Royal Mail Group Limited
Annual Report and Financial Statements
2012-13

Royal Mail Group

Basis of presentation

Special purpose financial statements
As previously announced, Post Office Limited was transferred from under the ownership of Royal Mail Group Limited to become a fellow subsidiary undertaking of Royal Mail Holdings plc on 1 April 2012, one week into the 2012-13 reporting year. Accordingly, to enable comparative analysis, special purpose consolidated financial statements for Royal Mail Group Limited excluding Post Office Limited have been prepared for 2012-13, 2011-12 and 2010-11.

Adjusted 52 week basis
The 2012-13 financial year was a 53 week year and to provide meaningful comparisons, revenue and operating costs are also presented on an adjusted 52 week basis.

The adjustment removes the 53rd week's revenue and incremental costs associated with that revenue.

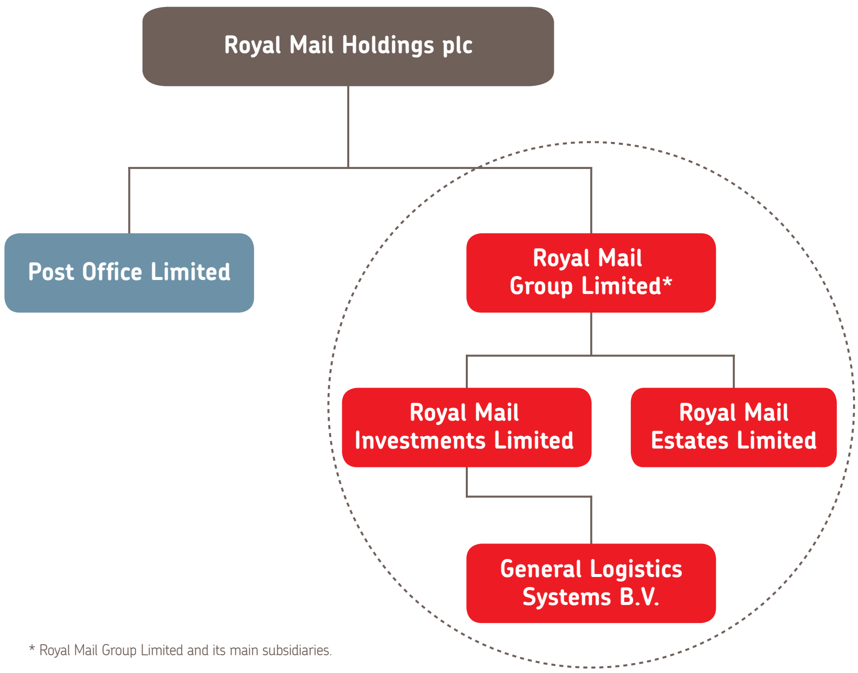
General Logistics Systems (GLS) reports results for a 52 week year ending 31 March. No adjustments have been made for GLS.

Like-for-like revenue and cost growth
In addition to the 52 week adjustment, the impact of translating GLS's Euro results into Sterling using different average exchange rates has also been eliminated to permit revenue and cost growth rates to be calculated on a like-for-like basis.

The average rates for 2012-13 are £1 = €1.2262 compared with £1 = €1.1572 for 2011-12 – a weakening in the Euro of six per cent. Had last year's GLS revenue of €1,808 million (reported as £1,562 million) been translated at the 2012-13 average rate, it would have been reported as £1,474 million, or £88 million lower. The translational impact of foreign currency on UKPIL's revenue is some £2 million, which is not material and therefore has not been included in the like-for-like calculations.

The transactional cash impact of foreign currency is not eliminated. There are natural hedges in the Group to cover this exposure and the impact on operating profit is estimated as £3 million.

Ultimate parent
Royal Mail Holdings plc is the immediate and ultimate parent of Royal Mail Group Limited and consolidated financial statements for the 53 weeks ending 31 March 2013 will be prepared for Royal Mail Holdings plc. A summary of the Group structure at 31 March is shown below.



* Royal Mail Group Limited and its main subsidiaries.

Annual Report and Financial Statements 2012-13

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This icon is used to indicate reporting against a KPI throughout the document.

Who we are

As the sole provider of the Universal Service in the UK, Royal Mail Group delivers a six-days-a-week, one-price-goes-anywhere postal service to more than 29 million addresses across the UK.

Royal Mail is the preferred delivery company in the UK. We are a vital link connecting communities, businesses and customers. In 2012-13, we collected and delivered more than one billion parcels and 14 billion addressed letters across the country.

The transformation of Royal Mail Group is helping to ensure the sustainability of the Universal Service by putting our Company on a sound financial footing. Our strategy is to capitalise on our strength in delivery to grow our presence in the dynamic parcels market, thereby maintaining a financially viable Universal Service.

Delivering increasing numbers of parcels through our combined UK network and capturing the benefits of the new regulatory regime will help us to mitigate the financial impacts of structural decline in the letters market. Addressed volumes have fallen from around 63 million items a day in 2011-12 to 58 million items in 2012-13.

Achieving our strategic priorities, together with becoming a more customer-focused company, underpins our vision to be the most successful delivery company in the UK. Driving sustainable, profitable growth will allow us to obtain ongoing access to external capital, build a sustainable business and continue to provide as many good quality jobs as we can for our people.

We are making good progress. However, more remains to be done to ensure we can complete the transformation of our business from one that predominantly handles letters, to one that handles an increasing number of parcels.

Five year Group revenue (£m)

Reported 53 weeks 2013	**Adjusted 52 weeks 2013**	Reported 52 weeks 2012	Reported 52 weeks 2011	Reported 52 weeks 2010	Reported 52 weeks 2009
9,279	**9,146**	8,764	8,415	8,547	8,695

Five year Group operating profit after transformation costs (£m)

Reported 53 weeks 2013	**Adjusted 52 weeks 2013**	Reported 52 weeks 2012	Reported 52 weeks 2011	Reported 52 weeks 2010	Reported 52 weeks 2009
440	**403**	152	18	147	101

Five year Group free cash inflow/(outflow) (£m)

Reported 53 weeks 2013	**Adjusted 52 weeks 2013**	Reported 52 weeks 2012	Reported 52 weeks 2011	Reported 52 weeks 2010	Reported 52 weeks 2009
334	**334**	154	(246)	(390)	(493)

Who we are (continued)

UKPIL

Royal Mail Group, through its core UK business, UK Parcels, International & Letters (UKPIL), is the UK's sole provider of the Universal Service. It is also a leading UK provider of express parcels services through Parcelforce Worldwide.

UKPIL provides letter and parcel services to and from countries around the world under reciprocal arrangements with other overseas postal administrations. It is also responsible for the design and production of the UK's stamps and philatelic products.

Through MarketReach, UKPIL provides a full-service marketing mail offering and helps businesses derive more value from their direct mail.

UKPIL's transformation programme is one of the largest undertaken in the UK in recent history. The programme is about making our combined UKPIL core network, which handles over 90 per cent of the parcels and all of the letters we deliver, more competitive and effective. We are delivering benefits. 79 per cent of letters are now sequenced to delivery point. We are progressing with delivery revisions, with modernisation underway or completed in 860 Delivery Offices since the programme began, representing more than half of walks.

GLS

General Logistics Systems (GLS) is one of the largest ground-based deferred parcel delivery service providers in Europe. It is a pan-European business, providing parcel and express services as well as logistics solutions.

The GLS network covers 37 countries through wholly owned and partner companies, is globally connected through contractual agreements and acts as the Group's gateway to Europe, opening up new opportunities.

Revenue by business and market (£m) (adjusted 52 weeks 2013)

Business segment/product	Parcels	Marketing mail	Letters & other mail[1]	Total
UK Parcels, International & Letters (UKPIL)	2,933	1,118	3,582	**7,633**
General Logistics Systems (GLS)	1,498	–	–	**1,498**
Other	–	–	15	**15**
Group	**4,431**	**1,118**	**3,597**	**9,146**

Percentage of revenue by market (adjusted 52 weeks 2013)

	Group revenue (%)
Parcels	48
Letters & other mail[1]	40
Marketing mail	12

[1] Includes letters, publishing, data and philatelic.

Group legal structure

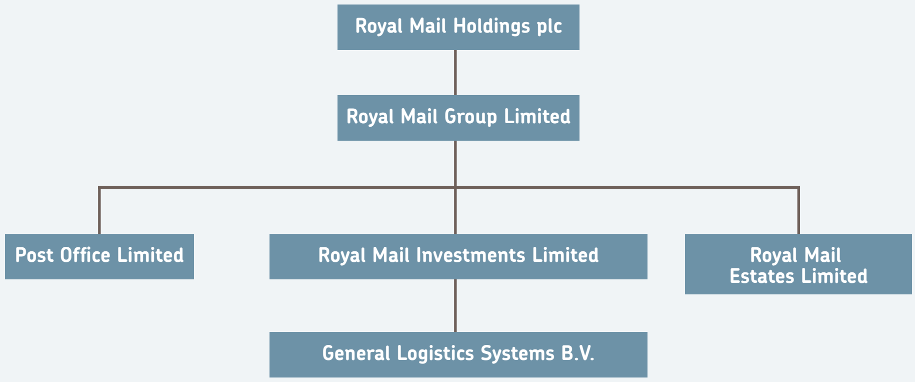
Royal Mail Holdings plc is directly owned by HM Government and is the ultimate parent company of Royal Mail Group Limited. The Group primarily operates within the United Kingdom, including a number of subsidiaries, associates and a joint venture. It also has a presence in most European countries, mainly through General Logistics Systems.

The basic legal structure of the Group as at 25 March 2012 is shown in diagram one.

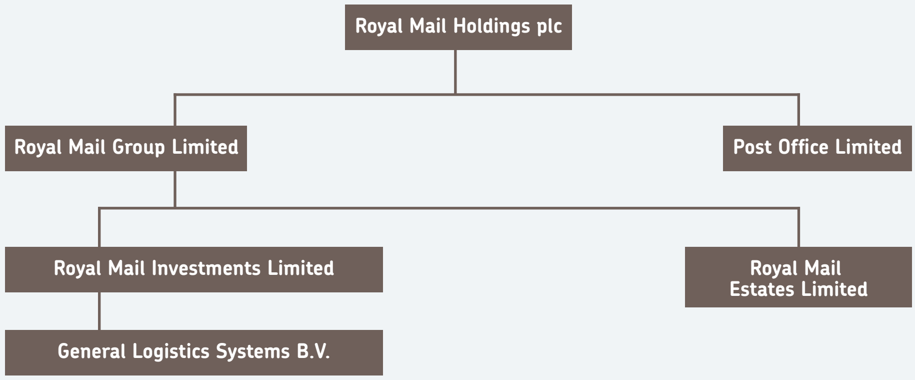
On 1 April 2012, Post Office Limited was transferred from under the ownership of Royal Mail Group Limited to become a direct subsidiary of Royal Mail Holdings plc. The revised Group structure at this date is as shown in diagram two.

Further details on the principal subsidiaries are shown in note 30 to the Group financial statements.

25 March 2012 – pre-separation
Diagram one



1 April 2012 – post-separation
Diagram two



Financial and business performance highlights

Our financial performance

Key financial highlights

Group	Reported 53 weeks 2013	Adjusted 52 weeks 2013	Reported 52 weeks 2012
Revenue (£m)	**9,279**	**9,146**	8,764
Operating profit after transformation costs (£m)	**440**	**403**	152
Operating profit margin after transformation costs (%)	**4.7**	**4.4**	1.7
Free cash inflow (£m)	**334**	**n/a**	154
Net debt (£m)	**(906)**	**n/a**	(1,186)

	Revenue (£m)			Operating profit/(loss) after transformation costs (£m)		
Business unit	**Reported 53 weeks 2013**	**Adjusted 52 weeks 2013**	Reported 52 weeks 2012	**Reported 53 weeks 2013**	**Adjusted 52 weeks 2013**	Reported 52 weeks 2012
UK Parcels, International & Letters (UKPIL)	**7,766**	**7,633**	7,189	**331**	**294**	33
General Logistics Systems (GLS)	**1,498**	**1,498**	1,562	**101**	**101**	128
Other businesses	**15**	**15**	13	**8**	**8**	(9)
Group	**9,279**	**9,146**	8,764	**440**	**403**	152

Like-for-like growth rates (%)	Revenue	Addressed volumes
Parcels	**9**	**4**
– UKPIL	13	5
– GLS	2	1
Letters	**3**	**(8)**

Revenue and volume

- Reported Group revenue was £9,279 million. On a like-for-like basis, it increased by five per cent. Reported Group parcel revenue increased to £4,477 million, with growth of nine per cent on a like-for-like basis. Parcels remain a major contributor to Group revenue, accounting for almost half (48 per cent).
- UKPIL reported revenue was £7,766 million, up six per cent on a like-for-like basis. UKPIL parcel revenue increased by 13 per cent and volumes increased five per cent on a like-for-like basis. Reported parcel volumes were 1,081 million items, compared with 1,016 million items in 2012.
- Within UKPIL, reported letter revenue grew to £4,787 million (including marketing mail). Like-for-like growth of three per cent was achieved. Addressed letter volumes declined eight per cent on a like-for-like basis, which was in line with expectations. Within letter revenue, reported marketing mail revenue was £1,135 million[1]. This was a two per cent increase on a like-for-like basis.
- At GLS, reported revenue was four per cent lower at £1,498 million, due to the weakness of the Euro against the pound. However, on a like-for-like basis, revenue increased by two per cent to €1,837 million. Volumes increased one per cent on a like-for-like basis.

Operating profits and margins after transformation costs

- Reported Group operating profit increased to £440 million. The operating profit margin increased from 1.7 per cent to 4.4 per cent on a like-for-like basis.
- UKPIL generated a reported operating profit of £331 million and its operating profit margin increased from 0.5 per cent to 3.9 per cent on a like-for-like basis. The UK business is now the biggest contributor to Group operating profit.

Cash flow

- EBITDA before transformation costs was £915 million. £665 million was invested back into the business, which was mainly transformation-related.
- Free cash inflow of £334 million was generated, mainly due to our improved trading performance. As a result, net debt decreased by £280 million to £906 million.

Modernisation

- Delivery and processing productivity increased by 1.7 per cent across the core network. In addition, nine Mail Centres were closed in the year. In total, 25 Mail Centres have closed to date, while four have been opened since modernisation began, representing a 30 per cent net reduction.
- 79 per cent of letters are now sequenced to delivery point.

[1] Marketing mail numbers are calculated using statistical analysis from surveys in order to estimate how our mail is being used. Data services and redirections were added into the marketing mail portfolio in 2012-13. Numbers have been restated accordingly.

Chairman's statement

We have a clear strategy in place to meet successfully the challenges we face in our changing marketplace.

Donald Brydon
Chairman

A year of further significant progress

I wrote last year about the Company's considerable improvement. I am pleased to announce a year of further progress. We have reported a stronger financial performance, helping to safeguard the continued delivery of the Universal Service, secure the provision of long-term, good quality employment and create new opportunities for the Group. We have a clear strategy in place to meet successfully the challenges we face in our changing marketplace.

Moya Greene, our Chief Executive Officer, is leading the business with considerable energy and focus. Her commitment to deliver our business strategy and her determination to put the Company in a position where it is strong enough to access external capital is one of the key drivers of our continuing success.

Our changing business

We have delivered a robust financial and operational performance. Behind the numbers lies one of the largest transformation programmes in the UK in recent history. It is greatly to the credit of the senior management team and the union leadership that this transformation has been carried out with a limited impact on our Quality of Service – especially when the standards set for Royal Mail are the highest of any major European country. See page 29 for more information on our Quality of Service performance.

The changing communications market has significant implications for our future. Letters will always be an important part of our business. However, it has been clear for some years that we need to diversify our revenue base to ensure the continued provision of the Universal Service.

The vast majority of the letters we deliver are now sorted and sequenced automatically. Our delivery revisions programme is in place, ensuring colleagues are able to manage the demands of delivering increasing numbers of parcels as part of their daily rounds. Our progress is testament to the commitment of our people to delivering this difficult, wholesale change to the way they work.

Royal Mail is adapting to keep pace with this competitive market. We need ongoing access to external capital. I am confident that our Company is capable of rising to the challenge.

Some key developments

The last two years have seen some of the most important legislative and regulatory changes with respect to postal services in the Group's history.

In April 2012, Ofcom implemented a new regulatory framework. We welcomed this change. It recognises that the Universal Service Provider must be able to earn a reasonable commercial rate of return. We are harnessing the benefits of the new framework to secure our financial future. Today, approximately five per cent of Royal Mail revenue is subject to direct price control.

Ofcom has recently concluded its Review of Postal Users' Needs, in which it ruled out the need for any major changes to the Universal Service. We also welcomed the recent clarification by the Regulator of the circumstances in which it would be minded to intervene in direct delivery competition in order to protect the viability of the one-price-goes-anywhere service.

The pension transfer in April 2012 gave our colleagues who are members of the Royal Mail Pension Plan considerably more security with respect to the pension benefits they had earned up until 31 March 2012. It also immediately removed the obligation to make cash payments of around £300 million every year to address the pension deficit. Of course, the cost of continuing to provide one of the largest defined benefit pension schemes in the UK is material and growing. See page 75 for more information.

At the same time as the pension transfer, Post Office Limited formally separated from Royal Mail Group Limited. Royal Mail and the Post Office have signed a long-term commercial agreement to ensure the two companies will continue to work together in the future. With its extensive network and its important place in rural communities, the Post Office is a natural partner for Royal Mail as we serve communities across the UK.

Chairman's statement (continued)

Safety
We have made progress on tackling the threat dangerous dogs pose to our people. Last year, I announced the launch of an independent, judge-led inquiry to gather evidence on this issue and make recommendations for action. In 2012, Sir Gordon Langley published his report, making clear the necessity for Government action and proposals to protect postmen and women from this unacceptable hazard.

In February 2013, I welcomed the Government's announcement that it is planning to extend legal protection over dog attacks to cover those that take place on private property. Since the year end, this legislation has been put firmly on the agenda through the announcement of the Anti-social Behaviour, Crime and Policing Bill in the Queen's Speech in May 2013. Following the Langley report's recommendations, we are establishing a process where attacks on our people are more likely to be the subject of legal action. In addition, we will take a more robust approach to the suspension of deliveries where dogs pose a danger to our postmen and women.

Our Board
The Board was pleased to welcome two new non-executives to Royal Mail during the year.

John Allan was appointed a Non Executive Director of the Company in January 2013. John brings a wealth of strategic, financial and marketing experience, including an in-depth knowledge of the postal sector. In March 2013, we announced the appointment of Jan Babiak as a Non Executive Director. Jan's extensive IT and regulatory experience will further strengthen our Board.

In September 2012, Dame Jane Newell OBE stepped down as Chair of Royal Mail Pension Trustees Limited after eight years in the role. All involved in the Pension Fund have cause to be grateful to her. We welcomed her successor, Joanna Matthews, earlier in the year and are delighted to see someone with such a wealth of experience and knowledge take on this important role.

Our role in the community
The business has continued to develop and maintain its role in national culture and heritage. Last year I confirmed that Royal Mail had granted a lease to give the British Postal Museum and Archive (BPMA) a new home in Calthorpe House. The new exhibition centre on this site continues to progress.

I congratulate the BPMA team on securing National Lottery funding to support the creation of their brand new 'mail rail' visitor attraction, which will help bring Royal Mail's historic role in the life of the capital to a wider national and international audience.

Our place in serving the community goes beyond delivering the Universal Service. Across the UK, our people play a crucial role, both in support of their communities and charitable organisations. This year, our colleagues chose to appoint Prostate Cancer UK as the Group's charity partner. Through our colleagues' fundraising activities and matched funding from the Company, we have already raised approximately £800,000 for this very important cause. We hope to raise at least £2 million during our two-year partnership.

Royal Mail played an important role in helping the UK to support the London 2012 Olympic and Paralympic Games. The Games saw Royal Mail at its best, enhancing our reputation and position in UK culture. Our operational teams, especially in London, faced severe challenges in delivering to our customers but, with careful planning and dedication, continued to deliver to our high service standards. Our gold post boxes provided a means for local communities to mark the success of their athletes. So too did the wonderful Olympic and Paralympic stamps, which proved very popular with the public and the philatelic community.

Thank you
We have delivered a great deal. The year ahead is an important one for Royal Mail and I believe we are now in a good position to build on our substantial achievements.

I join our Chief Executive Officer in expressing my gratitude to the Secretary of State for Business, Innovation & Skills, Vince Cable, Minister of State for Business and Enterprise, Michael Fallon and all their colleagues in Government for their continued support. Most of all, I would like to pay tribute to all my colleagues for their loyalty, commitment and conscientiousness.

Donald Brydon
Chairman
Royal Mail Group Limited
31 July 2013

Chief Executive Officer's review

Our vision is to be the most successful delivery company in the UK.

Moya Greene
Chief Executive Officer

We are reporting a strong financial performance. Our strategy is delivering. The transformation of Royal Mail is well underway.

Our key metrics are moving in the right direction. Reported Group operating profit after transformation costs grew from £152 million to £440 million due to cost control and improved revenue generated by parcel volume and letter revenue growth. Our operating profit margin after transformation costs increased to 4.4 per cent on a like-for-like basis. Free cash inflow increased from £154 million to £334 million, mainly generated by trading. Parcels continue to be a major contributor to Group revenue at 48 per cent.

Just over three years ago, our core UK business had significant cash outflows. Now, despite the challenging UK economic conditions, UKPIL contributes the majority of Group operating profit; its reported operating profit margin after transformation costs has increased to 3.9 per cent on a like-for-like basis. As the transformation of UKPIL gathers pace, we are harnessing the benefits of the new regulatory framework, introduced in the UK in April 2012. Today, approximately five per cent of Royal Mail revenue is subject to direct price control. In short, we are delivering a stronger commercial performance, and our prices are now closer to the European median.

GLS, our ground-based European parcels carrier, delivered a resilient performance. Difficult trading conditions in Germany and France were mitigated to some extent by improved trading performance in other countries.

Delivering our strategy
Our vision is to be the most successful delivery company in the UK. Royal Mail is already a market leader by revenue in both the UK parcels and letters markets. GLS is an established, ground-based parcels player in all its markets. This means we are well positioned to deliver our strategic priorities:

1. **being a successful parcels business;**
2. **managing the decline in letters; and**
3. **being customer-focused.**

We are creating a commercial, customer-focused company, offsetting addressed letter declines with revenue growth from parcels, which is expected to drive profitable growth. With the continued support and engagement of our people, we can deliver these objectives to help to ensure that we are financially successful and able to access the capital needed to deliver the ongoing transformation of our business.

Being a successful parcels business
We operate in a dynamic and growing parcels market. During the year, we handled a reported total of 1,461 million parcels (2012 1,391 million) through our three parcel networks in the UK and continental Europe. For more information on our parcels strategy, see page 21.

We remain well positioned to benefit from significant growth in online retailing in the UK, where Royal Mail is the biggest overall parcel delivery player by revenue. A recent survey[1] found that 76 per cent of people in the UK are more likely to use a particular online retailer again if they deliver through Royal Mail.

Over 90 per cent of the UKPIL parcels that we handle, including Universal Service Obligation (USO) parcels, are delivered by our core UK network, through which we also handle letters. In the last financial year, this combined network handled reported volumes of 1,010 million parcels (2012 950 million), with quality being a key consideration. This focus on quality is important in a market where businesses and consumers rightly demand high service standards.

Parcelforce Worldwide, our UK express parcels delivery business, handled reported volumes of 71 million items during the year (2012 66 million), about seven per cent of our UKPIL parcel volumes. It benefits from a very high quality of service performance and is poised to deliver a significant increase in the volumes it handles in the years to come. In October 2012, we announced a £75 million, four-year investment programme for Parcelforce Worldwide, as we expand our position in the UK express parcels market.

GLS carried 380 million parcels in 2012-13 (2012 375 million). Its parcel volumes grew by one per cent during the year, with growth in both domestic and international volumes.

[1] Hall & Partners, Delivery Matters 2013.

Chief Executive Officer's review (continued)

Managing the decline in letters
UKPIL's letters business is key to our financial success, generating £4,787 million (including marketing mail) in reported revenue during the year. However, as I have said in my previous reports, addressed letter volumes have been in structural decline for a number of years. In 2011-12, we handled 63 million addressed items every day. Today, this has fallen to 58 million. For more detail on our letters strategy, see page 21.

Our letter revenue, including marketing mail, increased by three per cent on a like-for-like basis. Addressed letter volumes decreased by eight per cent on a like-for-like basis, in line with our expectations. Following price increases, we are making a profit on Access Mail – the mail other postal operators place in our downstream network for us to deliver on their behalf. This is a significant step forward as it accounts for approximately half of our addressed letter volumes. Access Mail also makes a considerable contribution to the cost of funding the USO network. Marketing mail remains a significant contributor to letter revenue[2]. MarketReach, an initiative we launched in July 2012 to help companies and their agencies derive more value from mail, is focused on helping to mitigate the impact of the letters decline. The advertising market has shown little growth during the year. Despite this, marketing mail revenue increased by two per cent on a like-for-like basis.

As I have also reported in previous years, our transformation programme, one of the largest of its kind in UK industry, is improving our productivity. 79 per cent of letters are now sequenced to delivery point. Our delivery revisions programme is well underway, as we roll out new methods, processes and equipment to help our colleagues manage the fundamental shift in our traffic towards parcels.

In March 2013, Ofcom published guidance setting out its regulatory approach to protect the Universal Service from growing direct delivery (end-to-end) competition. We welcome Ofcom's acknowledgement in its guidance of its duty, powers and willingness to act to protect the Universal Service if direct delivery competition threatened its sustainability. We are also pleased to note Ofcom's commitment to actively monitor all direct delivery market participants and track developments and any prospective risks to the Universal Service.

Being customer focused
In a recent survey of adults in Great Britain[3], Royal Mail was the most favourably viewed company of all the participating organisations.

Our own research shows that our mean business customer satisfaction score is 74, an increase of four points on last year. But we are aware that our customers have many options.

To be their first choice, we must get the basics right and be easy to do business with. We gather customer feedback extensively across our business and use this insight to increase customer satisfaction, reduce customer complaints and improve the whole customer experience.

For example, last year we launched a monthly customer report, which focuses on a number of key metrics, including benchmarking our performance against our peers and how likely our customers are to recommend Royal Mail. Assessing all the information available to us, including social media activity and inputs from our sales teams, provides a holistic view of how we are meeting customer needs, and where we need to take action.

A number of important customer initiatives were implemented during the year. In April 2013, just after the financial year end, we streamlined our consumer First Class parcels offering from 15 to seven weight bands and introduced two parcel categories – small and medium. This simplified our product range, making it easier for customers to understand and make informed choices.

We know the areas where we need to improve our service. Over 60 per cent of all our complaints are caused by four issues – P739 'Something for you' cards, redelivery, redirection and misdelivery. We have made good progress on redirection, redelivery and misdelivery, where complaints have reduced since 2009. For example, we offer a free redelivery service, where customers can have an item redelivered to their address on a day of their choosing, or select an alternative address in the same postcode area.

We want to give recipients of parcels more control. Having secured regulatory approval from Ofcom, we rolled out our Delivery to Neighbour programme across the UK in September 2012. Our postmen and women can now leave parcels with a neighbour if the recipient is not at home. Feedback from people in the areas where we trialled Delivery to Neighbour revealed that 92 per cent[4] of customers whose items were left with a neighbour were satisfied with the overall experience.

In addition, we work with mailing customers on forecasting delivery volumes in order to ensure extra temporary operational capacity is available to cope with seasonal peaks and that we can continue to deliver a high quality of service. This approach ensured we had the capacity required to manage increased parcel volumes over the Christmas period, through the installation of eight temporary parcel sort centres.

Our people
Our people are key to our transformation and, in particular, the successful delivery of our strategic priorities. In a recent survey, eight out of ten Royal Mail customers were pleased about the helpfulness of our postmen and women[5]. They are our ambassadors and a credit to Royal Mail.

The safety of our colleagues in the workplace and on their rounds continues to be of paramount importance.

Over the course of the year, the lost time accident frequency rate reduced by 20 per cent.

Our World Class Mail programme – designed to promote continuous improvement across safety and productivity – continues to be embedded across the organisation.

In 2012, we reintroduced a full employee engagement survey for 150,000 colleagues across the UK, following a benchmark survey in autumn 2011. Almost two-thirds of our colleagues are proud to work for Royal Mail. Three-quarters (76 per cent) have a clear understanding of what customers want. We are redoubling our efforts to communicate with our people about the challenges we face and our strategy to address them. We have

[2] Marketing mail numbers are calculated using statistical analysis from surveys in order to estimate how our mail is being used. Data services and redirections were added into the marketing mail portfolio in 2012-13. Numbers have been restated accordingly.

[3] Ipsos MORI, Corporate Image Survey, December 2012.

[4] Illuminas research: 720 telephone interviews with trial participants.

[5] Ipsos MORI, Corporate Image Survey, December 2012.

provided managers with tools and support to help with action planning, allowing members of teams to feel more engaged in the business' future. Alongside our broader engagement programme, we are undertaking a series of 'town hall' events, where members of our senior management team will address as many as 1,000 colleagues at a time.

We are in ongoing discussions with our trade unions on a number of issues. In these discussions, we have reached agreement on some key issues. The Company has extended until April 2014 its existing voluntary redundancy terms for those impacted by modernisation and renewed its commitment to maintaining a predominantly full-time workforce. We separately confirmed that a change in Royal Mail's ownership structure will not affect colleagues' contracts of employment.

In last year's Report I confirmed that, just after the end of the financial year, almost all of the liabilities and assets in the Royal Mail Pension Plan (RMPP) were transferred to HM Government. This transfer could not address the ongoing costs of such a large Plan (with approximately 112,000 active members), which are material. For more information, please see page 75.

Our role in society

London 2012 was a major highlight for Royal Mail. We delivered 1.6 million envelopes enclosing approximately 7.5 million tickets to customers, with over 98 per cent of them arriving first time, on time. We were the first postal administration to paint its post boxes gold in the communities that gold medal-winning British athletes are associated with, the first to pay Olympians and Paralympians the same financial consideration for their image rights, and the first to produce a stamp in honour of every British Olympic and Paralympic gold medal athlete. In this very special year for the UK, we were touched by the very positive response we received from members of the public as we celebrated the achievements of Team GB and ParalympicsGB.

We have a long heritage of contributing to our communities. We connect millions of customers, companies and communities, including those in the most remote rural areas, making commerce happen in the process. Our contribution to the UK at this difficult time for the economy is significant. For the 2011-12 financial year, research from the Centre for Economics and Business Research (CEBR) estimated that: i) in terms of 'value added' from UK operations of companies, our core UK business ranked as the eighth highest in the UK; ii) we contributed 0.4 per cent to the UK's total Gross Domestic Product (GDP), rising to 0.7 per cent when our wider economic impacts were included and; iii) for every £1 we paid in wages, an estimated additional 57p in wages was generated in the wider economy through indirect and induced impacts.

Obtaining ongoing access to external capital

As we said at the Interim Report stage, ongoing access to external capital is a key part of the transformation process.

We believe that Royal Mail will combine the best of the public and private sectors. We are the provider of the one-price-goes-anywhere, six-days-a-week Universal Service Obligation. We are honoured to provide the Universal Service to more than 29 million addresses across the UK. The service is enshrined in the Postal Services Act 2011. The Act sets out clear and specific minimum requirements, which can only be changed by a vote in both Houses of Parliament. We are pleased that Ofcom found recently that nine out of ten residential and business customers consider our current level of service meets their core needs and there is no need for change.

Our Quality of Service standard specifications are the highest of any major European country, and will continue to apply. Our societal obligations would also remain in place and, again, we are very proud to deliver them. For example, our free Articles for the Blind[6] service is enshrined in the Postal Services Act 2011.

Demonstrating that Royal Mail can attract external capital will pave the way for continued investment in our Company. It also represents a further opportunity to increase the alignment that already exists between Royal Mail and its people.

Outlook

We are well positioned to continue to benefit from the structural change to e-retailing, which is driving increases in parcel volumes, and to manage the decline in letters. In the early weeks of 2013-14, we have seen similar trends to those seen in 2012-13.

In this year's Report, I must again thank our Shareholder, HM Government, for its continued support. In particular, I wish to thank the Secretary of State for Business, Innovation & Skills, Vince Cable, Minister of State for Business and Enterprise, Michael Fallon and their officials. I also wish to thank Dame Jane Newell OBE, until September 2012 the Chair of Royal Mail Pension Trustees Limited, and her successor, Joanna Matthews, for their counsel and support.

Most importantly, I would like to extend my thanks to my colleagues. These are times of significant change and we are asking a lot of our people. I continue to be grateful for their hard work, dedication and support. As the ambassadors of this cherished Company, I know that they will continue to drive our business forward as we seek to realise our collective objectives.

Moya Greene
Chief Executive Officer
Royal Mail Group Limited
31 July 2013

[6] A free-of-charge service for people sending items specifically designed for blind and visually impaired people within the UK and overseas.

Our strategy

Royal Mail Group has a clear vision to be the most successful delivery company in the UK.

This is underpinned by three priorities: capitalising on growth in online retailing to grow our parcels businesses; continuing to mitigate structural decline in the letters market by maximising the value of mail; and by being customer-focused. By doing this, we believe we can drive sustainable, profitable growth that will enable us to obtain ongoing access to external capital and secure a sustainable future for our Company.

Our corporate strategy has three priorities:

Firstly, **being a successful parcels business**. The UK parcels market has shown continued growth, thanks to the growth of online retailing. In 2012-13, parcels accounted for 48 per cent of Group revenue. We are investing in our three main parcels networks and our tracking technology to meet customer needs. A long-term investment programme in our core, combined UK network will ensure we have the capability we need to accommodate the changing traffic mix from letters to parcels.

Our second strategic priority focuses on **managing the decline in letters**. We have already transformed how we sort letters, automating the handling process in our Mail Centres. 79 per cent of letters are now sequenced to delivery point. We are pressing on with our programme of delivery revisions, changing the way we deliver to more than 29 million addresses across the UK. This also allows us to effectively manage growth in parcel volumes and at the same time improve our productivity.

Changes in the regulatory framework last year have given us greater commercial freedoms. These enable us to respond better to market changes. We have already taken steps to simplify and improve many of our propositions.

Marketing mail is one of the most successful ways to reach out to customers. We launched MarketReach last year to transform our direct marketing offering. We are now developing ways to help our customers to derive more value from all the mail they send.

Thirdly, we need to continue to be a **customer-focused company**. In this competitive market, our customers have a choice. We are developing the services we offer to ensure they meet our customers' needs. We are investing in technology to provide the tracking services our customers expect. We are working with our customers to anticipate times of peak demand and ensure we can deliver the high quality service they need.

Our strategic priorities and how we achieve them are central to our internal communications programme, so our colleagues understand their role in delivering our strategy. We have achieved a great deal. But more remains to be done to safeguard the sustainability of the Universal Service and ensure we can continue to provide high quality jobs for our people.

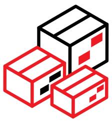
Priority one — Being a successful parcels business

Definition

To leverage our network reach and our strong brand to ensure we can capture increasing parcel volumes as a result of the growing popularity of online retailing in the UK.

To use our new regulatory freedom for parcels to develop new offerings and compete more effectively in the marketplace.

To ensure our combined core UK network can accommodate increasing parcel volumes and meet customer needs through the completion of our modernisation programme.



Key initiatives

- **Investing in our technology: from how customers access our networks through to tracking and management information;**
- **Progressing our core UK network transformation: improving safety, customer service, quality and productivity to deliver parcels effectively and efficiently;**
- **Enhancing products and services: expanding services, such as Delivery to Neighbour, to give parcel recipients more choice and convenience;**
- **Expanding Parcelforce Worldwide: increasing the capacity of the network to meet customer needs; and**
- **Strengthening our competitive position in the countries where GLS operates.**

Priority two — Managing the decline in letters

Definition

To manage the structural decline in the letters market by becoming more productive and effective, and ensuring we remain the carrier of choice for delivery of letters in the UK.

Harnessing the new regulatory freedoms we have won to ensure we make a reasonable, commercial return for the letters we deliver.

Making marketing and business mail more valuable to our customers by increasing the data and insight they can gather.

Key initiatives

- **Continuing to focus on improving operational productivity through the automation of the sequencing and sorting process and completing our programme of delivery revisions;**
- **Demonstrating to customers the value of mail in customer retention and when used in conjunction with other media;**
- **Building on the successful launch of MarketReach last year to develop new ways to prove the value of mail in a digital world and enable businesses to take advantage of it; and**
- **Investing in barcode tracking services to provide far greater information and value for bulk mail customers.**

Priority three — Being customer-focused

Definition

Putting the customer at the heart of everything we do to ensure that we continue to be the delivery partner of choice.

Being easy to do business with, and building new propositions that truly meet customer needs.

