipment**		**Total**	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Within one year	**140**	129	**22**	27	**26**	27	**188**	183
Between one and five years	**443**	417	**26**	29	**34**	53	**503**	499
Beyond five years	**583**	640	**3**	3	**-**	-	**586**	643
Total	**1,166**	1,186	**51**	59	**60**	80	**1,277**	1,325

Existing property leases have an average term of 12 years and any new leases entered into generally have a 15-year term with a 10-year break clause. Vehicle leases generally have a term of between 3 and 7 years, depending on the asset class, with the average term being 4 years. The existing leases have an average term remaining of 1 year. There are two IT contracts, one expiring within a year and one with a term of 10 years with 4 years remaining at the balance sheet date.

Finance lease and hire purchase commitments

	2009		2008	
	Minimum payments £m	**Present value of minimum lease payments £m**	Minimum payments £m	Present value of minimum lease payments £m
Within one year	**33**	**29**	12	10
Between one and five years	**84**	**77**	43	36
Beyond five years	**7**	**4**	8	7
Total minimum lease payments	**124**	**110**	63	53
Less amounts representing finance charges	**(14)**	**-**	(10)	-
Present value of minimum lease payments	**110**	**110**	53	53

The Group has finance lease contracts for vehicles, property and equipment. The leases have no terms of renewal, purchase options or escalation clauses and there are no restrictions concerning dividends, borrowings or additional leases. Vehicle leases have a term of between 2 and 5 years, depending on the class of vehicle, with the average term being 3 years. The property lease is for a 15 year term and the equipment lease for an average of 7 years.

Capital commitments

The Group has commitments of £193m at 29 March 2009 (30 March 2008 £222m), which are contracted for but not provided in the accounts.

30. Related party transactions

The ultimate parent (the Company) and principal subsidiaries

Royal Mail Holdings plc is the ultimate parent company of the Group. The consolidated financial statements include the financial statements of Royal Mail Holdings plc and the principal subsidiaries listed in the following table:

Company	Principal activities	Country of incorporation	% equity interest	
			2009	2008
Royal Mail Group Ltd	Mails and parcels services	United Kingdom	100	100
Post Office Limited	Counter and retail services	United Kingdom	100	100
Royal Mail Investments Limited	Holding company	United Kingdom	100	100
General Logistics Systems B.V.	Parcel services	Netherlands	100	100
Royal Mail Estates Limited	Property holdings	United Kingdom	100	100
Romec Limited	Engineering services	United Kingdom	51	51
iRed Partnership Limited	Document management services	United Kingdom	100	100

Royal Mail Holdings plc is the immediate parent company of Royal Mail Group Ltd. The remaining subsidiary companies listed above have Royal Mail Group Ltd as their immediate parent company.

iRed Partnership Limited was formerly known as iRed Redefining Document Management Ltd, until its name change on 31 July 2008.

Joint venture

The Group's 50% interest in First Rate Exchange Services Holdings Limited, a company registered in the United Kingdom is held by Post Office Limited. The company's principal activity is the provision of Bureau de Change.

Associates

The following companies are the principal associates of the Group:

Company	Principal activities	Country of incorporation	% Ownership **2009**	2008
Quadrant Catering Limited	Catering services	United Kingdom	**51**	51
Camelot Group plc	National lottery	United Kingdom	**20**	20
G3 Worldwide Mail N.V. (Spring)	Mail services	Netherlands	**24.5**	24.5
Midasgrange Limited	Financial services	United Kingdom	**50**	50

The majority of the Board and voting power in Quadrant Catering Limited is held by the Group's partner, hence it is not a subsidiary.

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

With the exception of Midasgrange Limited, for whom the Group's investment is held by Post Office Limited, the investment in the associate companies listed above is held by Royal Mail Group Ltd.

