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Royal Mail Holdings plc

Annual Report and Financial Statements

for the 53 weeks ended 31 March 2013

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Royal Mail Holdings plc

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Corporate information

Registered office

Royal Mail Holdings plc
100 Victoria Embankment
London
EC4Y 0HQ
Telephone 020 7250 2888
Registered No 4074919

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Corporate website

Additional corporate and other information can be accessed on the following website www royalmailgroup com Information made available on the website is not intended to be and should not be regarded as being part of the Financial Statements

The maintenance and integrity of the Group s websites is the responsibility of the Directors the work carried out by the auditor does not involve consideration of these matters and accordingly the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

Auditor

Ernst & Young LLP
1 More London Place
LONDON
SE1 2AF

Regulator (Ofcom)

Riverside House
2a Southwark Bridge Road
LONDON
SE1 9HA

Actuary

Towers Watson Limited
Watson House
London Road
REIGATE
Surrey
RH2 9PQ

Consumer body

Consumer Futures
Fleetbank House
Salisbury Square
LONDON
EC4Y 8JX

Directors' Report

The Directors present the Group Annual Report and Financial Statements of Royal Mail Holdings plc (the Company) These financial statements relate to the 53 weeks ended 31 March 2013 (2012 52 weeks ended 25 March 2012)

Principal activities

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

Royal Mail Holdings plc is directly owned by HM Government It is the ultimate parent company of Royal Mail Group Limited (Royal Mail Group) and Post Office Limited (Post Office) The Group primarily operates in the United Kingdom including a number of subsidiaries associates and a joint venture It also has a presence in most European countries through its subsidiary General Logistics Systems Further details on the principal subsidiaries are provided in note 27 to the financial statements

The Company is a non-trading holding company

Review of the business and future developments

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 This will facilitate operational independence and appropriate governance for both businesses

Overall group revenue for the 53 weeks to 31 March 2013 was £10 1 billion which is an increase of 6 0 per cent when compared to the prior year (52 weeks to 25 March 2012 £9 5 billion) Operating profit before exceptional items for the 53 weeks to 31 March 2013 rose by 65 2 per cent to £730 million compared to the prior year (52 weeks to 25 March 2012 £442 million)

Exceptional items representing the ongoing costs of the Group s modernisation programme and also items of a non-recurring nature decreased by 1 2 per cent to £320 million (2012 £324 million)

A summary of performance by the core business units is shown below

Business unit performance	External revenue 2013 £m	External revenue 2012 £m	Operating profit* 2013 £m	Operating profit* 2012 £m
UK Parcels International & Letters (UKPIL)	**7,739**	7 164	**526**	252
General Logistics Systems (GLS)	**1,498**	1 562	**101**	128
Other	**5**	5	**9**	1
Royal Mail Group	**9,242**	8 731	**636**	381
Post Office Limited	**861**	801	**94**	61
Group total	**10,103**	9 532	**730**	442

*Operating profit is defined as profit before exceptional items

A more detailed analysis of the trading performance of Royal Mail Group and Post Office Limited is given in their respective financial statements for the 53 weeks to 31 March 2013

An analysis of the operating exceptional items is shown in note 6

The Group has continued to make addressing and strengthening the Group s cash position a major priority The Group recorded a cash inflow of £28 million for the 53 weeks to 31 March 2013 (52 weeks to 25 March 2012 £196 million)

Dividends

The Directors do not recommend a dividend (2012 nil dividend)

Events after the Balance Sheet Date

In accordance with the funding agreement with HM Government announced on 27 October 2010 for which State Aid approval was received on 28 March 2012 Post Office Limited received £415m of funding on 2 April 2013

On 21 June 2013 Royal Mail Group and Post Office Limited launched a consultation with members of the Royal Mail Pension Plan on a proposal to change the terms of the Plan The consultation will conclude on 25 August 2013 following which both companies will consider the feedback received before making their final decision and then communicate the outcome to colleagues shortly afterwards

Directors' Report (continued)

Going concern

In making their assessment of going concern the Directors of Royal Mail Holdings plc have reviewed the assessments made by the Directors of its two principal subsidiaries Royal Mail Group Limited and Post Office Limited The outcomes of these assessments are set out below As a result of these and also their own findings the Directors of Royal Mail Holdings plc believe that the Group will be able to meet its liabilities as they fall due and that it is appropriate to prepare the financial statements on a going concern basis

Royal Mail Group Limited

For the year ended 25 March 2012 the Directors concluded that in light of the pension solution agreed with HM Government the return to profitability of the UK Parcels International and Letters business (UKPIL) and positive free cash flow for Royal Mail Group Limited as a whole the company was a going concern

With the continued strong financial performance achieved for the year ended 31 March 2013 a review by the Directors of cash headroom forecasts include a reasonable but pessimistic downside scenario and assurance that the Shareholder will continue to provide alternative financing arrangements should this be necessary the Directors have again concluded that the company is a going concern and that it is appropriate to prepare the financial statements on this basis

Post Office Limited

Post Office Limited entered into a funding agreement with HM Government on 27 October 2010 State Aid approval for the funding for 2012-13 to 2014-15 was received on 28 March 2012 and it was also recognised that the working capital facility was no longer deemed State Aid Post Office Limited received £410m on 2 April 2012 and £415m on 2 April 2013

The Directors are satisfied with the progress made towards modernisation during 2012-13 and that the plans in place and the substantial investment secured will enable Post Office Limited to continue to modernise and to secure its future

Therefore the Directors believe that Post Office Limited will be able to meet its liabilities as they fall due in the foreseeable future and therefore that it is appropriate to prepare the financial statements on this basis

Group strategy and Key Performance Indicators (KPIs)

A passion for customers remains at the centre of everything that the Group does The Group s strategic vision is to become an efficient world class operator of the mails universal service in the UK a true customer champion in the UK and European parcels markets and sustain and grow the Post Office both commercially and in its vital social and community roles

As noted above Royal Mail Holdings plc is a non-trading holding company The two Directors Donald Brydon and Alice Perkins are respective Chairman of the Company s two directly owned subsidiaries Royal Mail Group Limited and Post Office Limited

As a result they are directly involved in the setting the objectives and strategy of Royal Mail Group Limited and Post Office Limited and for monitoring performance and risk management The Directors consider a number of financial and non-financial KPIs in respect of their monitoring of performance of the Group

The key financial KPIs are

Revenue

External revenue for the year ended 31 March 2013 increased by 6 per cent to £10 103m (2012 £9 532m) as a result of increases in parcel volumes and price increases introduced during the year The Group is successfully harnessing the benefits of the new regulatory framework

Operating profit before exceptional items

Operating profit before exceptional items for the year ended 31 March 2013 increased by 65 2% to £730m (2012 £324m) as a result of the price increases implemented following the introduction of the new regulatory framework This has been supported by tight controls which have ensured costs increased in line with inflation

Cash flow

The Group has recorded a cash inflow for the year of £28m compared to £196m for 2012 following the repayment of external borrowings of £686 million during the year (2012 £1 million)

A detailed analysis of the KPIs of Royal Mail Group Limited and Post Office Limited is given in their respective financial statements for the 53 weeks to 31 March 2013

Overall the Directors are satisfied with the Group s progress against its KPIs for the year

Directors' Report (continued)

Principal risks and uncertainties

The Group uses a business-wide framework for the identification assessment treatment monitoring and reporting of risk The process helps support business objectives by linking into business strategy identifying and reacting to emerging risks and developing cost effective solutions for the management of risk The Royal Mail Group Limited and Post Office Limited Audit and Risk Committees (ARC) report to their respective board and meet quarterly to monitor and review the effectiveness of the risk management processes and the control environment

The following Group-level risks have been identified and are actively being managed to support the long-term sustainability of the Group The impact of some of these risks could be impairment to the value of the Group s brands - Royal Mail GLS Parcelforce Worldwide and Post Office which are some of the most well known and trusted brands in the UK The potential impact of these risks and the policies in place to mitigate this impact are provided in detail in the financial statements of Royal Mail Group Limited and Post Office Limited

Principal risks – Royal Mail Group Limited

Principal risk	Mitigation
Changes in customer preferences 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	• 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 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
Economic environment Historically there has been a correlation between the state of the UK economy and the level of mail volumes There is a risk that the continuation of flat or adverse economic conditions could impact our ability to stay profitable either by reducing volumes or by encouraging down trading to lower revenue products Our price rises though necessary exacerbate this risk Additionally the Group has significant European operations and current uncertainty and economic weakness in the Eurozone could impact these businesses	• 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
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 a recipient of State Aid granted to HM Government, HM Government must submit annual reports to the European Commission about progress with our restructuring	• 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 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

Directors' Report (continued)

Principal risks and uncertainties (continued)

Principal risk	Mitigation
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	• 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 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
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 changing regulatory regime in the postal sector there is a risk of non-compliance with a wide range of legal and regulatory requirements such as procurement and competition law Bribery Act and financial services and data security regulations The legal and regulatory environment in which the Group operates is subject to change	• 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 risks – Post Office Limited