Key initiatives

- **Extending and enhancing our services: launching the UK's largest 'click & collect' network; working with the Post Office as it lengthens opening hours in many branches; simplifying our international product portfolio;**
- **Tackling the root causes of complaints: focusing on the four areas that cause most dissatisfaction – 'Something for you' cards, redelivery, redirection and misdelivery; and**
- **Transforming our digital channels to serve customers better.**

We are creating a commercial, customer-focused company, capitalising on parcels growth, while successfully managing the decline in letters. We are changing from a letters company that carries parcels to a parcels company that also brilliantly delivers letters.

Key performance indicators

The four sections below (People, Customer, Performance and Financial) and their respective KPIs reflect the four quadrants of our Corporate Balanced Scorecard for the year 2012-13. We said last year that as the business changes, we may adapt our KPIs. This year we have added Second Class Quality of Service, replaced process sequencing (which has been completed) with a broader KPI on Delivery Office modernisation and replaced RIDDORs with Lost Time Accident Frequency Rate.

KPI	Measured by	Key activities in the year
People		
Safety	Lost Time Accident Frequency Rate: the number of UKPIL employee, work-related accidents resulting in an absence on a subsequent day or shift per 100,000 hours worked.	We continue the roll-out of our Walk Risk Assessment Programme. This identifies key risks on every walk so that our people are aware of potential hazards and we can take action to reduce risk where appropriate. Our Zero Accidents Programme continues, focusing on road safety and ensuring that our people have the training they need to operate safely on their round and in the yard.
Engagement	An annual survey by Ipsos MORI measuring involvement, alignment and loyalty of colleagues through a number of questions, including: what our people think about Royal Mail, their understanding of our strategy and their place in achieving our strategic objectives.	We produced a Corporate Action Plan in response to the 2012 Engagement Survey, developed with the involvement of both unions and an Employee Panel. One of the actions within this Plan was continued communication with our colleagues. As part of our 'town hall' events, members of our senior management team including the Chief Executive Officer have addressed as many as 1,000 colleagues at a time at more than 20 meetings. Following the survey, we also used a specialised planning tool to develop and monitor actions being taken across the organisation to improve engagement. Over 90 per cent of managers are involved in action planning to improve local engagement.
Customer focus	An annual survey by Ipsos MORI measuring how focused our people are on delivering improvements in customer service.	Through the Corporate Action Plan, we have focused on raising awareness of the key causes of customer complaints and working with colleagues to bring the number of complaints down. We rolled out our Delivery to Neighbour programme across the UK from 1 October 2012. We delivered 1.6 million envelopes, enclosing approximately 7.5 million tickets for London 2012, with over 98 per cent arriving on time, first time.
Customer		
First Class Quality of Service	An independent, audited measure of Quality of Service for First Class retail products, adjusted for force majeure[1].	Through our modernisation programme, we are driving improvements in the pipeline to be more productive and effective. For example, 79 per cent of letters are now sequenced to delivery point.
Second Class Quality of Service	An independent, audited measure of Quality of Service for Second Class retail products, adjusted for force majeure[1].	
Customer satisfaction	Average business customer satisfaction scores on a number of issues, including price, service quality and customer experience.	A customer satisfaction questionnaire is completed by a sample of business customers every month, helping us to identify key areas for action. In response to customer needs, we opened eight parcels hubs at Christmas to manage anticipated increases in volumes.
Customer complaints	Number of complaints captured by our Customer Service team[2].	We continue to take action to focus on redelivery, misdelivery, 'Something for you' cards and redirections, which account for more than 60 per cent of complaints. We have made considerable progress in redelivery, misdelivery and redirection since 2009.
Performance		
Group revenue	Group revenue.	Revenue increases were driven by a five per cent like-for-like increase in UKPIL parcel volumes and price increases during the year. The Group is also successfully harnessing the benefits of the new regulatory framework, helping us to ensure we can generate a reasonable commercial rate of return for the services we offer.
Delivery hours reduction	Percentage year-on-year reduction in the gross hours spent on delivery and collection activities.	Delivery transformation continues and is providing our people with tools to manage the changing mail mix with fewer letters and more parcels. While we have reduced the gross hours spent on delivering mail and improved productivity, factors including the changing traffic mix are impacting our progress.
Delivery Offices fully modernised	Number of Delivery Offices that have been modernised.	We are more than halfway through our Delivery Revisions programme, which is changing every aspect of the way our postmen and women work. This will ensure we are more productive and effective and can manage the changing traffic mix.
Financial		
Total expenditure	Total expenditure for UK businesses, excluding all exceptional items.	UK costs have been held in line with inflation. Increases in non-people costs in UKPIL were partially offset by a programme of procurement savings.
Group operating profit	Group operating profit before exceptional items.	Price increases as a result of the introduction of a new regulatory framework are a key driver of revenue increases that have supported an increase in Group operating profit. This has been supported by tight controls, which have ensured costs increased in line with inflation.
Free cash flow	Free cash flow.	This year, free cash flow has principally been generated by trading performance.

Strategic links	More information
People	
	See 'Corporate responsibility' on pages **28-33**
	See 'Corporate responsibility' on pages **28-33**
	See 'Corporate responsibility' on pages **28-33**
Customer	
	See 'Corporate responsibility' on pages **28-33**
	See 'Corporate responsibility' on pages **28-33**
	See 'Corporate responsibility' on pages **28-33**
	See 'Corporate responsibility' on pages **28-33**
Performance	
	See 'Financial performance overview' on page **14**
	See 'Corporate responsibility' on pages **28-33**
	See 'Corporate responsibility' on pages **28-33**
Financial	
	See 'Financial review' on pages **16-20**
	See 'Financial review' on pages **16-20**
	See 'Financial performance overview' on page **14**

Strategic links key

Being a successful parcels business

To leverage our network reach and our strong brand to ensure we can capture increasing parcel volumes as a result of the growing popularity of online retailing in the UK.

To use our new regulatory freedom for parcels to develop new offerings and compete more effectively in the marketplace.

To ensure our combined UK network can accommodate increasing parcel volumes and meet customer needs through the completion of our modernisation programme.

Managing the decline in letters

To manage the structural decline in the letters market by becoming more productive and effective, and ensuring we remain the carrier of choice for the delivery of letters in the UK.

Harnessing the new regulatory freedoms we have won to ensure we make a reasonable, commercial return for the letters we deliver.

Making marketing and business mail more valuable to our customers by increasing the data and insight they can gather.

Being customer-focused

Putting the customer at the heart of everything we do to ensure that we continue to be the delivery partner of choice.

Being easy to do business with, and building new propositions that truly meet customer needs.

This icon is used to indicate reporting against a KPI throughout the document.

[1] This accounts for the impact of factors which are beyond Royal Mail's control, such as weather and the logistical impact of the London 2012 Olympic and Paralympic Games.

[2] We also provide detailed annual disclosure on customer complaints to our regulator, which is publicly available.

Financial performance overview

Reported Group revenue was £9,279 million.

See KPIs pages 12–13

Group revenue increased by five per cent on a like-for-like basis with the key performance drivers being:

- – Letters revenue up three per cent.
- – UKPIL parcel revenue up 13 per cent.
- – GLS Euro revenue up two per cent.
- Operating costs have increased by three per cent on a like-for-like basis, benefiting from productivity improvements and tight cost management.
- Operating profit after transformation costs before other exceptional items of £403 million is £251 million higher than last year, mainly due to revenue growth.
- Other net exceptional items comprise profit from property disposals (last year saw significant profit on disposals), property write-offs, industrial diseases provisions, Postal Services Act related costs and IT costs relating to the separation of Post Office Limited.
- The current year taxation charge effective rate of 12 per cent is due to the charge on current year profit being partly offset by past years' losses.
- The Group has recognised a deferred taxation asset, primarily in respect of taxation losses carried forward and decelerated capital allowances. This is a result of an improved profit outlook for the Group.

The profit and loss summary and commentary below provides an analysis of an equivalent 52 week period for 2013 compared with the 52 week period for 2012.

Profit and loss summary, see page 56 for more details	**Reported 53 weeks 2013 £m**	**Adjusted 52 weeks 2013 £m**	Reported 52 weeks 2012 £m
Revenue	**9,279**	**9,146**	8,764
Operating costs	**(8,644)**	**(8,548)**	(8,383)
Transformation exceptional costs	**(195)**	**(195)**	(229)
Operating profit after transformation costs[1]	**440**	**403**	152
Other net exceptional items	**(73)**		125
Earnings before interest and taxation (EBIT)	**367**	**not**	277
Net finance costs and pension interest	**(43)**	**adjusted**	(76)
Taxation – current charge	**(38)**	**at this**	(36)
– deferred credit/(charge)	**284**	**level**	(15)
Profit for the period	**570**		150
Operating profit after transformation costs margin (%)	**n/m**	**4.4**	1.7

Free cash inflow of £334 million was generated.

See KPIs pages 12–13

- EBITDA before transformation costs of £878 million on a 52 week basis is £197 million higher than last year's £681 million, due to an improved trading performance.
- Working capital inflows include the impact of higher stamp holdings by customers and tighter working capital management.
- Investment costs of £665 million (2012 £579 million) comprises:
  - – Business transformation payments of £55 million (2012 £60 million).
  - – Redundancy payments of £75 million (2012 £129 million).
  - – One-off project costs of £100 million (2012 £55 million).
  - – Transformation capital expenditure of £177 million (2012 £185 million).
  - – Other capital expenditure (GLS, IT (including software)) of £258 million (2012 £150 million).

The free cash flow and balance sheet summary and commentary below relates to the 53 weeks ending 31 March 2013 and 52 weeks ending 25 March 2012.

Free cash flow summary, see page 58 for more details	**Reported 53 weeks 2013 £m**	Reported 52 weeks 2012 £m
EBITDA before transformation costs – 52 weeks	**878**	681
– 53rd week	**37**	–
EBITDA before transformation costs (see page 15)	**915**	681
Working capital	**142**	(19)
Other pension payments	**(3)**	(45)
Investment costs	**(665)**	(579)
Other (taxation, interest, dividends from associates)	**(81)**	(87)
Other exceptional items	**(26)**	(37)
Disposal of property and business	**52**	240
Free cash inflow for the period	**334**	154

Net debt has reduced by £280 million, mainly as a result of free cash flow generation of £334 million.

- A £98 million increase in net deferred taxation assets has resulted from the recognition of UK deferred taxation due to an improved profit outlook.
- To comply with accounting standards, a pension surplus of £825 million has been recognised following the transfer of the majority of RMPP pension liabilities and assets to HM Government as at 1 April 2012. More information can be found in note 9 to the financial statements.

Balance sheet summary, see page 59 for more details	**As at 31 March 2013 £m**	As at 25 March 2012 £m
Net operating assets	**1,397**	1,456
Net debt	**(906)**	(1,186)
Operating assets less net debt	**491**	270
Net deferred taxation assets/(liabilities)	**89**	(9)
Retirement benefit asset/(liabilities)	**825**	(2,716)
Net assets/(liabilities)	**1,405**	(2,455)

[1] Before other exceptional items.

Operating profit after transformation costs	Adjusted 52 weeks 2013 UKPIL £m	GLS £m	Other £m	Total £m	Reported 52 weeks ended 25 March 2012 UKPIL £m	GLS £m	Other £m	Total £m
Revenue	**7,633**	**1,498**	**15**	**9,146**	7,189	1,562	13	8,764
Operating profit after transformation costs	**294**	**101**	**8**	**403**	33	128	(9)	152
Operating profit after transformation costs margin (%)	**3.9**	**6.7**	**53.3**	**4.4**	0.5	8.2	(69.2)	1.7

EBITDA before transformation costs	Reported 53 weeks ended 31 March 2013 UKPIL £m	GLS £m	Other £m	Total £m	Reported 52 weeks ended 25 March 2012 UKPIL £m	GLS £m	Other £m	Total £m
Operating profit before exceptional items	**526**	**101**	**8**	**635**	262	128	(9)	381
Adjust for:								
Depreciation/amortisation	**249**	**31**	**1**	**281**	269	32	–	301
Share of (profit)/loss from associates	**–**	**–**	**(1)**	**(1)**	2	–	(3)	(1)
EBITDA before transformation costs	**775**	**132**	**8**	**915**	533	160	(12)	681

Growth rates (%)	Comparison of 2013 vs 2012 Reported 2013	Like-for-like[2] 2013
Group revenue	**5.9**	**5.4**
– UKPIL letters & marketing mail	**4.4**	**2.5**
– UKPIL parcels	**14.4**	**12.7**
– GLS	**(4.1)**	**1.6**
– Other	**15.4**	**15.4**
Group operating costs	**3.1**	**3.0**
– People	**4.6**	**3.6**
– Distribution and conveyance	**1.7**	**4.1**
– Infrastructure	**(0.8)**	**(0.7)**
– Other	**1.9**	**1.1**

Growth rates (%)	Comparison of 2013 vs 2012 Reported 2013	Like-for-like[2] 2013
Group volumes	**n/a**	**n/a**
– Addressed letters	**(7.1)**	**(8.4)**
– UKPIL parcels	**6.3**	**4.8**
– GLS	**1.4**	**1.4**

GLS financial information	Reported 53 weeks 2013 €m	Reported 52 weeks 2012 €m	Reported 52 weeks 2011 €m	Like-for-like[2] comparison of 2013 vs 2012 %
Revenue	**1,837**	1,808	1,746	1.6%
Costs	**(1,714)**	(1,660)	(1,607)	3.3%
Operating profit after transformation costs	**123**	148	139	(16.9)%
Average £ : € rate	**1.2262**	1.1572	1.1758	n/a

[2] The methodology to calculate the 'like-for-like' growth rates is explained on page i.

Financial review

Matthew Lester
Chief Finance Officer

The 2012-13 financial year comprised 53 weeks, compared with 52 weeks in 2011-12 and 2010-11. As a result, the 2012-13 income statement is presented both on a reported 53 week basis and 52 week adjusted basis, to provide a direct comparison of revenue and costs (see page 56). Furthermore, in order to obtain like-for-like growth percentages for revenue and costs, the material impact arising from foreign exchange has also been eliminated. A further explanation of how like-for-like growth is calculated is shown on page i and like-for-like percentages can be found on page 15.

Summary Group results

The Group has delivered an improved financial performance in 2012-13, with our core UK business, UKPIL, delivering strong growth both in revenue and operating profit before and after transformation costs. The Group improved its operating profit margin from 1.7 per cent to 4.4 per cent on a like-for-like basis.

The trading performance resulted in EBITDA of £915 million on a reported basis and £878 million on an adjusted 52 week basis (2012 £681 million). In addition, the Group generated a free cash inflow of £334 million (2012 £154 million). This improvement was mainly due to trading, compared with last year where material disposals generated £240 million of cash inflows.

	Revenue			Operating profit after transformation costs		
Business unit performance (£m)	**Reported 53 weeks 2013**	**Adjusted 52 weeks 2013**	Reported 52 weeks 2012	**Reported 53 weeks 2013**	**Adjusted 52 weeks 2013**	Reported 52 weeks 2012
UKPIL	**7,766**	**7,633**	7,189	**331**	**294**	33
GLS	**1,498**	**1,498**	1,562	**101**	**101**	128
Other businesses	**15**	**15**	13	**8**	**8**	(9)
Group	**9,279**	**9,146**	8,764	**440**	**403**	152

Revenue

The Group's revenue increased by five per cent on a like-for-like basis, largely driven by revenue growth in UKPIL of six per cent on a like-for-like basis. UKPIL's growth was mainly due to a 13 per cent like-for-like improvement in parcel revenue, driven by both higher volumes and price increases. In addition, the letter price increases that came into effect in April 2012 increased letter revenue by three per cent on a like-for-like basis. This enabled the Group to offset the addressed letter volume decline of eight per cent on a like-for-like basis.

Underlying GLS Euro revenue increased by two per cent on a like-for-like basis to €1.8 billion. All countries apart from France, Portugal and Romania saw revenue growth. On conversion to Sterling, GLS revenue decreased by four per cent to £1.5 billion (2012 £1.6 billion) due to the weakening of the Euro. GLS parcel volumes increased by one per cent on a like-for-like basis, with growth in both domestic and international volumes.

Group operating costs

Group operating costs before transformation and other exceptional items increased by three per cent on a like-for-like basis.

People costs increased by four per cent on a like-for-like basis. This reflects an increase in UKPIL people costs mainly due to a 3.5 per cent pay award, in line with the Pay and Transformation Agreement, a higher ongoing pension cost (due to the pension rate increasing to 18.2 per cent), and the implementation of the Agency Workers Directive. However, the delivery and processing operations in Royal Mail delivered a productivity improvement of 1.7 per cent.

Group costs (including transformation costs) (£m)	**Reported 53 weeks 2013**	**Adjusted 52 weeks 2013**	Reported 52 weeks 2012
People costs	**5,147**	**5,077**	4,920
Distribution and conveyance costs	**1,785**	**1,771**	1,755
Infrastructure costs	**1,052**	**1,047**	1,060
Other operating costs	**660**	**653**	648
Transformation costs (operating exceptional items – see note 5)	**195**	**195**	229
Total operating and transformation costs	**8,839**	**8,743**	8,612

Distribution and conveyance costs increased by four per cent on a like-for-like basis as follows:

- An expected increase in the UKPIL networks as a result of the increase in the number of vehicles, higher fuel price (hedged using a rolling three year programme at approximately 90 per cent of expected usage) and higher costs of maintaining the fleet of approximately 40,000 vehicles.
- Higher third party subcontractor costs in GLS Germany, which reflect the low unemployment rates of five per cent. However, when GLS Euro costs are translated into Sterling, they decrease on a reported basis by three per cent.

Infrastructure costs decreased by one per cent on a like-for-like basis, due to lower depreciation and amortisation charges offsetting property cost increases in UKPIL.

Other costs include those non-people costs mainly driven by the Commercial and Central functions in the UK. These have increased by just one per cent and this is mainly due to tight cost control measures.

Expenditure relating to UK businesses was £7,247 million (2012 £6,950 million). **See KPIs pages 12-13.**

UKPIL transformation exceptional costs
Transformation exceptional costs are 15 per cent lower and are the same under the reported or adjusted basis.

UKPIL transformation exceptional costs (£m)	**Reported 53 weeks 2013**	Reported 52 weeks 2012
Voluntary redundancy	**(78)**	(77)
Business transformation payments	**(22)**	(87)
Project and property costs	**(95)**	(65)
Total	**(195)**	(229)

Voluntary redundancy costs are in line with last year and relate to delivery modernisation and announced Mail Centre closures. To date, 25 Mail Centres have been closed. A further 11 have been through the appropriate consultation process, and are expected to be closed by 2015.

The £22 million business transformation payments relate to the Pay and Transformation 2010 Agreement where colleagues receive payments of up to £1,000 based on specific milestones and specific bonuses with respect to transforming the network.

Project and property costs mainly relate to key business transformation projects such as the implementation of new delivery methods, Mail Centre reductions and deployment of automation equipment. Increased activity in Delivery Office revisions during the year has contributed to this increase.

Operating profit before transformation costs was £635 million on a reported basis (2012 £381 million). **See KPIs pages 12-13.**

Operating profit after transformation costs
All three of the Group's business segments generated an operating profit after transformation costs, resulting in a Group operating profit after transformation costs of £440 million on a reported basis, and £403 million on an adjusted basis, with UKPIL contributing around 75 per cent to the Group total (2012 22 per cent).

On a like-for-like basis GLS experienced a 17 per cent decline in operating profit after transformation costs, from €148 million to €123 million. Germany reported a profit decline reflecting the challenging trading conditions. Operational performance issues remain in France. In most other countries profit improved, particularly in Italy and Denmark.

On a like-for-like basis, Group margin improved from 1.7 per cent to 4.4 per cent. UKPIL's margin was 3.9 per cent, and GLS's margin was 6.7 per cent.

Net exceptional items, including transformation costs (same under a reported and adjusted basis)

Exceptional items (£m)	**Reported 52 weeks 2013**	Reported 52 weeks 2012
Operating exceptional items:		
– Transformation costs (see above)	**(195)**	(229)
– Other	**(77)**	(57)
Total operating exceptional items	**(272)**	(286)
Non-operating exceptional items:		
– Asset disposals	**4**	156
– Business disposals	**–**	26
Net exceptional items	**(268)**	(104)

Financial review (continued)

Other operating exceptional items mainly comprise costs relating to legacy industrial diseases claims of £28 million (2012 £10 million), one-off IT costs associated with the separation of Post Office Limited during the year of £20 million (2012 £nil), impairments (mainly property) of £20 million (2012 £7 million) and charges related to the implementation of the Postal Services Act of £10 million (2012 £24 million).

Non-operating exceptional items are not material this year. Last year there were property disposal gains of £156 million, £104 million of which relates to the sale of the Rathbone Place property and £26 million mainly from the sale of the Group's investment in Romec Services Limited (a subsidiary of Romec Limited).

Net finance and pension interest costs
Net finance and pension interest costs of £43 million (2012 £76 million) comprise a £34 million net pension interest credit (2012 £24 million) and net finance costs of £77 million (2012 £100 million) relating to net debt.

The pension interest credit is non-cash and comprises the investment returns on the pension assets held by the Trustee at the start of the year and the unwinding of the discount rate on the associated pension liabilities.

The net finance costs of £77 million comprise finance costs of £104 million (2012 £112 million), offset by finance income of £27 million (2012 £12 million).

The finance costs of £104 million for this year mainly comprise £82 million (2012 £91 million) relating to average loans and borrowings of £972 million (2012 £1,478 million) resulting in an average interest rate of 8.4 per cent (2012 6.2 per cent). Of the £82 million charge, £51 million (2012 £45 million) relates to the 12.0 per cent general purpose/working capital facility. This is an unsecured facility that has preconditions to any early repayment, and the interest is rolled-up rather than paid, meaning actual cash interest costs are lower by this amount.

During April and May 2012, the Group paid down £600 million of one of its facilities and at 31 March 2013, the following facilities were drawn down.

Purpose of loan/borrowing	2013 Average balance £m	2013 Average interest rate %	Facility end date	Facility £m	Drawn balance at 31 March 2013 £m	Average loan maturity date
GLS funding	500	5.8	2021-2025	500	500	2023
General Purpose/Working Capital	48	2.0	2014	600	–	–
General Purpose/Working Capital	–	–	2014	300	–	–
General Purpose/Working Capital	424	12.0	2016	473	473	2016
Total	**972**			**1,873**	**973**	

Current taxation (UK businesses and GLS)
The current tax charge of £39 million (2012 £34 million) represents an effective rate on profit before taxation of 12 per cent (five per cent rate in the UK) due to current year UK taxable profit being offset by previous years' trading tax losses, which arose both due to trading and, up to 2010-11, the annual cash costs of nearly £300 million used to fund the historic pension deficit. The reason for the low overall UK effective tax rate is because no deferred tax asset had previously been recognised for these tax losses. The majority of the remaining trading tax losses available to Royal Mail Group Limited will be extinguished at the end of 2012-13 as part of the Postal Services Act pension transfer implementation.

GLS blended current taxation rates of 26 per cent are in line with the standard rates for the countries in which it operates.

Deferred taxation (UK businesses only)
The return to profitability in the UK, and the pension transfer – bringing an end to Royal Mail Pension Plan (RMPP) deficit correction payments – has meant that the UK businesses produced taxable profit in 2012-13. Consequently, the net deferred tax credit of £284 million in the income statement in 2012-13 includes £290 million relating to UK tax, mainly to recognise the improved profit outlook for the Group and future tax benefits associated with carried forward tax reliefs (including capital allowances) of approximately £2.4 billion. These unused reliefs have built up mainly because of there being insufficient profit to use the potential deductions which had been deferred to later years.

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

Royal Mail Group's ongoing pension costs, mainly relating to approximately 112,000 active members in RMPP, will continue to be material (with associated cash costs being similar to the charges to the income statement). There is no difference between the reported and adjusted basis.

Pension costs in the income statement (£m)	Reported 53 weeks 2013	Reported 52 weeks 2012
UK defined benefit, mainly RMPP	**(412)**	(384)
UK defined contribution	**(17)**	(11)
GLS defined contribution	**(5)**	(5)
Total Group ongoing pension costs	**(434)**	(400)

Pension balance sheet amounts (under an IAS 19 basis)
The balance sheet pension deficit has reduced from a deficit of £2.7 billion at March 2012, to a surplus of £825 million at March 2013. The movement in the pension liability is almost entirely due to the transfer of pension liabilities and pension assets to HM Government.

Royal Mail Senior Executives Pension Plan (RMSEPP)
This plan was closed to future accruals on 31 December 2012. The Company has reached an agreement with the RMSEPP Trustees to maintain their cash contribution requirement at £10 million per annum until the March 2018 triennial valuation is complete. Also, as a part of the agreement, the Company made a one-off deficit correction payment of £19 million to the plan during the year and placed £20 million into an escrow account.

Cash flow
EBITDA before transformation costs of £915 million (2012 £681 million) increased due to the trading performance explained above.

Working capital inflow of £142 million (2012 £19 million outflow) is mainly due to the increase in stamp holdings by customers in light of the April 2012 price increases and overall tighter working capital management.

Total investment of £665 million (2012 £579 million) comprises £407 million (2012 £429 million) resulting from the continuation of the transformation programme, and business as usual spend of £258 million (2012 £150 million). The 2012-13 depreciation charge was £281 million (2012 £301 million).

Taxation and interest cash costs of £81 million (2012 £91 million) comprise £44 million (2012 £56 million) relating to net interest paid and £37 million (2012 £35 million) relating to current taxation payments. The interest cash costs are lower than the net interest charge of £77 million mainly due to the roll-up of interest as explained above. The taxation payments are broadly in line with the current income taxation charge of £41 million (2012 £36 million).

Cash inflows associated with disposals have reduced from £240 million in 2011-12 to £52 million in 2012-13. The 2011-12 inflow included £120 million from the sale of the Rathbone Place property off Oxford Street, London and £29 million from the sale of the Group's investment in Romec Services Limited.

The combination of these cash flows resulted in a free cash inflow of £334 million (2012 £154 million) and, excluding the one-off impacts of disposals of £52 million (2012 £240 million), a cash inflow of £282 million (2012 outflow of £86 million).

Net debt
Net debt has decreased by £280 million to £906 million during the year ending 31 March 2013, mainly due to cash flow generated. During the year, £600 million of loans were repaid to HM Government.

Financial risks and related hedging
The Group is exposed to currency and commodity price risk. The Group operates hedging policies which are described in the notes to the financial statements. The exposures are set out in the table below, together with how much the 2013-14 operating profit would differ from 2012-13 as a result of the changes in commodity costs/exchange rates up to 31 March 2013, post the impact of the respective hedging programmes.

Exposure – Royal Mail Group	Impact on operating profit of a 5% increase in price/ weakening of Sterling (before hedging) £m (loss)/gain	Impact of no further change in price/rate on 2013-14 operating profit versus 2012-13 (post hedging) £m (loss)/gain
Diesel and jet	(5)	1
US$	(4)	(2)
Euro	(9)	1

Financial review (continued)

It is anticipated that there will be a £1 million favourable impact on profits arising from the change in effective (post hedging impact) diesel costs from 51ppl in 2012-13 to an anticipated 50ppl in 2013-14. Without hedging, this favourable variance would become an adverse £3 million variable (based upon closing fuel prices at 31 March 2013).

The Group's exposure to fuel prices is shown in the table below, together with the coverage provided by the hedges in place. The exposure represents the cost of the underlying commodity and excludes fuel duty (which costs the Group approximately £100 million each year). Diesel and fuel costs (including duty) for 2013-14 are expected to be £196 million.

	Underlying product incl irrecoverable VAT in 2013-14 £m	Fuel duty in 2013-14 £m	Total cost in 2013-14 £m	% of underlying product for 2013-14 hedged £m
Diesel	80	100	180	93
Jet	16	nil	16	92
Total	**96**	**100**	**196**	

The currency exposure arises mainly from the Group's trading with overseas postal operators, the profits of GLS and inter-company loans with GLS. There is a significant degree of offset between these exposures and hedge programmes in place which reduce the impact on 2013-14 operating profit. The residual, unhedged, exposure for 2013-14 is estimated at £14 million for the Euro and £50 million for the US$.

The Group manages its interest rate risk through predominantly fixed rate debt. At the year end 100 per cent of the loans were at fixed rate to maturity. Consequently (and taking into account financial assets held but excluding the RMPP pension escrow investments), an increase of 100 basis points to interest rates during the year end would have resulted in an increase to profit of £3 million. The RMPP pension escrow investments were sold in April 2012 and hence would not have been materially affected by an interest rate change during the year.

Counterparty risk is managed by limiting aggregate exposure to any individual counterparty based on their financial strength.

Off balance sheet arrangement
In 2000, Royal Mail entered into a defeased lease arrangement whereby certain automation equipment was leased and the lease rentals concurrently prepaid by Royal Mail into an investment fund. Following the general falls in credit ratings, a letter of credit (LOC) has been required to provide, on behalf of Royal Mail, additional support to the lessor in the event of default by the investment fund holder. The chances of this LOC being called upon are considered to be remote, so no liability to reimburse the bank who have provided the LOC has been included in the balance sheet for Royal Mail. The current value of the LOC is £40 million and it is currently not collateralised.

Equity
On 27 June 2012, the Company reduced the amount of its share premium account by £3,784 million, with the Company reducing the deficit on its distributable reserves by the same amount at that time. This reduction of capital was approved by a special resolution of the Company, supported by a solvency statement made by its Directors pursuant to section 642 of the Companies Act 2006. The reduction was executed through a non-cash accounting entry and has no effect on total equity or the number of the Company's ordinary shares in issue or their nominal value.

Matthew Lester
Chief Finance Officer
Royal Mail Group Limited
31 July 2013

UK Parcels, International & Letters (UKPIL)

Trading results	Reported 53 weeks 2013	Adjusted 52 weeks 2013	Reported 52 weeks 2012
Revenue (£m)	**7,766**	**7,633**	7,189
Operating profit after transformation costs (£m)	**331**	**294**	33
Operating profit margin after transformation costs (%)	**4.3**	**3.9**	0.5
Volumes (m)			
Royal Mail UK core parcels network	***1,010***	***994***	*950*
Parcelforce Worldwide	***71***	***70***	*66*
Total parcels	**1,081**	**1,064**	1,016
Addressed letters (including international)	***14,079***	***13,869***	*15,147*
Unaddressed letters	***3,307***	***3,258***	*3,077*

About UKPIL
As the UK's sole provider of the Universal Service, UKPIL's 150,000 employees deliver letters and parcels, six-days-a-week, to more than 29 million addresses across the UK at affordable and competitive prices. It is a leading UK provider of collection and delivery services for express parcels through Parcelforce Worldwide and Royal Mail. MarketReach provides a full-service marketing mail offering and helps businesses derive more value from marketing mail. UKPIL is responsible for the design and production of the UK's stamps and philatelic products. It is also responsible for the processing of international mail under reciprocal arrangements with other overseas postal administrations.

Our strategy
Our letters and parcels strategies go hand in hand. We derive competitive advantage from a combined network. Strategically, we are focused on capturing the growth in online retailing to ensure a sustainable and profitable Universal Service as the number of letters we handle continues to decline.

Our parcels strategy:

- Getting the basics right. We are streamlining our parcels offering to make it easier for customers to choose the right service for them. We have simplified our terms and conditions. We have provided our colleagues with more of the tools they need to deliver increasing numbers of parcels;
- Getting the technology right. We are investing in IT to offer our customers the services they expect from a parcels operator, including SMS messaging and tracking services. By Christmas 2013, we aim for every postman and woman to have access to a hand-held scanner for their delivery round; and
- Expanding and automating our networks. We are investing to adapt the Royal Mail network to handle more parcels and expanding the capacity of Parcelforce Worldwide's express network.

Our letters strategy:

- Using our new regulatory freedom to receive a commercial return for the letters we deliver. Price increases in April 2012 are a key driver of UKPIL's improved profitability;
- Investing in our operations to improve efficiency and in tracking business mail. We have put in place initiatives to make traditional mail more attractive to customers and increase our share of the business mail market; and
- Leveraging our position in marketing mail to reach customers in new and innovative ways.

Trading performance
Price increases across UKPIL's letters and parcels portfolio, combined with increasing parcel volumes, contributed to a strong revenue performance. Reported revenue grew to £7,766 million and grew six per cent on a like-for-like basis. An increase in non-people costs was offset by a number of other factors, including procurement savings. Reported operating profit after transformation costs increased to £331 million.

The operating profit margin after transformation costs increased to 3.9 per cent from 0.5 per cent on a like-for-like basis, as delivery and processing productivity across the core network increased by 1.7 per cent.

UKPIL parcel volumes grew five per cent on a like-for-like basis. Reported volumes were 1,081 million (2012 1,016 million), generating a like-for-like increase in parcel revenue of 13 per cent and reported revenue of £2,979 million. Royal Mail handled 14,079 million addressed letters over the period. Letters (including marketing mail) accounted for £4,787 million of UKPIL's total reported revenue during the year. While unaddressed mail volumes increased by six per cent, addressed letter volumes declined by eight per cent on a like-for-like basis. This was more than offset by price increases, which contributed to like-for-like letter revenue growth (including marketing mail) of three per cent.

UK Parcels, International & Letters (UKPIL) (continued)

UK Parcels, International & Letters (UKPIL) case study **1 of 1**

Stamps & Collectibles

Royal Mail's Special Stamps programme has had a landmark year, thanks to the Queen's Diamond Jubilee and London 2012 Gold Medal Stamps. We issued 63 gold medal stamps during London 2012 and painted 110 gold post boxes in honour of our Olympians and Paralympians. The post boxes, painted to celebrate every gold medal win, will remain gold as a permanent celebration of these wonderful achievements by so many British athletes. Another highlight – in a strong year for our stamps programme – was the great success of our Doctor Who stamp issue.

Like-for-like growth rates (%)	Revenue	Addressed volumes
Parcels	13	5
Letters	3	(8)

For more information visit **www.royalmailgroup.com**

£1,135 million of reported Group revenue in 2012-13 (equivalent to 12 per cent) came from marketing mail[1], including MarketReach. The advertising market has shown little growth during the year. Despite this, marketing mail revenue increased by two per cent on a like-for-like basis.

We had a strong Christmas due to the comprehensive planning we put in place to prepare for this important trading period. We recruited approximately 20,000 temporary staff to handle increased Christmas traffic, with eight temporary parcel sort centres opening at the beginning of November. The UKPIL core network handled 125 million parcels and Parcelforce Worldwide handled eight million express parcels in the four weeks to 23 December 2012. A poll carried out after the festive period by the leading consumer website, moneysavingexpert.com, voted Royal Mail the best UK parcel carrier, while Parcelforce Worldwide was in third position.

[1] Marketing mail numbers are calculated using statistical analysis from surveys in order to estimate how our mail is being used. Data services and redirections were added into the marketing mail portfolio in 2012-13. Numbers have been restated accordingly.

General Logistics Systems (GLS)

About GLS

General Logistics Systems (GLS) is one of the largest ground-based deferred parcel delivery service providers in Europe. It is a pan-European business, providing reliable parcel and express services as well as logistics solutions.

The GLS network covers 37 countries through wholly owned and partner companies, is globally connected through contractual agreements and acts as the Group's gateway to Europe, opening up new opportunities.

Our strategy

GLS aims to be a high quality of service leader in the parcels segments in which it operates. Its strategy is to invest in systems, products and processes which will provide efficiencies and opportunities to develop new delivery options for the European parcels market. While GLS already has a strong presence in the European business-to-business parcels market, business-to-consumer parcels currently represent approximately one quarter of GLS volumes. New initiatives include investing in improved technology to offer customers near real-time track and trace services in the GLS network.

The expansion of the GLS network through organic growth and targeted acquisitions focused on the standard parcels market is a key objective. GLS's ground-based network and pan-European reach mean it is already benefiting from cross-border growth in parcel volumes. Its broad customer base means it is not dependent on specific accounts to maintain and grow volumes.

Almost three-quarters (71 per cent) of GLS's revenue is generated in three major markets: Germany, Italy and France. GLS provides high service levels, supported by its tracked, cross-border technology platform and European reach. It continues to monitor emerging markets, particularly those seeking to join the EU, for further growth opportunities.

Trading results	Reported 52 weeks 2013	Reported 52 weeks 2012
Revenue (£m)	**1,498**	1,562
Operating profit after transformation costs (£m)	**101**	128
Revenue (€m)	**1,837**	1,808
Operating profit after transformation costs (€m)	**123**	148
Operating profit margin after transformation costs (%)	**6.7**	8.2
Volumes (m)	**380**	375

Note: GLS reports results for the 52 weeks ending 31 March.

Trading performance

European parcel carriers have been faced with a difficult market in recent times. Low or zero GDP growth across the Eurozone has constrained volume growth and a tight labour market in Germany has driven up costs in GLS' largest business-to-business market. In this context, GLS performance can be considered robust, with like-for-like revenue growth of two per cent.

Parcel volumes grew one per cent to 380 million. Operating costs increased more rapidly than revenue, mainly due to the higher distribution and conveyance costs arising in Germany as low unemployment rates resulted in higher subcontractor costs. This was partially offset by profit growth in Italy, Denmark and Austria.