30. Related party transactions (continued)

Related party transactions

During the year the Group entered into transactions with related parties. The transactions were in the ordinary course of business and included administration and investment services recharged to the Group's pension plan by Royal Mail Pensions Trustees Limited. The transactions entered into and the balances outstanding at the financial year end were as follows:

	Sales/recharges to related party		Purchases/ recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Royal Mail Pension Plan	**10**	9	**-**	-	**-**	-	**-**	-
Quadrant Catering Limited	**-**	-	**36**	40	**-**	-	**3**	9
Camelot Group plc	**46**	47	**-**	-	**-**	1	**-**	-
G3 Worldwide Mail N.V. (Spring)	**-**	1	**8**	9	**9**	10	**2**	1
Midasgrange Limited (restated)	**41**	44	**-**	-	**15**	14	**-**	-
First Rate Exchange Services Holdings Limited Group	**40**	29	**145**	145	**14**	2	**1**	1

The companies listed above are joint ventures and associates of the Group with the exception of Royal Mail Pension Plan.

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

The above 2008 analysis for Midasgrange Limited has been restated to include amounts previously not reported in respect of administration charges of £30m in 'sales/recharges to', and £4m accrued income in 'amounts owed from', the related party.

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

Separately:

- the Group has certain loan facilities with Government (see note 20);
- the Group has received the Social Network Payment from Government (see note 2); and
- the Group has received a Government grant (see notes 2 and 7).

Key management compensation

	2009 £000	2008 £000
Short-term employee benefits	**3,024**	3,166
Post-employment benefits	**(179)**	851
Termination benefits	**-**	500
Other long-term benefits	**1,136**	1,120
Total compensation earned by key management	**3,981**	5,637

Key management comprises Executive and Non Executive Directors of the Royal Mail Holdings plc Board.

HM Government is the Company's sole Shareholder and, accordingly, the Directors have no interest in the shares of the Company.

31. Events after the balance sheet date

On 6 May 2009 the Group increased its shareholding in the G3 Worldwide Mail N.V. (Spring) associate company from 24.5% to 32.45%. The consideration is not material to the Group and due to the recent date of the transaction, the purchase price allocation has not yet been completed.

Group five-year summary (unaudited)

	Prepared or restated under IFRS				
Income statement	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Revenue	**9,560**	9,388	9,179	9,056	8,956
Operating profit before exceptional items	**321**	162	233	355	302
Operating exceptional items	**(149)**	(441)	(243)	(210)	(277)
Operating profit/(loss)	**172**	(279)	(10)	145	25
Non-operating exceptional items	**11**	58	118	67	67
Profit/(loss) before interest	**183**	(221)	108	212	92
Finance income and costs, including net pensions interest	**(134)**	144	205	100	75
Profit/(loss) before tax	**49**	(77)	313	312	167
Taxation	**(278)**	212	(27)	83	(16)
(Loss)/profit after tax	**(229)**	135	286	395	151
Cash flow statement	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Net (decrease)/increase in cash	**(255)**	224	1	(61)	(159)
Net (decrease)/increase in cash equivalents	**(118)**	(15)	34	(118)	134
Net (decrease)/increase in cash and cash equivalents	**(373)**	209	35	(179)	(25)

	Prepared or restated under IFRS				
Balance sheet	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Goodwill and intangible assets	**284**	240	207	174	152
Property, plant and equipment	**1,886**	1,671	1,619	1,594	1,591
Other non-current assets, including those classified as held for sale	**1,431**	1,824	1,528	539	486
Net current (liabilities)/assets	**(385)**	(300)	(60)	535	298
Non-current liabilities	**(7,872)**	(3,676)	(5,558)	(6,181)	(4,565)
Net liabilities	**(4,656)**	(241)	(2,264)	(3,339)	(2,038)

Parent Company accounts

Statement of Directors' responsibilities in relation to the parent Company financial statements

The Directors are responsible for preparing the Annual 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 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's report to the members of the Company, Royal Mail Holdings plc

We have audited the parent Company financial statements of Royal Mail Holdings plc for the year ended 29 March 2009 which comprise the balance sheet and the related notes 1 to 10. These parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Royal Mail Holdings plc for the year ended 29 March 2009.