Principal risk	Mitigation
Changes in customer preferences There is decline in the traditional Post Office income streams as customer preferences change New income streams may fail to grow sufficiently to exceed the losses from traditional products in decline	• We have introduced new services in growth areas and continue to refine and develop these product offerings There are detailed plans in place to deliver the growth trajectory and progress against these plans is monitored rigorously
Funding As set out in note 2 Post Office Limited has a funding agreement with HM Government until 31 March 2015 with a working capital facility until 31 March 2016 There is a risk that funding beyond these dates cannot be negotiated or that state aid approval is not granted in time	• Planning is well underway for the future period beyond 2015 and discussions will commence shortly with HM Government

Directors' Report (continued)

Principal risks and uncertainties (continued)

Principal risk	Mitigation
Business transformation programmes There are a significant number of change programmes underway to modernise the Post Office and enable its processes to operate independently from those of Royal Mail Group These include the network, Crown and IT transformation programmes The success of the Post Office strategic plan depends upon the successful realisation of the benefits from these programmes	• We have detailed plans in place to manage the transformation and ensure it is delivered within budget and on time Delivery is tracked monthly by a Transformation Board made up of Executive Committee members which provides direction and oversight over the programmes delivery
Engagement risk The support and active engagement with our people and subpostmasters during this significant time of change is key to the successful delivery of our strategy Withdrawal or lack of support from our employees or subpostmasters in the network could cause delays in the Post Office transformation programmes and limit our ability to meet business objectives	• We maintain a fluid and comprehensive engagement programme with unions staff and subpostmasters These include regular meetings with the National Federation of Subpostmasters (NFSP) the Communication Workers Union (CWU) and Unite senior management briefings to staff and subpostmasters and events to engage our people in our vision and strategy • We have a people plan aimed at addressing staff motivation and skill needs This includes development of new leadership and reward frameworks and increased focus on recruitment and training
Regulatory & compliance There is a risk of non-compliance with the changing regulatory environment We operate under an extensive regulatory environment including areas such as financial and postal services procurement competition law and data security regulations	• Our legal and compliance team works closely with the relevant business owners in identifying new requirements and monitoring compliance against existing ones • The Risk and Compliance Committee monitors key risks and our actions to mitigate them
Business continuity The Post office has particular operational risks around disruption of its services This includes adverse weather conditions industrial action systems breakdown or failure of a critical supplier	• Disaster recovery and business continuity plans are under continuous development and review in line with business change This includes contingency planning and training in the event of disruption such as industrial action or IT failure • Key suppliers ability to continue to meet the Post Office s requirements is closely monitored

Financial risk management objectives and policies

The Company s principal financial instruments the main risks arising from these and the agreed implemented policies for managing each of these risks are discussed in more detail in notes 19 20 and 21 to the financial statements

Pension Plans

Royal Mail Group Limited and Post Office Limited contribute to the Royal Mail Pension Plan (RMPP) and the Royal Mail Senior Executives Pension Plan (RMSEPP) (both defined benefit schemes albeit on a career average) and to the Royal Mail Defined Contribution Plan (RMDCP) (defined contribution scheme)

The assets and liabilities of the defined benefit plans as measured under accounting standards are reported as a net pension surplus in the Group s balance sheet at 25 March 2013 (2012 net pension deficit)

Both defined benefit schemes are now closed to new members RMSEPP was closed to future accruals on 31 December 2012 New employees are offered membership of the RMDCP

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

Directors' Report (continued)

Government, Regulation and Legislation

In April 2012 Ofcom implemented a new regulatory framework This recognises that the Universal Service provider must be able to earn a reasonable rate of commercial return Royal Mail Group is harnessing the benefits of the new framework to secure its financial future Direct price controls now affect less than 10 per cent of Royal Mail revenues

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 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

Political and charitable contributions

During the year the Group made charitable contributions amounting to £3m (2012 £5m) No political contributions were made in the year (2012 £nil)

Research and development

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

Policy on the payment of suppliers

The policy of the Company and its principal operating subsidiaries is to use their purchasing power fairly Payment terms are agreed in advance for all major contracts For lower value transactions the standard payment terms of the supplier apply It is the Company s policy to abide with the agreed terms The Company and its principal operating subsidiaries in the UK have sought to comply with the Department for Business Innovation and Skills (BIS) better Payment Practice Code Copies of this can be obtained from BIS As the Company is a non-operating company the creditor days are zero The creditor days of the operating subsidiaries are set out in their respective Annual Report and Financial Statements

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 £735m (2012 £685m) In the opinion of the Directors the aggregate market value of the Group s land and buildings exceeds this net book value by £382m (2012 £436m)

Directors and their interests

The following have served as Directors of the Company during the 53 weeks ended 31 March 2013 and up to the date of approval of these financial statements

	Appointed	Resigned
Donald Brydon (Chairman)		
Alice Perkins	1 April 2012	
Moya Greene		1 April 2012
Matthew Lester		1 April 2012
Paula Vennells		1 April 2012
Mark Higson		1 April 2012
David Currie		1 April 2012
Nick Horler		1 April 2012
Cath Keers		1 April 2012
Paul Murray		1 April 2012
Orna Ni-Chionna		1 April 2012
Les Owen		1 April 2012

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

Audit information

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

Directors' Report (continued)

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 116 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

Employee involvement

The Group places great importance on ensuring that its employees are engaged in the strategic direction of the Group Detailed analysis about the policies and procedures that are in place in both Royal Mail Group Limited and Post Office Limited are set out in their respective financial statements for the 53 weeks ended 31 March 2013

Disabled employees

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

Auditor

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

By Order of the Board

Jon Millidge
Secretary
London

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

We have audited the Group financial statements of Royal Mail Holdings plc for the year ended 31 March 2013 which comprise the Consolidated income statement the Consolidated statement of comprehensive income the Consolidated statement of changes in equity the Consolidated statement of cash flows the Consolidated balance sheet and the related notes 1 to 28 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors responsibilities statement set out on page 10 the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group s affairs as at 31 March 2013 and of its profit for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of Directors remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

Other matter

We have reported separately on the parent company financial statements of Royal Mail Holdings plc for the year ended 31 March 2013

Ernst & Young LLP

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

24 July 2013

Statement of Directors' responsibilities in respect of the Group financial statements

The Directors are responsible for preparing the Directors Report and the financial statements in accordance with applicable law and regulations Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period 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 applicable IFRSs as adopted by the European Union have been followed subject to any material departures disclosed and explained by the financial statements and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Companys transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

D Brydon

Donald Brydon

Date 24th July 2013

Consolidated income statement

For the 53 weeks ended 31 March 2013 and 52 weeks ended 25 March 2012

	Notes	2013 £m	2012 £m
Turnover		**9,893**	9 352
Network Subsidy Payment for Post Office Limited		**210**	180
Revenue		**10,103**	9 532
People costs	4	**(5,885)**	(5 657)
Distribution and conveyance costs		**(1,787)**	(1 758)
Other operating costs	5	**(1,733)**	(1 707)
Share of post tax profit from joint venture and associates	12	**32**	32
Operating profit before exceptional items		**730**	442
Operating exceptional items	6	**(320)**	(324)
Operating profit		**410**	118
Profit on disposal of property plant and equipment		**18**	157
(Loss)/profit on disposal of business		**(30)**	26
Profit before financing and taxation		**398**	301
Finance costs	7	**(108)**	(118)
Finance income	7	**248**	54
Net pension interest	24	**37**	26
Profit before taxation		**575**	263
Taxation credit/(charge)	8	**220**	(10)
Profit for the financial year from continuing operations		**795**	253
Profit attributable to			
Equity holder of the parent company		**791**	252
Non-controlling interest		**4**	1

Consolidated statement of comprehensive income

For the 53 weeks ended 31 March 2013 and 52 weeks ended 25 March 2012

	Notes	2013 £m	2012 £m
Profit for the financial year from continuing operations		**795**	253
Other comprehensive (expense)/income for the period		**(587)**	1 585
Translation differences on foreign currency net investments		**(5)**	(47)
Actuarial (losses)/gains on defined benefit schemes	24	**(201)**	1 544
IFRIC 14 adjustment relating to pensions	24	**(8)**	-
Losses on cash flow hedges deferred into equity	22	**(1)**	(4)
Losses/(gains) on cash flow hedges released from equity to income	22	**2**	(15)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	22	**(1)**	(3)
(Losses)/gains on financial assets deferred into equity	13	**(2)**	133
Gains on financial assets released from equity to income		**(217)**	–
Taxation on items taken directly to equity	8	**(154)**	(23)
Total comprehensive income for the period		**208**	1 838
Total comprehensive income for the period attributable to			
Equity holder of the parent company		**204**	1 846
Non-controlling interest		**4**	(8)