Operating profit declined by 17 per cent on a like-for-like basis to £101 million. This was due to a £20 million decline in like-for-like operating profit and a £7 million foreign exchange impact. As a result, operating profit margin declined to 6.7 per cent.

Business risks

The Corporate Governance section describes in detail how the Group manages its risk from the Group Board level, its respective sub-Committees and through the organisation. Further details can be found on pages 38-45.

The table below details the principal business risks, their impact and how the Group mitigates these risks.

Principal risk	Impact	Mitigation
Changes in customer preferences and competitor activity		
Customer behaviours are constantly evolving and competition is increasing. Consequently, there is a risk that our product offerings and the customer experience we provide may not meet changing customer needs. In addition, customer or competitor actions could trigger significant volumes of physical mail bypassing Royal Mail, downtrading to lower revenue products and acceleration in e-substitution. Postal operators and other third parties may set up discrete direct delivery networks in urban areas.	The market and our share of it may shrink more rapidly than we expect, leading to lower growth rates and profitability. Direct delivery may also threaten the sustainability of Royal Mail's Universal Service.	• We have placed significant focus on the key growth area of parcels, including investment in Parcelforce Worldwide and enhancing the core network to accommodate growing customer traffic; • We have introduced initiatives to simplify products, improve our product delivery and the customer experience to drive loyalty and advocacy; • We have held discussions with key stakeholders, and continue to do so, on the risk to the Universal Service if direct delivery competition is allowed to develop unchecked; • We are developing proposals to maximise commercial opportunities from the freedoms we have gained; • We are focusing product development and sales resource on growth opportunities with the greatest potential for added value, especially outside e-substitutable markets; • We launched a new media business, MarketReach, to improve our direct marketing mail proposition for customers; and • We remodel/optimise the operational network as necessary to cater for a different mix of products, local direct delivery and to reduce costs.

Principal risk	Impact	Mitigation
Economic environment		
Historically, there has been a correlation between the state of the UK economy and the level of mail volumes. There is a risk that the continuation of flat or adverse economic conditions could impact our ability to stay profitable, either by reducing volumes or by encouraging downtrading to lower revenue products. Additionally, we have significant European operations, and current uncertainty and economic weakness in the Eurozone could impact these businesses.	Adverse economic conditions and uncertainty would have a direct impact on mail volumes and, consequently, on Group revenues and profit. Economic conditions may impact the ability of key customers or critical suppliers to continue trading. This would directly impact our revenues or day-to-day operations.	• We continually review our costs to find areas where we can mitigate the impacts of any downturn; • We have conducted a programme of organisational restructuring to reduce managerial headcount in line with changing business volumes, and monitor closely our progress in realising these savings; • We have robust econometric models in place to provide early warnings of changes to overall volumes and the profile of letter and parcel volumes. We continually review and upgrade these models to anticipate better the impact of price rises and reflect the increasingly deregulated market; and • We targeted price increases for 2012-13 tariffs to ensure prices remained affordable.
Business modernisation		
We are undergoing a significant, extensive modernisation programme to improve our equipment and technical and IT infrastructure, and operating models. The success of the business strategy relies on successful extraction of benefits from the programme, whilst maintaining key business outcomes such as Quality of Service levels.	Failure to implement our modernisation programme effectively and extract benefits would adversely impact our ability to compete. At the same time, a reduction in Quality of Service standards could result in loss of traffic, reputational damage and failure to meet our Quality of Service standards will result in regulatory scrutiny and possible regulatory sanctions. Failure to improve our IT infrastructure would increase the risk of delivery or security shortfalls, and the risk that the IT platform might not be able to support the business plan initiatives.	• We track progress and outcomes of all revisions to operational practice on a weekly basis to ensure completion to time and the sharing of good practice and lessons learned. Quality of Service is a fundamental consideration prior to any change; • We have increased focus on delivery modernisation and performance with the new Operational organisation; • We follow an agreed framework for all transformation revisions; • We are closely managing and monitoring the IT transformation project; • We are embedding our World Class Mail[1] initiative into delivery operations to ensure that operational change is backed up by cultural change; • We are closely monitoring our progress in realising role reductions, in line with operational changes; and • We are engaging closely with our unions and colleagues with regard to the rationale behind, and our progress with regard to, modernisation.

[1] Developed in-house and based on leading global practice and expert advice, World Class Mail is a comprehensive system for improving safety and productivity.

Business risks (continued)

Principal risk	Impact	Mitigation
Risks inherent in the postal industry		
The postal industry has specific characteristics that bring particular operational and commercial risks. Operations are at risk of disruption by, for example, adverse weather, health and safety incidents, industrial action, operational change, terrorism (either as a target or a conduit), or failure of critical suppliers. In addition to the new regulatory regime in the postal sector, there is a risk of non-compliance with a wide range of legal and regulatory requirements, such as procurement and competition law, Bribery Act and financial services and data security regulations. The legal and regulatory environment in which the Group operates is subject to change.	Breakdowns in the network would reduce Quality of Service, increase costs and reduce revenue, and damage our reputation. Failure to meet regulatory, competition law, or Bribery Act or other legal requirements could result in prolonged investigations, with potentially severe financial consequences and reputational damage. Changes in legal and regulatory requirements (including at EU level) could impact the Group's ability to meet its targets and goals. For example, any change in the VAT treatment of network access services may make the use of third party delivery services which take advantage of those network access services less attractive.	• We have Business Continuity Plans in place which are owned, maintained and reviewed by the Operations Executive; • We have a communication model in place to keep customers appraised of potential or actual service impacts; • We continue to engage constructively with Ofcom; • Our Regulation team works with key HM Government and EU stakeholders on future legislative changes; • We are embedding a structured approach to relationship management for our key suppliers, including providing visibility of contract performance throughout the business; • We have engaged with trade unions at all levels across the business, and there is constant visibility of issues, action taken and potential risks; • The Risk Management Committee conducts formal, ongoing environmental scanning to identify emerging risks and episodes and root causes of incidents that have impacted other businesses and might have implications for Royal Mail Group; • Comprehensive compliance programmes are in place addressing Mail Integrity, Aviation Security and control of Dangerous Goods; and • The Royal Mail Group compliance team works with business units to maintain an overall compliance framework (covering postal regulation, competition law and Bribery Act compliance), policy and processes, awareness raising, and training programmes.

Principal risk	Impact	Mitigation
Preparing for attracting external capital		
We need to be in a position to implement the provisions of the Postal Services Act 2011, including reaching a sufficient state of readiness to obtain access to external capital. As we are a recipient of State Aid granted to HM Government, HM Government must submit annual reports to the European Commission about progress with our restructuring.	Without the changes provided for by the Postal Services Act 2011, we would be unable to generate sufficient cash to meet these obligations on a sustainable basis or reach a sufficient state of readiness to obtain access to external capital. In the event that we fail to implement our State Aid restructuring plan such that this amounts to a failure to comply with the conditions imposed by the European Commission, the European Commission has the power to re-open its decision to approve the State Aid we received. A re-opening of the decision would, at a minimum, create significant additional work as well as a great deal of uncertainty to our financial condition.	• We successfully completed separation of Post Office Limited and Royal Mail Group on 1 April 2012; • We transferred the majority of the liabilities and assets of the Royal Mail Pension Plan (for service up to and including 31 March 2012) to HM Government on 1 April 2012; • We work with HM Government in its preparation of an annual report to the European Commission about progress with our restructuring. HM Government submitted a first report in October 2012. We are investing in our processes and data readiness to help ensure we are in a position to meet any due diligence demands relating to any potential transaction; • A Director of Investor Relations has been appointed; • We are engaging and involving the Shareholder to ensure it has a full understanding of our plan and business model; and • We have had continuing, ongoing dialogue and consultation with Ofcom during the year to minimise the risk that the regulatory regime will be a barrier to our initiatives to drive profitability, and to maximise commercial freedom within the new Ofcom framework.

Corporate responsibility

Customers

82 per cent[1]

Proportion of our customers who are satisfied with the attitude of Royal Mail's delivery staff.

7.5 million

Tickets delivered in 1.6 million envelopes for London 2012.

People, Community & Environment

£800,000

Raised by our colleagues and the Company for Prostate Cancer UK. Royal Mail contributed £9.5 million[2] in support of good causes over the year.

Bronze

Shadow rating in the Dow Jones Sustainability World Index. Only two other postal operators are included in the index.

£2.5 billion

Invested annually through procuring goods and services from over 7,000 suppliers.

50,000 days

Invested in our people through formal training programmes.

[1] Ipsos MORI Consumer CSI and Brand Tracker Survey 2012-13.

[2] Includes our mandated commitments to Articles for the Blind and BPMA totalling £6.1 million.

Royal Mail Group makes a major contribution to the UK's social and economic infrastructure. As the sole provider of the Universal Service, we play a vital role, connecting millions of customers, businesses, organisations and communities – including those in the most remote rural areas. Our 124,000 postmen and women play a vital role in local communities, reaching everyone in the UK.

The objective at the heart of our business strategy and our corporate responsibility (CR) strategy is the same – to ensure a sound and sustainable Universal Service for the benefit of everyone in the UK.

Corporate responsibility is a core part of our focus on being a sustainable and stakeholder-centred business. It is essential to our business success that we behave responsibly and sustainably in relation to our people, customers, suppliers, communities and environment.

Our CR strategy links with our business priorities to ensure long-term performance by:

- Delivering economic and social benefit to the communities we serve;
- Managing our modernisation programme;
- Driving colleague advocacy of the Group and its community role;
- Reducing the environmental impact of our business and operations; and
- Communicating our management of corporate responsibilities openly and transparently.

Measuring our progress
We measure our overall corporate responsibility performance using Business in the Community's (BITC) Corporate Responsibility Index. Alongside our Platinum ranking in BITC's Corporate Responsibility Index, we have achieved a shadow Bronze ranking in the Dow Jones Sustainability Index. Only two other postal operators globally are included in the Dow Jones World Index.

Our aim is to maintain our Platinum BITC ranking. This objective is one of our key deliverables. Progress against each deliverable is reported to the Chief Executive's Committee on a regular basis.

Our Corporate Balanced Scorecard supports the implementation of our strategy, by linking achievement of CR objectives, such as Quality of Service and Customer Focus, to managers' remuneration.

Dedicated to customer service
Becoming a more customer-focused company is one of our strategic objectives (see page 10). We are committed to delivering for everyone in the UK and set high targets for customer satisfaction rates to drive our performance.

This year we achieved a mean business customer satisfaction score of 74, up from 70 in 2011-12[3].

See KPIs pages 12-13

We measure the level of employee focus on our customers through regular monitoring of their opinions on key aspects of the customer experience. This year, we achieved a score of 65, compared with 63 last year.

See KPIs pages 12-13

Three quarters of non-business customers polled by Ipsos MORI agree that "my postie provides a good service"[4].

We employ a range of communication channels to listen and respond to customer needs, including via telephone, letter, email and Twitter. During 2012-13, we received 6.62 million calls from customers and 1.48 million calls from business customers.

This year, we delivered a Quality of Service performance of 92.5 per cent in First Class Retail and 98.7 per cent in Second Class Retail[5] *(2012 92.7 per cent and 98.7 per cent respectively).*

See KPIs pages 12-13

We are very pleased to have exceeded our Second Class target of 98.5 per cent. We narrowly missed our First Class target of 93 per cent. We are disappointed not to have achieved our goal. However, our performance still means that over 1.2 billion First Class stamped and metered items were delivered on time, first time, against a backdrop of significant operational change.

Of course, customer service extends beyond our commitment to achieving our Quality of Service specifications. We are working hard to maintain customers' trust and loyalty while, at the same time, delivering one of the biggest modernisation programmes of its kind in UK industry.

Regrettably, the number of complaints we received increased last year from approximately 457,600[6] *to 486,400.*

See KPIs pages 12-13

[3] Ipsos MORI Business CSI Survey 2012-13.

[4] Ipsos MORI, Consumer CSI and Brand Tracker Survey 2012-13.

[5] Adjusted measures. This accounts for the impact of factors which are beyond Royal Mail's control, such as weather and the logistical impact of the London 2012 Olympic and Paralympic Games.

[6] A new complaint type was introduced for 2012-13 called P739 complaints now include a new category for items not located at the Delivery Office, which were previously reported as claims. The 2011-12 number has been restated from 439,600 complaints to provide a like-for-like comparison.

Corporate responsibility (continued)

Corporate responsibility
case study **1 of 2**

Delivering tickets for London 2012

London 2012 was a major highlight for Royal Mail.

We were proud to deliver the tickets for the London 2012 Olympic and Paralympic Games.

We successfully handled over 1.6 million items, delivering approximately 7.5 million tickets to customers, with over 98 per cent of them arriving first time, on time.

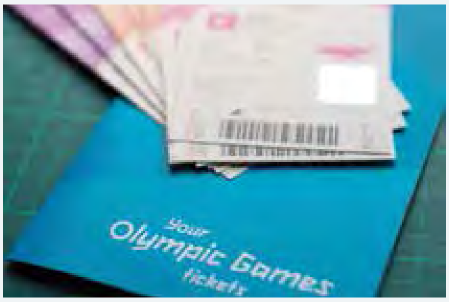
We were also proud to celebrate the achievements of Team GB and ParalympicsGB.

We were the first postal administration to produce stamps for every gold medallist in both Games.

We also honoured the victories by painting 110 post boxes gold across the UK in locations associated with our gold medal athletes.

The post boxes have now become cherished local landmarks, and in November 2012 we announced that these would remain gold permanently, with a plaque to name the athlete and mark their gold medal achievement, or mark the location's connection with London 2012.

The decision to keep the post boxes gold marks the first time in Royal Mail's history that it has painted its iconic post boxes a different colour permanently to mark an historic achievement.



We are working hard to reduce the number of complaints we receive. Four issues cause over 60 per cent of Royal Mail complaints: misdelivery, redelivery, redirection and P739 or 'Something for you' cards.

We have introduced a number of measures to improve the service our customers receive, such as the Delivery to Neighbour programme (see page 8).

Supporting our people

Royal Mail has long been part of the fabric of the UK. Our people interact with customers on a daily basis, quite unlike most other companies. Our colleagues are trusted and respected. They take great pride in the work that they do.

Royal Mail employs a rich and diverse mix of people who reflect the communities in which we work, and the customers we serve. We are committed to being an equal opportunities employer. As part of this endeavour, we work with Business in the Community's 'Opportunity Now' and 'Race for Opportunity' programmes, which promote best practice in equal opportunities. In addition, in 2012-13 we signed up to the Government's Think, Act, Report initiative, which encourages companies to share progress in promoting gender equality.

Springboard is one of our initiatives to promote gender equality. It is focused on helping women to advance their careers within the business. Since 2005, we have run over 50 courses across the Company and have seen almost 800 female non-managers participate. In the coming year, we hope to offer the programme to another 1,000 colleagues.

Overall, Royal Mail's ethnic profile is representative of the UK workforce[7] with around 10 per cent of our employees from ethnic minorities. However, we recognise that ethnic minorities could be better represented amongst our management population. Our priority going forward is to increase the representation of ethnic minorities at all levels in Royal Mail.

For more information visit
www.royalmailgroup.com

[7] ONS, 2010-11.

Royal Mail aims to be a disability confident employer. We are committed to employing people with disability and supporting disabled employees during employment.

Approximately six per cent of our employees have a disability[8].

To support our people, we also make a significant investment in our learning and development programmes. Almost 31,000 colleagues undertook formal training last year. People development also forms a pillar of our World Class Mail (WCM) programme.

We achieved an employee engagement score of 50, up from 49 in 2011-12.

See KPIs pages 12-13

Our annual Employee Opinion survey helps us identify the areas where we are doing well and those we need to improve on. Three-quarters of our people responded to the survey, up from 68 per cent last year.

Over three-fifths (62 per cent) of our people feel proud to work for Royal Mail Group and seven out of ten say they still want to work for us in two years' time.

Safeguarding our workforce
Our commitment to the safety of our employees is an enduring priority for us. Not only does a safer workplace mean less harm to our people, it means more efficient operations. Our goal is to reduce the number of accidents to zero, a commitment driven throughout the business by a KPI on our Corporate Balanced Scorecard.

Royal Mail's Safety Strategy is to make safety an integral part of the management of our business by:

- Providing visible safety leadership;
- Ensuring that our safety management programmes drive continual improvement and are sustainable;
- Enhancing employee engagement on safety; and
- Continuing to build competency in safety management.

By supporting our people in their ability to manage risk, we have achieved a 20 per cent reduction in the Lost Time Accident Frequency Rate (1.17 UKPIL employee, work related accidents resulting in an absence on a subsequent day or shift per 100,000 hours worked in 2012-13, compared with 1.47 in 2011-12).

See KPIs pages 12-13

We strive to improve our safety performance in everything we do. It is with great regret that we report seven people lost their lives in connection with our activities in the UK in the past year. All the fatalities were associated with road traffic accidents with our vehicles. We liaise closely with the relevant authorities and undertake our own detailed investigations to establish the root cause of each accident and, where possible, to determine what lessons can be learned. The findings are communicated across the Group and discussed at the monthly meeting of the Board. We are improving our processes to ensure that recommendations from the independent investigations team are dealt with in a timely manner. Our investigations have alerted us to potential dangers arising when we reverse our vehicles. We are tackling this hazard by installing reversing sensors on our vans.

Modernising Royal Mail
Central to our relationship with our people is the ongoing modernisation of our operations. This root and branch revision of every aspect of the way we work is difficult for our people. But we are making progress.

452 Delivery Offices began modernising during the year, taking the total number of offices that have commenced or completed modernisation to 860 since the programme began. This represents over half of our locations, with the remainder to commence by March 2014. 298 Delivery Offices began modernising in 2011-12.

See KPIs pages 12-13

We achieved a reduction in delivery hours of 1.9 per cent compared with 2.2 per cent in 2011-12. Improving the effectiveness of our delivery operations is absolutely crucial to our continued financial stability and the provision of good quality jobs.

See KPIs pages 12-13

In consultation with our unions, the Group has made significant commitments to job security, including an overarching objective to complete our modernisation programme without compulsory redundancies, and a commitment to remain a predominantly full-time workforce.

Supporting our communities
Our support for communities starts with the services we provide and our direct economic impact as an employer and purchaser of goods and services. We make one of the single biggest economic contributions of any UK company. Research commissioned by Royal Mail from the Centre for Economics and Business Research (CEBR) estimated that, in the 2011-12 financial year, in terms of the 'value-added' from UK operations of companies, our core UK business ranked as the eighth highest in the UK. This is supported by our active investment in communities and our charitable giving programme. We recognise that our business will only thrive if the communities that we serve are thriving too.

In 2012-13, Royal Mail contributed £9.5 million[9] directly to charities, good causes and schemes for disadvantaged groups. We also supported £3.2 million of colleague fundraising for charities and good causes across the UK. And, in July 2012, we further increased our support for colleague fundraising by introducing a penny for penny matched giving scheme for our new Charity of the Year programme.

Following a successful partnership with the children's charity Barnardo's, in March 2012 our colleagues voted to support Prostate Cancer UK as our new Charity of the Year partner from 2012 to 2014. Our aim is to raise at least £2 million to fund specialist prostate cancer nurses. During 2012-13, we raised enough money to fund 20 nurses. Royal Mail provided £144,000 in matched giving and grant schemes to support employees' fundraising for all other charities and good causes.

[8] Percentage of employees identifying themselves as having a disability in the 2013 Employee Opinion Survey.

[9] Includes our mandated commitments to Articles for the Blind and BPMA totalling £6.1 million.

Corporate responsibility (continued)

Corporate responsibility
case study **2 of 2**

Royal Mail's Movember campaign

Royal Mail Group supported the Movember campaign in 2012, a global moustache-growing charity event to raise funds and awareness for prostate and testicular cancers. Our charity partner, Prostate Cancer UK, benefits from funds raised by Movember in the UK.

Over 2,500 Royal Mail employees signed up to take part in Movember. We were informed by prostate cancer charity Movember that we had the second largest number of registered fundraisers of any single company network worldwide. And, of our top ten fundraisers, three were women.

We raised over £525,500 during the campaign, including matched giving from the Company. According to Movember, that is more than any other single company network in the world. We also engaged 23 MPs, MSPs and researchers in fundraising. These funds will pay for 13 new prostate cancer nurses in areas of need across the UK.

Our campaign was shortlisted for two Third Sector Business Charity Award categories, receiving a Highly Commended in the Challenge Event in May 2013.

Owen Sharp, CEO, Prostate Cancer UK said, "Reaching men and women from a wide range of backgrounds who are not office based is very tough to do. But Royal Mail has done exactly that. Thousands of its employees took part in Movember and for every participant there will have been hundreds of other people who will have seen the moustache when the post was being delivered."

For more information visit
www.royalmailgroup.com

Managing our environmental footprint

We recognise that our business operations have environmental impacts. We are committed to discovering and adopting solutions that minimise our use of natural resources, safeguard the built and natural environment and support the communities we serve.

In 2008, Royal Mail was the first postal services operator in the UK to achieve the Carbon Trust Standard. In September 2012, we successfully achieved recertification. This was in recognition of our robust approach to measuring, managing and reducing our carbon emissions.

Over the last year we have been working to further strengthen our performance, setting a clear strategic framework for environmental management. As part of this renewed drive we have set a vision for 2020 and a number of new targets. These include an aim to reduce carbon emissions by 20 per cent (against a 2010-11 baseline) and send zero waste to landfill by 2020. We also strengthened our governance framework, establishing a new Environment Governance Board to drive our strategy. In addition, in 2013-14, we will introduce a new, Group-wide Environment Policy.

Supplier relationships

Royal Mail makes a significant contribution to the UK economy through our procurement spend. We contribute around £2.5 billion annually procuring goods and services from over 7,000 suppliers.

We are committed to ensuring that these suppliers maintain high standards of social, ethical and environmental conduct. We expect suppliers to adhere to our Responsible Procurement Policy and regularly audit their compliance. The Policy is based on the UN Global Compact's ten principles around good human rights, labour and environmental practice, and anti-corruption. In addition, we encourage them to set targets to improve their performance in social, environmental and ethical issues. In 2012, the Chartered Institute of Purchasing and Supply (CIPS) recognised our efforts in this area by awarding Royal Mail a Gold certificate of excellence for our purchasing policies and procedures – at year end, only 15 other organisations worldwide had achieved this. We are now aiming to achieve the prestigious Platinum standard.

Transparency
Royal Mail is committed to being open and transparent with our stakeholders. We feel it is important to ensure that information on our performance is as comprehensive and comprehensible as possible.

Freedom of Information requests
Each year, we receive hundreds of Freedom of Information (FOI) requests about our business. We have a dedicated team working on requests, ensuring that we respond as fully as possible. There are, of course, times when we may not be able to make certain information available. For example, as a commercial operation, we would decline requests for information that would damage commercial interests. In other cases, we do not hold the data requested.

Last year, 536 requests were referred to our central Information Rights team. Of those, 188 were answered in full. A further 118 were answered in part. There were 151 requests where the information requested was not provided for commercial and data protection reasons. In 79 cases we did not hold the information requested. These figures are broadly comparable with the previous year.

Returned mail
The overwhelming majority of mail items we handle are delivered safely to the correct address. A small proportion of items are, however, undeliverable for reasons beyond our control. These include incomplete addresses, lack of forwarding addresses for recipients who have moved house and lack of return addresses. Our National Returns Centre in Belfast handles undeliverable mail. We aim to return undeliverable mail to the sender or, if this is not possible, securely dispose of it. In 2012-13, the Centre processed 19.15 million items. That should be set against the total of some 15 billion addressed mail items we handled in 2012-13.

Exceptions to our collection and delivery service
Royal Mail aims to collect and deliver every item of mail that passes through our network. There are, however, cases where this might not be possible. We publish annual reports that detail the Universal Service exceptions on which we are required to report. The 2012 Exceptions report, published in October 2012, showed there were 3,000 addresses where it was not possible to deliver mail (compared with 3,013 in 2012). Considering Royal Mail delivers to over 29 million UK addresses, that figure represents only 0.01 per cent of this total.

During 2012-13, there were 2,001 long-term Universal Service collection exceptions across the UK (compared with 2,100 in 2011-12). This represents one per cent of around 205,000 collection points across the UK. These exceptions can be caused by difficulties in accessing post boxes. There were also 118 temporary collection exceptions of more than four months (117 in the prior year). These were due to road or building works that limited access to post boxes. We report all such exceptions to Ofcom on a regular basis.

Mail security[10]
We take the security of mail we deliver very seriously. Our security team works around the clock to identify any threats to our products and services and we have robust measures in place to deal with any breaches. We now publish data on the team's investigation into internal and external crime. During 2012-13, we raised 658 full criminal investigations into internal crime (2012 757). 248 former employees of Royal Mail Group were prosecuted in the UK (2012 315). These individuals form a small proportion of an overall employee population of almost 150,000. We raised 218 full criminal investigations into external crime against Royal Mail (2012 160), with 116 external prosecutions (2012 66).

Political donations
In line with Group policy, no donations were made for political purposes in 2012-13.

Summary
Corporate responsibility is a core part of our focus on being a sustainable and stakeholder-focused business. It is integral to our business success. We have an excellent track record. In 2012, we achieved our Platinum ranking in Business in the Community's CR Index, placing us amongst the most responsible companies in the UK. We also achieved a shadow Bronze ranking in the Dow Jones Sustainability World Index, the leading global sustainability benchmark. Only two other postal operators are included.

Our people make a major contribution to the social fabric of the UK. They go the extra mile in supporting good causes in their local communities, and we support them in so doing. Over the course of our two-year partnership with Prostate Cancer UK, we aim to raise at least £2 million to fund new specialist prostate cancer nurses in areas of need.

Looking forward, we need to continue to improve customer experience across all our businesses. Initiatives such as Delivery to Neighbour aim to do just that. We also recognise that we need to drive greater environmental efficiencies through our operations. Most of all, we need to support and engage our people throughout this period of significant change.

[10] Numbers have been restated to include Parcelforce Worldwide. Numbers for full criminal investigations were incorrectly reported last year.

Our Board of Directors

Donald Brydon CBE
Chairman

Moya Greene
Chief Executive Officer

Orna Ni-Chionna
Senior Independent
Non Executive Director

Matthew Lester
Chief Finance Officer

Mark Higson
Managing Director, Operations and Modernisation

John Allan
Non Executive Director

Jan Babiak
Non Executive Director

Nick Horler
Non Executive Director

Cath Keers
Non Executive Director

Paul Murray
Non Executive Director

Les Owen
Non Executive Director

Details of membership of the various Board committees can be found in the Corporate Governance section.

Donald Brydon CBE Chairman, age 68

Appointed to the Board 27 January 2009 as a Director and 26 March 2009 as Chairman.

Skills and experience Donald had a career in finance, during which he ran two of the major global asset management companies owned respectively by Barclays and AXA. He has since chaired several FTSE 100 companies, in addition to his experience of a wide range of domestic and international industries.

External appointments (current and former) Currently Chairman of Smiths Group (due to retire in 2013) and Sage Group plc. He is Chair of the Medical Research Council and Patron of the British Postal Museum and Archive and was previously Chairman of the London Metal Exchange, Amersham plc, Taylor Nelson Sofres plc and the IFS School of Finance and a past Director of Allied Domecq plc, Scottish Power plc and AXA UK plc. He is a past Chairman of EveryChild.

Committee membership Chairman of the Nomination Committee and a member of the Remuneration Committee.

Moya Greene Chief Executive Officer, age 59

Appointed to the Board 15 July 2010

Skills and experience Moya started her career in public service in 1979 and held various posts in a variety of departments culminating in the position of Assistant Deputy Minister for Transport Canada. Her experience in the financial sector includes Managing Director, Infrastructure Finance at TD Securities Inc., and Senior Vice President, Retail Products, at CIBC. Moya became President and Chief Executive Officer of Canada Post Corporation in 2005. In that role, she led a wide-ranging transformation programme to improve quality of service and efficiency across the organisation.

External appointments (current and former) Currently Director of Tim Hortons in Canada. Prior to joining Canada Post, she held senior roles at companies including Bombardier Inc and TD Bank.

Committee membership Chair of the Chief Executive's Committee.

Orna Ni-Chionna Non Executive Director, age 57

Appointed to the Board 1 June 2010. Orna was appointed as Senior Independent Non Executive Director on 1 April 2011.

Skills and experience Orna is a former Partner at McKinsey & Company, where she specialised in serving retail and consumer clients.

External appointments (current and former) Currently Chair of the Advisory Board at Eden McCallum and Chair of Trustees of the Soil Association. Formerly Senior Independent Director of HMV plc, Northern Foods plc and of BUPA and a Non Executive Director of the Bank of Ireland UK Holdings plc and Bristol & West plc.

Committee membership Chair of the Remuneration Committee, member of the Audit & Risk Committee and the Nomination Committee.

Matthew Lester Chief Finance Officer, age 50

Appointed to the Board 24 November 2010

Skills and experience Matthew was previously Group Finance Director of ICAP plc for five years and has held a number of senior finance roles at Diageo plc, including Group Financial Controller.

External appointments (current and former) Matthew is a Non Executive Director of Man Group plc and a main Committee member of the 100 Group of Finance Directors, where he is Chairman of its Investor Relations and Markets Committee.

Committee membership Member of the Chief Executive's Committee and Chairman of the Pensions committee.

Mark Higson Managing Director, Operations and Modernisation, age 57

Appointed to the Board 5 November 2007

Skills and experience Mark was previously divisional director and Group Operations Director of BPB plc. He has also held senior positions at Courtaulds plc, HJ Heinz and British Aerospace.

External appointments (current and former) Currently President of the World Class Manufacturing Association (WCMA) and a member of the IPA Advisory Council.

Committee membership Member of the Chief Executive's Committee.

John Allan Non Executive Director, age 64

Appointed to the Board 14 January 2013

Skills and experience John is currently Chairman of Dixons Retail plc, Care UK and WorldPay. He is also a Non Executive Director of the Home Office where he is chair of the Audit and Risk Committee.

External appointments (current and former) John is also a former senior executive and corporate board member of Deutsche Post World Net. Previously, amongst other senior executive roles, John is a former CFO and corporate board member of Deutsche Post DHL. Previously he was CEO of Exel plc, a FTSE 100 global logistics company.

Committee membership Member of the Audit & Risk Committee.

Our Board of Directors (continued)

Jan Babiak Non Executive Director, age 55

Appointed to the Board 1 March 2013

Skills and experience Jan previously held managing partner and executive board level roles at Ernst & Young. She has also been an independent board member and Audit Committee Chair for Logica plc.

External appointments (current and former) Currently on the Board of Walgreens and is Chair of its Audit Committee and a member of its Finance Committee. She is also a Board member of the Bank of Montreal, a member of its Audit and Conduct Review Committee and of the Risk Committee.

Committee membership Member of the Nomination Committee and the Remuneration Committee.

Nick Horler Non Executive Director, age 54

Appointed to the Board 1 April 2010

Skills and experience Nick was previously Chief Executive Officer of Scottish Power and has held senior strategic roles in major companies, both in the UK and abroad.

External appointments (current and former) Currently a Non Executive Director of Secure Electrans Ltd and The Go-Ahead Group plc. Nick is also CEO at Alderney Renewable Energy Ltd and also chairs the Advisory Board for KPMG's Energy and Natural Resources Practice.

Committee membership Member of the Audit & Risk Committee and the Nomination Committee.

Cath Keers Non Executive Director, age 48

Appointed to the Board 1 June 2010

Skills and experience Cath was previously Customer Director and Marketing Director of O2 UK and has held various marketing, strategy and business development roles at Next, Sky TV, Avon and Thorn EMI.

External appointments (current and former) Currently a Non Executive Director of Telefónica Europe, Home Retail Group plc and the insurance group LV=.

Committee membership Member of the Audit & Risk Committee and the Nomination Committee.

Paul Murray Non Executive Director, age 51

Appointed to the Board 1 August 2009

Skills and experience Paul has been Chairman of the Audit & Risk Committee since August 2009 and is Audit Committee Chairman at Qinetiq plc.

External appointments (current and former) Trustee of Pilotlight and Non Executive director of Knowledge Peers plc, Naked Energy Ltd, Qinetiq Group plc and Ventive Ltd. Formerly Senior Independent Director of Taylor Nelson Sofres plc and Group Finance Director of Carlton Communications plc and of LASMO plc.

Committee membership Chairman of the Audit & Risk Committee; member of the Remuneration Committee.

Les Owen Non Executive Director, age 64

Appointed to the Board 27 January 2010

Skills and experience Les is a qualified actuary with 35 years' experience in the financial services industry. From 2000 to 2006, he was the Group Chief Executive Officer of AXA Asia Pacific Holdings Limited and responsible for AXA's Asian Life Insurance and Wealth Management operations.

External appointments (current and former) Currently Non Executive Chairman of Jelf Group plc and Non Executive Director of Computershare, CPP Group plc, Just Retirement Ltd and of Discovery Holdings, a South African listed health and life insurer. He was Chief Executive Officer of AXA Sun Life plc and a member of the Global AXA Group Executive Board and was, until 15 March 2012, a Non Executive Director of Post Office Limited.

Committee membership Member of the Audit & Risk Committee, the Pensions committee and the Remuneration Committee.

Directors who left during the year
David Currie 30 August 2012

Directors' report

Directors' report
The Directors present the Group Annual Report and audited Financial Statements for Royal Mail Group Limited for the year ended 31 March 2013 (25 March 2012).

Principal activities
The Group provides a nationwide and international distribution service, principally of mail and parcels. From 1 April 2012, the principal activities of Post Office Limited no longer form part of Royal Mail Group Limited.

To enable you to assess how the Directors have performed their duty to promote the success of the Company, the Companies Act 2006 requires the Directors to set out in this report a fair review of the business of the Group during the year, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group.

Information fulfilling these requirements can be found in the following sections of the Annual Report and Financial Statements and are incorporated by reference.

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's average creditor days for 2012-13 were 37 days.

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 £724 million (2012 £674 million). In the opinion of the Directors, the aggregate market value of the Group's land and buildings exceeds this net book value by £310 million (2012 £390 million).

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 115 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.

Directors and their interests
The Directors of the Company and details of changes during the year are given on pages 34-36. The Secretary of State (BIS) appoints the Chairman; all other Directors are appointed by the Company with the Secretary of State's consent. UK Government is the Company's sole shareholder. 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 auditor is aware of that information.

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

By Order of the Board

Jon Millidge
Company Secretary
31 July 2013

Royal Mail Group Limited
100 Victoria Embankment
LONDON
EC4Y 0HQ

Company number 4138203

Corporate Governance

With effect from 1 April 2012, Post Office Limited became a subsidiary of Royal Mail Holdings plc and became a sister company to Royal Mail Group Limited.

Donald Brydon
Chairman

Chairman's introduction

The Board is collectively responsible for the long-term success of the business. We take decisions only after the necessary level of information has been made available to us and with the necessary consideration of all the facts, including risk. The following statement is intended to explain our governance arrangements in light of the UK Corporate Governance Code (the 'Code') principles and provisions and to provide insight into how the Board and management run the business for the benefit of the Shareholder.

The Board of Directors strongly supports the principles of best practice in corporate governance and we comply with the UK Corporate Governance Code principles and provisions in so far as it is appropriate to Royal Mail Group as a company with a single shareholder.

We have undertaken our annual review of the performance of the Board and have shared any issues which have arisen from this review with individual Directors.

An effective Board is created by bringing together the right mixture of individuals and by promoting the right dynamic among those individuals. In this regard the Company is very privileged to have on its Board a number of Directors with significant large business experience to help guide the business through its transformation programme and in helping the Board to understand the cultural change necessary for the business.

I trust that you will find this Corporate Governance report helpful and informative.

Donald Brydon
Chairman

The Board has focused on the following matters during the year:

- Safety;
- Operations and modernisation;
- Growth and innovation;
- Discussing with Ofcom the new regulatory framework;
- Balance sheet restructuring; and
- Pensions funding.

Expected Board focus for the next year:

- Safety;
- Growth segments of the business;
- GLS;
- Operations and modernisation;
- Ongoing access to external capital; and
- Pensions funding.

Governance framework

The Board considers that it complied with the full provisions of the Code during the year. This report explains the key features of the governance framework and how it applies the principles of the Code. The location within the Annual Report and Financial Statements of each of the disclosures required in the Directors' Report are either disclosed separately or indexed in the Directors' Report and are therefore incorporated by reference.

The role of the Board

The Board is responsible for setting the objectives and strategy of the Group and for monitoring performance and risk management. At the end of the year, the Board comprised a Chairman, three Executive Directors and seven Non Executive Directors. The biographies of each of the Directors, setting out their current roles, commitments and previous experience, are on pages 34-36. The Board met on nine occasions during the course of the year under review.

The Board 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 in this report.

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 views 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. There is also a clear division of responsibilities between the Chairman and the Chief Executive Officer.