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). The Company has also instructed us to audit the section of the Directors' Remuneration Report that has been described as audited.

We report to you our opinion as to whether the parent Company financial statements give a true and fair view, and whether the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you our opinion as to whether the section of the Directors' Remuneration Report that has been described as audited has been properly prepared in accordance with the basis of preparation described therein. We also report to you whether, in our opinion, the information in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company financial statements. The other information comprises only the Chairman's Statement and the Chief Executive's Statement, the Annual Review, the Operating and Financial Review, the Directors' Report, the Corporate Governance statement, the Internal Control statement, the unaudited part of the Directors' Remuneration Report and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 29 March 2009;
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985;
- the part of the Directors' Remuneration Report that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein; and
- the information given in the Directors' Report is consistent with the parent Company financial statements.

Ernst & Young LLP
Registered auditor
London
13 May 2009

Parent Company balance sheet

at 29 March 2009 and 30 March 2008

	Notes	**2009** **£m**	2008 £m
Fixed assets			
Investments in subsidiaries	4	**3,784**	3,784
Investments in pension escrow	5	**940**	909
Total net assets		**4,724**	4,693
Capital and reserves			
Share capital	8	**-**	-
Share premium	9	**430**	430
Reserves	9	**18**	11
Profit and loss account	6/9	**4,276**	4,252
Shareholder's funds		**4,724**	4,693

The accounts on pages 100 to 102 were approved by the Board of Directors on 13 May 2009 and signed on its behalf by:

Adam Crozier **Ian Duncan**

Notes to the parent Company accounts

1. Parent Company accounting policies

The following accounting policies apply:

Financial year
The financial year ends on the last Sunday in March and, accordingly, these accounts are made up to the 52 weeks ended 29 March 2009 (53 weeks ended 30 March 2008).

Basis of preparation
The parent Company's financial statements were authorised for issue by the Board on 13 May 2009.

The accounts on pages 100 to 102 have been prepared in accordance with applicable UK Accounting Standards and law, including the requirements of the Companies Act 1985. Unless otherwise stated in the accounting policies below, the accounts have been prepared under the historic cost accounting convention.

In making an assessment on Royal Mail Holdings plc's ability to continue as a going concern, the Directors have considered the assessments made by the subsidiaries Royal Mail Group Ltd and Post Office Limited. These are set out in note 2 to the Group accounts. On this basis the Directors have concluded that it is appropriate that the Royal Mail Holdings plc company accounts have been prepared on a going concern basis.

Royal Mail Holdings plc (the Company) has not presented its own profit and loss account, as permitted by the Companies Act s230 (3). However, the results of the Company for the year are disclosed in notes 6 and 9 to the accounts.

The Company has taken advantage of paragraph 2D of FRS 29 (IFRS 7) Financial Instruments: Disclosures and has not disclosed information required by that standard, as the Group's consolidated financial statements in which the Company is included, provide equivalent disclosures for the Group under IFRS 7.

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

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

Investments in subsidiaries
Investments in subsidiaries within the Company's accounts are stated at cost less any accumulated impairment losses. The opening and closing carrying value relates solely to the Company's investment in Royal Mail Group Ltd, a 100% subsidiary of the Company. Royal Mail Group Ltd is the only direct shareholding held by the Company.

Investments in pension escrow
Investments in pension escrow are financial assets within the scope of FRS 26 'Financial Instruments: Recognition and Measurement'.

The investments are a combination of short-term deposits and long-term investments which mature between 8 days and 47 years but have been included within fixed assets as the investments have been provided as security to the Royal Mail Pension Plan in support of the 17 year deficit recovery period from March 2006.

The investments comprise short-term deposits with a bank, Treasury bills and gilt edged securities.

The bank deposits are non-derivative assets that are neither held for trading nor quoted in an active market and therefore classified as 'loans and receivables' for measurement purposes under FRS 26 (Financial Instruments: Recognition and Measurement). The investments are initially recognised at fair value, being the amount deposited. The investments accrue interest, thereby increasing the carrying value of the investments. This interest is included in the reported profit/(loss) for the year. The investments are derecognised when they mature.