Consolidated statement of cash flows

For the 53 weeks ended 31 March 2013 and 52 weeks ended 25 March 2012

	Notes	2013 £m	2012 £m
Cash flow from operating activities			
Operating profit before exceptional items		**730**	442
Adjustment for			
Depreciation and amortisation	5	**280**	302
Share of post tax profit from joint venture and associates	12	**(32)**	(32)
EBITDA before exceptional items		**978**	712
Working capital movements		**207**	-
Decrease in inventories		6	-
Increase in receivables		(11)	(156)
Increase in payables		141	110
(Increase)/decrease in client receivables		(102)	20
Increase in client payables		196	18
Net increase in derivative assets		(15)	(6)
(Decrease)/increase in non-exceptional provisions		(8)	14
Difference between pension costs charged in operating profit and pension cash flows		**(4)**	(9)
Receipt of Government grant		**200**	-
Cash payments in respect of operating exceptional items		**(325)**	(342)
Cash inflow from operations		**1,056**	361
Income taxation paid		**(28)**	(23)
Net cash inflow from operating activities		**1,028**	338
Cash flows from investing activities			
Dividends received from joint venture and associates	12	**40**	42
Finance income received		**31**	53
Proceeds from sale of property plant and equipment		**54**	205
Proceeds from sale of associate company		**2**	-
Proceeds from disposal of business		**-**	37
Purchase of property plant and equipment		**(424)**	(306)
Investment in associate		**(11)**	-
Acquisition of business		**(3)**	(2)
Purchase of intangible assets (software)		**(63)**	(59)
Payment of deferred consideration in respect of prior years acquisitions		**(3)**	(1)
Net sale/(purchase) of financial assets investments (non-current)		**1,361**	(45)
Net purchase of financial assets investments (current)		**(1,226)**	(30)
Net cash outflow from investing activities		**(242)**	(106)
Net cash inflow before financing activities		**786**	232
Cash flows from financing activities			
Finance costs paid		**(53)**	(73)
Payment of capital element of obligations under finance lease contracts		**(77)**	(52)
Cash received on sale and leasebacks		**58**	88
New loans		**-**	2
Repayment of borrowings		**(686)**	(1)
Net cash outflow from financing activities		**(758)**	(36)
Net increase in cash and cash equivalents		**28**	196
Effect of exchange rates on cash and cash equivalents		**-**	(4)
Cash and cash equivalents at the beginning of the period	16	**1,293**	1 101
Cash and cash equivalents at the end of the period	16	**1,321**	1 293

Consolidated balance sheet

At 31 March 2013 and 25 March 2012

(Registered number 04074919)

	Notes	2013 £m	2012 £m
Non-current assets			
Property plant and equipment	9	**1,931**	1 825
Leasehold land payment		**3**	3
Goodwill	10	**196**	189
Intangible assets (mainly software)	11	**139**	135
Investments in joint venture and associates	12	**63**	92
Financial assets – pension escrow investments	13	**20**	1 383
– derivatives	20 21	**3**	2
Other receivables		**19**	–
Retirement benefit asset net of IFRIC 14 adjustment	24	**922**	-
Deferred tax assets	8	**112**	9
		3,408	3 638
Non-current assets held for sale		**2**	4
Current assets			
Inventories	14	**32**	38
Trade and other receivables	15	**1,344**	1 251
Income taxation receivable		**5**	2
Financial assets – derivatives	20 21	**10**	9
– short-term deposits	20 21	**1,257**	31
Cash and cash equivalents	16	**1,321**	1 293
		3,969	2 624
Total assets		**7,379**	6 266
Current liabilities			
Trade and other payables	17	**(2,478)**	(2 085)
Financial liabilities – interest bearing loans and borrowings	18 19	**(291)**	(377)
– obligations under finance leases	19 20 21	**(82)**	(90)
– derivatives	19 20 21	**(2)**	(4)
Income taxation payable		**(16)**	(9)
Provisions	23	**(138)**	(138)
		(3,007)	(2 703)
Non-current liabilities			
Financial liabilities – interest bearing loans and borrowings	18 19	**(973)**	(1 522)
– obligations under finance leases	19 20 21	**(230)**	(237)
– derivatives	19 20 21	**(1)**	(1)
Provisions	23	**(134)**	(93)
Retirement benefit obligation – pension deficit	24	**-**	(2 922)
Other payables		**(60)**	(39)
Deferred tax liabilities	8	**(23)**	(18)
		(1,421)	(4 832)
Total liabilities		**(4,428)**	(7 535)
Net assets/(liabilities)		**2,951**	(1 269)
Equity			
Share capital	25	**-**	–
Share premium		**430**	430
Retained earnings		**1,176**	(1 998)
Other reserves		**1,341**	299
Equity attributable to equity holder of parent company		**2,947**	(1 269)
Non-controlling interest		**4**	–
Total equity		**2,951**	(1 269)

The financial statements on pages 12 to 59 were approved by the Board of Directors on 24 July 2013 and signed on its behalf by

Donald Brydon

Consolidated statement of changes in equity

For the 53 weeks ended 31 March 2013 and 52 weeks ended 25 March 2012

	Share premium £m	Retained earnings £m	Financial Assets Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Escrow reserve £m	Other Reserves £m	Equity holder of the parent £m	Non-controlling interest £m	Total equity £m
At 26 March 2012	**430**	**(1,998)**	**166**	**78**	**8**	**-**	**47**	**(1,269)**	**–**	**(1,269)**
Profit for the period	-	791	-	-	-	-	-	791	4	795
Other comprehensive (expense)/income for the period	-	(418)	(166)	(5)	2	-	-	(587)	-	(587)
Transfer to Escrow reserve (note 25)	-	(1 256)	-	-	-	1 256	-	-	-	-
Pension deficit transfer to HM Government on 1 April 2012 (note 25)	-	4 012	-	-	-	-	-	4 012	-	4 012
Sale of interest in associate	-	45	-	-	-	-	(45)	-	-	-
At 31 March 2013	**430**	**1,176**	**-**	**73**	**10**	**1,256**	**2**	**2,947**	**4**	**2,951**

	Share premium £m	Retained earnings £m	Financial Assets Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Other Reserves £m	Equity holder of the parent £m	Non-controlling interest £m	Total equity £m
At 28 March 2011	430	(3 803)	64	125	22	47	(3 115)	8	(3 107)
Profit for the period	–	252	–	–	–	–	252	1	253
Other comprehensive income/(expense) for the period	–	1 544	102	(47)	(14)	–	1 585	–	1 585
Dividend from non-controlling interest	–	9	–	–	–	–	9	(9)	–
At 25 March 2012	430	(1 998)	166	78	8	47	(1 269)	–	(1 269)

A description of the nature and application of the reserves in the above tables is included in note 25

Notes to the consolidated financial statements

1 Authorisation of financial statements and statement of compliance with IFRSs

The Group s financial statements for the year ended 31 March 2013 were authorised for issue by the Board on 24 July 2013 and the balance sheet was signed on behalf of the Directors (as at 31 March 2013) by Donald Brydon

The Group s financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as they apply to the financial statements of the Group for the year ended 31 March 2013

2 Accounting policies

Basis of preparation and accounting
The Group comprises Royal Mail Holdings plc (the Company) which is wholly owned by HM Government and its subsidiaries The Company is incorporated in the United Kingdom and the financial statements are produced in accordance with the Companies Act 2006 (the Act) and applicable IFRSs The UK is the Group s country of domicile

The Group consolidated financial statements are presented in Sterling and all values are rounded to the nearest £m except where otherwise indicated These consolidated financial statements have been prepared 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

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 including unrealised profits arising from intra-group 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

Going concern and funding

In making an assessment on the Group s ability to continue as a going concern the Directors have considered the respective going concern assessments made by the Directors of the Royal Mail Group Limited and Post Office Limited subsidiary companies These are set out in detail below

In reviewing these assessments the Directors have taken into account all available information about the future which is at least but not limited to twelve months from the date when the financial statements are authorised for issue They have also taken account of the fact that the Company acts as guarantor for the Royal Mail Group Limited £900m senior debt facility and £500m other loans facility (see note 18 for further details) and that the escrow reserve and the assets backing the reserve (£1 256m as at 31 March 2013) cannot be used without the agreement of HM Government After careful consideration of all available information the Directors are of the view that it is appropriate that the consolidated financial statements have been prepared on a going concern basis

Royal Mail Group Limited

There are two significant events that the Directors have noted and considered whilst performing their going concern review

(i) Pension transfer to HM Government

On 1 April 2012 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 Royal Mail Group Limited would have to make no further deficit cash contributions to RMPP (previously it had made payments including £272m in 2011 and £262m in 2010

Notes to the consolidated financial statements

2 Accounting policies (continued)

Further details on pensions can be found in note 24

(ii) Available terms and borrowings

Note 18 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 companys 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

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

Post Office Limited
Post Office Limited had net assets at 31 March 2013 (net liabilities at 25 March 2012) and has operated at a profit before exceptional items during 2012-13 for the fifth year running

A funding agreement with HM Government was announced on 27 October 2010 which provided for

- Funding of £410m for 2012-13
- Funding of £415m for 2013-14
- Funding of £330m for 2014-15
- Extension of the existing working capital facility with the Department for Business Innovation & Skills (BIS) of £1 15bn up to 31 March 2016

State Aid approval for the funding for 2012-13 to 2014-15 was received on 28 March 2012 and it was also recognised that the working capital facility was no longer deemed State Aid £410m was received on 2 April 2012 and £415m on 2 April 2013

The investment will take the form of a Government Grant and enable the Group to modernise the branch network and the continuation of the Network Subsidiary Payment recognises the major social value that Post Offices provide to communities New main and local branches are currently being rolled out across the United Kingdom Customers are beginning to benefit from a much better retail experience including extended opening hours This programme is designed to make the Post Office network more self-sustaining and over time less dependent on direct subsidy This programme will not involve branch closures