The Chairman of each of the Committees reports to the Board on matters discussed at Committee meetings and highlights any significant issues requiring Board attention. Reports on the work of the Audit & Risk Committee and Nomination Committee on work during the year are given on pages 40-43. Full terms of reference for these Board Committees can be found on our website www.royalmail.com

Performance evaluation of the Board

Performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis with the support of the Company Secretary. Following last year's evaluation with the help of the London Business School, this year's evaluation was conducted via questionnaires, with an opportunity to discuss any issues arising. It was completed during May 2013. A more detailed process will take place again next year. A performance evaluation of the Audit & Risk Committee was conducted by the Chairman of the Committee. Other Committees are undertaking a review of their terms of reference.

Directors' support

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.

Director appointment and election

All Directors are re-appointed with the consent of the shareholder. On appointment, all 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.

Balance is considered a key requirement for the composition of the Board, not only in terms of the Executive and Non Executive Directors, but also with regard to the mix of skills, experience and knowledge.

Biographical details for all the Directors can be found on pages 34-36.

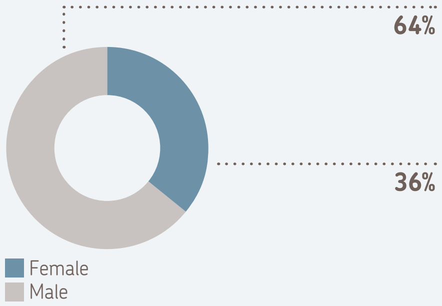
Outside appointments

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 pages 46-54 for details).

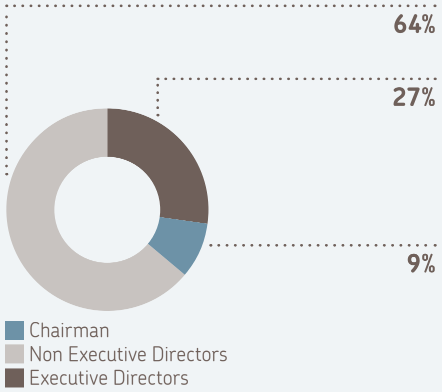
Chief Executive's Committee and Board Committees

The following Committees deal with specific aspects of the Group's governance. The details of Committee membership shown are as at 31 March 2013.

Gender balance



Balance of Non Executive and Executive Directors



Corporate Governance (continued)

Chief Executive's Committee (CEC)	
Chair	Moya Greene
Membership	Rico Back (CEO GLS), Catherine Doran (Director CIO & Technology), Matthew Lester (Group Chief Finance Officer), Neil Harnby (General Counsel), Mark Higson (Managing Director, Operations and Modernisation), Mike Newnham (CCO), Stephen Agar (Director Consumer and Network Access), Emily Pang (Chief of Staff), John Duncan (Group HR Director), Sue Whalley (Director of Regulation and Government Affairs), Shane O'Riordain (Managing Director, Strategy and Communications) and Jon Millidge (Company Secretary).
Role	The Committee is responsible for all the key areas of commercial activity within Royal Mail Group. The CEC meets twice a month. The role of the CEC is to manage the overall framework of financial risk and business controls to meet Shareholder, regulatory and legal requirements. The Committee also assigns key accountabilities for business performance.

Audit & Risk Committee	
Chair	Paul Murray
Membership	Non Executive Directors – Orna Ni-Chionna, Cath Keers, Nick Horler, Les Owen and John Allan.
Role	The Committee, which is supported by the 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 oversee the process for managing risks across the business, including review of the Group Risk Profile and ensuring risks are being addressed by the Board, relevant Committees, and management; • To monitor the integrity of the financial statements of the Group; • To monitor and review the effectiveness of the Group's risk management processes and the control environment; • To monitor and review the scope of work, authority, resources and effectiveness of the Group's Internal Audit & Risk Management 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 scope and work of the external auditor to ensure that it is appropriate, including the external auditor's independence, and objectivity; 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 continued

Work during the year	Key matters the Committee considered and actions taken during the year include: • Material judgements used by management in the interim and year end results, including Assessment of Accrued Income, Provision for Industrial Diseases and Accounting for Pensions. Each of these was assessed in light of ranges of estimates and third party expert reports; • Relevant changes to accounting standards; • The external audit engagement letters and annual audit fee, and the policy for approval of non-audit fees paid to the Group's auditors; • A review of the effectiveness of the external audit process, including consideration of team structure, global integration, tailoring of audit, leveraging of sources of assurance, use of technology, professional scepticism, technical ability, communication and reporting, audit efficiency and effectiveness, and independence and quality control; • Reviewing the external auditor's report on their audit activity and opinion on Royal Mail's Annual Report, including observations on the control environment; • Royal Mail's Treasury Policy Statement; • The Group Risk Profile, showing those risks of most significance to Royal Mail; • The remit, resources and plan of the Internal Audit function, and the breadth of the Internal Audit plan, which includes reviews of selected specific critical business controls, reviews and investigations into specific areas of the business, selected on a risk basis, and reviews of key risk management processes; • Reports from Internal Audit on key areas and initiatives in the business including Modernisation Programme, Fleet, Pension System, Post Office Separation and Regulatory Compliance; • Summary of results of whistleblowing cases; • The Chair of the Audit & Risk Committee met formally with the Internal Audit & Risk Management Director and with the external auditors, separate from Royal Mail senior executive management, as part of standard process, on five occasions in the year, to provide a further opportunity for any issues to be aired and dealt with; • Summary of results of depot and head office audits in GLS; • The Compliance report, including changes in external environment, and roll-out of training in relation to Bribery Act and Competition Law; • Reviewing a report from Royal Mail's external auditors on Royal Mail's compliance with the UK Corporate Governance Code which would be applicable to Royal Mail had it been listed for the year ended 31 March 2013; • Directors' expenses for the period; • The Audit & Risk Committee's calendar and agenda for 2013; • The Committee also held direct discussions with senior management to understand and review issues and actions in key areas of the business, including Human Resources and Regulatory/Competition Law Compliance; and • The Committee carried out a self-assessment of its own effectiveness, using issue-specific questionnaires and NED-only discussion of responses.
Chairman's statement	Although not members of the Committee, the Group CFO, Company Secretary, Director Internal Audit & Risk Management and Director of Financial Control attend each meeting by invitation as does the lead audit partner from our external auditors. The Committee met on five occasions during the year. A significant amount of time this year has been spent reviewing the Group Risk Profile, obtaining management updates on specific risks, and ensuring the alignment of the Group Risk Profile to the strategic plan. After each Committee meeting, I report to the Board on the main issues that the Committee has discussed. It has been a year of sound progress and our forward business schedule suggests another busy year ahead. Given the skills, knowledge and experience of the Committee members, we are well placed to meet the challenges and opportunities we face. **Paul Murray** Chairman of the Audit & Risk Committee

Corporate Governance (continued)

Remuneration Committee	
Chair	Orna Ni-Chionna
Membership	Chairman – Donald Brydon, Non Executive Directors – Les Owen, Paul Murray and Jan Babiak.
Role	• 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.
Work during the year	Examples of matters the Committee considered during the year include reviews of: • Performance targets; • Reward philosophy and policy; • GLS bonus and pay; and • Committee's independent consultants.
Chairman's statement	The Committee met on eight occasions during the year. A report detailing the work carried out by the Remuneration Committee during the year, including an explanation of how it applies the principles of the Code in setting Executive Directors' remuneration, follows this section. **Orna Ni-Chionna** Chair of the Remuneration Committee

Nomination Committee	
Chair	Donald Brydon
Membership	Non Executive Directors – Orna Ni-Chionna, Nick Horler, Cath Keers and Jan Babiak.
Role	• 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 Officer and all other Board appointments; and • To keep under review the balance of Board membership to ensure that it has the required mix of skills, knowledge and experience.
Work during the year	Examples of matters the Committee considered during the year include: • The recruitment and appointment of new Non Executive Directors; • Succession planning; and • Considering future experience, skills and capabilities required on the Board.
Chairman's statement	The Committee has continued to evaluate the balance of skills, knowledge and experience of the Board and its diversity, and is committed to its progressive renewal through orderly succession. Succession plans for the Non Executive Directors and Executive Directors were kept under review. During the year we welcomed John Allan and Jan Babiak as new Non Executive Directors to the Board. **Donald Brydon** Chairman of the Nomination Committee

Pensions Committee	
Chair	Matthew Lester
Membership	Jon Millidge (Company Secretary), Neil Harnby (General Counsel) and Les Owen (Non Executive Director).
Role	• To review funding, benefits, scheme structure and strategic developments impacting the Group's occupational pension schemes; and • To represent the Group in discussions with the Trustees of the Group's occupational pension schemes.
Work during the year	Examples of matters the Committee considered during the year include: • Scheme funding; • Investment strategy; • Scheme design; and • Implementation of workplace pension reform ('auto-enrolment').
Chairman's statement	The Committee has continued to monitor strategic developments impacting on the Company's pension arrangements, including the Government's 'auto-enrolment' legislation. Due to the size of its workforce, the Company was one of the first employers to implement these new requirements. It has also worked closely with stakeholders regarding the March 2012 actuarial valuations of the Royal Mail Pension Plan and the Royal Mail Senior Executives Plan, and oversaw the closure of the latter to future benefit accrual from 31 December 2012. **Matthew Lester** Chairman of the Pensions committee

During the year, the Directors attended the following number of meetings of the Board and its main Committees.

Attendance at Board and Committees

Name	Board	Audit & Risk	Remuneration	Nomination
Total number of meetings	9	5	8	3
Chairman				
Donald Brydon	9/9	–	8/8	3/3
Executive Directors:				
Moya Greene	8/9	–	–	–
Mark Higson	8/9	–	–	–
Matthew Lester	9/9	–	–	–
Non Executive Directors:				
David Currie	3/3	2/2	4/4	–
Nick Horler	8/9	5/5	1/4	3/3
Cath Keers	7/9	4/5	2/4	3/3
Paul Murray	9/9	5/5	8/8	–
Orna Ni-Chionna	9/9	4/5	8/8	3/3
Les Owen	9/9	4/5	8/8	–
John Allan	2/3	1/1	–	–
Jan Babiak	1/1	–	–	–

Corporate Governance (continued)

Other Committees

Risk Management Committee

The Risk Management Committee supports the Audit & Risk Committee and meets to promote and support the establishment, communication and embedding of risk management throughout the business.

Disclosure Committee

The role of the Disclosure Committee is to assist the Executive Directors in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company in relation to its financial and other reporting. The Committee meets on a regular basis during the reporting process and is chaired by the Group Chief Executive Officer.

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 Audit & Risk Committee has determined what work can be provided by the external auditor and the approval processes associated with the auditor. The Audit & Risk Committee monitors the level of non-audit fees paid to the external auditor.

For this financial year, the statutory auditor prepared a report outlining how it assesses its own independence.

Risk management and control overview

The Board believes that effective risk management and a sound control environment are fundamental to the Group.

The system is designed to manage rather than eliminate the risk of failure as taking on risk is inherent in undertaking the commercial activities of the Group.

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 process incorporates both a top-down element (which collates executive management/Board view of key risks) and a bottom-up element (which collates the views of the business units and functions on risks in their area). Taken together, these two perspectives are combined to form the Group Risk Profile.

The process has been in place throughout the year and up to the date of approval of these financial statements.

The responsibility for joint ventures and associates rests, on the whole, with the senior management of those operations. The Group monitors its investments and exerts influence through Board representations.

Risk environment

In the main, the principal risks facing the Group have not changed. A risk with respect to insufficient readiness to access private sector capital has been added, and the risk relating to cash management activities do not maintain solvency was removed as it no longer represented an exposure to the Group.

The Group has classified its principal risks into five main categories: changes in customer preferences and competitor activity; economic environment; preparing for attracting external capital; business modernisation; and risks inherent in the postal industry. An analysis of the risks, their impacts, and mitigating actions is given on pages 24-27.

Risk framework

The Group-wide risk management framework includes risk governance, risk identification, measurement and management, and risk reporting.

The Group's approach to control is based on the underlying principle of line management accountability for internal control and for risk management. The Group recognises and uses the principle of the 'Three Lines of Defence', that is:

a) primary controls over the risks to the business are located in the day-to-day operation;

b) these are supported by internal monitoring and oversight; and

c) independent assessments by Internal Audit and others provide the third line.

The process for risk identification and management 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 views of top management and units/functions are collated and brought together, in the Group risk profile, to form a comprehensive view of key risks in the organisation. The Group risk profile is reviewed annually against the business strategy and refreshed where necessary.

The process also includes an annual certification by management that the internal controls are such that they provide reasonable assurance that the risks are appropriately identified, evaluated and managed.

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

Risk governance and the Board

The Board has delegated responsibility for specific review of risk and control processes to the Audit & Risk Committee (ARC), and the ARC in turn is supported by the Risk Management Committee (RMC), to help discharge its duties. The key responsibilities for risk and control among the Board, ARC and RMC are set out in this section of this report.

Royal Mail Group's attitude to risk

The structural legacy issues relating to pensions and the regulatory framework have been resolved and the Group's revenues, profits, margins and cash flows have all improved. The letters portfolio remains under structural decline but at the same time the shift to online retailing has provided opportunities in the parcels portfolio, whilst the European parcels business operates in difficult economic market conditions.

The Group Risk Profile, which identifies the highest risks in terms of financial impact and possibility, has been modified during the year and each risk has clear accountabilities and milestones to ensure that all mitigating action can be taken. During the year executives from Human Resources and Compliance were invited to attend the ARC and explain their respective risk and how it is being managed.

Internal control

The Group operates a system of internal control, including operational, financial, and compliance controls, and risk management systems, to control the day-to-day operations of the Group's activities. In terms of the 'Three Lines of Defence' model, the key processes and controls include:

First line

- Management: the Group has an established management organisation, with structure, reporting lines, accountabilities and delegated authorities.
- Key policies and documentation:
  - A number of Royal Mail's activities are mandated through the Postal Services Act 2011 and Royal Mail is further bound by regulatory requirements, including those which cover service standards, complaint handling, integrity of mail, access to postal facilities, accounting separation and process for postal services.
  - The Group's Code of Business Standards sets the principles of professionalism and integrity for our people.
  - Standard policies exist within each function.
- Standard daily and monthly management accounting and payroll processes through centralised shared services for the UK businesses.
- A budget prepared, reviewed and set once a year, providing clarity on the short-term strategies for each part of the Group. This, along with the delegated authorities, resets the levels of delegated spend in each area on an annual basis.
- Performance management reviews include production of weekly indicators and a pyramid of monthly balanced scorecards from front line operations to Holdings Board level, which underpin quarterly reviews and the interim and year end results.
- Medium-term business plans are collated on a regular basis and submitted to both the Shareholder and the regulator as part of formal external processes such as regulatory framework reviews and State Aid applications. This provides regular opportunities for executive management and the Board to reappraise and confirm long-term strategies and objectives for the Group.

Second line

- Regular rolling reviews and audits are carried out within the operations, covering key operational areas.
- A self assessment is conducted of key financial and non-financial processes across all parts of the UK businesses, including commercial and operations, and within each key function.
- Annual sign-off by Finance Directors to provide a formal confirmation, including proper preparation of financial results, compliance with Group accounting policies, compliance to statutory reporting standards and tax accounting arrangements, disclosure of post balance sheet events and related party transactions, and maintenance of an appropriate system of internal control, including disclosure of material weaknesses and confirmation of remedial action plans.

Third line

- Specific and targeted Internal Audit work programme. The effectiveness of the internal control system is reviewed regularly by Internal Audit & Risk Management (IA&RM), the Group's independent Internal Audit function. IA&RM reports to the ARC and provides assurance to executive management and the Board on the effectiveness of the internal control system.

  Internal Audit reports include an action plan where issues have been identified, and progress against action plans is regularly tracked and reported.

  IA&RM establishes and agrees with the ARC an annual plan of assignments and activities based on discussions with the Board and management, and also taking into account known issues in the business and the communications industry.

- External audit and other reviews.

External audits and reviews take place during the year to provide management, the Board and the regulator with assurance on specific matters, including:

- The external auditor performs a statutory year end audit.
- The external auditor performs an audit of the regulatory accounts as part of Universal Service Provider (USP) Accounting Condition 1 requirements.
- The external auditor confirms that the statement to the regulator on 'necessary resources' is consistent with their audit findings, as part of Transitory Condition 3 requirements.
- The externally measured end-to-end Quality of Service is audited by an independent accounting firm (appointed by Ofcom) as part of Royal Mail's Designated Universal Service Provider condition requirements.
- The USO daily collections and deliveries performance reporting and methodology is assured by an independent accounting firm (appointed by Royal Mail) as part of Royal Mail's Designated Universal Service Provider condition requirements.

Statement by the independent Non Executive Directors

A number of structured processes exist throughout the business to support good governance.

The Independent Non Executive Directors are satisfied that the Company's Corporate Governance and Internal controls have been effective throughout the financial year ended 31 March 2013.

Orna Ni-Chionna
Senior Independent Director

Directors' remuneration report for 2012-13

This report explains the approach adopted by the Remuneration Committee when setting the remuneration of the Company's Executive Directors and certain other senior executives. It has been prepared, taking due account of the Directors' Remuneration Report Regulations, in so far as Royal Mail Group as a non-listed company can comply with them. This report is split into two sections: (i) The Policy report, setting out the overall policy for executive remuneration and (ii) The Implementation report, setting out details of remuneration paid or awarded in 2012/2013.

Overview by the chair of the Remuneration Committee

2012/13 was a year of very significant progress for Royal Mail as we put the Universal Service on a secure footing. We have made considerable headway with respect to the achievement of our three strategic objectives (see page 10). Particular highlights include:

- Group revenue has increased by five per cent on a like-for-like basis. Profit after transformation costs grew to £403 million on a 52 week basis and we generated free cash inflows of £334 million, mainly through our trading performance;
- UKPIL, our core UK business, is now the biggest contributor to Group profit. Its parcel revenue increased by 13 per cent, while letter revenue increased by three per cent on a like-for-like basis; and
- Our customer satisfaction ratings are high. We delivered more than 7.5 million tickets for London 2012, with over 98 per cent arriving on time, first time; we rolled out our Delivery to Neighbour programme across the UK.

This robust financial and operating performance reflects the substantial progress made by the Group, led by the Executive team. The Committee recognises that executive reward is a sensitive issue for society at large. The Committee determines remuneration levels carefully and the Secretary of State for the Department for Business, Innovation and Skills (BIS) approves any material changes to the remuneration arrangements of Royal Mail Group Executive Directors, including the approach and targets relating to the short term and long term incentive plans.

Review of remuneration for Executive Directors

During 2012/13, the Committee conducted a comprehensive review of the remuneration packages of the senior executive population, including the Executive Directors, benchmarking them against comparable companies. Appropriate comparator companies were chosen from the utilities, consumer services, industrials and telecommunications industries. The companies were selected as they shared certain characteristics relating to size and complexity and regulatory environment.

The key findings of this review were:

- the base salaries of the Executive Directors are below the median, with the Chief Executive Officer's salary falling in the bottom quartile range. It is worth noting that neither the Chief Executive Officer nor the Chief Finance Officer has received an increase in their base salary since they joined the company in July and November 2010 respectively.
- the incentive opportunity (STIP and LTIP) is significantly below market average both as a percentage of base salary and in value terms.
- total remuneration levels are below the market average, with total remuneration for the Chief Executive in the bottom quartile range.

The remuneration arrangements are structured so that a significant proportion of the overall reward package for executives is dependent on performance against short term and longer term measures and targets. The Committee is satisfied that there is a strong link between the rewards received by the Executive Directors under the Short Term Incentive Plan ('STIP') and the financial and operational performance of the Group. The STIP is primarily dependent on the achievement of corporate targets, as summarised in the Corporate Balanced Scorecard which lists 13 Key Performance Indicators (KPIs) in four equally-weighted quadrants: People; Customer; Performance and Financial. Within these quadrants, performance achieved or exceeded the target level for 11 out of the 13 KPIs, with stretch performance achieved for six of them. There are no Long Term Incentive Plan ('LTIP') awards vesting to Executive Directors this year. The performance targets for the first awards under the current LTIP have been met in full (reflecting the strong financial performance of the Group over the three year period to 2012/13). However, the awards are subject to an additional deferral period, requiring continued service to 31 March 2014.

The Committee believes that the current remuneration policy is appropriately aligned to the business strategy and that there is a strong link between performance and reward. No changes to the policy are proposed for 2013/14 except that the LTIP award for 2013/14 will convert to shares upon a transaction.

On behalf of the Committee, I commend this report to all stakeholders in Royal Mail Group.

Orna Ni-Chionna
Chair of the Remuneration Committee

Policy report

This part of the Executive Directors' remuneration report sets out the current remuneration policy. The policy remains unchanged for the forthcoming year, except for the change to the LTIP arrangement outlined in my overview above.

Summary of Executive Director Remuneration policy

The Remuneration Committee determines, on behalf of the Board, the Company's policy on the remuneration of senior executives and the Executive Directors, subject where necessary to the consent of the Secretary of State.

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

- A significant proportion of the remuneration package should be dependent on achievement of stretching performance targets – both short and long term;
- Incentives should be designed so that they align the interests of senior executives, customers and the Shareholder;
- Variable reward should be structured so as to achieve a balance between short term and long term incentive programmes; and
- The overall remuneration package should be sufficiently competitive to attract and retain executives with the commercial experience to run a large, complex business in a highly challenging context.

The table summarises each element of the remuneration policy for the Executive Directors, explaining how each element operates and how each part links to the corporate strategy.

Summary table setting out the key features of remuneration policy for Executive Directors

The following table sets out a summary of each element of the Executive Directors' remuneration packages, the policy for how these are operated and their link to the Company's strategy.

Element of reward	Structure and opportunity
Base salary	Its aim is to help recruit and retain executives of a sufficiently high calibre to manage a large and complex business in a highly challenging context. Paid monthly in cash and reviewed annually (but not necessarily increased annually). The Secretary of State's (BIS) consent is required for all material changes to remuneration, including base salary increases.
Pension	Its purpose is to provide appropriate levels of retirement benefits. It consists of a mix of Company contributions to defined contribution pension schemes and a cash supplement (in lieu of pension): amounting to a total of 40 per cent of salary.
Other benefits	Company car and health insurance, or the cash equivalent of any benefits not taken and other contractual benefits. The Chief Executive is eligible for two return flights to Canada each year and financial advice.
Short Term Incentive Plan (STIP)	Its aim is to drive and reward annual performance against financial and non-financial targets. 80 per cent of the STIP is dependent on the achievement of corporate targets, as summarised in the Corporate Balanced Scorecard (CBS). The CBS is directly linked to the achievement of the Group's strategic objectives (see page 10) and is used to determine STIP awards for all Royal Mail Group managers. CBS targets relate to financial and operational performance, and people and customer measures, with all four quadrants given equal weighting. The STIP operates between three specific points for each measure: Threshold, Target and Stretch. Once a measure has achieved a specific *Threshold*, 50 per cent of the STIP for that measure is awarded. If a measure achieves *Target*, 100 per cent of the STIP for that measure is awarded. If the measure outperforms, the STIP pays out above its Target rate proportionally up to a maximum (*Stretch*) at which it is capped. See page 52 for details of the metrics used in the Corporate Scorecard for 2012/13. The remaining 20 per cent of the STIP is dependent on the achievement of specific personal targets. In addition to the corporate and personal targets, a minimum level of operating profit must be achieved before any Executive Director becomes eligible for a payment. For on-target performance the STIP opportunity is 60 per cent of base salary for the Chief Executive and Finance Director, with the maximum (at Stretch performance) being 100 per cent of salary. The STIP opportunity for on-target performance is 48 per cent of base salary for the Managing Director, Operations and Modernisation, with the maximum being 80 per cent of salary. Payable in cash annually, based on performance against the Group's KPIs, as outlined in the CBS and personal goals. The structure and size of the STIP is approved by the Secretary of State for the Department for Business, Innovation and Skills.

Directors' remuneration report (continued)

Element of reward	Structure and opportunity
Long Term Incentive Plan (LTIP)	Its purpose is to drive and reward delivery of sustained long term financial performance. The measures and targets are chosen to support the achievement of the Company's key strategic objectives. Awards take the form of a right to receive a cash amount, normally three years after grant, subject to continued employment and the satisfaction of the performance conditions. Awards are made each year. A threshold applies below which no payment is made. The threshold is 70 per cent of the operating profit target. The maximum payment is awarded upon achievement of a stretch target. The stretch target is 120 per cent of the operating profit target. Full details are set out on page 53. The performance conditions are based on both operating profit and return on total assets (ROTA) in the third year of a three year performance period, with the targets for each measure derived from the company's business plan. The operating profit is the audited figure as presented in the company's annual report. The ROTA figure is verified by auditors separately. The primary performance measure is operating profit, with the indicative pay-out under this measure then subject to a downward-only adjuster based on ROTA targets. ROTA was chosen as the secondary measure as it covers the need to make a sufficient return both on any new investments and on the existing asset base. For awards to pay out in full both the operating profit and ROTA targets must be met in full. Details of the operating profit and ROTA targets applying to existing LTIP awards are provided on page 53. For achieving target performance, the LTIP opportunity is 70 per cent of salary for each of the Executive Directors; the maximum LTIP opportunity is 98 per cent of salary for achieving the stretch target. The LTIP award for 2013/14 will have the same basic structure as last year, but instead of the target LTIP opportunity (70 per cent of salary) being based on the business plan number as in prior years, the target LTIP opportunity will be subject to a level of performance which will be 10% higher than the business plan number. In the event of a sale of shares in Royal Mail Group, the LTIP award for 2013/14 will convert into shares at the Volume Weighted Average Price (VWAP) for a specified period post transaction, and these shares will be subject to the same multiplier. The Remuneration Committee has the discretion to clawback the value of any cash amount received if it transpires that an award has been paid on the basis of mis-stated results due to willful wrongdoing by employees. This restriction lapses five years from the vesting date. The LTIP grants, size and targets are approved by the Secretary of State for the Department of Business, Innovation and Skills.

Directors' Service Contracts

The Committee's policy is that Executive Directors appointed to the Board are given notice periods of one year, and that they must give six months' notice of departure.

The Committee has a defined policy on remuneration and mitigation, to be applied in the event of an Executive 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 of the Executive Directors include the following terms as at 31 March 2013.

	Date of Contract	Unexpired Term (Months)
Moya Greene	15 July 2010	12
Matthew Lester	24 November 2010	12
Mark Higson	5 November 2007	12

The Non-Executive Directors have service contracts but do not have employment contracts. The Company is committed to the service contracts for the remaining term of appointments, subject to annual review and notice, for Non-Executive Directors, including the Chairman. The service contract dates as at 31 March 2013 for the Non-Executive Directors who have served during the year are as follows:

	Date of Contract	Unexpired Term (Months)
Donald Brydon	26 March 2012	24
John Allan[1]	14 January 2013	33
Jan Babiak[2]	1 March 2013	35
Nick Horler[3]	1 April 2013	36
Cath Keers[4]	1 June 2010	2
Paul Murray[5]	1 August 2012	28
Orna Ni-Chionna[6]	1 June 2010	2
Les Owen[7]	27 January 2013	34

Fees for the Chairman and Non Executive Directors	The fee levels are set taking into account the time commitment and responsibilities of the Chairman and Non Executive Directors. Fees are paid monthly in cash. The fees for the Chairman are set by the Secretary of State for the Department of Business, Innovation and Skills. Fees for the Non Executive Directors are determined by the Executive Directors and are submitted to the Secretary of State for approval. Details of the current fee levels are set out in the Implementation Report. Fees are reviewed on a periodic basis.

[1] John Allan was appointed on 14 January 2013 for a three year term to 13 January 2016.

[2] Jan Babiak was appointed on 1 March 2013 for a three year term to 28 Feb 2016.

[3] Nick Horler was re-appointed on 1 April 2013 for a further three year term to 31 March 2016.

[4] Cath Keers was subsequently re-appointed on 1 June 2013 for a further three year term to 31 May 2016.

[5] Paul Murray was re-appointed on 1 August 2012 for a further three year term to 31 July 2015.

[6] Orna Ni-Chionna was subsequently re-appointed on 1 June 2013 for a further three year term to 31 May 2016.

[7] Les Owen was re-appointed on 27 January 2013 for a further three year term to 26 January 2016.

Directors' remuneration report (continued)

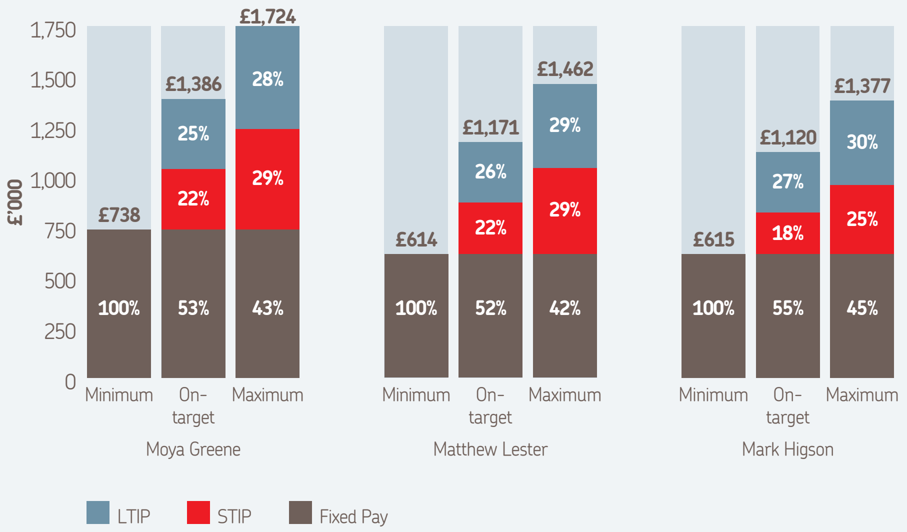
Reward Scenarios

The chart opposite shows how the composition of each of the Executive Directors' remuneration packages varies at different levels of performance achievement. The chart also shows the total amount of remuneration and the proportion made up by each element of pay under each scenario.

On-target Performance assumes a payment of 60 per cent of salary under the STIP (48 per cent for Mark Higson) and 70 per cent of salary under the LTIP.

Maximum Performance assumes full achievement of the STIP and LTIP stretch targets, providing an STIP award of 100 per cent of salary (80 per cent for Mark Higson) and an LTIP award of 98 per cent of salary (1.4 x target).

Executive Directors' reward scenarios



Fixed pay includes salary, benefits and pension.

Implementation report
This part of the Directors' remuneration report sets out how the remuneration policy and practices for the Company were implemented over the financial year. Details of the remuneration earned by Executive Directors and the outcomes of incentive schemes, together with the link to Company performance, are also provided in this Implementation report.

The detailed information about the Executive Directors' remuneration, set out below and on pages 46 to 54 has been audited by the Company's independent auditors, Ernst & Young LLP.

Membership of the Remuneration Committee
The members of the Committee during the last financial year were Orna Ni-Chionna (Chair), Donald Brydon, Jan Babiak (from 1 March 2013), Paul Murray and Les Owen. David Currie, Nick Horler and Cath Keers were also members of the Committee until 20 June 2012. All of these are or were independent Non-Executive Directors, as defined under the Corporate Governance Code, with the exception of the Company Chairman who was independent on his appointment. Details of the number of meetings held during the year and the attendance of the members are provided on page 43.

The Committee obtains information and advice from inside and outside the Group. Jon Millidge, the Company Secretary, acted as Secretary to the Committee. Internal support was provided by John Duncan, the Group HR Director, supported by other members of the HR department as appropriate. Moya Greene, the Chief Executive, was also invited to attend meetings where appropriate. No individual was present when matters relating directly to their own remuneration were discussed.

New Bridge Street was appointed by the Committee in 2011 to act as the independent adviser to it on remuneration matters. New Bridge Street (NBS) is a trading name of Aon Hewitt Limited, which is a subsidiary of Aon plc. Advice provided by NBS to the Committee during the year included:

- Attendance at Committee meetings;
- Provision of pay benchmarking data for the senior executive team (see below);
- Annual update for the Committee on developments in best and market practice and regulatory requirements for all remuneration elements;
- Review of the incentive schemes and structure of the remuneration packages;
- Assistance with the drafting of the Remuneration Report.

NBS is also assisting the Company in the design of the Employee Share Scheme, as outlined in the Postal Services Act 2011, which provides that a minimum of ten per cent of shares in the Company (or the equivalent value) will be reserved for employees in the event that the Government's shareholding in the Group falls to zero. The Remuneration Committee is satisfied that these additional services in no way compromised the independence of advice provided by NBS.

NBS is a signatory to the Remuneration Consultants' Code of Conduct.

During the year Towers Watson Limited provided the Company with advice on pensions and actuarial matters and Cameron McKenna provided advice on service contracts.

Base salaries
As stated above, the Committee's underlying policy with regard to senior executive base salaries is that levels are enough to recruit and retain executives of a suitably high calibre to manage a very large and complex company, which faces many challenges. During 2012/13 a comprehensive review of the senior executive population against a comparator group of similar companies found that the base salaries of the Executive Directors were below the median, with the Chief Executive Officer's salary falling in the bottom quartile.

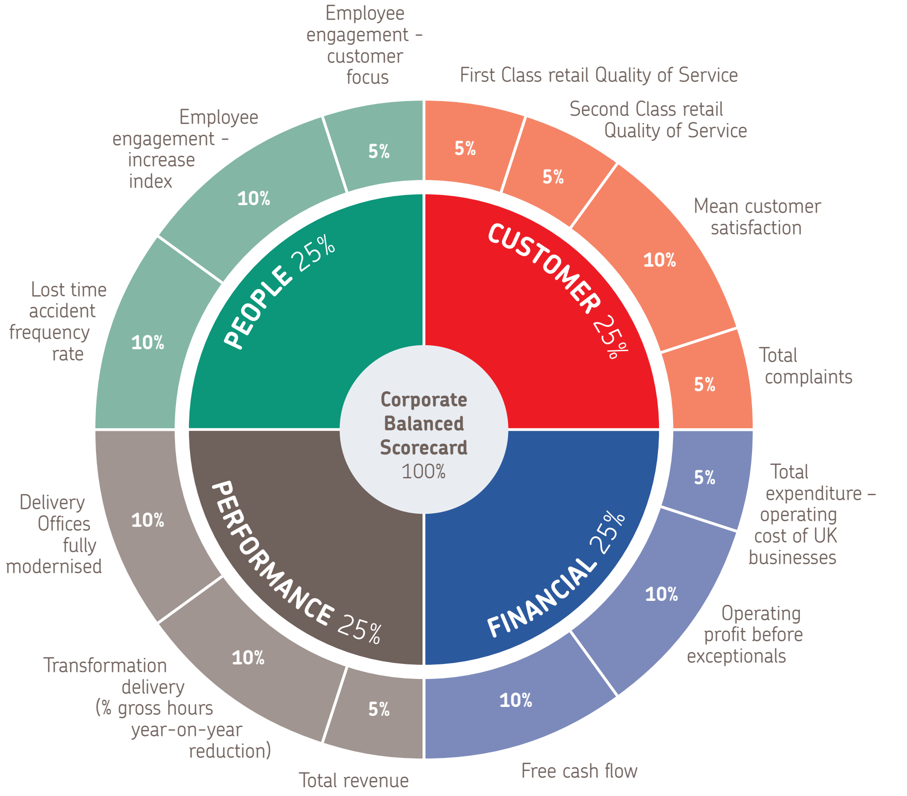
Notwithstanding this, no increases were made to the base salary of the Executive Directors. This means that neither Moya Greene nor Matthew Lester have received an increase in their base salary since they joined the Company in July 2010 and November 2010 respectively. Mark Higson's base salary has not increased since 2008.

Pensions
As in previous years, Mark Higson and Matthew Lester receive a cash supplement of 40 per cent of salary in lieu of pension contributions.

Moya Greene also receives pension arrangements valued at 40 per cent of basic salary, in line with other Executive Directors. In 2012/13, Moya Greene received a contribution to an approved defined contribution plan of £50,000 (the HMRC annual limit) and £150,000 cash in lieu of pension contributions (in total worth 40 per cent of salary).

In previous financial years, the Company has made contributions for Moya Greene to a UK HMRC approved pension plan and an unfunded promise which together total 40 per cent of salary. The cumulative value of this unfunded promise was £277,943 at the end of 2012/13 (2011/12: £261,222) based on the value of the amounts accrued having been invested in UK 5-year gilts.

Directors' remuneration report (continued)



Short Term Incentive Plan (STIP)

The structure of the STIP is outlined in the table on page 47. For each of the Executive Directors, 80 per cent of the STIP was dependent on the achievement of corporate targets, with 20 per cent dependent on the achievement of specific personal targets. Again, our benchmarking advice in 2012/13 demonstrated that the total opportunity remained below typical market levels, with the opportunity for the Chief Executive Officer again falling in the bottom quartile both for on-target and for stretch performance.

A minimum level of operating profit before transformational costs and other exceptional items must be achieved before an Executive Director becomes eligible for a payment. This payment then depends on to what extent the corporate and personal objectives were achieved. For the year in question this minimum profit level was £400 million: actual profit achieved was £633 million.