Treasury bills, index-linked gilt edged securities and conventional gilt edged securities are classified as available for sale financial instruments on the basis that they are quoted investments that are not held for trading and may be disposed of prior to maturity. The investments are initially recognised at fair value, being the purchase price. After initial recognition, interest is included in the reported profit/(loss) for the year, using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised in the Financial Assets Reserve until the investment is derecognised.

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

2. Directors' emoluments

The Directors of the Company are not paid fees by the Company for their services as Directors of the Company. The Directors of the Company are paid fees by other companies of the Group. These emoluments are disclosed in the Group accounts.

3. Auditor's remuneration

The auditor of the Company is not paid fees by the Company. The auditor of the Company is paid fees by the other companies of the Group. This remuneration is disclosed in the Group accounts.

4. Investments in subsidiaries

	Cost £m	Impairment £m	2009 £m	2008 £m
At 31 March 2008 and 26 March 2007	4,160	(376)	3,784	3,784
At 29 March 2009 and 30 March 2008	**4,160**	**(376)**	**3,784**	3,784

5. Investments in pension escrow

	2009 Average effective rate %	2009 £m	2008 Average effective rate %	2008 £m
Short-term deposits – bank	**-**	**-**	5.2	159
Treasury bills	**0.4**	**217**	5.1	543
Gilt edged securities (index linked)	**4.2**	**601**	3.7	180
Gilt edged securities (conventional)	**4.8**	**122**	4.8	27
Investments in pension escrow		**940**		909

6. Profit and loss account

The Company is a non-trading company. The profit for the period relates to income from the investments in pension escrow of £17m (2008 £48m) and a tax credit of £7m (2008 £nil).

7. Taxation

A tax charge of £7m (2008 £nil) has been taken to the Financial Assets Reserve, reflecting the tax liability on the fair value changes on available for sale financial assets.

A tax credit of £7m (2008 £nil) has been taken to the profit and loss account, reflecting the sheltering of that tax liability by losses of other Group companies.

8. Share capital

Details of the share capital are disclosed in the Group accounts in note 27.

9. Shareholder's funds

	Share premium £m	Profit and loss account £m	Financial Assets Reserve £m	2009 Total £m	2008 Total £m
At 31 March 2008 and 26 March 2007	430	4,252	11	4,693	4,634
Profit for the year	-	24	-	24	48
Taxation on items taken directly to reserves	-	-	(7)	(7)	-
Gains on financial asset investments	-	-	14	14	11
At 29 March 2009 and 30 March 2008	**430**	**4,276**	**18**	**4,724**	4,693

Financial Assets Reserve

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

10. Charges

Details of charges registered over the assets of the Company are contained in the Group accounts in notes 20 and 25.

Forward Looking Statements

This document contains statements concerning the Group's business, financial condition, results of operations and certain of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items.

The Company cautions that any forward looking statements in this document may and often do vary from actual results and the differences between these statements and actual results can be material. Accordingly, readers are cautioned not to place undue reliance on forward looking statements. The Company undertakes no obligation to release publicly the result of any revisions to these forward looking statements that may be made to reflect events or circumstances after the date of this document, including, without limitation, changes in the Group's strategy, or to reflect the occurrence of unanticipated events.

By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Such forward looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially by those expressed or implied by these forward looking statements. These factors include, among other things: the impact of competitive products and pricing; the occurrence of major operational problems; the loss of major customers; limitations imposed by the Group's indebtedness; undertakings and guarantees relating to pension funds; contingent liabilities; risks of litigation and risks associated with the Group's overseas operations.

Corporate Information

Registered Office and Group Head Office

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Registered No: 4074919

Corporate website

Additional corporate and other information can be accessed on the following website (www.royalmailgroup.com). Information made available on the website is not intended to be, and should not be regarded as being, part of the accounts.

The maintenance and integrity of the Group's websites is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Auditor

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