The Directors are satisfied with the progress made towards modernisation during 2012-13 and that the plans in place and the substantial investment secured will enable the Group to continue to modernise and to secure its future However they note that the scale of change required remains significant so not without risk

After careful consideration of the plans for the coming years the Directors continue to believe that Post Office Limited will be able to meet its liabilities as they fall due in the foreseeable future and accordingly the Group remains a going concern

Notes to the consolidated financial statements (continued)

2 Accounting policies (continued)

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

Accounting standards issued but not yet applied

The International Accounting Standards Board (IASB) has issued accounting standards relevant to the Group with an effective date for accounting periods beginning after the commencement date of the period to which these financial statements relate There have been no new relevant accounting policies adopted in the year that have a significant impact on the results of the Group The Group has considered the impact of new accounting standards issued below

International Accounting Standards (IAS/IFRSs)		Effective date
IAS 1	Financial Statements Presentation (Amendment)	1 July 2012
IAS 19	Employee Benefits (Amendment)	1 January 2013
IAS 27	Separate Financial Statements (Amendment)	1 January 2014
IAS 28	Investments in Associates and Joint Ventures (Amendment)	1 January 2014
IAS 32	Financial Instruments Disclosure and Presentation (Amendment)	1 January 2014
Annual improvements 2009 - 2011		
IFRS 7	Offsetting Financial Assets and Financial Liabilities (Amendment)	1 January 2013
IFRS 9	Financial Instruments Classification and Measurement	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IFRS 13	Fair Value Measurement	1 January 2013
IFRS 10 IFRS 12 and IAS 27	Investment entities (Amendment)	1 January 2014
IAS 36	IAS 36 Impairment of assets (Amendment)	1 January 2014
IAS 39	IAS 39 Financial Instruments Recognition and Measurement (Amendment)	1 January 2014

IAS 1 Financial Statements Presentation (Amendment)

In June 2011 the IASB issued amendments to IAS 1 Financial Statement Presentation which are intended to improve and align the presentation of items of other comprehensive income (OCI) This amendment affects presentation only and therefore has no impact on the Group s financial position or performance The amendment became effective for the Group on 1 April 2013

IAS 19 Employee Benefits (Amendment)

In June 2011 the IASB issued amendments to IAS 19 Employee Benefits which may result in changes to the net pension cost and may require additional disclosures relating to pension assets 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)

IFRS 9 Financial Instruments Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB s work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39 In subsequent phases the IASB will address classification and measurement of financial liabilities hedge accounting and derecognition The completion of this project is expected in 2011 The adoption of the first phase of IFRS 9 mandatory for the Group commencing 1 April 2015 will have an effect on the classification and measurement of the Group s financial assets The Group will quantify the effect in conjunction with the other phases when issued to present a comprehensive picture

IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent compared with the requirements that were in IAS 27 The standard will be adopted with a commencement date of 1 April 2014 and is not expected to have a significant impact on the financial position or performance of the Group

Notes to the consolidated financial statements (continued)

2 Accounting policies (continued)

IAS 27 (Amended) Separate Financial Statements
This amendment is due to be adopted by the Group with a commencement date of 1 April 2014 and is not expected to have a significant impact on the financial position or performance of the group

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form (as is currently the case) The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities The standard will be adopted with a commencement date of 1 April 2014 and is not expected to have a significant impact on the financial position or performance of the Group

IFRS 12 Disclosures of Interests in Other Entities
IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms on interests in other entities including subsidiaries joint arrangements and unconsolidated structured entities A number of new disclosures are required One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity The standard will be adopted with a commencement date of 1 April 2014 and is not expected to have a significant impact on the financial position or performance of the Group

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single framework for measuring fair value where that is required by other standards The standard applies to both financial and non-financial items measured at fair value The standard will be adopted with a commencement date of 1 April 2013 and is not expected to have a significant impact on the financial position or performance of the Group

IAS 28 (Amended) Investments in Associates and Joint Ventures
This amendment is due to be adopted by the Group with a commencement date of 1 April 2014 and is not expected to have a significant impact on the financial position or performance of the group

IAS 32 (Amended) Financial Instruments Disclosure and Presentation
This amendment to IAS 32 seeks to clarify rather than to change the off-setting requirements previously set out in IAS 32 The changes clarify

- the meaning of currently has a legally enforceable right of set-off and
- that some gross settlement systems may be considered equivalent to net settlement

The amendment is effective for the Group with a commencement date of 1 April 2014 and must be applied retrospectively

IFRS 7 (Amended) Financial Instruments Disclosures
This amendment introduces disclosures intended to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position The Amendment introduces both qualitative and quantitative disclosures and has been adopted by the Group with a commencement date of 1 April 2013 and is not expected to have a significant impact on the disclosures in the financial statements

IAS 36 Impairment of assets (Amendment)
In May 2013 the IASB issued amendments to IAS 36 Impairment of assets which are intended to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed clarify the disclosures required and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique This amendment affects presentation only and therefore has no impact on the Group s financial position or performance The amendment becomes effective for the Group on 1 April 2014

IAS 39 Financial Instruments Recognition and Measurement (Amendment)
In June 2013 the IASB issued amendments to IAS 39 Financial Instruments Recognition and Measurement which are intended to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated provided certain criteria are met A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties In order to apply the amendments and continue hedge accounting novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations The amendment becomes effective for the Group on 1 April 2014 and is not expected to have a significant impact on the financial position or performance of the Group

Notes to the consolidated financial statements (continued)

2 Accounting policies (continued)

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

The key sources of uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the measurement of deferred tax and provisions

Deferred tax
Assessment of the deferred tax asset requires an estimation of future profitability Such estimation is inherently uncertain in a market subject to various competitive pressures Should estimates of future profitability change in future years the amount of deferred tax recognised will also change accordingly The carrying values of the deferred tax assets and liabilities are included within note 8

Provisions
Due to the nature of provisions a significant part of their determination is based upon estimates and/or 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 as at the year end including independent expert advice

Deferred income
The Group recognises advance customer payments on its balance sheet (see note 17) relating to stamps and meter credits purchased by customers but not used at the balance sheet date The valuation of this deferred income 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 joint venture and associates
The Group s investments in its joint venture and associates are accounted for under the equity method of accounting Under the equity method the investment is carried in the balance sheet at cost plus post-acquisition changes in the Groups share of the net assets of the joint venture/associates less any impairment in value The income statement reflects the Group s share of post tax profits from the joint venture/ 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

Revenue
Revenue reported in the income statement is net of value added tax and comprises Turnover and the Network Subsidy Payment Turnover 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

Post Office Limited
Revenue is recognised at the time that Government financial mails and telecoms services are provided

The Network Subsidy Payment
Government grant revenue is recognised to match the related costs of providing the network of public post offices that the Secretary of State for Business Innovation and Skills considers appropriate and which would otherwise not be provided

Notes to the consolidated financial statements (continued)

2 Accounting policies (continued)

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

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	1 to 6 years

Notes to the consolidated financial statements (continued)

2 Accounting policies (continued)

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

Notes to the consolidated financial statements (continued)

2 Accounting policies (continued)

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, do not qualify as trading assets and have not been designated as either fair value through the 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

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 and money market fund investments

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

Notes to the consolidated financial statements (continued)

2 Accounting policies (continued)

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 as 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 as at close of business on the balance sheet date

Income tax and deferred tax

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

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax 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 tax 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 tax 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 tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted at the balance sheet date Deferred tax balances are not discounted

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

Notes to the consolidated financial statements (continued)

2 Accounting policies (continued)

Provisions

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

Pensions and other post-retirement benefits

The pension 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 tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income

For defined contribution plans the Groups 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

Contingent liabilities

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

Foreign currencies

The functional and presentational currency of Royal Mail Holdings plc is Sterling (£) The functional currency of the overseas subsidiaries in Europe is mainly the Euro (€)

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date The trading results of foreign operations are translated at the average rates of exchange for the reporting period being a reasonable approximation to the actual transaction rate The exchange 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 Groups 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 as at the dates of the initial transactions Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined

Government grants

Government grants of a revenue nature are credited to the income statement and are shown separately to the expenditure to which they relate Government grants relating to assets are recognised as deferred income that is amortised over the useful life of the relevant assets

Notes to the consolidated financial statements (continued)

3 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 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 remaining two operating segments plus the 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 The Group reports its segments in the way it internally manages its business as follows

31 March 2013

	UK operations				Other European operations	
	UK Parcels, International & Letters £m	**Post Office Limited £m**	**Other £m**	**Total £m**	**General Logistics Systems £m**	**Total £m**
External revenue	7 739	861	5[1]	8 605	1 498	**10,103**
Revenue between segments	28	371	158	557	-	**557**
Total segment revenue	**7,767**	**1,232**	**163**	**9 162**	**1,498**	**10,660**
Operating profit before exceptional items	**526**	**94**	**9**	**629**	**101**	**730**
Operating exceptional items	(273) -	(47)	-	(320)	-	**(320)**
Operating profit	**253**	**47**	**9**	**309**	**101**	**410**
Profit on disposal of property plant and equipment	16	2	-	18	-	**18**
Loss on disposal of associate	-	(30)	-	(30)	-	**(30)**
Profit before financing and taxation	**269**	**19**	**9**	**297**	**101**	**398**