A blend of targets determined the extent to which STIPs could be earned in 2012/13. The chart above contains a summary of the corporate metrics under the Corporate Balanced Scorecard, which was used to determine 80 per cent of the STIP award. The same Corporate Balanced Scorecard was also used to determine STIP awards for all Royal Mail Group managers. The Committee reviewed these measures and targets to ensure that they were appropriate and consistent with challenging levels of performance.

Strong performance was achieved across all four quadrants (People, Customer, Performance and Financial). Target performance (or above) was achieved in 11 out of the 13 KPIs and the stretch hurdle was exceeded in six of them. The total award resulting from achievement of the Scorecard for 2012/13 was at 80 per cent of the maximum (i.e. 64 per cent of salary for Moya Greene and Matthew Lester and 51 per cent of salary for Mark Higson. The maximum opportunity was of 80 per cent and 64 per cent of salary respectively).

20 per cent of the STIP award is based on specific personal targets. The targets were set at the start of the year based on each Executive Director's area of responsibility. The Committee reviewed performance against these objectives at the end of the year and awarded bonus payments accordingly.

The total STIP payments awarded to the Executive Directors for performance in 2012/13 were as follows:

- Moya Greene – 80 per cent of salary;
- Matthew Lester – 80 per cent of salary;
- Mark Higson – 57 per cent of salary.

The above payments reflect the achievement of very strong performance against most of the measures and targets in the STIP.

Long Term Incentive Plan (LTIP)

As outlined in last year's Report, in 2011/12, the Remuneration Committee established a new LTIP, the structure of which is set out below. The LTIP is a conditional award, payable in cash, which usually vests in the third year after the grant is made, provided that stretching financial performance conditions are met. In 2011/12, the Remuneration Committee awarded two grants to the majority of participants (including Executive Directors) to reflect the fact that an award it intended to grant in 2010 had not been made. Both grants reward performance over a three year period. However, the award in respect of 2010 will not vest for another year (i.e. until the end of 2013/14) to provide additional long term focus. A further grant of 70 per cent of salary was made in respect of 2012/13, which will vest at the end of 2014/15 (i.e. in March 2015), subject to performance against targets.

The table below sets out details of the outstanding LTIP awards.

Name	LTIP award	Final year of Performance Period	Target value of award (£'000)	Maximum value of award (£'000)
Moya Greene	2010	2012/13	£349	£488
	2011	2013/14	£349	£488
	2012	2014/15	£349	£488
Mark Higson	2010	2012/13	£300	£420
	2011	2013/14	£300	£420
	2012	2014/15	£300	£420
Matthew Lester	2010	2012/13	£300	£419
	2011	2013/14	£300	£419
	2012	2014/15	£300	£419

The LTIP is subject to two performance conditions. The primary measure is operating profit:

Operating profit performance in the final year of the performance period (i.e. 2012/13, 2013/14 or 2014-15)	Proportion of target award vesting
Less than 70 per cent of target	0 per cent
70 per cent to 80 per cent of target	0 per cent to 80 per cent vesting (straight-line sliding scale)
80 per cent to 100 per cent of target	80 per cent to 100 per cent vesting (straight-line sliding scale)
100 per cent to 120 per cent of target	100 per cent to 140 per cent vesting (straight-line sliding scale)
More than 120 per cent of target	140 per cent vesting (i.e. maximum 98 per cent of salary)

The secondary measure is a downwards only adjustment based on ROTA targets. If ROTA is greater than 90 per cent of target, there is no adjustment. If ROTA is between 75 per cent of target and 90 per cent of target there is a 50 per cent reduction in the level of vesting achieved under the operating profit performance condition. If ROTA is less than 75 per cent of target then the award lapses, irrespective of operating profit performance.

The year being reported on (2012/13) was the last year of the performance period for the 2010 LTIP award. The operating profit target for 2012/13 was £368 million and the ROTA target was 13.5 per cent. Actual operating profit for 2012/13 was £635 million and ROTA was 25.8 per cent. Accordingly, the total percentage of LTIP awards for 2012/13 vesting was 140 per cent of target (equivalent to 98 per cent of salary).

This results in the following potential awards to the Executive Directors: Moya Greene – £488,000, Mark Higson – £420,000, Matthew Lester – £419,000. The awards are still subject to a forfeiture condition. The awards will be paid at the end of 2013/14, providing the Executive Director remains in employment with the Company and is not under notice at the payment date.

The LTIP is also subject to clawback for a maximum of five years after the vesting date if it transpires that an award has been made on the basis of mis-stated results because of wilful wrongdoing by employees.

Directors' remuneration report (continued)

Remuneration for 2012/13

The table below sets out the remuneration received by the Executive Directors in relation to performance and/or service during the year. The table has been prepared in accordance with the requirements of Schedule 8 of the Companies Act 2006.

£'000	Annual salary/fees	Salary and fees Received	Contractual Benefits[14]	Other[15]	Amount in lieu of pension	Short Term Incentive Plan	**Total 2013**	Total 2012
Chairman								
Donald Brydon	200	200	–	–	–	–	**200**	200
Executive Directors								
Moya Greene	498	498	127	250	200	399	**1,474**	1,107
Mark Higson	428	428	15		171	245	**859**	887
Matthew Lester	428	428	15		171	344	**958**	934
Non-Executive Directors								
John Allan[8]	40	12	–	–	–	–	**12**	–
Jan Babiak[9]	40	3	–	–	–	–	**3**	–
Nick Horler	40	40	–	–	–	–	**40**	40
Cath Keers	40	40	–	–	–	–	**40**	40
Paul Murray[10]	50	50	–	–	–	–	**50**	50
Orna Ni-Chionna[11]	60	60	–	–	–	–	**60**	60
Les Owen	40	40	–	–	–	–	**40**	40
Former Directors								
David Currie[12]	40	17	–	–	–	–	**17**	40
Paula Vennells[13]	–	–	–	–	–	–	–	463
David Smith	–	–	–	–	–	–	–	59
Total 2013		**1,816**	**157**	**250**	**542**	**988**	**3,753**	
Total 2012		2,124	81		578	1,137		3,920

Executive Directors' outside appointments

The annual fees received by the Executive Directors as at 31 March 2013 in respect of their Non-Executive Directorships are shown in the table below:

Name	**Directorship**	**2013 £'000**	2012 £'000
Moya Greene	Tim Hortons	**18[16]**	16[16]
Matthew Lester	Man Group plc	**95**	79

Approval

This remuneration report, including both the policy and implementation reports, has been approved by the Board of Directors.

Signed on behalf of the Directors by

Orna Ni-Chionna
Remuneration Committee Chair
31 July 2013

[8] John Allan joined the Board on 14 January 2013.

[9] Jan Babiak joined the Board on 1 March 2013.

[10] Paul Murray's fee includes £10,000 for his role as Chairman of the Audit and Risk Committee.

[11] Orna Ni-Chionna's fee includes £10,000 for her role as Chairman of the Remuneration Committee and £10,000 for her role as Senior Independent Director.

[12] David Currie stood down from the Board on 31 August 2012

[13] Paula Vennells stood down from the Board on 31 March 2012 following the separation of Post Office Limited.

[14] The Chief Executive's other benefits include medical insurance, contractual relocation payments, financial advice and return flights to Canada.

[15] The Company's Relocation Policy states that any fees or charges associated with relocation at the Company's request are subject to payment by the Company to assist any executive.

In the exceptional circumstances of the Chief Executive's relocation and commitment to the UK, additional assistance, on the purchase of a home, was offered given the difference in residential costs between the UK and Canada. The Remuneration Committee, consisting of all Non-Executive Directors at the time, determined that a single payment should be made to the Chief Executive rather than an annual allowance. The additional assistance amounted to £120,000 after tax.

The Chief Executive was not involved in the decision nor does she engage with Government about payments made to her by the Company.

The Secretary of State for Business, Innovation and Skills has advised the Remuneration Committee that this was a material variation to her remuneration and it therefore ought to have sought his prior approval. Although it had not done so, the Remuneration Committee considers it made its decision in good faith in exceptional circumstances . When she learned of this background, the Chief Executive voluntarily offered to return this assistance. The Remuneration Committee has accepted this offer and is arranging the process for repayment.

The Remuneration Committee will also determine the process for the reimbursement of the Company of any unrealised gain to date associated with this payment.

[16] Sterling equivalent of payments received during the year.

Consolidated financial statements

[1] For the 53 weeks ended 31 March 2013, 52 weeks ended 25 March 2012 and 27 March 2011.
[2] At 31 March 2013, 25 March 2012 and 27 March 2011.

Consolidated income statement

for the 53 weeks ended 31 March 2013, 52 weeks ended 25 March 2012 and 27 March 2011

	Notes	Reported 53 weeks 2013 £m	Adjusted 2013[2] (unaudited) £m	52 weeks Reported 2012 £m	52 weeks Reported 2011 £m
Revenue	3/4	**9,279**	**9,146**	8,764	8,415
People costs	12	**(5,147)**	**(5,077)**	(4,920)	(4,986)
Distribution and conveyance operating costs		**(1,785)**	**(1,771)**	(1,755)	(1,616)
Infrastructure costs (property, IT, depreciation/amortisation)		**(1,052)**	**(1,047)**	(1,060)	(1,025)
Other operating costs		**(660)**	**(653)**	(648)	(578)
Operating profit before exceptional items		**635**	**598**	381	210
Transformation costs – operating exceptional items	5	**(195)**	**(195)**	(229)	(192)
Operating profit after transformation costs[1]		**440**	**403**	152	18
Other operating exceptional items	5	**(77)**		(57)	(48)
Operating profit/(loss)		**363**		95	(30)
Profit on disposal of property, plant and equipment		**4**		156	60
Profit on disposal of business		**–**		26	44
Earnings before interest and taxation (EBIT)		**367**		277	74
Finance costs	6	**(104)**		(112)	(107)
Finance income	6	**27**		12	23
Net pension interest credit/(charge)	9(g)	**34**		24	(155)
Profit/(loss) before taxation		**324**		201	(165)
Taxation – current charge	7	**(38)**		(36)	(35)
– deferred credit/(charge)	7	**284**		(15)	(88)
Profit/(loss) for the period		**570**		150	(288)
Profit/(loss) for the period attributable to:					
Equity holder of the parent company		**566**		149	(289)
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)		**4**		1	1

[1] Before other operating exceptional items.
[2] The methodology to calculate the 52 week comparative period is explained on page i.

Consolidated statement of comprehensive income

for the 53 weeks ended 31 March 2013, 52 weeks ended 25 March 2012 and 27 March 2011

	Notes		Reported	
		53 weeks 2013 £m	52 weeks 2012 £m	52 weeks 2011 £m
Profit/(loss) for the period from continuing operations		**570**	150	(288)
Other comprehensive income for the period:				
Foreign exchange translation differences		**(5)**	(47)	(11)
Translation differences on foreign currency net investments		(5)	(47)	(11)
Amounts relating to pension accounting		**(411)**	1,436	3,184
IFRIC 14 adjustment relating to pensions	9(c)	(5)	–	–
Actuarial (losses)/gains on defined benefit schemes	9(g)	(218)	1,436	3,184
Taxation on items taken directly to equity	7(b)	(188)	–	–
Cash flow hedges		**2**	(14)	10
(Losses)/gains on cash flow hedges deferred into equity		(1)	(4)	24
Losses/(gains) on cash flow hedges released from equity to income		2	(15)	(7)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		(1)	(3)	(3)
Taxation on items taken directly to equity	7(b)	2	8	(4)
Gains on financial assets		**(22)**	14	(3)
Gains on financial assets deferred into equity		–	14	3
Gains on financial assets released from equity to income	6	(22)	–	(6)
Total comprehensive income for the period		**134**	1,539	2,892
Total comprehensive income for the period attributable to:				
Equity holder of the parent company		**130**	1,547	2,891
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)		**4**	(8)	1

Consolidated statement of cash flows

for the 53 weeks ended 31 March 2013, 52 weeks ended 25 March 2012 and 27 March 2011

The statement of cash flows below is prepared using the template prescribed under IFRS. Note 8 provides a summary statement of cash flows used by management, and includes a reconciliation to the statement shown below.

		Reported		
	Notes	**53 weeks 2013 £m**	52 weeks 2012 £m	52 weeks 2011 £m
Cash flow from operating activities				
Operating profit before exceptional items		**635**	381	210
Adjustment for:				
Depreciation and amortisation	13	**281**	301	286
Share of post taxation profit from associates	25	**(1)**	(1)	(3)
EBITDA before exceptional items	8	**915**	681	493
Working capital movements:	8	**142**	(19)	(58)
Decrease/(increase) in inventories		8	1	(1)
Decrease/(increase) in receivables		25	(148)	(21)
Increase/(decrease) in payables		136	116	(25)
Net increase in derivative assets		(15)	(6)	(12)
(Decrease)/increase in non-exceptional provisions		(12)	18	1
Difference between pension costs charged in operating profit and pension cash flows	8	**(3)**	(9)	(263)
Payments in respect of transformation operating exceptional items	8	**(230)**	(280)	(242)
Payments in respect of non-transformation operating exceptional items	8	**(26)**	(37)	(5)
Cash inflow/(outflow) from operations		**798**	336	(75)
Income taxation paid	8	**(37)**	(35)	(36)
Net cash inflow/(outflow) from operating activities		**761**	301	(111)
Cash flows from investing activities				
Dividends received from associates	8	**–**	4	9
Finance income received	8	**5**	12	22
Proceeds from sale of property, plant and equipment	8	**52**	203	157
Proceeds from disposal of business		**–**	37	73
Purchase of property, plant and equipment		**(388)**	(287)	(270)
Transformation investment in UKPIL	8	(177)	(185)	(166)
Other (GLS and business as usual UKPIL spend)	8	(211)	(102)	(104)
Acquisition of business (in GLS)	8	**(3)**	(2)	(2)
Purchase of intangible assets (software)	8	**(41)**	(45)	(70)
Payment of deferred consideration in respect of prior years' acquisitions	8	**(3)**	(1)	–
Net sale/(purchase) of financial assets investments (non-current)		**129**	(4)	88
Net sale/(purchase) of financial assets investments (current)		**30**	(30)	–
Net cash (outflow)/inflow from investing activities		**(219)**	(113)	7
Net cash inflow/(outflow) before financing activities		**542**	188	(104)
Cash flows from financing activities				
Finance costs paid	8	**(49)**	(68)	(54)
Payment of capital element of obligations under finance lease contracts		**(74)**	(49)	(62)
Cash received on sale and leasebacks		**58**	88	115
New loans		**–**	–	300
Repayment of borrowings		**(600)**	(1)	(42)
Net cash (outflow)/inflow from financing activities		**(665)**	(30)	257
Net (decrease)/increase in cash and cash equivalents		**(123)**	158	153
Effect of foreign currency exchange rates on cash and cash equivalents		**1**	(4)	(2)
Cash and cash equivalents at the beginning of the period		**473**	319	168
Cash and cash equivalents at the end of the period	16	**351**	473	319

Consolidated balance sheet

at 31 March 2013, 25 March 2012 and 27 March 2011

	Notes	At 31 March 2013 £m	Reported At 25 March 2012 £m	At 27 March 2011 £m
Non-current assets				
Property, plant and equipment	22	**1,916**	1,822	1,829
Leasehold land payment		**3**	3	3
Goodwill (mainly investment in GLS)	23	**196**	189	197
Intangible assets (mainly software)	24	**139**	135	126
Investments in associates	25	**3**	3	9
Financial assets – pension escrow investments	6/14/15	**20**	149	87
– bank deposits	6/14/19	**–**	–	44
– derivatives	14/19	**3**	2	6
Retirement benefit asset net of IFRIC 14 adjustment	9(c)	**825**	–	–
Other receivables		**8**	–	–
Deferred taxation assets	7	**112**	9	8
		3,225	2,312	2,309
Non-current assets held for sale		**2**	4	4
Current assets				
Inventories		**24**	32	33
Trade and other receivables	26	**1,004**	1,036	906
Financial assets – derivatives	14/19	**9**	9	36
– short-term deposits	6/14/19	**1**	31	1
Cash and cash equivalents	16	**351**	473	319
		1,389	1,581	1,295
Total assets		**4,616**	3,897	3,608
Current liabilities				
Trade and other payables	27	**(1,611)**	(1,512)	(1,394)
Financial liabilities – obligations under finance leases	6/14/19	**(79)**	(86)	(61)
– derivatives	14/19	**(2)**	(4)	(3)
Income taxation payable		**(14)**	(9)	(6)
Provisions	21	**(119)**	(132)	(167)
		(1,825)	(1,743)	(1,631)
Non-current liabilities				
Financial liabilities – interest bearing loans and borrowings	6/14/17	**(973)**	(1,522)	(1,478)
– obligations under finance leases	6/14/19	**(226)**	(231)	(184)
– derivatives	14/19	**(1)**	(1)	–
Provisions	21	**(127)**	(85)	(85)
Retirement benefit obligation – pension deficit	9(b)	**–**	(2,716)	(4,185)
Other payables		**(36)**	(36)	(29)
Deferred taxation liabilities	7	**(23)**	(18)	(10)
		(1,386)	(4,609)	(5,971)
Total liabilities		**(3,211)**	(6,352)	(7,602)
Net assets/(liabilities)		**1,405**	(2,455)	(3,994)
Equity				
Share capital	28	**–**	–	–
Share premium	10	**–**	3,784	3,784
Retained earnings – all distributable		**1,318**	(6,347)	(7,941)
Other reserves		**83**	108	155
Equity attributable to equity holder of parent company		**1,401**	(2,455)	(4,002)
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)		**4**	–	8
Total equity	10	**1,405**	(2,455)	(3,994)

Moya Greene
Chief Executive Officer

Matthew Lester
Chief Finance Officer

Consolidated statement of changes in equity

at 31 March 2013, 25 March 2012 and 27 March 2011

	Share premium £m	Retained earnings £m	Financial assets reserve £m	Foreign currency translation reserves £m	Hedging reserve £m	Equity holder of the parent £m	Non-controlling interest £m	Total equity £m
At 28 March 2010	3,784	(10,836)	11	136	12	(6,893)	7	(6,886)
(Loss)/profit for the period	–	(289)	–	–	–	(289)	1	(288)
Other comprehensive income/(expense) for the period	–	3,184	(3)	(11)	10	3,180	–	3,180
At 27 March 2011	3,784	(7,941)	8	125	22	(4,002)	8	(3,994)
Profit for the period	–	149	–	–	–	149	1	150
Other comprehensive income/(expense) for the period	–	1,436	14	(47)	(14)	1,389	–	1,389
Dividend from non-controlling interest	–	9	–	–	–	9	(9)	–
At 25 March 2012	**3,784**	**(6,347)**	**22**	**78**	**8**	**(2,455)**	**–**	**(2,455)**
Profit for the period	**–**	**566**	**–**	**–**	**–**	**566**	**4**	**570**
Other comprehensive (expense)/income for the period	**–**	**(411)**	**(22)**	**(5)**	**2**	**(436)**	**–**	**(436)**
Pension deficit transfer to HM Government on 1 April 2012 (see note 9(d))	**–**	**3,726**	**–**	**–**	**–**	**3,726**	**–**	**3,726**
Capital reduction (see note 10)	**(3,784)**	**3,784**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 March 2013	**–**	**1,318**	**–**	**73**	**10**	**1,401**	**4**	**1,405**

Core notes to the consolidated financial statements

The notes in this section are considered by the Board to be particularly important to a reader of the financial statements. These notes are the same as those included in the Preliminary Results announced on 21 May 2013, except for an additional 'Going concern and funding' note which was not considered relevant for a Preliminary Statement but which is nonetheless an important disclosure, and additional disclosures in the 'Taxation' and 'Employee benefits – pensions' notes, in order to fully comply with IFRS.

Since the publication of the Preliminary Statement, the Company has announced a consultation with members of the Royal Mail Pension Plan (RMPP) and details of the proposals have been included in the 'Events after the reporting period' note.

Notes to the consolidated financial statements

1. Basis of preparation

This note explains how these Royal Mail Group Limited consolidated financial statements have been prepared, including management's decision to exclude the consolidated results of the Company's main subsidiary company, Post Office Limited, up until its transfer of ownership to Royal Mail Holdings plc on 1 April 2012, to enable a comparative analysis.

Introduction
In preparing these Group financial statements, Royal Mail Group Limited continues to embrace recent guidance issued by the Financial Reporting Council (FRC). The FRC outlined principles in its 'Louder than Words' and 'Cutting Clutter' discussion papers to make corporate reporting clearer and less complex.

Based on the views of the Group, as well as the key areas of focus from stakeholders, Royal Mail Group Limited has separated the notes to the financial statements into two sections: 'Core' and 'Other' in order to assist the users of the financial statements. While the financial statements need to be considered as a whole, 'Core' notes to the financial statements represent those that are regarded by the Board to be of most importance to a user of the financial statements. All remaining notes are included in the 'Other' category.

The Group comprises Royal Mail Group Limited (the Company) and its subsidiaries. The Company is incorporated in the United Kingdom which is also the Group's country of domicile.

These Group consolidated special purpose financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Group operates. The consolidated financial statements have been prepared on a going concern basis and on a historic cost basis except for pension assets, derivative financial instruments and available for sale financial assets which have been measured at fair value.

The Directors have established a principle to produce a set of consolidated results for Royal Mail Group Limited which includes the trading activities of UK Parcels, International & Letters (UKPIL) and General Logistics Systems (GLS). These financial statements therefore exclude the results of Post Office Limited, a subsidiary of Royal Mail Group Limited up until its transfer to Royal Mail Holdings plc on 1 April 2012. These financial statements do, however, include transactions with Post Office Limited, i.e. revenue and costs and trade payable/receivable balances, as though Post Office Limited was like any other external customer/supplier of Royal Mail Group Limited.

Basis of accounting
These Group consolidated special purpose financial statements do not constitute statutory financial statements as defined in section 434 and 435 of the Companies Act 2006, but have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union, except for the non-consolidation of the Company's Post Office Limited subsidiary up until its transfer to Royal Mail Holdings plc on 1 April 2012. The effect of this is as follows:

- There is no difference between the closing balance sheet position at 31 March 2013 under this methodology and that required if Post Office Limited had been consolidated up until the date of its transfer to Royal Mail Holdings plc;
- There has been no disposal accounting in respect of the Post Office Limited transfer;
- If disposal accounting had been effected in line with IFRS, certain components of these financial statements would have been impacted as follows:
  - 2012 and 2011 comparative information – which would have included the results of Post Office Limited and the related inter-group elimination/consolidation accounting entries;
  - Income statement – which would have included the results of Post Office Limited (as a discontinued operation) for the period 26 March 2012 to 31 March 2012 – i.e. up until its transfer to Royal Mail Holdings plc; and
  - Total equity – through which the transfer of Post Office Limited on 1 April 2012 would have been recorded as a transaction with the Company's owner (Royal Mail Holdings plc) in their capacity as owner (IAS 1 Presentation of Financial Statements).

The Royal Mail Group Limited statutory financial statements are publicly available from www.royalmailgroup.com.

Estimation and accounting judgements
The preparation of these consolidated financial statements requires management to make various judgements, estimates and assumptions when determining the carrying value of certain assets and liabilities. Actual results may differ from the estimates. Further details can be found in 'Significant accounting policies' on page 117.

2. Going concern and funding

This note provides details of how the Directors have concluded that Royal Mail Group Limited remains a going concern, including their review of the Group's cash headroom position.

The Group's business activities, strategy and performance are outlined on pages 1 to 33.

Introduction
In assessing the going concern status of the Group, the Directors have to look forward by a minimum of 12 months from the date of signing the Annual Report and Financial Statements to ensure that there is sufficient headroom (broadly available cash and cash equivalents plus available unrestricted unused committed facilities) to enable the Group to pay its creditors as they fall due.

There are two significant events that the Directors have noted and considered whilst performing this review.

(i) Pension transfer to HM Government
On 1 April 2012 (one week into the current financial year) – after the granting of State Aid by the European Commission to HM Government on 21 March 2012 – almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP), built up until 31 March 2012, were transferred to a new HM Government pension scheme, the Royal Mail Statutory Pension Scheme (RMSPS).

This transfer left the RMPP fully funded on an actuarial basis and by using long-term actuarial assumptions agreed at that date, it was predicted that the Company would have to make no further deficit cash contributions to RMPP (previously the Group had made payments, including £272 million in 2011 and £262 million in 2010).

Further details on pensions can be found in note 9.

(ii) Available loans and borrowings
Note 17 of these financial statements details the loan facilities agreed between HM Government and Royal Mail Group Limited. This note confirms that the £900 million Senior Debt Facility (£600 million term loan, £300 million revolver) is due to expire in March 2014. At 31 March 2013 and at the date of signing this Annual Report and Financial Statements, these facilities had not been used and, until their expiry, the Directors can assume that they are available to be used. After their expiry they should normally expect that they are not available.

The Board, however, has written assurance from HM Government that alternative financing on commercial terms would be available to replace these borrowing facilities, should a sale transaction not take place and the cash headroom position deteriorated sufficiently to require HM Government to roll over the existing facilities.

Review assumptions
For the current review of going concern, the Directors undertook a review of the Company's cash headroom to March 2015, a longer window than the minimum requirement, under two different scenarios:

- A realistic but pessimistic downside case assuming no transaction takes place and placing reliance on the assurance from HM Government referred to above; and
- A realistic but pessimistic downside case assuming a sale transaction takes place and that as a consequence, the existing facilities are replaced by new facilities.

Summary
The Directors concluded from their review that under both of the above scenarios, sufficient cash headroom exists for the foreseeable future and accordingly the Group remains a going concern.

Notes to the consolidated financial statements (continued)

3. Segment information

Royal Mail Group's revenue, certain costs and profit before financing and taxation are segmented below, aligned with how the business is managed.

Business unit	Brand	Main statutory entities
UK Parcels, International & Letters (UKPIL) – UK operations	Royal Mail Parcelforce Worldwide	Royal Mail Group Limited Royal Mail Estates Limited Royal Mail Investments Limited
General Logistics Systems (GLS) – Other European operations	GLS General Logistics Systems	GLS Germany GmbH & Co. OHG GLS France S.A.S. GLS Italy S.p.A.
Other – UK operations	Facilities management Design consultancy Catering services	Romec Limited (51% owned subsidiary) NDC 2000 Limited (51% owned subsidiary) Quadrant Catering Ltd (51% owned associate)

Royal Mail Group is structured on a geographic business unit basis and these business units report into the Chief Executive's Committee and the Royal Mail Group Board. Each of these units have discrete revenue, costs, profit, cash flows, assets and people and therefore full and complete financial information is prepared and reviewed on a regular basis and compared with both historical and budget/forecast information as part of a rigorous performance management process.

In addition to providing segmental disclosures for profit after taxation, consistent with the requirements of accounting standards and how the Group is managed, the information below also includes details of free cash flow and EBITDA before transformation costs.

The majority of inter-segment revenue relates to the provision of facilities management and catering services to UKPIL. Trading between UKPIL and GLS is not material.

Transfer prices between the segments are set on a basis of charges reached through commercial negotiation with the respective business units that form part of the segments.

3. Segment information (continued)

Reported 53 weeks ended 31 March 2013	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Revenue (external, as reported)	**7,766**	**15**	**7,781**	**1,498**	**9,279**
Inter-segment revenue	**–**	**148**	**148**	**–**[1]	**148**
Total segment revenue	**7,766**	**163**	**7,929**	**1,498**	**9,427**
Operating profit before exceptional items	**526**	**8**	**534**	**101**	**635**
Transformation costs – operating exceptional items	**(195)**	**–**	**(195)**	**–**	**(195)**
Operating profit after transformation costs before other operating exceptional items	**331**	**8**	**339**	**101**	**440**
Other operating exceptional items	**(77)**	**–**	**(77)**	**–**	**(77)**
Operating profit	**254**	**8**	**262**	**101**	**363**
Profit on disposal of property, plant and equipment	**4**	**–**	**4**	**–**	**4**
Earnings before interest and taxation (EBIT)	**258**	**8**	**266**	**101**	**367**
Net finance costs			**(82)**	**5**	**(77)**
Net pension interest			**34**	**–**	**34**
Profit before taxation	not charged at this level		**218**	**106**	**324**
Taxation			**279**	**(33)**	**246**
Profit for the period after taxation			**497**	**73**	**570**
Free cash flow	not reported at this level		**309**	**25**	**334**
EBITDA before transformation costs	**775**	**8**	**783**	**132**	**915**

Reported 52 weeks ended 25 March 2012	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Revenue (external, as reported)	7,189	13	7,202	1,562	8,764
Inter-segment revenue	–	121	121	–[1]	121
Total segment revenue	7,189	134	7,323	1,562	8,885
Operating profit/(loss) before exceptional items	262	(9)	253	128	381
Transformation costs – operating exceptional items	(229)	–	(229)	–	(229)
Operating profit after transformation costs before other operating exceptional items	33	(9)	24	128	152
Other operating exceptional items	(42)	(15)	(57)	–	(57)
Operating (loss)/profit	(9)	(24)	(33)	128	95
Profit on disposal of property, plant and equipment	156	–	156	–	156
Profit on disposal of business	–	25	25	1	26
Earnings before interest and taxation (EBIT)	147	1	148	129	277
Net finance costs			(109)	9	(100)
Net pension interest			24	–	24
Profit before taxation	not charged at this level		63	138	201
Taxation			(6)	(45)	(51)
Profit for the period after taxation			57	93	150
Free cash flow	not reported at this level		90	64	154
EBITDA before transformation costs	533	(12)	521	160	681

[1] Trading between GLS and UKPIL is not material.

Notes to the consolidated financial statements (continued)

3. Segment information (continued)

Reported 52 weeks ended 27 March 2011	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Revenue (external, as reported)	6,885	45	6,930	1,485	8,415
Inter-segment revenue	–	135	135	–[1]	135
Total segment revenue	6,885	180	7,065	1,485	8,550
Operating profit before exceptional items	82	10	92	118	210
Transformation costs – operating exceptional items	(192)	–	(192)	–	(192)
Operating (loss)/profit after transformation costs before other operating exceptional items	(110)	10	(100)	118	18
Other operating exceptional items	(48)	–	(48)	–	(48)
Operating (loss)/profit	(158)	10	(148)	118	(30)
Profit on disposal of property, plant and equipment	60	–	60	–	60
Profit on disposal of business	–	44	44	–	44
Earnings before interest and taxation (EBIT)	(98)	54	(44)	118	74
Net finance costs	not charged at this level		(90)	6	(84)
Net pension interest			(155)	–	(155)
(Loss)/profit before taxation			(289)	124	(165)
Taxation			(79)	(44)	(123)
(Loss)/profit for the period after taxation			(368)	80	(288)
Free cash flow	not reported at this level		(331)	85	(246)
EBITDA before transformation costs	335	6	341	152	493

1 Trading between GLS and UKPIL is not material.

Total expenditure for UK businesses in 2013 was £7,247 million (2012 £6,949 million, 2011 £6,838 million).

The following amounts are included within operating profit before exceptional items:

Reported 53 weeks ended 31 March 2013	**UK operations**			**Other European operations**	
	UK Parcels, International & Letters £m	**Other £m**	**Total £m**	**General Logistics Systems £m**	**Total £m**
Depreciation	**210**	**1**	**211**	**27**	**238**
Amortisation of intangible assets (mainly software)	**39**	**–**	**39**	**4**	**43**
Share of post taxation profit from associates	**–**	**1**	**1**	**–**	**1**

Reported 52 weeks ended 25 March 2012	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Depreciation	240	–	240	28	268
Amortisation of intangible assets (mainly software)	29	–	29	4	33
Share of post taxation (loss)/profit from associates	(2)	3	1	–	1

3. Segment information (continued)

Reported 52 weeks ended 27 March 2011	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Depreciation	223	–	223	27	250
Amortisation of intangible assets (mainly software)	29	–	29	7	36
Share of post taxation (loss)/profit from associates	(1)	4	3	–	3

4. Revenue

A summary of Royal Mail Group revenue segmented by business unit and sub-divided by type i.e. parcels, letters and other, and marketing mail.

	Reported		
Group revenue	**53 weeks 2013 £m**	52 weeks 2012 £m	52 weeks 2011 £m
UKPIL	**7,766**	7,189	6,885
Letters	3,652	3,485	3,504
Parcels	2,979	2,604	2,348
Marketing mail	1,135	1,100	1,033
GLS			
Parcels	**1,498**	1,562	1,485
Other	**15**	13	45
Total	**9,279**	8,764	8,415
Parcels	**4,477**	4,166	3,833
Letters and other	**3,667**	3,498	3,549
Marketing mail	**1,135**	1,100	1,033
Total	**9,279**	8,764	8,415

Within UKPIL, stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products above and occasionally, prior period results may be restated.

Notes to the consolidated financial statements (continued)

5. Operating exceptional items (transformation and non-transformation)

These are non-recurring or restructuring costs which fall outside the Group's normal trading activity and which in management's view need to be disclosed separately to provide greater visibility of the trading results of the business.

	Reported		
	53 weeks 2013 £m	52 weeks 2012 £m	52 weeks 2011 £m
Transformation costs:			
Incentive payments:			
– Business transformation payments	**(22)**	(87)	(31)
– 'ColleagueShare' – legacy share scheme release	**–**	–	101
Restructuring costs:			
– Voluntary redundancy	**(78)**	(77)	(223)
– Project and property costs	**(95)**	(65)	(27)
Impairment of property, plant and equipment	**–**	–	(12)
Total transformation costs	**(195)**	(229)	(192)
Other operating exceptional costs:			
Potential industrial diseases claims	**(28)**	(10)	(30)
Post Office Limited separation – IT costs	**(20)**	–	–
Postal Services Act related costs	**(10)**	(24)	(15)
Other exceptional items (Romec transformation costs in 2011-12)	**1**	(16)	–
Impairments	**(20)**	(7)	(3)
Total non-transformation costs	**(77)**	(57)	(48)
Total operating exceptional items	**(272)**	(286)	(240)

Business transformation payments represent payments linked to the achievement of key modernisation milestones, as part of the pay deal with the Communication Workers Union.

The non-transformation related impairments of £20 million (2012 £7 million, 2011 £3 million) comprise £21 million (2012 £1 million, 2011 £nil) relating to property, plant and equipment, a £1 million impairment reversal (2012 £3 million charge, 2011 £1 million charge) relating to intangible (software) assets and £nil (2012 £3 million, 2011 £2 million) in respect of the Group's investment in its G3 Worldwide Mail N.V. (Spring) associate company.

6. Net finance costs and net debt

This note provides details of:

- Interest payable on loans and finance lease obligations and interest received from investments and loans. This analysis excludes net pension interest which is a non-cash item and is derived to comply with the requirements of the relevant accounting standard IAS 19; and
- Net debt – a metric which shows the Group's overall debt position, by netting the value of financial liabilities (excluding derivatives) against its cash and other liquid assets. The balance sheet on page 59 shows these items gross within the different categories of assets and liabilities.

	Reported		
	53 weeks 2013 £m	52 weeks 2012 £m	52 weeks 2011 £m
Unwinding of discount relating to 'ColleagueShare' legacy share scheme	**–**	–	(6)
Unwinding of discount relating to industrial diseases provision	**(1)**	(1)	–
Interest payable on financial liabilities	**(103)**	(111)	(101)
Loans and borrowings	(82)	(91)	(79)
Finance leases	(13)	(15)	(12)
Unused facility fees	(5)	(2)	(3)
Other facility fees	(3)	(3)	(7)
Finance costs	**(104)**	(112)	(107)
Release of gains held in equity on disposal of pension escrow gilts	**22**	–	6
Other interest received on gilts and Treasury Bills	**–**	4	9
Interest receivable on other financial assets	**5**	8	3
Interest receivable on VAT refund	**–**	–	5
Finance income	**27**	12	23
Net finance costs (excluding net pension interest)	**(77)**	(100)	(84)

A summary of the Group's net debt position is shown below:

	Balance sheet category	**At 31 March 2013 £m**	At 25 March 2012 £m	At 27 March 2011 £m
Pension escrow investments	Non-current assets	**20**	149	87
Bank deposits	Non-current assets	**–**	–	44
Short-term deposits	Current assets	**1**	31	1
Cash and cash equivalents:				
– cash at bank and in hand	Current assets	**136**	172	100
– cash equivalent investments: short-term bank and local authority deposits/money market fund investments	Current assets	**215**	301	219
Obligations under finance leases	Current liabilities	**(79)**	(86)	(61)
Interest bearing loans and borrowings	Non-current liabilities	**(973)**	(1,522)	(1,478)
Obligations under finance leases	Non-current liabilities	**(226)**	(231)	(184)
Net debt		**(906)**	(1,186)	(1,272)

Notes to the consolidated financial statements (continued)

6. Net finance costs and net debt (continued)

As from 1 April 2012, following the transfer of almost all of the RMPP pension liabilities and pension assets to HM Government, and hence the removal of the historic pension deficit, £149 million of investments – which were previously held in pension escrow in Royal Mail Group Limited – were released to the Company. These were subsequently sold and proceeds used to pay down loans to HM Government.

On 25 March 2013, the Company placed £20 million in a money market fund investment established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP) as part of a funding agreement with the RMSEPP Trustee. This is treated as an investment in the Group's balance sheet. RMSEPP was closed to future accruals on 31 December 2012.

The Company repaid £600 million of loans and borrowings from HM Government in 2012-13.

Net debt has decreased overall by £280 million during 2012-13 and by £86 million during 2011-12 as shown below:

	At 31 March 2013 £m	At 25 March 2012 £m
Net debt brought forward at 26 March 2012	**(1,186)**	(1,272)
Free cash flow	**334**	154
Increase in value of pension escrow investments	**–**	14
Increase in loans and borrowings (roll-up of interest on 12.0 per cent facility)	**(51)**	(45)
Increase in new finance lease obligations (non-cash)	**(4)**	(33)
Foreign currency exchange impact on cash and cash equivalents	**1**	(4)
Net debt carried forward at 31 March 2013	**(906)**	(1,186)

The table below shows the average interest bearing loans and borrowings and the interest payable and average interest rate on those loans and borrowings.

	2013 £m	2012 £m	2011 £m
Average interest bearing loans and borrowings	**(972)**	(1,478)	(1,283)
Interest payable on interest bearing loans and borrowings	**(82)**	(91)	(79)
Average interest rate	**8.4%**	6.2%	6.2%

During 2012-13 the Group was financed as follows:

Purpose of loan/borrowing	**2013 Average balance £m**	**2013 Average interest rate %**	**Facility end date**	**Facility £m**	**Drawn balance at 31 March 2013 £m**	**Average loan maturity date**
GLS funding	500	5.8	2021-2025	500	500	2023
General purpose/working capital (Senior Debt Facility)	48	2.0	2014	600	–	–
General purpose/working capital (Senior Debt Facility)	–	–	2014	300	–	–
General purpose/working capital (Shareholder Loan)	424	12.0	2016	473	473	2016
Total facility/facilities utilised	**972**			**1,873**	**973**	

7. Taxation

This disclosure provides details about taxation charges relating to current profit and deferred taxation movements for the impact of past events on expected future taxation liabilities.

		Reported	
	53 weeks 2013 £m	52 weeks 2012 £m	52 weeks 2011 £m
(a) Taxation charged in the income statement			
Current income taxation			
UK corporation taxation	**(11)**	2	(2)
Foreign taxation	**(28)**	(36)	(35)
Current income taxation charge	**(39)**	(34)	(37)
Amounts over/(under) provided in earlier years	**1**	(2)	2
Total current income taxation	**(38)**	(36)	(35)
Deferred taxation			
Origination and reversal of temporary differences	**284**	(15)	(88)
Taxation credit/(expense) in the consolidated income statement	**246**	(51)	(123)
(b) Taxation relating to items charged or credited to other comprehensive income			
Deferred taxation			
Actuarial losses on defined benefit pension plans	**(188)**	–	–
Net gain/(loss) on revaluation of cash flow hedges	**2**	8	(4)
Total (expense)/credit in the statement of other comprehensive income	**(186)**	8	(4)

(c) Reconciliation of the total taxation charge

A reconciliation between the taxation charges and the product of accounting profit/(loss) multiplied by the UK rate of Corporation Taxation for the years ended 31 March 2013, 25 March 2012 and 27 March 2011 is as follows:

	2013 £m	2012 £m	2011 £m
Profit/(loss) before taxation	**324**	201	(165)
At UK standard rate of Corporation Taxation of 24% (2012 26%, 2011 28%)	**(78)**	(52)	46
Effect of higher taxes on overseas earnings	**(1)**	1	3
Taxation over/(under) provided in prior years	**1**	(2)	2
Non-taxable income	**6**	45	29
Non-deductible expenses	**(11)**	(13)	(14)
Associates' profit after taxation charge included in Group pre-taxation profit	**–**	–	1
Net decrease/(increase) in taxation charge resulting from recognition/(derecognition) of deferred taxation assets	**329**	(30)	(191)
Other	**–**	–	1
Taxation credit/(charge) in the income statement	**246**	(51)	(123)

Notes to the consolidated financial statements (continued)

7. Taxation (continued)

Deferred taxation relates to the following:

	Balance sheet			Income statement		
	2013 £m	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m
Liabilities						
Accelerated capital allowances	**–**	(1)	(1)	**1**	–	–
Goodwill qualifying for taxation allowances	**(23)**	(17)	(9)	**(6)**	(8)	(5)
Deferred taxation liabilities	**(23)**	(18)	(10)			
Assets						
Deferred capital allowances	**244**	–	9	**244**	(9)	8
Provisions and other	**37**	4	1	**33**	3	(29)
Pensions temporary differences	**(222)**	–	–	**(34)**	–	(2)
Losses available for offset against future taxable income	**51**	5	6	**46**	(1)	(62)
Hedging derivatives temporary differences	**2**	–	(8)	**–**	–	2
Deferred taxation assets	**112**	9	8			
Net deferred taxation asset/(liability) disclosed on the balance sheet	**89**	(9)	(2)			
Consolidated income statement				**284**	(15)	(88)

At 31 March 2013 the Group had unrecognised deferred taxation assets of £66 million (2012 £1,176 million, 2011 £1,610 million), comprising £nil (2012 £632 million, 2011 £1,132 million) relating to the retirement benefit obligation, £54 million (2012 £219 million, 2011 £206 million) relating to taxation losses that are available to offset against future taxable profits and £12 million (2012 £324 million, 2011 £273 million) relating to other temporary differences. The Group has capital losses carried forward, the taxation effect of which is £4 million (2012 £4 million, 2011 £nil) and temporary differences related to capital losses of £73 million (2012 £80 million, 2011 £91 million). The Group has rolled over capital gains of £53 million (2012 £59 million, 2011 £57 million); no taxation 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 Finance Act 2012 reduced the main rate of corporation taxation to 23 per cent with effect from 1 April 2013. The effect of this change on deferred tax balances is included in these financial statements as detailed above. In the 2012 Autumn Statement, the Chancellor of the Exchequer announced that the main rate of corporation taxation will be 21 per cent for the year commencing 1 April 2014 and in the March 2013 budget he announced that the rate will be further reduced to 20 per cent with effect from 1 April 2015. It is anticipated that both of these rate changes will be included in the Finance Bill 2013. In accordance with accounting standards, the effect of these rate reductions on deferred taxation balances has not been reflected in these accounts due to the relevant legislation not having been substantively enacted at the balance sheet date. A reduction of 20 per cent would, based on losses and temporary differences at 31 March 2013, reduce the Group's recognised deferred taxation assets by £14 million and reduce unrecognised deferred taxation assets by £4 million.

Under the Postal Services Act 2011, trading losses which arose due to employer's pension contributions paid which are unused at 31 March 2013 are extinguished. The gross amount of losses extinguished is estimated to be £250 million. Losses and deferred taxation assets carried forward are stated above, net of the extinguished amount.

Royal Mail Group Limited is committed to paying taxation in accordance with all relevant laws and regulations in the territories in which it operates.

8. Cash flow information

Royal Mail uses free cash flow to monitor and manage its cash performance. This measure eliminates inflows/outflows between net debt items (see note 6) and includes finance cash costs paid.

A reconciliation of 'net cash inflow/(outflow) before financing activities' in the consolidated statement of cash flows on page 58 to 'free cash inflow/(outflow) as used internally by management' is included below.

	Reported		
	53 weeks 2013 £m	52 weeks 2012 £m	52 weeks 2011 £m
EBITDA before exceptional items (see page 58)	**915**	681	493
Working capital	**142**	(19)	(58)
Other UK pension – ongoing – difference between profit and loss and cash flow rates (note 9)	**25**	(1)	15
– deficit correction payments	**(28)**	(8)	(278)
– pension costs relating to redundancy	**–**	(36)	(29)
Total investment costs	**(665)**	(579)	(555)
Transformation investment in UKPIL – voluntary redundancy	(75)	(129)	(110)
Transformation investment in UKPIL – business transformation payments/bonus	(55)	(60)	(95)
Transformation investment in UKPIL – capital expenditure	(177)	(185)	(166)
Transformation investment in UKPIL – one-off project costs	(100)	(55)	(8)
Total transformation investment	(407)	(429)	(379)
Other non-transformation spend (IT (incl. software), GLS and business as usual UKPIL spend)	(258)	(150)	(176)
Other exceptional items:	**(26)**	(37)	(5)
Postal Services Act related payments	(21)	(16)	(5)
Romec Enterprise project	–	(15)	–
Industrial diseases claims	(1)	(3)	–
Other	(4)	(3)	–
Other:	**(81)**	(87)	(59)
Taxation paid	(37)	(35)	(36)
Net finance costs paid	(44)	(56)	(32)
Dividends from associates	–	4	9
Cash inflow/(outflow) before disposal of assets and non-core business	**282**	(86)	(476)
Disposal of property and non-core business	**52**	240	230
Free cash inflow/(outflow) as used internally by management	**334**	154	(246)

The transformation programme commenced in 2006-07, for which the cumulative spend is shown below:

	At 31 March 2013 £m
Capital expenditure	**(1,093)**
Redundancy	**(875)**
Incentive payments	**(515)**
Project and property costs	**(312)**
Total cumulative transformation spend	**(2,795)**

Notes to the consolidated financial statements (continued)

8. Cash flow information (continued)

The following analysis provides a reconciliation of 'net cash inflow before financing activities' in the statement of cash flows (see page 58) and free cash flow as used internally by management.

	Reported		
	53 weeks 2013 £m	52 weeks 2012 £m	52 weeks 2011 £m
Net cash inflow/(outflow) before financing activities in the statement of cash flows	**542**	188	(104)
Net (sale)/purchase of gilts and Treasury bills (financial asset investments – non-current)	**(129)**	4	(88)
Net (sale)/purchase of bank deposits (financial asset investments – current)	**(30)**	30	–
Finance costs paid	**(49)**	(68)	(54)
Free cash inflow/(outflow)	**334**	154	(246)

9. Employee benefits – pensions

For a number of years the Group has reported a significant defined benefit pension obligation on its balance sheet, which exceeded its other net assets.

At 31 March 2013, a pension asset of £825 million has been recognised compared with a £2,716 million pension obligation at 25 March 2012. This is because the majority of pension liabilities and assets were transferred to HM Government in the first week of the financial year on 1 April 2012, leaving the Group's main defined benefit scheme fully funded at that date.

Summary pension financial information	Reported		
	53 weeks 2013 £m	52 weeks 2012 £m	52 weeks 2011 £m
Pension costs:			
Ongoing:			
– UK defined benefit scheme (P&L rates 18.2%, 17.1%, 17.8%)	**(412)**	(384)	(423)
– UK defined contribution scheme	**(17)**	(11)	(9)
Total UK ongoing pension costs	**(429)**	(395)	(432)
Total GLS defined contribution type scheme costs	**(5)**	(5)	(5)
Total Group ongoing pension costs	**(434)**	(400)	(437)
Difference between profit and loss and cash flow rates (cash flow rates 17.1% for all three years)	**25**	(1)	15
Total Group pension cash flows relating to ongoing pension costs	**(409)**	(401)	(422)
UK defined benefit scheme – active membership at 31 March	**112,000**	116,000	121,000

Background
Royal Mail Group had one of the largest defined benefit pension schemes in the UK (based on membership and assets), called the Royal Mail Pension Plan (RMPP), and for a number of years the Company:

i) made significant pension deficit cash contributions on top of its ongoing pension costs; and

ii) recognised a pension deficit on its balance sheet which has ranged from £2.7 billion to £7.5 billion.

This meant the Company faced issues with respect to Going Concern, it was balance sheet insolvent and it carried material pension risk and volatility.

To address this historic legacy issue, the Postal Services Act, passed in June 2011, proposed to transfer the majority of pension assets and liabilities to HM Government. In order to achieve this, HM Government had to seek State Aid approval from the European Commission and made its application in the summer of 2011.

At 25 March 2012, a defined pension obligation of £2,716 million was reported in the balance sheet.

Transfer of pension liabilities/assets to HM Government
On 1 April 2012 (one week into the 2012-13 financial year) – after the granting of State Aid approval by the European Commission to HM Government on 21 March 2012 – almost all of the pension liabilities and pension assets of RMPP, built up until 31 March 2012, were transferred to a new Government pension scheme, the Royal Mail Statutory Pension Scheme (RMSPS).

On this date, RMPP was also sectionalised, with Royal Mail Group and Post Office Limited each responsible for their own sections from 1 April 2012 onwards.

The transfer left the RMPP fully funded on an actuarial basis. This means that using long-term actuarial assumptions agreed at that date, it was predicted the Company would have to make no further deficit cash contributions.

Notes to the consolidated financial statements (continued)

9. Employee benefits – pensions (continued)

The total (Royal Mail Group and Post Office Limited) liabilities transferred of £41.0 billion comprise:

i) all liabilities relating to deferred members or pensioners on 1 April 2012; and

ii) for the liabilities of active members currently employed on 1 April 2012:

- benefits accrued under the final salary arrangements to 31 March 2008 (based on number of years in scheme and respective salary at 1 April 2012). The RMSPS rules increase this final salary benefit by RPI[2] each year for active membership; and
- benefits accrued under the career average salary arrangements from 1 April 2008 to 31 March 2012, assuming an RPI[2] future increase.

The total assets (Royal Mail Group and Post Office Limited) transferred were £28.5 billion, leaving £2.2 billion with the RMPP Trustee to match the liabilities (Royal Mail Group and Post Office Limited) relating to the final salary benefit for active members (at 1 April 2012) that the Government did not take on. These remaining liabilities relate to the difference in increases to the final salary benefit that the RMSPS provides for (at RPI) and the RMPP Trustee assumes (at RPI + 1%[3]).

Therefore, the Royal Mail Group and Post Office Limited retained the liability for each year of future service under the career average salary arrangements and the following risk for active members only:

i) liability for salary growth above RPI (increases up to 1% above RPI are covered by the £2.2 billion funding described above);

ii) changes in future long-term economic assumptions (e.g. interest rates, RPI/CPI);

iii) changes in future long-term demographic assumptions (e.g. mortality);

iv) changes in market assumptions (returns on assets, gilt yields, etc.); and

v) all existing aspects relating to the RMSEPP scheme (the Company closed this plan to future accruals on 31 December 2012).

All other financial information other than in this note relates to the amounts that have been sectionalised to Royal Mail Group.

Application of International Financial Reporting Standards (IFRS)
Applying IFRS in the accounting valuation of the defined benefit position at 31 March 2013 resulted in the recognition of an accounting pension surplus of £825 million, compared with an obligation of £2,716 million at 25 March 2012. The £825 million comprises pension assets of £3,343 million, less pension liabilities of £2,513 million adjusted as required by IFRIC 14 in respect of RMSEPP by £5 million.

Why the accounting position is different to the funding (actuarial) position
On an actuarial basis at 31 March 2013, the pension actuarial deficit was £162 million on an estimated rolled forward basis (formal valuations are part of the triennial review). The funding requirements, a mutual agreement between the Company and the Pension Trustees, are normally set every three years, with the last agreement dating back to 2010 for the March 2009 valuation. The long-term assumptions used for funding by the Pension Trustees are generally more conservative than those that must be used under IFRS.

As noted in the financial review, the Company has reached an agreement with the RMSEPP Trustee on their cash contribution requirements. The Group and the RMPP Trustee are currently in discussion about the future funding requirements and, at the date of this report, no new assumptions have been agreed.

Defined benefit
RMPP is funded by the payment of contributions to separate trustee administered funds. RMPP includes sections A, B and C, each with different terms and conditions:

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

The regular future service contribution rate for RMPP, expressed as a percentage of pensionable pay, remained at 17.1 per cent (2012 and 2011 17.1 per cent), effective from April 2010. The Company is currently in discussion with the Plan Trustee regarding the March 2012 actuarial valuation, and the contribution rate required to provide future benefit accrual. A conclusion to these discussions is expected by September 2013. Following the State Aid clearance granted on 21 March 2012, and the subsequent transfer of almost all of the RMPP assets and liabilities to HM Government on 1 April 2012, no RMPP deficit payment was made during the year.

[2] Section C members (who joined RMPP on or after April 1987) have this increase capped at five per cent.
[3] RPI + 1% has been used by the RMPP Trustee in the valuation which was agreed in 2010 because it reflected long-term historical actual pay increases.

9. Employee benefits – pensions (continued)

For RMSEPP, regular future service contributions remained at 35.9 per cent (2012 and 2011 35.9 per cent) until 31 December 2012 when this Plan closed to future accruals. Deficit recovery payments were £28 million (including a special one-off payment of £19 million) (2012 £8 million, 2011 £6 million). The Company and the Trustee have reached agreement over the March 2012 actuarial valuation. As the Plan is closed to future accruals there will be no regular future service contributions, but the Company will continue to make deficit payments of £10 million p.a.

A liability of £1 million (2012 and 2011 £1 million) has been recognised for future payment of pension benefits to a past Director (see page 51 of the Directors' remuneration report).

a) Major long-term assumptions used for accounting purposes – RMPP and RMSEPP
The major assumptions were:

	At 31 March 2013 % pa	At 25 March 2012 % pa	At 27 March 2011 % pa
Inflation assumption (RPI)	**3.3**	3.3	3.5
Inflation assumption (CPI)	**2.3**	2.3	2.8
Discount rate – nominal	**4.8**	5.1	5.5
– real[4]	**1.5**	1.8	2.0
Rate of increase in salaries	**RPI + 1%**	RPI + 1%	RPI + 1%
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**RPI**	RPI	RPI
Rate of increase for deferred pensions – all other members	**CPI**	CPI	CPI
Rate of pension increases – RMPP Sections A/B	**CPI**	CPI	CPI
Rate of pension increases – RMPP Section C[5]	**RPI**	RPI	RPI
Rate of pension increases – RMSEPP all members	**RPI**	RPI	RPI
Expected average rate of return on assets	**n/a[6]**	5.9	6.5

4 The real discount rate selected reflects the long duration of the schemes.
5 Section C members (who joined RMPP on or after April 1987) have this increase capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption at 31 March 2013 (prior two years – this reduction did not apply).
6 In accordance with the 2011 revision of IAS 19, which applies for financial periods beginning on or after 1 January 2013, the historic expected return on assets assumption is no longer required to determine the 2013-14 expense.

Mortality
The mortality assumptions for the larger plan are based on the latest Self Administered Pension Scheme (SAPS) mortality tables with appropriate scaling factors (106 per cent for male pensioners and 101 per cent for female pensioners). For future improvements the assumptions allow for 'medium cohort' projections with a 1.25 per cent floor. These are detailed below:

Average expected life expectancy from age 60:

	2013	2012	2011
For a current 60 year old male RMPP member	**26 years**	26 years	26 years
For a current 60 year old female RMPP member	**29 years**	29 years	29 years
For a current 40 year old male RMPP member	**29 years**	29 years	29 years
For a current 40 year old female RMPP member	**32 years**	32 years	32 years

Notes to the consolidated financial statements (continued)

9. Employee benefits – pensions (continued)

The Company and the RMPP Trustee are currently in discussion about the future funding requirements, and this could materially change the pension costs and balance sheet amounts that are reported in future financial statements.

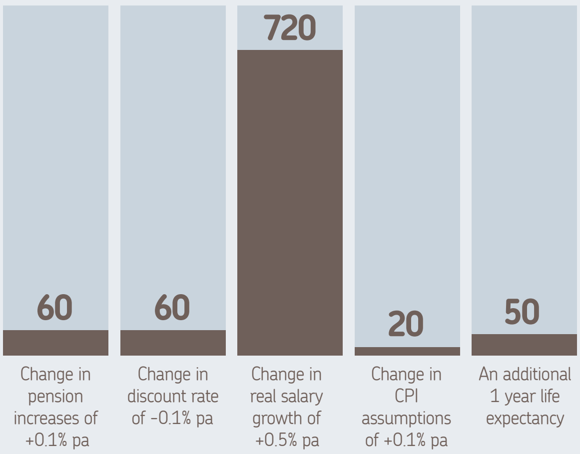
The following disclosures relate to the gains/losses and surplus/deficit in the schemes recognised for the RMPP and RMSEPP defined benefit plans in the financial statements of the Group:

The real discount rate has decreased to 1.5 per cent since March 2012 when it was 1.8 per cent (March 2011 2.0 per cent).

Demographic assumptions, for example mortality, remain unchanged from those made in March 2012 and March 2011.

The following table shows the potential impact on the RMPP liabilities and pension deficit of changes in key assumptions:

Sensitivity analysis on RMPP liabilities
£m



b) Plans' assets and expected rates of return and deficit calculation – RMPP and RMSEPP
The assets in the plans and the expected rates of return were:

				Long-term expected rate of return		
	2013 £m	2012 £m	2011 £m	**2013 % pa**	2012 % pa	2011 % pa
Equities	**558**	3,151	3,971	**n/a[6]**	7.7	8.2
Bonds	**2,479**	23,600	19,812	**n/a[6]**	5.7	6.2
Property	**218**	1,319	1,480	**n/a[6]**	6.8	6.5
Cash/other	**88**	310	389	**n/a[6]**	3.4	4.2
Derivatives	**–**	236	110	**n/a[6]**	5.7	6.2
Fair value of plans' assets	**3,343**	28,616	25,762			
Present value of plans' liabilities	**(2,513)**	(31,332)	(29,947)			
Surplus/(deficit) in plans	**830**	(2,716)	(4,185)			

6 In accordance with the 2011 revision of IAS 19, which applies for financial periods beginning on or after 1 January 2013, the historic expected return on assets assumption is no longer required to determine the 2013-14 expense.

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

Included within the pension assets are £1.4 billion (2012 £11.6 billion, 2011 £7.8 billion) of HM Government Bonds.

9. Employee benefits – pensions (continued)

c) Plans' assets and liabilities

The combined plans' assets and liabilities were:

	Market value		
	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Fair value of plans' assets	**3,343**	28,616	25,762
Present value of plans' liabilities	**(2,513)**	(31,332)	(29,947)
Surplus/(deficit) in schemes (pre IFRIC 14 adjustment)	**830**	(2,716)	(4,185)
IFRIC 14 adjustment	**(5)**	–	–
Surplus/(deficit) in schemes	**825**	(2,716)	(4,185)

The surplus in the RMSEPP is assumed to be available as a refund as per IFRIC 14 and, as such, is shown net of withholding taxation.

The surplus in RMPP is assumed to be available as a reduction to contributions and this future benefit is recognised within the net deferred taxation asset. Therefore, no IFRIC 14 adjustment is required. The Directors do not believe that the current excess of pension scheme assets over the liabilities on an accounting basis will result in an excess of pension assets on a funding basis. However, the Directors are required to account for the pension scheme, based on their legal right to benefit from a surplus, using long-term actuarial assumptions current at the reporting date, as required by IFRS.

There were no open equity derivatives within this portfolio at 31 March 2013.

The RMPP Trustee has elected to use interest rate and inflation rate swaps ('derivatives') to deliver the investment strategy whilst managing risk as described below. These derivatives are recorded at market value within the table on the previous page and are commonly used by pension funds. The interest rate and inflation rate swaps are used to hedge the exposure to movements in interest rates and inflation (which are key, long-term assumptions used to estimate future pension liabilities). The economic exposure of these swaps held in a specific managed portfolio for this purpose at 31 March 2013 is £1.53 billion (March 2012 £9.9 billion, March 2011 £6.6 billion).

The investment strategy of the RMPP Trustee aims to safeguard the assets of the RMPP and to provide, together with contributions, the financial resource from which benefits are paid. Investment is inevitably exposed to risks. The investment risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The RMPP Trustee has specified objectives for the investment policy that balance these requirements.

The spread of investments continues to balance security and growth in order to pay the RMPP benefits when they become due. An actuarial valuation will be undertaken at 31 March 2012 and the Trustee will seek to agree funding arrangements with the Company. As part of this exercise the RMPP Trustee will be undertaking a full investment strategy review. On conclusion of the review, the RMPP's Statement of Investment Principles will be reviewed and updated.

d) Movement in Plans' assets and liabilities

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

	2013 £m	2012 £m	2011 £m
Opening net retirement benefit deficit at 26 March 2012, 28 March 2011 and 29 March 2010	**(2,716)**	(4,185)	(7,477)
Increase in value of pension assets 26-31 March 2012[7] (Actuarial gain)	**224**	–	–
Increase in value of pension liabilities 26-31 March 2012[7] (Actuarial loss)	**(652)**	–	–
Transfer of historic pension deficit to HM Government[7]	**3,726**	–	–
Net retirement benefit surplus/(deficit) at 1 April 2012, 28 March 2011 and 29 March 2010	**582**	(4,185)	(7,477)
Current service cost (see section (g) on page 81)	**(412)**	(384)	(423)
Movement in Company contributions accrued	**(2)**	(5)	4
Curtailment costs	**(17)**	(31)	(33)
Net pension interest credit/(charge) (see section (g) on page 81)	**34**	24	(155)
Employer's contributions	**435**	429	715
Actuarial gains 1 April 2012 – 31 March 2013, 28 March 2011 – 25 March 2012 and 29 March 2010 – 27 March 2011[7]	**210**	1,436	3,184
Closing net retirement benefit surplus/(deficit) (pre IFRIC 14 adjustment)	**830**	(2,716)	(4,185)

7 Taken directly to equity.

9. Employee benefits – pensions (continued)

e) Movement in plans' assets and liabilities – RMPP and RMSEPP

Changes in the value of the plans' assets and analysis is as follows:

	2013 £m	2012 £m	2011 £m
Plans' assets at beginning of period	**28,616**	25,762	24,017
Increase in value of pension assets 26-31 March 2012	**224**	–	–
Transfer of pension assets to HM Government	**(26,485)**	–	–
Company contributions paid	**435**	429	715
Employee contributions paid	**136**	134	141
Movement in Company contributions accrued	**(2)**	(5)	4
Finance income (expected rate of return)	**163**	1,651	1,594
Actuarial gains (additional increase in market values)	**273**	1,738	437
Benefits paid to members	**(17)**	(1,093)	(1,146)
Plans' assets at end of period	**3,343**	28,616	25,762

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

	2013 £m	2012 £m	2011 £m
Plans' liabilities at beginning of period	**(31,332)**	(29,947)	(31,494)
Increase in value of pension liabilities 26-31 March 2012	**(652)**	–	–
Transfer of pension liabilities to HM Government	**30,211**	–	–
Current service cost	**(412)**	(384)	(423)
Employee contributions	**(136)**	(134)	(141)
Curtailment costs[8]	**(17)**	(31)	(33)
Finance cost	**(129)**	(1,627)	(1,749)
Actuarial (losses)/gains (recognised in statement of comprehensive income)	**(63)**	(302)	2,747
Benefits paid	**17**	1,093	1,146
Plans' liabilities at end of period	**(2,513)**	(31,332)	(29,947)

8 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.

f) History of experience gains and losses – RMPP and RMSEPP

The cumulative amount of actuarial gains and losses recognised since transition to IFRSs at 29 March 2004 in the statement of comprehensive income is a £212 million gain (2012 £430 million gain, 2011 £1,006 million loss).

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of assets	**3,343**	28,616	25,762	24,017	18,670
Present value of liabilities	**(2,513)**	(31,332)	(29,947)	(31,494)	(24,971)
Surplus/(deficit) in plans	**830**	(2,716)	(4,185)	(7,477)	(6,301)

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience adjustment on assets	**497**	1,738	437	4,156	(5,097)
Experience adjustment on liabilities	**101**	(5)	(7)	626	(9)

This disclosure is in accordance with IAS 19.

9. Employee benefits – pensions (continued)

g) Recognised charges – RMPP and RMSEPP
A disaggregation of the amounts recognised in the income statement, statement of comprehensive income and directly in equity is as follows:

	2013 £m	2012 £m	2011 £m
Analysis of amounts recognised in the income statement:			
Analysis of amounts charged to operating profit before exceptional items:			
– Current service cost	**(412)**	(384)	(423)
Total charge to operating profit before exceptional items	**(412)**	(384)	(423)
Analysis of amounts charged to operating exceptional items:			
– Loss due to curtailments (within provision for restructuring charge – note 21)	**(11)**	(15)	(45)
Total charge to operating profit	**(423)**	(399)	(468)
Analysis of amounts charged/(credited) to financing:			
– Interest on plans' liabilities	**(129)**	(1,627)	(1,749)
– Expected return on plans' assets	**163**	1,651	1,594
Total net credit/(charge) to financing	**34**	24	(155)
Net charge to income statement before deduction for taxation	**(389)**	(375)	(623)
Analysis of amounts recognised in the statement of comprehensive income:			
– Actual return on plans' assets	**660**	3,389	2,031
– Deduct: expected return on plans' assets	**(163)**	(1,651)	(1,594)
Actuarial gains on assets (all experience adjustments)	**497**	1,738	437
– Experience adjustments on liabilities	**101**	(5)	(7)
– Effects of changes in actuarial assumption on liabilities	**(816)**	(297)	2,754
Actuarial (losses)/gains on liabilities	**(715)**	(302)	2,747
Total actuarial (losses)/gains recognised in the statement of comprehensive income before deduction for taxation (see section (d) above)	**(218)**	1,436	3,184
Analysis of amounts recognised directly in equity:			
– Transfer of pension assets to HM Government	**(26,485)**	–	–
– Transfer of pension liabilities to HM Government	**30,211**	–	–
Transfer of historic pension deficit to HM Government	**3,726**	–	–

Notes to the consolidated financial statements (continued)

10. Changes in equity

There have been material changes to the share premium account and to total equity and these have created £1,318 million of distributable reserves.

Share premium account
On 27 June 2012, the Company reduced the amount of its share premium account by £3,784 million with the Company reducing the deficit on its distributable reserves by the same amount at that time. This reduction of capital was approved by a special resolution of the Company, supported by a solvency statement made by its Directors pursuant to section 642 of the Companies Act 2006. The reduction was executed through a non-cash accounting entry and has no effect on total equity and the number of the Company's ordinary shares in issue or their nominal value.

Summary of movements in total equity

	£m	£m
Total equity brought forward at 26 March 2012		**(2,455)**
Movement relating to defined benefit pension scheme (note 9(d)):		
Increase in value of pension assets 26-31 March 2012	224	
Increase in value of pension liabilities 26-31 March 2012	(652)	
Transfer of historic pension deficit to Government on 1 April 2012	3,726	
Actuarial gains 1 April 2012 – 31 March 2013	210	**3,508**
IFRIC 14 adjustment (note 9 (c))		**(5)**
Taxation on items taken direct to equity (deferred taxation relating to pensions)		**(188)**
		860
Profit for the period		**570**
Other reserves movements in the period (release of gains on disposal of pension escrow gilts, foreign currency translation losses and net gains on cash flow hedges)		**(25)**
Total equity carried forward at 31 March 2013		**1,405**

11. Events after the reporting period

This note confirms whether or not there have been any material events occurring between the end of the financial reporting period on 31 March 2013 and the publication of the Annual Report and Financial Statements.

On Friday 21 June 2013, the Group launched a consultation with members of the Royal Mail Pension Plan on a proposal to change the terms of the Plan. Under the proposal, members' basic pensionable pay under the Plan would increase by RPI (up to five per cent) each year, regardless of whether members' actual basic pay goes up by more or less. This change would, subject to the agreement of the Plan Trustee, allow the Company to maintain its current rate of contributions.

If we are able to reach agreement with our unions on our proposal we would in return be able to commit that, at least until we have concluded our next review in March 2018:

- The Plan would remain open to future accruals; and
- There would be no change to members' contribution rate, accrual rates or normal retirement age.

An agreement of the type that we are proposing would, subject to its conditions, be legally binding on the Company, irrespective of any change of ownership.

The consultation will conclude on 25 August 2013, following which the Company will consider the feedback received before making its final decision, and then communicate the outcome to colleagues shortly afterwards.

Other notes – income statement

The notes in this section provide details of people costs and numbers and other operating costs (e.g. pensions, depreciation and amortisation and operating lease charges).

Notes to the consolidated financial statements (continued)

12. People information

Of the total Group operating costs, 60 per cent (2012 59 per cent, 2011 61 per cent) relate to our people. This note provides a breakdown of our people costs and numbers.

			Reported			
People costs:		**53 weeks March 2013 £m**		52 weeks March 2012 £m		52 weeks March 2011 £m
Wages and salaries						
- UK based	**4,072**		3,890		3,940	
- GLS	**282**	**4,354**	290	4,180	274	4,214
Pensions						
- Defined benefit (UK)	**412**		384		423	
- Defined contribution (UK)	**17**	**429**	11	395	9	432
- GLS (mainly Defined Contribution type)		**5**		5		5
Social security						
- UK based	**309**		287		287	
- GLS	**50**	**359**	53	340	48	335
Group total		**5,147**		4,920		4,986
Defined benefit pension rate:						
Profit and loss		**18.2%**		17.1%		17.8%
Cash flow		**17.1%**		17.1%		17.1%
Defined contribution:						
Employer contribution rates – Profit and loss and cash flow[9]		**1% - 7%**		5% - 7%		5% - 7%

[9] Employer contribution rates are 1 per cent for employees in the Entry Level category, and 5 per cent - 7 per cent for those in the Standard Level category, depending on the employees selected contribution rate.

People numbers:

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

	Period end employees			Average employees		
	31 March 2013	25 March 2012	27 March 2011	**31 March 2013**	25 March 2012	27 March 2011
UK Parcels, International & Letters (UKPIL)	**149,940**	151,156	155,181	**149,710**	152,514	157,317
UK partially owned subsidiaries (Romec, NDC 2000)	**4,030**	3,926	4,254	**4,013**	3,972	4,244
General Logistics Systems	**13,646**	13,362	13,167	**13,569**	13,103	13,120
Group total	**167,616**	168,444	172,602	**167,292**	169,589	174,681

The number of Full-Time Equivalents (FTE) employed was:

	Period end FTE			Average FTE		
	31 March 2013	25 March 2012	27 March 2011	**31 March 2013**	25 March 2012	27 March 2011
UK Parcels, International & Letters (UKPIL)	**151,191**	153,751	158,376	**154,362**	157,286	162,865
UK partially owned subsidiaries (Romec, NDC 2000)	**3,655**	3,813	4,214	**3,655**	3,813	4,214
General Logistics Systems	**9,272**	9,198	9,021	**9,232**	9,568	9,200
Group total	**164,118**	166,762	171,611	**167,249**	170,667	176,279

12. People information (continued)

Directors' emoluments:

	2013 £000	2012 £000	2011 £000
Directors' emoluments	**3,753**	3,398	2,345
Amounts earned under Long-Term Incentive Plans	**–**	–	–
Number of Directors accruing benefits under defined benefit schemes	**–**	–	–

13. Other operating costs

Below is an analysis of other operating costs in the income statement (e.g. pensions, depreciation and amortisation and operating lease charges) that require specific disclosure under IFRS.

Operating profit before exceptional items is stated after charging the following other operating costs:

	2013 £m	2012 £m	2011 £m
UK Pension costs (note 9)	**429**	395	432
Depreciation and amortisation			
Depreciation of property, plant and equipment (note 22)	**238**	268	250
Amortisation of intangible assets (mainly software – note 24)	**43**	33	36
Total	**281**	301	286
Operating lease charges on property, plant and equipment	**153**	150	151
Costs of inventories expensed	**184**	174	157

Research and development expenditure during the year amounted to £nil (2012 £nil, 2011 £nil).

The following information is relevant in understanding the extent of the Group's regulatory costs and statutory audit costs:

Regulatory body costs	2013 £m	2012 £m	2011 £m
Postcomm	**–**	6	10
Ofcom	**5**	2	–
Consumer Futures	**3**	3	3
Total	**8**	11	13

Auditor's fees	2013 £000	2012 £000	2011 £m
Audit of statutory financial statements	**402**	402	402
Other fees to auditor:			
Statutory audits for subsidiaries	**1,566**	1,706	1,398
Other services (including regulatory audits)	**208**	669	471
Taxation services	**228**	78	55
Total	**2,404**	2,855	2,326

The Group paid £80,850 additional amounts in 2013 in respect of the 2012 audit (£267,000 in 2012 in respect of 2011 audit, £nil in 2011 in respect of the 2010 audit).

Notes to the consolidated financial statements (continued)

Other notes – financial assets, financial liabilities and hedging programmes

The notes in this section explain how the Group is financed, including details of associated risks, interest rates, additional loan facilities available and hedging programmes in place to mitigate volatility in commodity prices and foreign currency exchange rates.

14. Financial assets and liabilities – introduction, summary and management of financial risk

Below is a summary of financial assets (e.g. cash, investments and deposits) and liabilities (e.g. loans and finance lease obligations) and details of how the various risks associated with these assets and liabilities are managed. Subsequent notes in this section provide more detailed disclosures on specific financial assets and liabilities.