[1] The Other segments external revenue comprises £4m (2012 £4m) relating to the provision of facilities management services by Romec Limited and £1m (2012 £1m) for building engineering services provided by NDC 2000 Limited

Finance costs of £108m (2012 £118m) finance income of £248m (2012 £54m) and net pensions interest of £37m (2012 £26m) when adjusting the profit before financing and taxation of £398m (2012 £301m) reconciles to the Group profit before taxation of £575m (2012 £263m)

25 March 2012

	UK operations				Other European operations	
	UK Parcels, International & Letters £m	Post Office Limited £m	Other £m	Total £m	General Logistics Systems £m	Total £m
External revenue	7 164	801	5[1]	7 970	1 562	9 532
Revenue between segments	25	359	129	513	-	513
Total segment revenue	7 189	1 160	134	8 483	1 562	10 045
Operating profit before exceptional items	252	61	1	314	128	442
Operating exceptional items	(271)	(38)	(15)	(324)	-	(324)
Operating profit	(19)	23	(14)	(10)	128	118
Profit on disposal of property plant and equipment	156	1	-	157	-	157
Profit on disposal of associate	-	-	25	25	1	26
Profit before financing and tax	137	24	11	172	129	301

Notes to the consolidated financial statements (continued)

3 Segment information (continued)

The following amounts are included within operating profit before exceptional items

31 March 2013

	UK operations				Other European operations	
	UK Parcels International & Letters £m	Post Office Limited £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Depreciation	210	-	-	**210**	27	**237**
Amortisation of intangible assets (mainly software)	39	-	-	**39**	4	**43**
Share of post tax profit from joint venture and associates	-	32	-	**32**	-	**32**

25 March 2012

	UK operations				Other European operations	
	UK Parcels, International & Letters £m	Post Office Limited £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Depreciation	241	–	–	241	28	269
Amortisation of intangible assets (mainly software)	29	–	–	29	4	33
Share of post tax (loss)/profit from joint venture and associates	(2)	31	3	32	–	32

4 People information

People costs

	2013 £m	2012 £m
Wages and salaries	**4,483**	4 361
Pensions	**454**	419
Social security	**328**	304
Subpostmasters	**478**	483
Temporary resource	**142**	90
Total	**5,885**	5 657

People numbers

The number of people employed calculated on a headcount basis were

	Period end employees		Average employees	
	2013	2012	2013	2012
UK Parcels International & Letters (UKPIL)	**149,940**	151 156	**149,710**	152 514
Post Office Limited	**7,886**	7 798	**7,842**	7 734
UK wholly owned subsidiaries	**157,826**	158 954	**157,552**	160 248
UK partially owned subsidiaries	**4,030**	3 926	**4,013**	3 972
General Logistics Systems	**13,646**	13 362	**13,569**	13 103
Group total	**175,502**	176 242	**175,134**	177 323

The number of subpostmasters employed at the period end were

	2013	2012
Total	**7,975**	8 125

The number of subpostmasters employed is not included in the period end and average employees numbers above

Notes to the consolidated financial statements (continued)

4 People information (continued)

Directors' emoluments

	2013 £000	2012 £000
Directors emoluments	**376**	3 920
Amounts earned under Long-Term Incentive Plans	**4**	-
Number of Directors accruing benefits under defined benefit schemes	**-**	2

The total amount payable to the highest paid director in respect of emoluments was £200 000 (2012 £200 000) Pension contributions of £nil (2012 £nil) were made to a money purchase scheme on their behalf

Key management compensation is disclosed in note 27

5 Other operating costs

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

	2013 £m	2012 £m
Pensions charge (note 24)	**454**	419
Depreciation and amortisation		
Depreciation of property plant and equipment (note 9)	237	269
Amortisation of intangible assets (mainly software - note 11)	43	33
Total	**280**	302
Operating lease charges on property, plant and equipment	**235**	237
Costs of inventories expensed	**189**	178

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

The following costs are relevant in understanding the extent of the Group s regulatory costs and statutory audit costs

Regulatory body costs	2013 £000	2012 £000
Postcomm	**-**	6
Ofcom	**5**	2
Consumer Futures	**3**	3
Total	**8**	11

Auditor's fees	2013 £000	2012 £000
Audit of statutory financial statements	**733**	597
Other fees to auditor		
Statutory audits for subsidiaries	**1,566**	1 706
Other services (including regulatory audits)	**313**	669
Taxation services	**228**	78
Total	**2,107**	2 453

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

Notes to the consolidated financial statements (continued)

6 Operating exceptional items

The results for the year include a number of non-recurring or restructuring costs which fall outside of the Group s normal trading activity These are items which in management s judgement need to be disclosed separately to provide greater visibility of the underlying results of the business

An analysis of the exceptional items included within the income statement is as follows

	2013		2012	
	£m	£m	£m	£m
Business transformation incentive payments		**26**		90
Restructuring costs				
– Voluntary redundancy	89		78	
– Project and property costs	160		63	
		249		141
Potential industrial diseases claims		**28**		10
IT costs for the separation of Royal Mail Group Limited and Post Office Limited		**20**		-
Postal Services Act related costs		**10**		24
Impairments		**86**		43
Government grant – Post Office Limited		**(98)**		-
Other exceptional items		**(1)**		16
Total operating exceptional items		320		324

The £26m charge (2012 £90m) mainly represents payments linked to the achievement of key modernisation milestones as part of the pay deal with the Communication Workers Union

Impairments of £86m (2012 £43m) relate to Post Office Limited comprising £41m (2012 £19m) property plant and equipment and £25m (2012 £17m) intangible assets UKPIL comprising £21m (2012 £1m) property plant and equipment and a £1m impairment reversal (2012 £3m charge) relating to intangible (software) assets and £nil (2012 £3m) in relation to an associate company carrying value

7 Net finance costs

The following analysis excludes net pensions interest

	2013 £m	2012 £m
Interest payable on financial liabilities carried at amortised cost	108	118
Finance costs	**108**	118
Interest received on available for sale financial assets	(242)	(45)
Interest received on loans and receivables financial assets	(6)	(9)
Finance income	**(248)**	(54)
Net finance (income)/costs (excluding net pensions interest)	**(140)**	64

The finance costs of £108m (2012 £118m) include £14m (2012 £16m) in respect of finance charges payable under finance lease contracts

The finance income of £248m (2012 £54m) includes gains of £217m (2012 £nil) on available for sale financial assets which were released from equity and recognised in the income statement for the year

Notes to the consolidated financial statements (continued)

8 Taxation

The major components of the income tax charge for the years ended 31 March 2013 and 25 March 2012 are

	2013 £m	2012 £m
Tax charged in the income statement		
Current income tax		
Current UK income tax charge/(credit)	**5**	(43)
Foreign tax	**28**	36
Adjustments in respect of UK current income tax of previous years	**53**	-
Adjustments in respect of foreign current income tax of previous years	**(1)**	2
	85	(5)
Deferred income tax		
Relating to origination and reversal of temporary differences	**(305)**	15
Income tax (income)/charge reported in the income statement	**(220)**	10
Tax charged to equity		
Income tax related to items charged or credited directly to equity		
Deferred income tax charge related to actuarial movements in the pension deficit	**209**	-
Deferred income tax (credit)/charge related to movements in hedging reserve	**(2)**	(8)
Current income tax charge for fair value adjustments on financial assets investments	**(53)**	31
Income tax charge reported in equity	**154**	23
Total taxation charge		
Current income tax charge	**32**	26
Deferred income tax charge	**(98)**	7
Total income tax charge reported	**(66)**	33

A reconciliation between the tax charges and the product of accounting profit/(loss) multiplied by the UK rate of Corporation Tax for the years ended 31 March 2013 and 25 March 2012 is as follows

	2013 £m	2012 £m
Profit before taxation	**575**	263
At UK standard rate of Corporation Tax of 24% (2012 26%)	**138**	68
Overseas current tax rates	**1**	(1)
Tax (over)/under provided in prior years	**(1)**	2
Non-taxable income	**(4)**	(8)
Non-deductible expenses	**14**	15
Associates /joint venture profit after tax charge included in Group pre-tax profit	**(8)**	(7)
Net decrease in tax charge resulting from recognition of deferred tax assets	**-**	(15)
Profit/(loss) from asset disposals eligible for relief	**7**	(48)
Net decrease in taxation charge resulting from recognition of deferred taxation assets	**(367)**	-
Other	**-**	4
Tax (income)/charge in the income statement	**(220)**	10
Effective income tax rate	**(38%)**	4%

Notes to the consolidated financial statements (continued)

8 Taxation (continued)

Deferred tax relates to the following

	Balance sheet		Income statement	
	2013 £m	2012 £m	2013 £m	2012 £m
Liabilities				
Accelerated capital allowances	-	(1)	1	–
Goodwill qualifying for tax allowances	(23)	(17)	(6)	(8)
Gross deferred tax liabilities	(23)	(18)		
Assets				
Deferred capital allowances	244	–	244	(9)
Provisions and other	37	4	33	3
Pensions temporary differences	(243)	–	(34)	–
Losses available for offset against future taxable income	72	5	67	(1)
Hedging derivatives temporary differences	2	–	-	–
Gross deferred tax assets	112	9		
Net deferred tax asset/(liability)	89	(9)		
Consolidated income statement			305	(15)