	2013			2012			2011		
	Non-current £m	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Pension escrow investments	**20**	**–**	**20**	149	–	149	87	–	87
Cash and cash equivalents	**–**	**351**	**351**	–	473	473	–	319	319
Other bank and local authority deposits	**–**	**1**	**1**	–	31	31	44	1	45
Derivative assets	**3**	**9**	**12**	2	9	11	6	36	42
Total financial assets	**23**	**361**	**384**	151	513	664	137	356	493
BIS loans to Royal Mail Group Limited	**(973)**	**–**	**(973)**	(1,522)	–	(1,522)	(1,477)	–	(1,477)
Miscellaneous loans in subsidiaries	**–**	**–**	**–**	–	–	–	(1)	–	(1)
Total loans and borrowings	**(973)**	**–**	**(973)**	(1,522)	–	(1,522)	(1,478)	–	(1,478)
Finance leases obligations	**(226)**	**(79)**	**(305)**	(231)	(86)	(317)	(184)	(61)	(245)
Derivative liabilities	**(1)**	**(2)**	**(3)**	(1)	(4)	(5)	–	(3)	(3)
Total financial liabilities	**(1,200)**	**(81)**	**(1,281)**	(1,754)	(90)	(1,844)	(1,662)	(64)	(1,726)

Financial assets and liabilities – financial risk management objectives and policies

The Group's principal financial assets and liabilities comprise short-term deposits, money market liquidity investments, Government gilt edged securities, loans, finance leases 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 receivables and trade payables, which arise directly from operations and are not disclosed further in this section.

The Group enters into derivative transactions, which create derivative assets and liabilities, mainly commodity price swaps and forward currency contracts, their purpose being 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 assets and liabilities are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity 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 loans and borrowings and interest bearing financial assets. The BIS loans to Royal Mail Group Limited of £973 million (2012 £1,522 million, 2011 £1,477 million) are a mix of £nil (2012 £600 million, 2011 £600 million) floating interest rate and £973 million (2012 £922 million, 2011 £877 million) fixed interest rate with a combined average maturity date of 2019 (2012 average maturity date of 2017, 2011 average maturity date of 2017). The total interest bearing financial assets of the Group (excluding the non-current investments) of £336 million (2012 £487 million, 2011 £319 million) are at short-dated fixed or variable interest rates with average maturity nine days (2012 average maturity 18 days, 2011 average maturity six days).

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

Foreign currency transaction risk

The Group is exposed to foreign currency transaction risk due to: trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in UKPIL, and various purchase contracts denominated in foreign currency, all in UKPIL. 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 £1 million and hedging is normally confined to 80 per cent of the forecast exposure, where forecast cash flows are highly probable.

Foreign currency translation risk

The Group's functional currency is the pound Sterling. GLS' functional currency is the Euro. GLS Euro profits are converted at the average exchange rate for the year, which can result in reported growth which does not relate to underlying performance. This is addressed by using like-for-like growth rates as described on page i.

GLS' balance sheet is converted at year end rates, and movements relating to foreign currency translation are taken to equity.

14. Financial assets and liabilities – introduction, summary and management of financial risk (continued)

The Group's obligation to settle with overseas postal operators is denominated in Special Drawing Rights (SDRs) – a basket of currencies comprised 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.

The Group's obligations to settle conveyance charges in UKPIL in US$ have been hedged to March 2014.

The Group has two hedge programmes covering obligations to settle Euro invoices on automation projects in UKPIL.

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

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 130 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, mainly on a combined basis.

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.

Credit risk

Royal Mail considers that a fair and equitable credit policy is in operation for all its account customers. The level of credit granted is based on a customer's risk profile assessed by an independent credit reference 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. The level of bad debt incurred for the whole Group is 0.1 per cent (2012 0.4 per cent) 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.

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 Limited of £900 million expire in 2014 (2012 and 2011 £300 million expiring in 2014). Additionally, the Group has £200 million (2012 and 2011 £200 million) of uncommitted lines of credit which are reviewed annually.

Capital management

Royal Mail Group Limited is a limited company whose shares are not traded and the Group regards its capital as share capital, share premium, retained earnings and debt provided by the UK Government. The ultimate 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 ultimate 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 ultimate shareholder as well as drawing on limited external debt facilities. The Group's debt to equity ratio is determined by its ultimate shareholder.

Sensitivity

As a result of the mix of fixed and variable rate financial instruments and the currency and commodity hedge programmes in place, the Group has no material exposure to operating profit from interest rate risk, exchange rate risk or commodity price risk (2012 and 2011 £nil). The Group has an exposure to the exchange rate risk on translating the GLS net assets into Sterling on consolidation. The impact of a five per cent strengthening of Sterling would have been to reduce the Group net assets by £31 million (2012 £39 million, 2011 £37 million).

15. Pension escrow investments

This note provides an analysis of various pension escrow investments provided as security to the Group's Pension Trustees.

As from 1 April 2012, following the transfer of almost all of the RMPP pension liabilities and pension assets to HM Government, and hence the removal of the historic pension deficit, £149 million of investments – which were previously held in pension escrow in Royal Mail Group Limited – were released to the Company. These were subsequently sold and proceeds used to pay down loans to HM Government.

On 25 March 2013, the Company placed £20 million in a money market fund investment established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP) as part of a funding agreement with the RMSEPP Trustees. This is treated as an investment in the Group's balance sheet. RMSEPP was closed to future accruals on 31 December 2012.

The pension escrow investments are analysed in the table below:

	2013		2012		2011	
	Average effective interest rate %	**£m**	Average effective interest rate %	£m	Average effective interest rate %	£m
Treasury bills	**–**	**–**	0.4	45	–	–
Gilt edged securities (index-linked)	**–**	**–**	4.3	79	4.7	66
Gilt edged securities (conventional)	**–**	**–**	4.8	25	4.8	21
Money market fund	**0.3**	**20**	–	–	–	–
Total pension escrow investments		**20**		149		87

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 and losses being recognised in the Financial Assets Reserve until the investment is derecognised.

The decrease in the pension escrow investments of £129 million in 2013 consists of £149 million relating to RMPP due to the sale of the investments, offset by a £20 million money market investment established as security for RMSEPP. The increase in the RMPP related pension escrow investments of £62 million in 2012 comprised £4 million interest on the investments, £14 million fair value gain deferred into equity and £44 million paid into escrow on disposal of a property previously held under mortgage in escrow.

Notes to the consolidated financial statements (continued)

16. Cash and cash equivalents

Below is a summary of the cash and cash equivalents balances held by the Group.

Cash and cash equivalents include cash and other cash equivalent investments as shown below:

	2013 £m	2012 £m	2011 £m
Cash at bank and in hand	**136**	172	100
Cash equivalent investments: short-term bank and local authority deposits and money market fund investments	**215**	301	219
Total cash and cash equivalents	**351**	473	319

Cash and cash equivalents 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, and these funds are also categorised as cash equivalents. Where interest is earned, this is either at floating or short-term fixed rates based upon bank deposit rates. The fair value of cash and cash equivalent investments is not materially different from the carrying value of £351 million (2012 £473 million, 2011 £319 million).

17. Loans and borrowings

Details of loans and borrowings, including interest rates, additional loan facilities available and any security provided against the loans are provided below.

Below is a summary of loans and borrowings at the year end, the average interest rate, facility availability and security granted.

	2013					
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of drawn loans	Average maturity date of facility
Senior Debt Facility (term loan)[10]	–	600	600	–	–	2014
Senior Debt Facility (revolver)	–	300	300	–	–	2014
GLS Funding Loan	500	–	500	5.8	2023	2023
Shareholder Loan	473	–	473	12.0	2016	2016
Total BIS loans to Royal Mail Group Limited	**973**	**900**	**1,873**	**8.8**		

[10] On 30 March 2012, the Group agreed an amendment to this facility to permit repayment and reborrowing. The outstanding balance was repaid during April and May 2012, since when no further drawdowns have been made.

	2012					
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of drawn loans	Average maturity date of facility
Senior Debt Facility (term loan)	600	–	600	2.2	2014	2014
Senior Debt Facility (revolver)	–	300	300	–	–	2014
GLS Funding Loan	500	–	500	5.8	2023	2023
Shareholder Loan	422	–	422	12.0	–[11]	–[11]
Total BIS loans to Royal Mail Group Limited	1,522	300	1,822	6.1		

[11] Loan facilities are repayable on the later of March 2016 and the release of the pension escrow investment. As from 1 April 2012, following the transfer of almost all of the RMPP pension liabilities and pension assets to HM Government, the loan facilities are repayable in March 2016.

17. Loans and borrowings (continued)

	2011					
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of drawn loans	Average maturity date of facility
Senior Debt Facility (term loan)	600	–	600	3.0	2014	2014
Senior Debt Facility (revolver)	–	300	300	–	–	2014
GLS Funding Loan	500	–	500	5.8	2023	2023
Shareholder Loan	377	–	377	12.0	–[11]	–[11]
Miscellaneous loans and borrowings in subsidiaries	1	–	1	4.5	2012	2012
Total BIS loans to Royal Mail Group Limited	1,478	300	1,778	6.3		

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

	2013 £m	2012 £m	2011 £m
Expiring in one year or less	**900**	–	–
Expiring in more than one year, but not more than two years	**–**	300	–
Expiring in more than two years	**–**	–	300
Total	**900**	300	300

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

	2013 Facility £m	**Facility end date**	2012 Facility £m	Facility end date	2011 Facility £m	Facility end date	Security
Royal Mail Group Limited Senior Debt Facility	**900**	**2014**	900	2014	900	2014	Fixed charges over Royal Mail Holdings plc's shares in Royal Mail Group Limited and Royal Mail Group Limited's shares in Royal Mail Estates Limited. Floating charges over all assets of Royal Mail Holdings plc, Royal Mail Group Limited and Royal Mail Estates Limited.
Royal Mail Group Limited Shareholder Loan facility	**473**	**2016**	422	–[12]	377	–[12]	None
Royal Mail Group Limited other drawn down loans	**500**	**2021–2025**	500	2021–2025	500	2021–2025	Fixed charges over any Royal Mail Group Limited loans to General Logistics Systems B.V., any Royal Mail Group Limited 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 Limited.
	1,873		1,822		1,777		

12 Loan facilities are repayable on the later of March 2016 and the release of the pension escrow investment. As from 1 April 2012, following the transfer of almost all of the RMPP pension liabilities and pension assets to HM Government, the loan facilities are repayable in March 2016.

The Royal Mail Group Limited Shareholder Loan increased by £51 million (2012 £45 million, 2011 £40 million) as a result of accrued interest added to the loan balance.

The security in place in the previous year was as disclosed above – with the exception of £nil (2012 £60 million, 2011 £102 million) mortgages over certain Group properties which were established in March 2011.

The BIS loan to Royal Mail Group Limited becomes 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 Group is at risk of breaching any of these obligations.

18. Financial liabilities net and gross maturity analysis

This note focuses on loans and borrowings, finance leases and derivatives and provides further details on when amounts fall due, both for principal and for total contractual payments (e.g. including interest).

	2013			
	Loans and borrowings £m	**Finance leases £m**	**Derivative liabilities £m**	**Total £m**
Amounts falling due in:				
One year or less or on demand (current)	**–**	**79**	**2**	**81**
More than one year (non-current)	**973**	**226**	**1**	**1,200**
More than one year but not more than two years	–	56	1	57
More than two years but not more than five years	473	139	–	612
More than five years	500	31	–	531
Total	**973**	**305**	**3**	**1,281**

	2012			
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	–	86	4	90
More than one year (non-current)	1,522	231	1	1,754
More than one year but not more than two years	600	52	1	653
More than two years but not more than five years	–	142	–	142
More than five years	922	37	–	959
Total	1,522	317	5	1,844

	2011			
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	–	61	3	64
More than one year (non-current)	1,478	184	–	1,662
More than one year but not more than two years	–	47	–	47
More than two years but not more than five years	601	103	–	704
More than five years	877	34	–	911
Total	1,478	245	3	1,726

Obligations under finance leases 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 four per cent (2012 and 2011 four per cent). The average maturity date is more than five years (2012 and 2011 more than five years).

18. Financial liabilities net and gross maturity analysis (continued)

The tables below set out the gross (undiscounted) contractual cash flows of the Group's financial liabilities. For overdrafts, loans and finance lease 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.

	2013					
	Gross loans and borrowings commitments £m	**Gross finance lease instalments £m**	**Sub-total £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)	**29**	**87**	**116**	**120**	**2**	**238**
More than one year (non-current)	**1,435**	**330**	**1,765**	**2**	**1**	**1,768**
More than one year but not more than two years	29	61	90	2	1	93
More than two years but not more than five years	752	147	899	–	–	899
More than five years	654	122	776	–	–	776
Total	**1,464**	**417**	**1,881**	**122**	**3**	**2,006**
Less interest	**(491)**	**(112)**	**(603)**	**n/a**	**n/a**	**n/a**
Net total	**973**	**305**	**1,278**	**n/a**	**n/a**	**n/a**

	2012					
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £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)	46	98	144	316	3	463
More than one year (non-current)	2,081	344	2,425	3	1	2,429
More than one year but not more than two years	646	60	706	3	1	710
More than two years but not more than five years	88	153	241	–	–	241
More than five years	1,347	131	1,478	–	–	1,478
Total	2,127	442	2,569	319	4	2,892
Less interest	(605)	(125)	(730)	n/a	n/a	n/a
Net total	1,522	317	1,839	n/a	n/a	n/a

	2011					
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £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)	49	72	121	379	2	502
More than one year (non-current)	2,144	297	2,441	3	–	2,444
More than one year but not more than two years	51	54	105	3	–	108
More than two years but not more than five years	717	112	829	–	–	829
More than five years	1,376	131	1,507	–	–	1,507
Total	2,193	369	2,562	382	2	2,946
Less interest	(715)	(124)	(839)	n/a	n/a	n/a
Net total	1,478	245	1,723	n/a	n/a	n/a

Notes to the consolidated financial statements (continued)

19. Financial assets and liabilities – additional analysis

This note provides an analysis of the pound Sterling carrying values of the financial assets and liabilities held in various foreign currencies, along with details of interest rates, interest rate risk and maturity timescales.

Table 1 shows all the financial assets and liabilities in detail and on a net basis. Table 2 shows the net amount by currency. Table 3 shows the respective assets/liabilities by whether they are fixed, floating or non-interest bearing. Table 4 shows the effective interest rate and maturity analysed as fixed rate, floating rate and non-interest bearing.

Carrying amounts and fair values
Trade receivables, payables, prepayments, accruals and client payables 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 BIS loans to Royal Mail Group Limited (non-current) is £1,165 million at 31 March 2013 (2012 £1,698 million, 2011 £1,563 million). The fair value of 'Obligations under finance leases' is £308 million (2012 £327 million, 2011 £248 million). 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:

Table 1	**Level**	**Classification**	**2013 Total £m**	2012 Total £m	2011 Total £m
Financial assets					
Cash at bank or in hand			**136**	172	100
Cash equivalent investments			**215**	301	219
– Money market funds		Loans and receivables	88	271	98
– Short-term deposits – local government		Loans and receivables	7	–	29
– Short-term deposits – bank		Loans and receivables	120	30	92
Cash and cash equivalents			**351**	473	319
Financial assets – investments (current)			**1**	31	1
– Short-term deposits – Government/local government		Loans and receivables	1	1	1
– Short-term deposits – bank		Loans and receivables	–	30	–
Financial assets – investments (non-current) – bank deposits		Loans and receivables	**–**	–	44
Financial assets – pension escrow investments (non-current)	1		**20**	149	87
– Money market funds		Loans and receivables	20	–	–
– Treasury bills	1	Available for sale	–	45	–
– Gilt edged securities (conventional)	1	Available for sale	–	25	21
– Gilt edged securities (index linked)	1	Available for sale	–	79	66
Derivative assets – current	2		**9**	9	36
– non-current	2		**3**	2	6
Total financial assets			**384**	664	493
Financial liabilities					
Obligations under finance leases (current)		Amortised cost	**(79)**	(86)	(61)
Financial liabilities – loans and borrowings (non-current)			**(973)**	(1,522)	(1,478)
– BIS loans to Royal Mail Group Limited		Amortised cost	(973)	(1,522)	(1,477)
– Miscellaneous loans in subsidiaries (non-current)		Amortised cost	–	–	(1)
Obligations under finance leases (non-current)		Amortised cost	**(226)**	(231)	(184)
Derivative liabilities – current	2		**(2)**	(4)	(3)
Derivative liabilities – non-current	2		**(1)**	(1)	–
Total financial liabilities			**(1,281)**	(1,844)	(1,726)
Net total financial assets			**(897)**	(1,180)	(1,233)

19. Financial assets and liabilities – additional analysis (continued)

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

The criteria for codification of 'Level' in the above table is described in the accounting policy 'Fair value measurement of financial instruments' on page 121.

Derivative assets – £9 million current, £3 million non-current (2012 £9 million current, £2 million non-current, 2011 £36 million current, £6 million non-current) and liabilities £2 million current, £1 million non-current (2012 £4 million current, £1 million non-current, 2011 £3 million 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 directly to the income statement.

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

The net total financial assets are held in various different currencies as summarised in the table below. The majority of the non-Sterling financial assets are held within cash at bank, or in hand.

Table 2	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Net total financial (liabilities)/assets 2013	**(1,005)**	**5**	**66**	**37**	**(897)**
Net total financial (liabilities)/assets 2012	(1,343)	11	118	34	(1,180)
Net total financial (liabilities)/assets 2011	(1,416)	74	87	22	(1,233)

Interest rate risk

Interest on financial instruments classified as floating rate 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 tables below set out the carrying amount by maturity of the Group's financial instruments that are exposed to interest rate risk. The pension escrow investments of £20 million at 31 March 2013 represent a money market fund investment established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP) in support of a deficit recovery period agreed with the Trustee in 2013 and as such are disclosed as maturing in more than five years.

Financial year ended 31 March 2013

Table 3	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Cash	**18**	**102**	**16**	**136**
Cash equivalent investments	**127**	**88**	**–**	**215**
Financial asset investments (current)	**1**	**–**	**–**	**1**
Pension escrow investments	**–**	**20**	**–**	**20**
Derivative – assets	**–**	**–**	**12**	**12**
– liabilities	**–**	**–**	**(3)**	**(3)**
BIS loans to Royal Mail Group Limited	**(973)**	**–**	**–**	**(973)**
Obligations under finance leases	**(305)**	**–**	**–**	**(305)**
Net total financial (liabilities)/assets	**(1,132)**	**210**	**25**	**(897)**

Financial year ended 25 March 2012

Table 3	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Cash	28	127	17	172
Cash equivalent investments	30	271	–	301
Financial asset investments (current)	31	–	–	31
Pension escrow investments	25	124	–	149
Derivative – assets	–	–	11	11
– liabilities	–	–	(5)	(5)
BIS loans to Royal Mail Group Limited	(922)	(600)	–	(1,522)
Obligations under finance leases	(317)	–	–	(317)
Net total financial (liabilities)/assets	(1,125)	(78)	23	(1,180)

Notes to the consolidated financial statements (continued)

19. Financial assets and liabilities – additional analysis (continued)

Financial year ended 27 March 2011

Table 3 (continued)	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Cash	12	87	1	100
Cash equivalent investments	121	98	–	219
Financial asset investments (current)	1	–	–	1
Pension escrow investments	21	66	–	87
Financial asset investments (non-current)	44	–	–	44
Derivative - assets	–	–	42	42
- liabilities	–	–	(3)	(3)
BIS loans to Royal Mail Group Limited	(877)	(600)	–	(1,477)
Miscellaneous loans and borrowings in subsidiaries	(1)	–	–	(1)
Obligations under finance leases	(245)	–	–	(245)
Net total financial (liabilities)/assets	(924)	(349)	40	(1,233)

Financial year ended 31 March 2013

Table 4	**Average effective interest rate %**	**Within 1 year £m**	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**	**Total £m**
Fixed rate						
Cash at bank	**3.2**	**18**	**–**	**–**	**–**	**18**
Cash equivalent investments:						
– Short-term deposits – bank	**0.4**	**120**	**–**	**–**	**–**	**120**
– Short-term deposits – HM Government/local government	**0.4**	**7**	**–**	**–**	**–**	**7**
Financial assets – investments (current)						
– Short-term deposits – HM Government/local government	**7.7**	**1**	**–**	**–**	**–**	**1**
BIS loans to Royal Mail Group Limited	**8.8**	**–**	**–**	**(473)**	**(500)**	**(973)**
Obligations under finance leases	**3.6**	**(79)**	**(56)**	**(139)**	**(31)**	**(305)**
Total		**67**	**(56)**	**(612)**	**(531)**	**(1,132)**
Floating rate						
Cash at bank	**0.6**	**102**	**–**	**–**	**–**	**102**
Cash equivalent investments:						
– Money market funds	**0.4**	**88**	**–**	**–**	**–**	**88**
Pension escrow investments – money market finds	**0.3**	**–**	**–**	**–**	**20**	**20**
Total		**190**	**–**	**–**	**20**	**210**
Non-interest bearing						
Cash at bank or in hand		**16**	**–**	**–**	**–**	**16**
Derivative assets		**9**	**3**	**–**	**–**	**12**
Derivative liabilities		**(2)**	**(1)**	**–**	**–**	**(3)**
Total		**23**	**2**	**–**	**–**	**25**
Net total financial assets/(liabilities)		**280**	**(54)**	**(612)**	**(511)**	**(897)**

19. Financial assets and liabilities – additional analysis (continued)

Financial year ended 25 March 2012

Table 4	Average effective interest rate %	Within 1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
Fixed rate						
Cash at bank	4.2	28	–	–	–	28
Cash equivalent investments:						
– Short-term deposits – bank	0.7	30	–	–	–	30
Financial assets – investments (current)						
– Short-term deposits – HM Government/local government	7.7	1	–	–	–	1
– Short-term deposits – Bank	2.4	30	–	–	–	30
Financial assets – pension escrow investments (non-current)						
– Gilt edged securities (conventional)	4.8	–	–	–	25	25
BIS loans to Royal Mail Group Limited	8.7	–	–	–	(922)	(922)
Obligations under finance leases	3.8	(86)	(52)	(142)	(37)	(317)
Total		3	(52)	(142)	(934)	(1,125)
Floating rate						
Cash at bank	0.5	127	–	–	–	127
Cash equivalent investments:						
– Money market funds	0.8	271	–	–	–	271
Financial assets – pension escrow investments (non-current)						
– Treasury bills	0.4	–	–	–	45	45
– Gilt edged securities (index linked)	4.3	–	–	–	79	79
BIS loans to Royal Mail Group Limited	2.2	–	(600)	–	–	(600)
Total		398	(600)	–	124	(78)
Non-interest bearing						
Cash at bank or in hand		17	–	–	–	17
Derivative assets		9	2	–	–	11
Derivative liabilities		(4)	(1)	–	–	(5)
Total		22	1	–	–	23
Net total financial assets/(liabilities)		423	(651)	(142)	(810)	(1,180)

Notes to the consolidated financial statements (continued)

19. Financial assets and liabilities – additional analysis (continued)

Financial year ended 27 March 2011

Table 4	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Cash at bank	3.9	12	–	–	–	12
Cash equivalent investments:						
– Short-term deposits – bank	0.6	29	–	–	–	29
– Short-term deposits – bank	0.8	92	–	–	–	92
Financial assets – investments (current)						
– Short-term deposits – HM Government/local government	7.7	1	–	–	–	1
Financial assets – investments (non-current) – bank deposits	0.4	–	5	24	15	44
Financial assets – pension escrow investments (non-current)						
– Gilt edged securities (conventional)	4.8	–	–	–	21	21
BIS loans to Royal Mail Group Limited	8.4	–	–	–	(877)	(877)
Obligations under finance leases	4.3	(61)	(47)	(103)	(34)	(245)
Miscellaneous loans in subsidiaries	4.5	–	–	(1)	–	(1)
Total		73	(42)	(80)	(875)	(924)
Floating rate						
Cash at bank	0.8	87	–	–	–	87
Cash equivalent investments:						
– Money market funds	0.7	98	–	–	–	98
Financial assets – pension escrow investments (non-current)						
– Gilt edged securities (index linked)	4.7	–	–	–	66	66
BIS loans to Royal Mail Group Limited	3.0	–	–	(600)	–	(600)
Total		185	–	(600)	66	(349)
Non-interest bearing						
Cash at bank or in hand		1	–	–	–	1
Derivative assets		36	6	–	–	42
Derivative liabilities		(3)	–	–	–	(3)
Total		34	6	–	–	40
Net total financial assets/(liabilities)		292	(36)	(680)	(809)	(1,233)

20. Hedging programmes

Information regarding the various hedging programmes in place to mitigate volatility in commodity prices and foreign currency exchange rates is provided below.

The hedging programmes use a number of financial derivative products to manage volatility in commodity prices and foreign exchange. If these hedges are 'in the money', i.e. hedged rates are better than the current market rate, then a derivative asset is recognised and if they are 'out of the money', a derivative liability is recognised. We show the full picture in this note even though the balance sheet amounts are not material in the context of the Group's total assets and liabilities.

The purpose of the Group's hedging programmes is to mitigate volatility in commodity prices and foreign exchange rates. As explained in note 14, interest rate risk is managed using an appropriate mix of fixed and variable rate financial instruments. There are no significant concentrations of credit risk. Accounting rules require the Company to choose whether to designate effective cash flow hedge programmes or not (subject to various tests). The impact of not designating a cash flow hedge programme is that all gains or losses on the derivatives in the programme have to be taken immediately to the income statement and cannot be deferred into equity. The Group had the following designated cash flow hedge programmes during the current and previous year.

Hedging activities

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

The jet fuel hedge programme uses forward commodity price swaps and forward currency purchase contracts to hedge the exposure arising from commodity price and US$/Sterling exchange rates for forecast jet fuel usage.

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

Three capital programmes (one of which completed during the year) use Euro forward currency purchase contracts to hedge the exposure arising from Sterling/Euro exchange rates for contracted capital expenditure on automation projects.

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

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

The Group had undesignated cash flow hedge programmes for UKPIL overseas postal operator liabilities and the transactional exposure created by inter-company loans with GLS. The derivative balances of these programmes are not material.

Commodity price hedging

The Group's normal operating activities result in the consumption of fuel (both diesel and jet), electricity and gas. The prices of these commodities can be volatile, so the Group enters into price swap contracts to lock future purchases (at an agreed volume) into a known price. For diesel and jet these price swaps are sometimes entered into on the US$ price for the commodity (based upon available market prices), in which case the Group uses forward foreign currency contracts to lock into a combined Sterling price for the commodity. The following table shows the commodity, risk, the amount of the exposure and the percentage of the expected consumption hedged. The Group hedges the cost of the underlying commodity and any irrecoverable VAT that is incurred on this cost. It does not hedge any fuel duty. The exposures shown in the following table exclude the costs of fuel duty and are based upon the hedges in place combined with market prices at the balance sheet date for the unhedged amounts. Fuel duty (and the associated VAT) add an additional cost of approximately £100 million to diesel costs each year. Total fuel costs for 2013-14 are estimated to be £196 million.

Notes to the consolidated financial statements (continued)

20. Hedging programmes (continued)

		Exposure (excluding fuel duty) and expected consumption hedged 2013					
		March Year ending 2014		March Year ending 2015		March Year ending 2016	
Commodity	**Risk**	**Exposure £m**	**% hedged**	**Exposure £m**	**% hedged**	**Exposure £m**	**% hedged**
Diesel fuel	US$ price and $/£ exchange rate movements	**80**	**93%**	**82**	**79%**	**83**	**9%**
Jet fuel	US$ price and $/£ exchange rate movements	**16**	**92%**	**16**	**–**	**16**	**–**
Electricity	£ price movement	**18**	**83%**	**18**	**54%**	**19**	**6%**
Gas	£ price movement	**14**	**81%**	**14**	**56%**	**14**	**7%**

		Exposure (excluding fuel duty) and expected consumption hedged 2012					
		March Year ending 2013		March Year ending 2014		March Year ending 2015	
Commodity	**Risk**	Exposure £m	% hedged	Exposure £m	% hedged	Exposure £m	% hedged
Diesel fuel	US$ price and $/£ exchange rate movements	83	91%	86	51%	84	9%
Jet fuel	US$ price and $/£ exchange rate movements	15	90%	16	52%	16	–
Electricity	£ price movement	19	83%	17	85%	17	20%
Gas	£ price movement	15	78%	14	80%	13	9%

		Exposure (excluding fuel duty) and expected consumption hedged 2011					
		March Year ending 2012		March Year ending 2013		March Year ending 2014	
Commodity	**Risk**	Exposure £m	% hedged	Exposure £m	% hedged	Exposure £m	% hedged
Diesel fuel	US$ price and $/£ exchange rate movements	59	90%	73	29%	75	–
Jet fuel	US$ price and $/£ exchange rate movements	13	90%	16	30%	16	–
Electricity	£ price movement	15	76%	17	26%	18	–
Gas	£ price movement	8	88%	11	40%	11	–

Foreign currency hedging for non-commodity items

As highlighted in note 14, the Group, where possible, nets exposure to foreign currency internally. The remaining net exposure may be hedged with external forward foreign currency contracts. The underlying exposures, (e.g. the foreign postal administration liabilities) and the derivatives are both revalued to current market prices at the balance sheet dates, meaning that no net gains or losses arise in the income statement.

The following table shows for each hedge programme, the risk and the percentage hedged of the next 12 months' exposure:

		Percentage of next 12 months' exposure that has been hedged		
Hedge programme	**Risk**	**At 31 March 2013**	**At 25 March 2012**	**At 27 March 2011**
Air conveyance	$/£ exchange rate movements	**92%**	**89%**	**90%**
Capital programmes	€/£ exchange rate movements	**95%**	**86%**	**87%**
Overseas postal operator liabilities	SDR/£ exchange rate movements	**17%**	**36%**	**41%**
GLS inter-company loan	€/£ exchange rate movements	**100%**	**100%**	**100%**

The next 12 months' exposure is calculated as the combination of the cost of settling liabilities during the next 12 months and the cost of revaluing unsettled liabilities at the end of 12 months.

As highlighted in note 14, the Company does not hedge the translational exposure created by the net assets or profits of its overseas subsidiaries, mainly GLS.

Derivative values

At any point in time, the derivatives in these cash flow hedge programmes are either 'in the money' which means the hedged rates are better than current market rates or 'out of the money' which means the hedged rates are worse than current market rates. The gains ('in the money') and losses ('out of the money') at the balance sheet date are deferred into equity (where the hedge is effective) and an associated financial asset or financial liability is created in the balance sheet. The financial asset/liability is either realised in cash or used to discharge a liability when the derivative matures. The amounts deferred into equity are released from equity to the income statement or to the initial carrying amount of non-financial assets when the hedged transaction occurs. The following tables show the derivative contracts entered into at 31 March 2013, 25 March 2012 and 27 March 2011 and the associated derivative assets and liabilities.

20. Hedging programmes (continued)

	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
2013								
Diesel fuel	Diesel fuel	182,000 tonnes	Apr 13 – Apr 15	US$931/tonne	**–**	**3**	**(1)**	**(1)**
Diesel fuel	US$	$169m	Apr 13 – Apr 15	US$1.56/£	**1**	**2**	**–**	**–**
Diesel fuel	Diesel fuel	93m litres	Apr 13 – Oct 15	£0.5/litre	**2**	**–**	**–**	**–**
Jet fuel	Jet fuel	17,000 tonnes	Apr 13 – Dec 13	US$1,016/tonne	**–**	**–**	**–**	**–**
Jet fuel	Jet fuel	$17m	Apr 13 – Dec 13	US$1.56/£	**–**	**–**	**–**	**–**
Air conveyance	US$	$29m	Apr 13 – May 14	US$1.60/£	**–**	**1**	**–**	**–**
Capital programmes	Euro	€4m	Jun 13 – Oct 14	£0.82/€	**–**	**–**	**–**	**–**
Electricity	Electricity	535,000 MWh	Apr 13 – Oct 15	£55/MWh	**–**	**1**	**–**	**(1)**
Gas	Gas	33m therms	Apr 13 – Oct 15	£0.70/therm	**–**	**1**	**–**	**–**
Cash flow hedges					**3**	**8**	**(1)**	**(2)**
Other derivatives					**–**	**1**	**–**	**–**
Total					**3**	**9**	**(1)**	**(2)**

	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
2012								
Diesel fuel	Diesel fuel	191,000 tonnes	Apr 12 – Oct 14	US$963/tonne	1	7	–	–
Diesel fuel	US$	$184m	Apr 12 – Oct 14	US$1.58/£	–	1	–	(1)
Diesel fuel	Diesel fuel	32m litres	May 13 – Jul 14	£0.5/litre	1	–	–	–
Jet fuel	Jet fuel	29,000 tonnes	Apr 12 – Sep 13	US$1,017/tonne	–	1	–	–
Jet fuel	Jet fuel	$29m	Apr 12 – Sep 13	US$1.58/£	–	–	–	–
Air conveyance	US$	$28m	Mar 12 – Apr 13	US$1.60/£	–	–	–	–
Capital programmes	Euro	€21m	Mar 12 – Jun 12	£0.84/€	–	–	–	–
Electricity	Electricity	695,000 MWh	Apr 12 – Oct 14	£55/MWh	–	–	(1)	(2)
Gas	Gas	40m therms	Apr 12 – Oct 14	£0.70/therm	–	–	–	–
Cash flow hedges					2	9	(1)	(3)
Other derivatives					–	–	–	(1)
Total					2	9	(1)	(4)

20. Hedging programmes (continued)

	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
2011								
Diesel fuel	Diesel fuel	148,000 tonnes	Apr 11 – Jan 13	US$795/tonne	4	17	–	–
Diesel fuel	US$	$118m	Apr 11 – Jan 13	US$1.57/£	–	–	–	(1)
Air conveyance	US$	$25m	Mar 11 – Apr 12	US$1.63/£	–	–	–	–
Capital programmes	Euro	€67m	Mar 11 – Apr 12	£0.85/€	–	2	–	–
Electricity	Electricity	378,000 MWh	Apr 11 – Jan 13	£46/MWh	1	3	–	–
Gas	Gas	24m therms	Apr 11 – Apr 13	£0.56/therm	–	3	–	–
Cash flow hedges					5	25	–	(1)
Other derivatives					1	11	–	(2)
Total					6	36	–	(3)

Other derivatives represent hedges by the Group of other foreign exchange and commodity price exposures, which are not designated under IAS 39 (including the hedge of the trading balance with overseas postal operators and the hedge of inter-company loans with overseas subsidiaries).

There are timing differences between the maturity of the derivatives and the maturity of the underlying hedged transaction. For example, the diesel derivatives that hedge the exposure to purchasing fuel in March 2013 mature in April 2013. Hence at 31 March 2013, the balance sheet includes the market value of these derivatives but the cumulative gains and losses on these derivatives have been released from the hedging reserve to the income statement to match the exposure to purchasing fuel in March 2013. Therefore there are differences between derivative balances (shown above) and the balance on the hedging reserve.

Other notes – balance sheet

The notes in this section provide additional information regarding certain assets and liabilities on the Group balance sheet, most notably provisions, mainly in relation to transformation costs, and fixed and intangible assets and goodwill.

Notes to the consolidated financial statements (continued)

21. Provisions

A summary of the provisions that have been made in the accounts, including for transformation costs are shown below.

	Exceptional			
	Transformation £m	Non-transformation £m	Other £m	Total £m
At 28 March 2010	186	–	47	233
Arising during the year:				
– charged in operating exceptional items	254	30	–	284
– charged in other operating costs	–	–	23	23
Unused amounts reversed	(113)	–	(7)	(120)
Utilised in the year	(159)	–	(15)	(174)
Discount rate adjustment	6	–	–	6
At 27 March 2011	174	30	48	252
Arising during the year:				
– charged in operating exceptional items	89	19	–	108
– charged in other operating costs	–	–	32	32
Unused amounts reversed	(7)	(2)	(2)	(11)
Utilised in the year	(148)	(6)	(12)	(166)
Discount rate adjustment	–	2	–	2
At 25 March 2012	**108**	**43**	**66**	**217**
Arising during the year:				
– charged in operating exceptional items	**87**	**48**	**–**	**135**
– charged in other operating costs	**–**	**–**	**27**	**27**
Unused amounts reversed	**(17)**	**–**	**(17)**	**(34)**
Utilised in the year	**(73)**	**(5)**	**(22)**	**(100)**
Discount rate adjustment	**–**	**1**	**–**	**1**
At 31 March 2013	**105**	**87**	**54**	**246**
Disclosed as:				
Current at 31 March 2013	**69**	**18**	**32**	**119**
Non-current at 31 March 2013	**36**	**69**	**22**	**127**
	105	**87**	**54**	**246**
Current at 25 March 2012	73	7	52	132
Non-current at 25 March 2012	35	36	14	85
	108	43	66	217
Current at 27 March 2011	133	3	31	167
Non-current at 27 March 2011	41	27	17	85
	174	30	48	252

21. Provisions (continued)

Transformation provisions (charged as transformation operating exceptional items)
Transformation exceptional provisions of £105 million (2012 £108 million, 2011 £174 million) principally comprise redundancy schemes of £92 million (2012 £87 million, 2011 £156 million). A further £13 million (2012 £21 million, 2011 £18 million) relates to onerous property contracts associated with restructuring. Current transformation provisions of £69 million are expected to be utilised in 2013-14, with the remainder due within two to three years, except for onerous property provisions of £1 million, expected to be utilised within three to five years, and a further £3 million over a period greater than five years.