The Group has unrecognised deferred tax assets of £256m (2012 £1 512m) comprising £nil (2012 £684m) relating to the retirement benefit obligation £145m (2012 £481m) relating to other timing differences and £111m (2012 £347m) relating to tax losses The Group has capital losses carried forward the tax effect of which is £4m (2012 £4m) and temporary differences related to capital losses of £74m (2012 £80m) The Group has rolled over capital gains of £56m (2012 £62m) no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value as it is anticipated that a capital loss would arise

The 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 accounts as detailed above In the 2012 Autumn Statement the Chancellor of the Exchequer announced that the main rate of corporation tax 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 In accordance with accounting standards the effect of these rate reductions on deferred tax balances has not been reflected in these accounts due to the relevant legislation not having been substantively enacted at the balance sheet date A reduction to 20% would based on losses and temporary differences at 31 March 2013 reduce the Group s recognised deferred tax assets by £14m and reduce unrecognised deferred tax assets by £29m

Under the Postal Services Act 2011 trading losses which arose due to employer s pension contributions paid and which remain unused at 31 March 2013 are extinguished The gross amount of losses extinguished is estimated to be £425m Losses and deferred tax assets carried forward are stated above net of the extinguished amount

The Group is committed to paying tax in accordance with all relevant tax and regulations in the territories in which it operates

Notes to the consolidated financial statements (continued)

9 Property, plant and equipment

	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	1 598	276	747	1 228	482	1 037	**5,368**
Exchange rate movements	4	-	-	2	1	2	**9**
Reclassification	(29)	1	27	1	-	-	**-**
Additions	184	4	20	47	120	57	**432**
Disposals	(32)	(1)	(29)	(87)	(23)	(16)	**(188)**
Reclassification to non-current assets held for sale	(2)	-	-	-	-	-	**(2)**
At 31 March 2013	**1,723**	**280**	**765**	**1,191**	**580**	**1,080**	**5,619**
Depreciation and impairment							
At 26 March 2012	869	173	517	739	296	949	**3,543**
Exchange rate movements	1	-	-	2	1	-	**4**
Depreciation (note 5)	39	6	46	68	46	32	**237**
Impairment (note 6)	30	-	-	-	9	22	**61**
Disposals	(15)	(1)	(16)	(87)	(21)	(16)	**(156)**
Reclassification to non-current assets held for sale	(1)	-	-	-	-	-	**(1)**
At 31 March 2013	**923**	**178**	**547**	**722**	**331**	**987**	**3,688**
Net book value							
At 31 March 2013	**800**	**102**	**218**	**469**	**249**	**93**	**1,931**
At 26 March 2012	729	103	230	489	186	88	1 825

Depreciation rates are disclosed within accounting policies (note 2) No depreciation is provided on land which represents £199m (2012 £202m) of the total cost of properties The net book value of the Group s property plant and equipment held under finance leases amounts to £378m (2012 £320m) comprising £208m (2012 £137m) vehicles £146m (2012 £154m) plant and machinery and £24m (2012 £29m) land and buildings The net book value of the Group s property plant and equipment includes £206m (2012 £173m) in respect of assets in the course of construction The net book value of the Group s land and buildings includes £382m (2012 £389m) in respect of building fit-out

The £432m (2012 £347m) additions include borrowing costs capitalised in relation to specific qualifying assets of £nil (2012 £2m) Reclassifications are required when expenditure on a project is complete and the nature of the asset subsequently determined

Notes to the consolidated financial statements (continued)

9 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	1 592	277	693	1 182	472	1 008	5 224
Exchange rate movements	(16)	(1)	–	(8)	(3)	(5)	(33)
Reclassification	(32)	-	32	–	–	–	-
Additions	132	2	30	114	29	40	347
Disposals	(58)	(1)	(8)	(60)	(16)	(6)	(149)
Reclassification to non-current assets held for sale	(20)	(1)	–	–	–	–	(21)
At 25 March 2012	1 598	276	747	1 228	482	1 037	5 368
Depreciation and impairment							
At 28 March 2011	863	169	470	722	258	910	3 392
Exchange rate movements	(4)	(1)	–	(5)	(2)	(4)	(16)
Reclassification	(9)	–	9	-	–	-	-
Depreciation (note 5)	47	6	45	82	54	35	269
Impairment (note 5)	4	-	1	–	1	14	20
Disposals	(16)	(1)	(8)	(60)	(15)	(6)	(106)
Reclassification to non-current assets held for sale	(16)	–	–	–	–	–	(16)
At 25 March 2012	869	173	517	739	296	949	3 543
Net book value							
At 25 March 2012	729	103	230	489	186	88	1 825
At 28 March 2011	729	108	223	460	214	98	1 832

10 Goodwill

	2013 £m	2012 £m
Cost		
At 26 March 2012 and 28 March 2011	599	628
Exchange rate movements	8	(32)
Acquisition of businesses	4	3
At 31 March 2013 and 25 March 2012	**611**	599
Impairment		
At 26 March 2012 and 28 March 2011	410	431
Exchange rate movements	5	(21)
At 31 March 2013 and 25 March 2012	**415**	410
Net book value		
At 31 March 2013 and 25 March 2012	**196**	189
At 26 March 2012 and 28 March 2011	189	197

The carrying value of goodwill arising on business combinations of £196m (2012 £189m) at the balance sheet date includes £194m (2012 £187m) relating to the General Logistics Systems (GLS) business segment In line with the Group s accounting policy (note 2) this goodwill has been reviewed for impairment An impairment loss is recognised for the amount by which the carrying value of an asset or cash generating unit exceeds the recoverable amount The recoverable amount is the higher of net realisable value and value in use The net assets of GLS excluding interest bearing and taxation related assets and liabilities are £487m (2012 £446m) at 31 March 2013 and the operating profit before exceptional items is £101m (2012 £128m) for the year (note 3) The carrying value of GLS represents a multiple of 4 8 (2012 3 5) 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

Notes to the consolidated financial statements (continued)

11 Intangible assets

	2013 Master franchise licences £m	2013 Customer listings £m	2013 Software £m	2013 Total £m	2012 Master franchise licences £m	2012 Customer listings £m	2012 Software £m	2012 Total £m
Cost								
At 26 March 2012 and 28 March 2011	23	30	431	**484**	24	29	382	435
Additions	-	-	69	**69**	–	–	60	60
Disposals	-	-	(5)	**(5)**	–	–	(10)	(10)
Acquisition of businesses	-	2	-	**2**	–	2	–	2
Exchange rate movements	-	-	-	-	(1)	(1)	(1)	(3)
At 31 March 2013 and 25 March 2012	**23**	**32**	**495**	**550**	23	30	431	484
Amortisation and impairment								
At 26 March 2012 and 28 March 2011	23	26	300	**349**	24	25	260	309
Impairment (note 5)	-	-	24	**24**	–	–	20	20
Amortisation (note 5)	-	2	41	**43**	–	2	31	33
Disposals	-	-	(5)	**(5)**	–	–	(10)	(10)
Exchange rate movements	-	-	-	-	(1)	(1)	(1)	(3)
At 31 March 2013 and 25 March 2012	**23**	**28**	**360**	**411**	23	26	300	349
Net book value								
At 31 March 2013 and 25 March 2012	-	**4**	**135**	**139**	–	4	131	135
At 26 March 2012 and 28 March 2011	-	4	131	135	–	4	122	126

The intangible assets above none of which have been internally generated have finite lives and are being written down on a straight-line basis The £69m (2012 £60m) additions include borrowing cost capitalised in relation to specific qualifying assets of £1m (2012 £nil)

12 Investments in joint venture and associates

Joint venture

During 2012-13 (and 2011-12) the Group s only joint venture investment was a 50% interest in First Rate Exchange Services Holdings Limited (note 27) whose principal activity is the provision of Bureau de Change services in Post Office Limited

Associates

Details of the Groups 2012-13 and 2011-12 associate investments are provided in note 27 The reporting dates for these investments are 31 March 2013 except for Quadrant Catering Limited (30 September 2012) and G3 Worldwide Mail N V (Spring) (31 December 2012) Estimates of the profits of Quadrant Catering Limited and G3 Worldwide Mail N V (Spring) from their reporting date to 31 March 2013 (and 25 March 2012 for the prior year) have been included to ensure that the reported share of profits of associates aligns with the Group s financial year There are no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends repayment of loans or advances

	At 26 March 2012 £m	Addition £m	Share of post tax pre dividend profit £m	Impairment £m	Disposal £m	Dividend £m	Reclassification £m	At 31 March 2013 £m
Joint venture								
Share of net assets	66	-	33	-	-	(40)	-	**59**
Goodwill	1	-	-	-	-	-	-	**1**
Net investments	67	-	33	-	-	(40)	-	**60**
Associates								
Share of net assets	25	11	(1)	-	(32)	-	-	**3**
Total net investments in joint venture/associates	92	11	32	-	(32)	(40)	-	**63**

Notes to the consolidated financial statements (continued)

12 Investments in joint venture and associates (continued)

	At 28 March 2011 £m	Share of post tax pre dividend profit £m	Impairment £m	Disposal £m	Dividend £m	At 25 March 2012 £m
Joint venture						
Share of net assets	72	32	-	-	(38)	66
Goodwill	1	-	-	-	-	1
Net investments	73	32	-	-	(38)	67
Associates						
Share of net assets	32	-	(3)	-	(4)	25
Total net investments in joint venture/associates	105	32	(3)	-	(42)	92

	2013			2012		
	Joint venture £m	Associates £m	Total £m	Joint venture £m	Associates £m	Total £m
Share of assets and liabilities						
Current assets	**184**	**6**	**190**	179	49	228
Non-current assets	**3**	**-**	**3**	3	18	21
Share of gross assets	**187**	**6**	**193**	182	67	249
Current liabilities	**(127)**	**(3)**	**(130)**	(116)	(42)	(158)
Non-current liabilities	**-**	**-**	**-**	-	-	-
Share of gross liabilities	**(127)**	**(3)**	**(130)**	(116)	(42)	(158)
Share of net assets	**60**	**3**	**63**	66	25	91
Share of revenue and profit						
Revenue	**75**	**61**	**136**	75	116	191
Profit/(loss) after tax	**33**	**(1)**	**32**	32	-	32

13 Pension escrow investments

The pension escrow investments were established to provide security to the Royal Mail Pension Plan (RMPP) Trustee in support of a 38 year deficit recovery period as agreed with the Trustee in 2009 as part of the last triennial valuation

As from 1 April 2012 following the transfer of almost all of the RMPP pension liabilities and pension assets to HM Government, all of the pension escrow investments were made available to the Group The investments were sold during the year In March 2013 a money market fund investment was established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP) in support of a deficit recovery period as agreed with the Trustee in 2013

Pension escrow investments are analysed in the table below

	2013		2012	
	Average effective interest rate %	£m	Average effective interest rate %	£m
Cash at bank	-	-	0 4	1
Treasury bills	-	-	0 4	257
Gilt edged securities (index-linked)	-	-	4 3	835
Gilt edged securities (conventional)	-	-	4 8	141
Held in Royal Mail Holdings plc		**-**		1 234
Treasury bills	-	-	0 4	45
Gilt edged securities (index-linked)	-	-	4 3	79
Gilt edged securities (conventional)	-	-	4 8	25
Money market fund	0 3	20	-	-
Held in Royal Mail Group Limited		**20**		149
Group Total		**20**		1 383

Notes to the consolidated financial statements (continued)

13 Pension escrow investments (continued)

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 £1 363m (2012 increase of £222m) consists of £26m (2012 £45m) interest on the investments less £2m decrease (2012 £133m increase) in fair value deferred into the Financial Assets Reserve less £1 407m (2012 £nil) received on disposal of investments The remaining movement of £20m was invested in the money market as security to RMSEPP In 2012 £44m was paid into escrow on the disposal of one of the Group s properties previously held under mortgage in escrow

14 Inventories

	2013 £m	2012 £m
Supplies and materials (uniforms fuel printing and stationary mailbags engineering spares)	**20**	28
Merchandise (retail lottery products and stamps)	**12**	10
Total	**32**	38

15 Current trade and other receivables

	2013 £m	2012 £m
Trade receivables	**790**	799
Prepayments and accrued income	**314**	313
	1,104	1 112
Client receivables in the Post Office Limited network	**240**	138
Finance income	**-**	1
Total	**1,344**	1 251

Refer to note 17 for an explanation of Post Office Limited network balances

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

	2013 £m	2012 £m
At 26 March 2012 and 28 March 2011	**40**	26
Receivables provided for during the year	**15**	28
Release of provision	**(10)**	(4)
Utilisation of provision	**(8)**	(10)
At 31 March 2013 and 25 March 2012	**37**	40

Notes to the consolidated financial statements (continued)

15 Current trade and other receivables (continued)

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

	2013 £m	2012 £m
Past due not more than one month	**100**	63
Past due more than one month and not more than two months	**9**	15
Past due more than two months	**29**	34
Total past due but not impaired	**138**	112
Provided for or not yet overdue	**689**	727
Provision for bad and doubtful debts	**(37)**	(40)
Total	**790**	799

16 Cash and cash equivalents

Cash and cash equivalents include cash in Post Office Limited s 11 780 branches and other cash equivalent investments as shown below

	2013 £m	2012 £m
Cash in the Post Office Limited network	**870**	758
Cash at bank and in hand	**144**	172
Total cash at bank in hand or in the Post Office Limited network	**1,014**	930
Cash equivalent investments Short-term bank and local authority deposits and money market fund investments	**307**	363
Total cash and cash equivalents	**1,321**	1 293

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 The Group uses Money Market funds as a readily available source of cash and these funds are 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 £1 321m (2012 £1 293m)

17 Current trade and other payables

	2013 £m	2012 £m
Trade payables and accruals	**1,228**	1 247
Advance customer payments (for stamps held not yet used by customers)	**425**	342
Social security	**112**	98
	1,765	1 687
Client payables in the Post Office Limited network	**528**	332
Capital expenditure payables	**66**	57
Deferred grant income	**102**	-
Other	**17**	9
Total	**2,478**	2 085

The Group through Post Office Limited receives and disburses cash on behalf of Government agencies and other clients to customers through its Post Office branch network Amounts owed to/from these parties are disclosed separately as client payables (as above) and receivables (see note 15) The level of cash held and the related payables can vary significantly at each balance sheet date

The fair value of trade and other payables is not materially different from the carrying value

Of the £200m Government Grant received £98m has been allocated against income statement expenditure in accordance with the terms and conditions of the Grant The remaining £102m has been deferred into the balance sheet as disclosed above

Notes to the consolidated financial statements (continued)

18 Loans and borrowings

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 loan drawn down year
BIS loans to Royal Mail Group Limited[1]	973	900	**1,873**	8 8	2019
BIS loans to Post Office Limited[1]	291	859	**1,150**	1 0	2013
Total	**1,264**	**1,759**	**3,023**		

[1] BIS – Department of Business, Innovation and Skills

	2012				
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of loan drawn down year
BIS loans to Royal Mail Group Limited	1 522	300	1 822	6 1	2017
BIS loans to Post Office Limited	377	773	1 150	0 8	2012
Total	1 899	1 073	2 972		

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
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	**859**	773
Total	**1,759**	1 073

The following securities apply to the Group s committed facilities

	2013 Facility £m	Facility end date	2012 Facility £m	Facility end date	Security
Royal Mail Group Limited senior debt facility	**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	*	None
Royal Mail Group Limited other drawn down loans	**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		
Post Office Limited facility	**1,150**	**2016**	1 150	2016	Floating charge over all assets of Post Office Limited and a negative pledge** over cash and near cash items
Total	**3,023**		2 972		

*Loan facilities are repayable on the later of March 2016 and the release of the pension escrow investment Following the transfer of the RMPP pension assets and liabilities to HM Government the loan facilities become repayable in March 2016

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

Notes to the consolidated financial statements (continued)

18 Loans and borrowings (continued)

The Royal Mail Group Limited shareholder loan increased by £51m (2012 £45m) as a result of accrued interest

The Post Office Limited facility of £1 150m is currently restricted to funding the cash and near cash items held within the Post Office Limited network

The BIS loans to Post Office Limited under the facility are short dated on a programme of liquidity management and mature on average 1 day after the year end (2012 1 day) On maturity it is expected that further loans will be drawn down under this facility which expires in 2016

Royal Mail Holdings plc is a guarantor under the Royal Mail Group Limited senior debt facility and Royal Mail Group Limited other drawn down loans The security in place in the previous year was as disclosed above - with the exception of the £nil (2012 £60m) mortgages over certain Group properties which were established in March 2011

The BIS loans to Royal Mail Group Limited and Post Office Limited become repayable immediately on the occurrence of an event of default under the loan agreements These events of default include non-payment and insolvency in respect of Royal Mail Group Limited and Post Office Limited Breach of covenant relating to interest and total indebtedness is also a default event in respect of Royal Mail Group Limited only It is not anticipated that the Group is at risk of breaching any of these obligations

19 Financial liabilities net and gross maturity analysis

Below is a summary of when all the financial liabilities fall due

	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)	**291**	**82**	**2**	**375**
More than one year (non-current)	**973**	**230**	**1**	**1,204**
More than one year but not more than two years	**-**	**60**	**1**	**61**
More than two years but not more than five years	**473**	**139**	**-**	**612**
More than five years	**500**	**31**	**-**	**531**
Total	**1,264**	**312**	**3**	**1,579**

	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)	377	90	4	471
More than one year (non-current)	1 522	237	1	1 760
More than one year but not more than two years	600	55	1	656
More than two years but not more than five years	–	145	–	145
More than five years	922	37	–	959
Total	1 899	327	5	2 231

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 4% (2012 4%) The average maturity date is more than five years (2012 more than five years)

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

Notes to the consolidated financial statements (continued)

19 Financial liabilities net and gross maturity analysis (continued)

	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)	320	90	410	120	2	532
More than one year (non-current)	1,435	334	1,769	2	1	1,772
More than one year but not more than two years	29	65	94	2	1	97
More than two years but not more than five years	752	147	899	-	-	899
More than five years	654	122	776	-	-	776
Total	1,755	424	2,179	122	3	2,304