Non-transformation provisions (charged as other operating exceptional items)
Included in non-transformation provisions of £87 million at 31 March 2013 (2012 £43 million, 2011 £30 million) is £67 million (2012 £39 million, 2011 £30 million) for potential industrial diseases claims relating to both current and former employees of the Group.

Royal Mail Group's liability in respect of former employees arose in 2010 as a result of a Court of Appeal judgment that held the Group liable for diseases claims brought by individuals who were employed in the General Post Office telecommunications division and whose employment ceased prior to October 1981. Consequently, a provision was first recognised in 2010-11.

The Group has derived its current provision by using estimates and ranges calculated by its actuary, which are based on current experience of claims, and an assessment of potential future claims, the majority of which are expected to be received over the next 25 to 30 years. The Group has a rigorous process of ensuring that only valid claims are accepted. £4 million of this provision is expected to be utilised in 2013-14.

The remaining £20 million (2012 and 2011 £nil) relates to IT systems costs associated with Post Office Limited separation, of which £14 million is expected to be utilised in 2013-14, with the remainder expected to be utilised in the following year.

Other provisions (charged in normal operating expenses)
'Other' provisions of £54 million (2012 £66 million, 2011 £48 million) mainly comprise onerous lease obligations, decommissioning costs and estimated exposures resulting from legal claims incurred in the normal course of business. The majority of 'Other' provision amounts are expected to be utilised in 2013-14, with £3 million onerous lease obligations and decommissioning costs expected to be utilised within two to three years, £12 million within three to five years and a further £7 million over a period greater than five years.

Notes to the consolidated financial statements (continued)

22. Property, plant and equipment

Below are details of the Group's property, automation equipment and vehicles, which are recorded at their historic cost (what we paid for them) less; accumulated depreciation (reflecting their usage within the business over their useful life – from 3 to 50 years); and impairments relating to underperformance of assets in their objective of generating economic benefits.

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost							
At 26 March 2012	**1,528**	**259**	**633**	**1,224**	**448**	**328**	**4,420**
Exchange rate movements	**4**	**–**	**–**	**2**	**1**	**2**	**9**
Reclassification	**(29)**	**1**	**27**	**1**	**–**	**–**	**–**
Additions	**176**	**4**	**19**	**47**	**110**	**36**	**392**
Disposals	**(33)**	**(2)**	**(29)**	**(87)**	**(21)**	**(4)**	**(176)**
Legal entity transfer to POL	**(22)**	**–**	**–**	**–**	**–**	**–**	**(22)**
Reclassification to non-current assets held for sale	**(2)**	**–**	**–**	**–**	**–**	**–**	**(2)**
At 31 March 2013	**1,622**	**262**	**650**	**1,187**	**538**	**362**	**4,621**
Depreciation and impairment							
At 26 March 2012	**801**	**157**	**403**	**735**	**262**	**240**	**2,598**
Exchange rate movements	**1**	**–**	**–**	**2**	**–**	**1**	**4**
Reclassification	**–**	**–**	**(1)**	**–**	**1**	**–**	**–**
Depreciation (note 13)	**40**	**6**	**46**	**68**	**46**	**32**	**238**
Impairment (note 5)	**21**	**–**	**–**	**–**	**–**	**–**	**21**
Disposals	**(16)**	**(1)**	**(16)**	**(87)**	**(20)**	**(4)**	**(144)**
Legal entity transfer to POL	**(11)**	**–**	**–**	**–**	**–**	**–**	**(11)**
Reclassification to non-current assets held for sale	**(1)**	**–**	**–**	**–**	**–**	**–**	**(1)**
At 31 March 2013	**835**	**162**	**432**	**718**	**289**	**269**	**2,705**
Net book value							
At 31 March 2013	**787**	**100**	**218**	**469**	**249**	**93**	**1,916**
At 26 March 2012	727	102	230	489	186	88	1,822

Depreciation rates are disclosed within accounting policies (page 119). No depreciation is provided on land, which represents £196 million (2012 £199 million, 2011 £166 million) of the total cost of properties. The net book value of the Group's property, plant and equipment held under finance leases amounts to £378 million (2012 £320 million, 2011 £262 million) comprising £208 million (2012 £137 million, 2011 £152 million) vehicles, £146 million (2012 £154 million, 2011 £88 million) plant and machinery and £24 million (2012 £29 million 2011 £22 million) land and buildings. The net book value of the Group's property, plant and equipment includes £206 million (2012 £171 million, 2011 £146 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £382 million (2012 £389 million, 2011 £383 million) in respect of building fit-out.

The £392 million (2012 £327 million, 2011 £262 million) additions include borrowing costs capitalised in relation to specific qualifying assets of £nil (2012 £2 million, 2011 £nil).

22. Property, plant and equipment (continued)

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost							
At 28 March 2011	1,524	260	580	1,178	438	312	4,292
Exchange rate movements	(16)	(1)	–	(8)	(3)	(5)	(33)
Reclassification	(32)	–	32	–	–	–	–
Additions	127	2	29	114	28	27	327
Disposals	(55)	(1)	(8)	(60)	(15)	(6)	(145)
Reclassification to non-current assets held for sale	(20)	(1)	–	–	–	–	(21)
At 25 March 2012	1,528	259	633	1,224	448	328	4,420
Depreciation and impairment							
At 28 March 2011	797	153	357	718	224	214	2,463
Exchange rate movements	(4)	(1)	–	(5)	(2)	(4)	(16)
Reclassification	(9)	–	9	–	–	–	–
Depreciation (note 13)	46	6	45	82	54	35	268
Impairment (note 5)	1	–	–	–	–	–	1
Disposals	(14)	(1)	(8)	(60)	(14)	(5)	(102)
Reclassification to non-current assets held for sale	(16)	–	–	–	–	–	(16)
At 25 March 2012	801	157	403	735	262	240	2,598
Net book value							
At 25 March 2012	727	102	230	489	186	88	1,822
At 28 March 2011	727	107	223	460	214	98	1,829

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost							
At 29 March 2010	1,647	250	494	1,139	422	290	4,242
Exchange rate movements	(5)	–	–	(2)	(1)	(1)	(9)
Reclassification	(73)	(4)	77	(2)	3	(1)	–
Additions	73	19	12	85	43	30	262
Disposals	(106)	(5)	(3)	(42)	(29)	(6)	(191)
Reclassification to non-current assets held for sale	(12)	–	–	–	–	–	(12)
At 27 March 2011	1,524	260	580	1,178	438	312	4,292
Depreciation and impairment							
At 29 March 2010	821	150	280	678	195	186	2,310
Exchange rate movements	(1)	–	–	(2)	–	(1)	(4)
Reclassification	(40)	(3)	42	–	1	–	–
Depreciation (note 13)	44	7	38	74	53	34	250
Impairment (note 5)	2	–	–	10	–	–	12
Disposals	(19)	(1)	(3)	(42)	(25)	(5)	(95)
Reclassification to non-current assets held for sale	(10)	–	–	–	–	–	(10)
At 27 March 2011	797	153	357	718	224	214	2,463
Net book value							
At 27 March 2011	727	107	223	460	214	98	1,829
At 29 March 2010	826	100	214	461	227	104	1,932

Notes to the consolidated financial statements (continued)

23. Goodwill

This note provides details of the goodwill at the start and end of the reporting period, most of which relates to the Group's acquisition of its overseas subsidiary, General Logistics Systems (GLS).

	2013 £m	2012 £m	2011 £m
Cost			
At 26 March 2012 and 28 March 2011 and 29 March 2010	**599**	628	636
Exchange rate movements	**8**	(32)	(11)
Acquisition of businesses	**4**	3	3
At 31 March 2013 and 25 March 2012 and 27 March 2011	**611**	599	628
Impairment (including amortisation up to the date of transition to IFRS)			
At 26 March 2012 and 28 March 2011 and 29 March 2010	**410**	431	439
Exchange rate movements	**5**	(21)	(8)
At 31 March 2013 and 25 March 2012 and 27 March 2011	**415**	410	431
Net book value			
At 31 March 2013 and 25 March 2012 and 27 March 2011	**196**	189	197
At 26 March 2012 and 28 March 2011 and 29 March 2010	189	197	197

The Group's investment in General Logistics Systems (GLS) occurred substantially over the 1998-99 and 1999-2000 financial years. In 2001-02, £256 million of the goodwill recognised on acquisition was impaired, based on the forecast under-performance of GLS. Whilst this forecast under-performance did not fully materialise, the goodwill impairment could not be reversed, as this is not permitted under IFRS. In retrospect, this impairment would not have been recognised based on GLS' actual financial performance.

The remaining impairment amount of £159 million at 31 March 2013 relates to amortisation prior to the Group's transition to IFRS in 2005-06, and the impact of foreign exchange rates on translation of Euros to pounds Sterling.

The carrying value of goodwill arising on business combinations of £196 million (2012 £189 million, 2011 £197 million) at the balance sheet date includes £194 million (2012 £187 million, 2011 £195 million) relating to the GLS business segment. In line with the Group's accounting policy (see page 118), 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 net assets of GLS, excluding interest bearing and taxation related assets and liabilities, is £487 million (2012 £446 million, 2011 £450 million) at 31 March 2013 and the operating profit before exceptional items is £101 million (2012 £128 million, 2011 £118 million) for the year (note 3). The carrying value of GLS represents a multiple of 4.8 (2012 3.5, 2011 3.8) 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 has been assessed to be in excess of the carrying value. The earnings multiples referenced would need to reduce by more than 30 per cent to reduce the net realisable value to below the carrying value.

24. Intangible assets

Intangible assets, mainly software, are recorded in much the same way as our physical assets such as property and vehicles, but with shorter useful lives over which they are amortised (three to six years).

	2013			
	Master franchise licences £m	**Customer listings £m**	**Software £m**	**Total £m**
Cost				
At 26 March 2012	**23**	**30**	**248**	**301**
Additions	**–**	**–**	**44**	**44**
Disposals	**–**	**–**	**(5)**	**(5)**
Acquisition of business	**–**	**2**	**–**	**2**
At 31 March 2013	**23**	**32**	**287**	**342**
Amortisation and impairment				
At 26 March 2012	**23**	**26**	**117**	**166**
Impairment (note 5)	**–**	**–**	**(1)**	**(1)**
Amortisation (note 13)	**–**	**2**	**41**	**43**
Disposals	**–**	**–**	**(5)**	**(5)**
At 31 March 2013	**23**	**28**	**152**	**203**
Net book value				
At 31 March 2013	**–**	**4**	**135**	**139**
At 26 March 2012	–	4	131	135

The £44 million (2012 £43 million, 2011 £62 million) additions include borrowing costs capitalised in relation to specific qualifying assets of £1 million (2012 £nil, 2011 £1 million).

	2012			
	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost				
At 28 March 2011	24	29	216	269
Additions	–	–	43	43
Disposals	–	–	(10)	(10)
Acquisition of business	–	2	–	2
Exchange rate movements	(1)	(1)	(1)	(3)
At 25 March 2012	23	30	248	301
Amortisation and impairment				
At 28 March 2011	24	25	94	143
Impairment (note 5)	–	–	3	3
Amortisation (note 13)	–	2	31	33
Disposals	–	–	(10)	(10)
Exchange rate movements	(1)	(1)	(1)	(3)
At 25 March 2012	23	26	117	166
Net book value				
At 25 March 2012	–	4	131	135
At 28 March 2011	–	4	122	126

Notes to the consolidated financial statements (continued)

24. Intangible assets (continued)

	2011			
	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost				
At 29 March 2010	24	27	170	221
Additions	–	–	62	62
Disposals	–	–	(16)	(16)
Acquisition of business	–	2	–	2
At 27 March 2011	24	29	216	269
Amortisation and impairment				
At 29 March 2010	22	22	78	122
Impairment (note 5)	–	–	1	1
Amortisation (note 13)	2	3	31	36
Disposals	–	–	(16)	(16)
At 27 March 2011	24	25	94	143
Net book value				
At 27 March 2011	–	4	122	126
At 29 March 2010	2	5	92	99

The intangible assets above, none of which have been internally generated, have finite lives and are being written down on a straight-line basis.

25. Investments in associates

This note provides details of the Group's associate companies, including its share of the net assets of these entities.

Details of the Group's two associate companies are provided in note 30. During March 2013 it was announced that one of these companies, G3 Worldwide Mail N.V. (Spring), was to be sold and, accordingly, the Group's share of its net assets was reclassified to the 'assets held for sale' category on the Group balance sheet. G3 Worldwide Mail N.V. (Spring) was subsequently sold on 2 April 2013, after the balance sheet date.

The reporting year end date for Quadrant Catering Limited was 30 September 2012 (30 September 2011) and for G3 Worldwide Mail N.V. (Spring) was 31 December 2012 (31 December 2011). To ensure that the reported share of profit/loss of these two associate companies align with the Group's reporting period ending 31 March 2013 (2012 25 March 2012), an estimated profit/loss, using forecasts from the respective companies' management reporting systems, was used for the month of March 2013.

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 26 March 2012 £m	**Share of post taxation pre dividend profit £m**	**Impairment £m**	**Disposal £m**	**Reclassification £m**	**Dividend £m**	**At 31 March 2013 £m**
Share of net assets	**3**	**1**	**–**	**–**	**(1)**	**–**	**3**
Total net investments in associates	**3**	**1**	**–**	**–**	**(1)**	**–**	**3**

	At 28 March 2011 £m	Share of post taxation pre dividend profit £m	Impairment £m	Disposal £m	Dividend £m	At 25 March 2012 £m
Share of net assets	9	1	(3)	–	(4)	3
Total net investments in associates	9	1	(3)	–	(4)	3

	At 29 March 2010 £m	Share of post taxation pre dividend profit £m	Impairment £m	Disposal £m	Dividend £m	At 27 March 2011 £m
Share of net assets	35	3	–	(20)	(9)	9
Goodwill	11	–	(2)	(9)	–	–
Total net investments in associates	46	3	(2)	(29)	(9)	9

	2013 £m	2012 £m	2011 £m
Share of assets and liabilities:			
Current assets	**6**	10	25
Non-current assets	**–**	1	3
Share of gross assets	**6**	11	28
Current liabilities	**(3)**	(8)	(18)
Non-current liabilities	**–**	–	(1)
Share of gross liabilities	**(3)**	(8)	(19)
Share of net assets	**3**	3	9
Share of revenue and profit:			
Revenue	**61**	68	341
Profit after taxation	**1**	1	3

26. Current trade and other receivables

The following details relate to amounts owed to the Group by third parties (including Post Office Limited) and also the level of bad and doubtful debts that the Company has provided for in the financial statements.

	2013 **£m**	2012 £m	2011 £m
Trade receivables	**758**	759	820
Prepayments and accrued income	**241**	275	86
Income taxation receivable	**5**	2	–
Total	**1,004**	1,036	906

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

	2013 **£m**	2012 £m	2011 £m
At 26 March 2012 and 28 March 2011 and 29 March 2010	**35**	19	23
Receivables provided for during the year	**11**	26	8
Release of provision	**(10)**	(4)	(4)
Utilisation of provision	**(6)**	(6)	(8)
At 31 March 2013 and 25 March 2012 and 27 March 2011	**30**	35	19

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

	2013 **£m**	2012 £m	2011 £m
Past due not more than one month	**93**	60	62
Past due more than one month and not more than two months	**8**	12	10
Past due more than two months	**29**	33	18
Total past due but not impaired	**130**	105	90
Provided for or not yet overdue	**658**	689	749
Provision for bad and doubtful debts	**(30)**	(35)	(19)
Total	**758**	759	820

27. Current trade and other payables

The following details relate to amounts owed by the Group to third parties (including Post Office Limited).

	2013 **£m**	2012 £m	2011 £m
Trade payables and accruals	**1,076**	1,044	1,004
Advance customer payments (for stamps held, not yet used by customers)	**375**	292	241
Social security	**102**	85	85
Capital expenditure payables	**48**	47	44
Other	**10**	44	20
Total	**1,611**	1,512	1,394

28. Issued share capital and reserves

Details of the authorised share capital of the Company and that which has been issued are as follows.

Authorised share capital

	2013 £	2012 £	2011 £
Ordinary shares of £1 each	**100,000**	100,000	100,000
Special Rights Redeemable Preference Share (Special Share) of £1 each	**1**	–	–
Total	**100,001**	100,000	100,000

Issued and called up share capital

	2013 £	2012 £	2011 £
Ordinary shares of £1 each	**50,000**	50,000	50,000
Special Rights Redeemable Preference Share (Special Share) of £1 each	**1**	–	–
Total	**50,001**	50,000	50,000

The Special Share can be redeemed at any time by its holder (the Secretary of State for Business, Innovation & Skills), subject to such redemption being compliant with the Companies Act 2006. 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 lower of (a) the capital paid up on the Special Share in priority to any repayment of capital to any other member; and (b) an amount equal to 24 per cent of the assets available for distribution to equity holders of the Company. 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 2006, certain shares issued shall be treated as if their nominal value had been fully paid up.

Under section 72 of the Postal Services Act 2000, the Secretary of State for Business, Innovation & Skills may issue directions to Royal Mail Holdings plc (the Company's parent company) which, depending on the particulars of that direction, could result in the establishment of a separate reserve in equity by the Company.

Other reserves identified in the consolidated statement of changes in equity

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.

Dividends

The Directors do not recommend a dividend (2012 £nil dividend).

Notes to the consolidated financial statements (continued)

29. Commitments

The information below includes details of committed future rental payments for the use of assets which the Group does not legally own, and are either not recognised on the Group's balance sheet (operating leases); or are recognised on the Group's balance sheet (finance leases) on the basis that the risks and rewards incidental to ownership of the finance leased assets lie with Royal Mail Group.

Operating lease commitments

The Group is committed to the following future minimum lease payments under non-cancellable operating leases at 31 March 2013 and 25 March 2012 and 27 March 2011:

	Land and buildings			Vehicles and equipment			IT equipment			Total		
	2013 £m	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m
Within one year	**125**	132	130	**13**	11	11	**8**	13	20	**146**	156	161
Between one and five years	**391**	414	412	**14**	18	13	**17**	16	19	**422**	448	444
Beyond five years	**507**	535	476	**–**	–	–	**–**	3	–	**507**	538	476
Total	**1,023**	1,081	1,018	**27**	29	24	**25**	32	39	**1,075**	1,142	1,081

Existing leases for UK land and buildings have an average term of 13 years and lease renewals tend to have a 10-year term with a break in year five. Existing land and buildings leased overseas by the GLS subsidiary have an average lease term of eight years. Vehicle leases generally have a term of between one and seven years, depending on the asset class, with the average term being two years – the existing leases have an average term remaining of one year. The IT commitments relate to 10-year contracts, with an average term remaining of four years.

Finance lease commitments

	2013		2012		2011	
	Minimum lease payments £m	**Present value of minimum lease payments £m**	Minimum lease payments £m	Present value of minimum lease payments £m	Minimum lease payments £m	Present value of minimum lease payments £m
Within one year	**87**	**79**	98	86	72	61
Between one and five years	**208**	**195**	213	194	166	150
Beyond five years	**122**	**31**	131	37	131	34
Total minimum lease payments	**417**	**305**	442	317	369	245
Less amounts representing finance charges	**(112)**	**–**	(125)	–	(124)	–
Present value of minimum lease payments	**305**	**305**	317	317	245	245

The Group has finance lease contracts for vehicles (47 per cent), land and buildings (10 per cent) and plant and equipment (43 per cent). 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 one and seven years, depending on the class of vehicle, with the average term being four years. Property leases have a term of between 1 and 106 years with the average term being 41 years. The term of the plant and equipment leases range from five to eight years with the average being five years.

Capital commitments

The Group has commitments of £42 million at 31 March 2013 (25 March 2012 £81 million, 27 March 2011 £140 million) which are contracted for but not provided for in the financial statements.

30. Related party information

This note provides details of amounts owed to and from related parties, which include Post Office Limited, the Royal Mail Pension Plan (RMPP), the Group's associate companies, and payments to key management personnel. Details of the Group's principal subsidiaries and associates are also provided.

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, Royal Mail Pension Plan (RMPP), by the Royal Mail Pensions Trustees Limited subsidiary. The material transactions entered into, and the balances outstanding at the year end reporting date were as follows:

	Counter-party business segment	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		
		2013 £m	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m
Royal Mail Pension Plan (RMPP)	UKPIL	**2**	9	9	**–**	–	–	**–**	–	–	**–**	–	v
Quadrant Catering Limited	UKPIL	**–**	–	–	**26**	35	34	**1**	–	–	**–**	3	3
G3 Worldwide Mail N.V. (Spring)	UKPIL	**–**	–	–	**6**	6	6	**3**	4	3	**–**	–	1
Post Office Limited	UKPIL/Other	**37**	33	35	**371**	359	346	**6**	9	12	**–**	–	–

On 1 April 2012 Post Office Limited became a sister company to Royal Mail Group Limited and the transactions summarised above are in respect of trading between the two entities from that date. Quadrant Catering Limited and G3 Worldwide N.V. (Spring) were both associate companies of the Group during the reporting year.

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

The Group trades with numerous HM 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.

Key management compensation

	2013 £000	2012 £000	2011 £m
Short-term employee benefits	**3,753**	3,398	2,345
Post-employment benefits	**–**	–	–
Other long-term benefits	**–**	–	–
Total compensation earned by key management	**3,753**	3,398	2,345

Key management comprises Executive and Non-Executive Directors of the Royal Mail Group Limited Board at 31 March 2013.

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

Royal Mail Group Limited – principal subsidiaries

Royal Mail Holdings plc is the immediate and ultimate parent company of Royal Mail Group Limited. These Royal Mail Group Limited consolidated financial statements include the financial results of the principal subsidiaries listed below:

Company	**Principal activities**	**Country of incorporation**	**% equity interest 2013**	% equity interest 2012	% equity interest 2011
Royal Mail Investments Limited	Holding company	United Kingdom	**100**	100	100
General Logistics Systems B.V.	Parcel services	Netherlands	**100**	100	100
Royal Mail Estates Limited	Property holdings	United Kingdom	**100**	100	100
Romec Limited	Facilities management	United Kingdom	**51**	51	51

The legal structure of the Group is shown on page i.

30. Related party information (continued)

Associates

The following companies were the principal associates of the Group at the balance sheet date:

Company	Principal activities	Country of incorporation	% ownership 2013	% ownership 2012	% ownership 2011
Quadrant Catering Limited	Catering services	United Kingdom	**51**	51	51
G3 Worldwide Mail N.V. (Spring)	Mail services	Netherlands	**32.45**	32.45	32.45

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

The investment in G3 Worldwide Mail N.V. (Spring) was held by Royal Mail Investments Limited. During March 2013 it was announced that G3 Worldwide Mail N.V. (Spring), was to be sold and accordingly, the Group's share of its net assets was transferred to the 'assets held for sale' category on the Group balance sheet. G3 Worldwide Mail N.V. was subsequently sold on 2 April 2013, after the balance sheet date.

Significant accounting policies

Basis of consolidation
The consolidated financial statements comprise the financial statements 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 intra-group balances and transactions have been eliminated in full. Transfer prices between business segments are set on a basis of charges reached through 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.

Non-controlling interest represents the portion of profit/loss, gains/losses and net assets relating to subsidiaries that are not attributable to members of the Company. The non-controlling interest balance is presented within equity in the consolidated balance sheet, separately from parent shareholder's equity.

Changes in accounting policy and disclosures
The accounting policies adopted are consistent with those of the previous financial year. The Group adopted the amendment to IAS 12 'Income Taxes' during the year although this currently has no impact on the Group's financial position or performance. No other new or amended/revised accounting standards were required to be adopted by the Group during the reporting period.

Key sources of estimation, uncertainty and critical accounting judgements

Deferred taxation
Assessment of the deferred taxation 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 taxation recognised will also change accordingly. The carrying values of the deferred taxation assets and liabilities are included within note 7.

Provisions
Due to the nature of provisions, a significant part of their determination is based upon estimates and judgements concerning the future.

Restructuring provisions, including for redundancy and property costs, are derived based upon the most recent business plan for direct expenditure, where plans are sufficiently detailed and appropriate communication to those affected has been undertaken. This includes the expected number of employees impacted, rate of compensation per employee, rental costs and expected period of properties remaining vacant and dilapidation costs.

The industrial diseases claims provision is based on the best information available at the year end, including independent expert advice.

Pensions
The value of plan assets and liabilities is determined by long-term actuarial assumptions which include salary growth, inflation rates, returns on investments and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary.

The pension deficit transfer to HM Government on 1 April 2012 was taken directly through equity as, in management's judgement, this transaction was undertaken with HM Government in its capacity as the owner of Royal Mail Holdings plc, the Company's parent company, rather than in its capacity as Government.

Deferred revenue
The Group recognises advance customer payments on its balance sheet (see note 27) relating to stamps and meter credits purchased by customers but not used at the balance sheet date. The valuation of this deferred revenue is based on a number of different estimation and sampling methods using external specialist resource as appropriate, the results of which are reviewed by management in order to make a judgement of the carrying amount of the accrual.

Investments in associates
The Group's investments in its 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 associates, less any impairment in value. The income statement reflects the Group's share of post taxation profits from the 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.

Significant accounting policies (continued)

Revenue

Revenue reported in the income statement is net of value added taxation and comprises Turnover which principally relates to the rendering of services as follows:

UK Parcels, International & Letters

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

General Logistics Systems

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

Distribution and conveyance

Distribution and conveyance costs relate to non-people costs incurred in transporting and delivering mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers and Parcelforce Worldwide delivery operators and GLS. These costs are disclosed separately on the face of the income statement.

Operating exceptional items

Operating exceptional items are 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.

'ColleagueShare' – legacy share scheme

This scheme introduced in 2007-08, was a five-year scheme spanning the accounting years from April 2007 to March 2012 and comprised both a 'share' plan and a related stakeholder dividend throughout the life of the scheme.

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

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 on a straight-line basis as follows:

Customer listings	3 to 4 years
Software	3 to 6 years

Property, plant and equipment
Property, plant and equipment is recognised at cost, including directly 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:

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

Non-current assets held for sale
Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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 capital element of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

A leasehold land payment is an upfront 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.

Trade 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:

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, 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.

Significant accounting policies (continued)

Available for sale financial assets
'Available for sale financial assets' are non-derivative financial assets that are designated as such or are not classified in any of the three preceding categories. After initial recognition, interest is taken to the 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.

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, and these funds are also categorised as cash equivalents.

For the purpose of the statement of cash flows, 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 cash at bank, conventional gilt edged securities, index-linked gilt edged securities and Treasury bills.

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.

Financial liabilities – obligations under finance leases
All obligations under finance leases are classified as financial liabilities measured at amortised cost.

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 forecast transaction.

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

Fair value measurement of financial instruments
The fair value of quoted investments (including conventional gilt edged securities, index-linked gilt edged securities and Treasury bills) is determined by reference to bid prices at the close of business on the balance sheet date. Hence the conventional gilt edged securities, index-linked gilt edged securities and Treasury bills are within Level 1 of the fair value hierarchy as defined within IFRS 7.

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 at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 7.

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 at close of business on the balance sheet date.

Income taxation and deferred taxation
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 income taxation assets and liabilities are recognised for all taxable and deductible temporary differences and unused taxation assets and losses 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 and loss;
- Taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- Deferred taxation assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and increased or reduced to the extent that it is probable that sufficient taxable profit will be available to allow them to be utilised.

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

Current and deferred taxation 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-taxation rate.

Pensions and other post-retirement benefits
The pension assets for the defined benefit plans 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.

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 pension interest in the income statement. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred taxation movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income.

For defined contribution plans, 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.

Significant accounting policies (continued)

Foreign currencies

The functional and presentational currency of Royal Mail Group Limited is pound 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 rate 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 historic cost in a foreign currency are translated using the exchange rates 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

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

Segment information

The Group's operating 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. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit/loss.

There is no aggregation of operating segments. The operating units that make up the three operating segments are detailed in note 3.

The operating segments comprise operations in both the UK and other parts of Europe, the latter being relevant to the GLS business segment. The UK operations include the UKPIL and 'Other' segments.

Segment revenues have been attributed to the respective countries based on the location of the customer.

Transfer prices between the segments are set on a basis of charges reached through negotiation with the respective business units that form part of the segments.

There are no differences in the measurement of the respective segments' profit/loss and the consolidated financial statements prepared under IFRSs.

Accounting standards issued but not yet applied
The following new and revised accounting standards are relevant to the Group and are in issue but were not effective (and in some instances have not yet been adopted by the EU) at the balance sheet date:

- Annual improvements to IFRSs 2009-2011 Cycle
- IFRS 7 (amended) Offsetting Financial Assets and Financial Liabilities
- IFRS 9 Financial Instruments: Classification and Measurement
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 10, IFRS 12 and IAS 27 Investment Entities (amendments)
- IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 (amended) Presentation of Items of Other Comprehensive Income
- IAS 19 (revised) Employee Benefits
- IAS 32 (amended) Offsetting Financial Assets and Liabilities
- IAS 36 (amended) Impairment of Assets
- IAS 39 (amended) Financial Instruments: Recognition and Measurement

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

IAS 19 (revised) Employee Benefits
The key impact will be to replace the separate assumptions for expected return on plan assets and discounting of scheme liabilities and replace them with one single discount rate for the net surplus or deficit. This net interest income/cost will be measured based on the plan's discount rate. Asset returns greater or less than the accounting discount rate will be recognised in the Statement of Comprehensive Income (SOCI).

Group five year summary (unaudited)

Income statement	Adjusted 52 weeks March 2013 £m	Reported 53 weeks March 2013 £m	Financial year ending March 2012 £m	2011 £m	2010 £m	2009 £m
Revenue	**9,146**	**9,279**	8,764	8,415	8,547	8,695
Operating profit before exceptional items	**598**	**635**	381	210	332	280
Operating exceptional items – transformation costs	**(195)**	**(195)**	(229)	(192)	(185)	(179)
Operating profit after transformation costs before other operating exceptional items	**403**	**440**	152	18	147	101
Other operating exceptional items		**(77)**	(57)	(48)	4	(26)
Non-operating exceptional items		**4**	182	106	2	3
Earnings before interest and taxation (EBIT)		**367**	277	74	153	78
Finance (interest) income and costs, including net pension interest		**(43)**	(76)	(239)	(388)	(137)
Profit/(loss) before taxation		**324**	201	(165)	(235)	(59)
Taxation		**246**	(51)	(123)	(87)	(290)
Profit/(loss) after taxation		**570**	150	(288)	(322)	(349)

Free cash flow#	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
EBITDA before transformation costs	**915**	681	493	595	523
Working capital	**142**	(19)	(58)	31	63
Other pension payments	**(3)**	(45)	(292)	(395)	(341)
Transformation investment in UKPIL	**(404)**	(429)	(377)	(325)	(427)
Other exceptional items	**(26)**	(37)	(7)	(8)	–
Other capital expenditure	**(261)**	(150)	(176)	(234)	(237)
Other (dividends, taxation, interest)	**(81)**	(87)	(59)	(64)	(85)
Cash inflow/(outflow) before disposal of assets	**282**	(86)	(476)	(400)	(504)
Disposal of assets	**52**	240	230	10	11
Free cash inflow/(outflow)	**334**	154	(246)	(390)	(493)

An explanation of 'free cash flow' is provided in note 8.

Balance sheet	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Property, plant and equipment	**1,916**	1,822	1,829	1,932	1,884
Intangible assets (mainly software)	**139**	135	126	99	78
Inventories	**24**	32	33	32	26
Trade and other receivables	**1,012**	1,036	906	911	934
Trade and other payables	**(1,647)**	(1,548)	(1,423)	(1,536)	(1,572)
Other net assets/(liabilities)	**–**	4	40	10	(4)
Provisions	**(246)**	(217)	(252)	(233)	(248)
Goodwill (mainly relates to GLS)	**196**	189	197	197	206
Investments in associates	**3**	3	9	46	38
Net operating assets and investments in associates	**1,397**	1,456	1,465	1,458	1,342
Cash and cash equivalents	**351**	473	319	171	214
Pension escrow investments	**20**	149	87	178	166
Loans and borrowings	**(973)**	(1,522)	(1,478)	(1,183)	(805)
Other net financial liabilities	**(304)**	(286)	(200)	(123)	(94)
Net debt	**(906)**	(1,186)	(1,272)	(957)	(519)
Other net assets/(liabilities) (deferred taxation)	**89**	(9)	(2)	90	153
Net assets before pension deficit and pension escrow investments	**580**	261	191	591	976
Pension surplus/(deficit)	**825**	(2,716)	(4,185)	(7,477)	(6,301)
Net assets/(liabilities)	**1,405**	(2,455)	(3,994)	(6,886)	(5,325)

People numbers – period end employees	2013	2012	2011	2010	2009
UK Parcels, International & Letters (UKPIL)	**149,940**	151,156	155,181	160,291	167,396
General Logistics Systems (GLS)	**13,646**	13,362	13,167	12,885	13,059
UK partially owned subsidiaries	**4,030**	3,926	4,254	4,217	4,438
Group total	**167,616**	168,444	172,602	177,393	184,893

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

The Directors are responsible for preparing the Directors' Report and the special purpose financial statements. The Directors have prepared the Group financial statements in accordance with note 1.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the basis of preparation in accordance with note 1 has been followed, subject to any material departures disclosed and explained by the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. 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.

Donald Brydon **Moya Greene**

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

Independent Auditor's Report to the Directors of Royal Mail Group Limited
We have audited the Group financial statements of Royal Mail Group Limited for the year ended 31 March 2013, which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated balance sheet, the Consolidated statement of cash flows and the related notes 1 to 30. The financial statements have been prepared by Directors of Royal Mail Group Limited based on the basis of preparation described in note 1 of the financial statements.

Directors' responsibility for the financial statements
Directors are responsible for the preparation of these Group financial statements in accordance with note 1 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are also responsible for the preparation of the Directors' remuneration report, which they have voluntarily prepared on the basis set out on page 46.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In addition, you have requested us to report on whether:

- The part of the Directors' remuneration report that has been described as audited has been properly prepared in accordance with the basis of preparation set out on page 46; and
- The information given in the Directors' report is consistent with the Group financial statements.

Opinion of financial statements
In our opinion:

- The financial statements of Royal Mail Group Limited for the year ended 31 March 2013 are prepared, in all material respects, in accordance with the basis of preparation described in note 1.

Opinion on other matters
In our opinion:

- The part of the Directors' remuneration report that has been described as audited has been properly prepared in accordance with the basis of preparation set out on page 46; and
- The information given in the Directors' report is consistent with the Group financial statements.

Basis of accounting and restriction on use
Without modifying our opinion, we draw attention to note 1 to the financial statements, which describe the basis of accounting. The financial statements are prepared to assist Royal Mail Group Limited to illustrate the results of Royal Mail Group Limited if Post Office Limited had never been a subsidiary. As a result, the financial statements may not be suitable for another purpose. Our auditor's report is intended solely for Royal Mail Group Limited, in accordance with our engagement letter dated 7 March 2013 and should not be used by other parties.

Richard Wilson
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
31 July 2013

Forward looking statements

Forward looking statements

The Group is subject to a number of risks relating to future events and other risks, uncertainties and assumptions relating to its business and operations, concerning, among other things, the results of operations, financial condition, prospects, growth and strategies of the Group and the industries, markets and territories in which it operates.

This document does not constitute or form part of and should not be construed as: (a) an invitation, offer or solicitation to purchase, subscribe for, or otherwise acquire or dispose of any shares or other securities of any member of the Group; or (b) any advice or recommendation with respect to any shares or other securities of any member of the Group, and should not be used as the basis of any investment decision.

This document contains certain forward looking 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. Forward looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal' or 'estimates'.

Forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward looking statements.

By their nature, forward looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. These factors include, among other things: changes in the economies and markets in which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest and exchange rates; the impact of competitive products and pricing; the occurrence of major operational problems; the loss of major customers; undertakings and guarantees relating to pension funds; contingent liabilities; the impact of legal or other proceedings against, or which otherwise affect, the Group; and risks associated with the Group's overseas operations.

All written or verbal forward looking statements, made in this document or made subsequently, which are attributable to the Group or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurance can be given that the forward looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Company does not intend to update the forward looking statements in this document to reflect events or circumstances after the date of this document, and does not undertake any obligation to do so.

Corporate information

Registered Office and Group Head Office
Royal Mail Group Limited
100 Victoria Embankment
LONDON
EC4Y 0HQ
Telephone: 020 7250 2888
Registered No: 4138203

Corporate websites
Information made available on the Group's websites does not, and is not intended to, form part of these Financial Statements.

Auditor
Ernst & Young LLP
1 More London Place
LONDON
SE1 2AF

Actuary
Towers Watson Limited
Watson House
London Road
REIGATE
Surrey
RH2 9PQ

Regulator (Ofcom)
Riverside House
2a Southwark Bridge Road
LONDON
SE1 9HA

Consumer body
Consumer Futures
Fleetbank House
Salisbury Square
LONDON
EC4Y 8JX