	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)	423	102	525	316	3	844
More than one year (non-current)	2 081	351	2 432	3	1	2 436
More than one year but not more than two years	646	63	709	3	1	713
More than two years but not more than five years	88	157	245	–	–	245
More than five years	1 347	131	1 478	-	-	1 478
Total	2 504	453	2 957	319	4	3 280

20 Financial assets and liabilities - summary and management of financial risk

The Group s financial assets and liabilities are shown in the table below

	2013			2012		
	Non- current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Pension escrow investments	20	-	20	1 383	–	1 383
Cash and cash equivalents	-	1,321	1,321	–	1 293	1 293
Other bank and governmental deposits	-	1,257	1,257	–	31	31
Derivative assets	3	10	13	2	9	11
Total financial assets	23	2,588	2,611	1 385	1 333	2 718
BIS loans to Post Office Limited	-	(291)	(291)	–	(377)	(377)
BIS loans to Royal Mail Group Limited	(973)	-	(973)	(1 522)	–	(1 522)
Total loans and borrowings	(973)	(291)	(1,264)	(1 522)	(377)	(1 899)
Finance leases obligations	(230)	(82)	(312)	(237)	(90)	(327)
Derivative liabilities	(1)	(2)	(3)	(1)	(4)	(5)
Total financial liabilities	(1,204)	(375)	(1,579)	(1 760)	(471)	(2 231)

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

Notes to the consolidated financial statements (continued)

20 Financial assets and liabilities - summary and management of financial risk (continued)

The Group enters into derivative transactions which create derivative assets and liabilities mainly commodity price swaps and forward currency contracts The purpose is to manage the commodity and currency risks arising from the Group s operations

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

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

Interest rate risk

The Group s exposure to market risk for changes in interest rates relates to the Group s loans and borrowings and interest bearing financial assets The BIS loans to Royal Mail Group Limited of £973m (2012 £1 522m) are a mix of £nil (2012 £600m) variable rate and £973m (2012 £922m) fixed interest rate with a combined average maturity date of 2019 (2012 average maturity date of 2017) The BIS loans to Post Office Limited of £291m (2012 £377m) are at short-dated fixed interest rates with average maturity 1 day (2012 average maturity 1 day) The total interest bearing financial assets of the Group (excluding the non-current investments) of £437m (2012 £549m) are at short-dated fixed or variable interest rates with average maturity 7 days (2012 average maturity 16 days)

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

Foreign currency risk

The Group is exposed to foreign currency risk due to trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in UKPIL, the balances held to operate the Bureau de Change services within Post Office Limited 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 £1m and hedging is normally confined to 80% of the forecast exposure where forecast cash flows are highly probable

The Group s obligation to settle with overseas postal operators is denominated in Special Drawing Rights (SDRs) - a basket of currencies 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 An external SDR hedge was put in place during 2010-11

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

The Group s obligations to settle conveyance charges in UKPIL in US$ has 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 referencing agent The credit policy is applied rigidly within the regulated products area so as to ensure that Royal Mail is not in breach of compliance legislation Assessment of credit for the non-regulated products is based on commercial factors which are commensurate with the Group s appetite for risk

Notes to the consolidated financial statements (continued)

20 Financial assets and liabilities - summary and management of financial risk (continued)

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% (2012 0 4%) 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 £900m expire in 2014 (2012 £300m expiring in 2014) The unused facility for Post Office Limited of £859m expires in 2016 (2012 £773m expiring in 2016) Additionally the Group has £230m (2012 £200m) of uncommitted lines of credit which are reviewed annually

Capital management
Royal Mail Holdings plc is a public 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 sole shareholder and the provider of the majority of debt to the Group is the UK Government The management of capital is closely linked to the Group s relationship with its shareholder The Group maintains its liquidity requirements by the management of its internal funds and by the drawing down of equity and debt from its shareholder as well as drawing on limited external debt facilities The Group s debt to equity ratio is determined by its shareholder

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 risk from interest rate exchange rate or commodity prices (2012 £nil)

Notes to the consolidated financial statements (continued)

21 Financial assets and liabilities - additional analysis

The following tables show the currency classification maturity and effective interest rate of the Group s financial assets and liabilities

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 165m at 31 March 2013 (2012 £1 698m) The fair value of Obligations under finance leases is £315m (2012 £338m) 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

	Level	Classification	2013 Total £m	2012 Total £m
Financial assets				
Cash at bank in hand or in Post Office Limited network			**1,014**	930
Cash equivalent investments			**307**	363
- Money market funds		Loans and receivables	**174**	314
- Short-term deposits - local government		Loans and receivables	**7**	-
- Short-term deposits - bank		Loans and receivables	**126**	49
Cash and cash equivalents			**1,321**	1 293
Financial assets - investments (current)			**1,257**	31
- Short-term deposits - HM Government/local government		Loans and receivables	**1,257**	1
- Short-term deposits - Bank		Loans and receivables	**-**	30
Financial assets - pension escrow investments (non-current)	1		**20**	1 383
- Money market funds		Loans and receivables	**20**	-
- Cash at bank			**-**	1
- Treasury bills	1	Available for sale	**-**	302
- Gilt edged securities (conventional)	1	Available for sale	**-**	166
- Gilt edged securities (index linked)	1	Available for sale	**-**	914
Derivative assets - current	2		**10**	9
- non-current	2		**3**	2
Total financial assets			**2,611**	2 718
Financial liabilities				
Financial liabilities - loans and borrowings (current)			**(291)**	(377)
- BIS loans to Post Office Limited		Amortised cost	**(291)**	(377)
Obligations under finance leases (current)		Amortised cost	**(82)**	(90)
Financial liabilities - loans and borrowings (non-current)			**(973)**	(1 522)
- BIS loans to Royal Mail Group Limited		Amortised cost	**(973)**	(1 522)
Obligations under finance leases (non-current)		Amortised cost	**(230)**	(237)
Derivative liabilities - current	2		**(2)**	(4)
Derivative liabilities - non-current	2		**(1)**	(1)
Total financial liabilities			**(1,579)**	(2 231)
Net total financial assets			**1,032**	487

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

Notes to the consolidated financial statements (continued)

21 Financial assets and liabilities - additional analysis (continued)

The criteria for codification of Level in the above table is described in the accounting policy Fair value measurement of financial instruments (note 2)

Derivative assets £10m current £3m non-current (2012 £9m current £2m non-current) and liabilities £2m current £1m non-current (2012 £4m current, £1m non-current) are valued at fair value Effective changes in the fair value of derivatives which are part of a designated cash flow hedge under IAS 39 are deferred into equity All other changes in derivative fair value are taken straight to the income statement

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

The 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 in hand or in the Post Office Limited network.

	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Net total financial assets 2013	**872**	**16**	**95**	**49**	**1,032**
Net total financial assets 2012	275	22	146	44	487

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 £20m at 31 March 2013 represent a money market fund investment established to provide security to RMSEPP in support of a deficit recovery period agreed with the trustees in 2013 and such are disclosed as maturing in more than 5 years

Notes to the consolidated financial statements (continued)

21 Financial assets and liabilities - additional analysis (continued)

Financial year ended 31 March 2013

	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 Post Office Limited	1 0	(291)	-	-	-	**(291)**
BIS loans to Royal Mail Group Limited	8 8	-	-	(473)	(500)	**(973)**
Obligations under finance leases	3 7	(82)	(60)	(139)	(31)	**(312)**
Total		**(227)**	**(60)**	**(612)**	**(531)**	**(1,430)**
Floating rate						
Cash at bank	0 7	111	-	-	-	**111**
Cash equivalent investments						
- Money market funds	0 4	174	-	-	-	**174**
- Short-term deposits - bank	0 8	6	-	-	-	**6**
Financial assets - pension escrow investments (non-current)						
- Money market fund	0 3	-	-	-	20	**20**
Total		**291**	**-**	**-**	**20**	**311**
Non-interest bearing						
Cash at bank in hand or in Post Office Limited network		885	-	-	-	**885**
Financial assets - investments (current)						
- Short-term deposits - HM Government/local government		1 256	-	-	-	**1,256**
Derivative assets		10	3	-	-	**13**
Derivative liabilities		(2)	(1)	-	-	**(3)**
Total		**2,149**	**2**	**-**	**-**	**2,151**
Net total financial assets/(liabilities)		**2,213**	**(58)**	**(612)**	**(511)**	**1,032**

Notes to the consolidated financial statements (continued)

21 Financial assets and liabilities - additional analysis (continued)

Financial year ended 25 March 2012

	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	-	-	-	166	166
BIS loans to Post Office Limited	0 8	(377)	-	-	-	(377)
BIS loans to Royal Mail Group Limited	8 7	-	-	-	(922)	(922)
Obligations under finance leases	3 9	(90)	(55)	(145)	(37)	(327)
Total		(378)	(55)	(145)	(793)	(1 371)
Floating rate						
Cash at bank	0 5	127	-	-	-	127
Cash equivalent investments						
- Money market funds	0 8	314	-	-	-	314
- Short-term deposits - bank	0 8	19	-	-	-	19
Financial assets - pension escrow investments (non-current)						
- Cash at bank	0 4	-	-	-	1	1
- Treasury bills	0 4	-	-	-	302	302
- Gilt edged securities (index linked)	4 3	-	-	-	914	914
BIS loans to Royal Mail Group Limited	2 2	-	(600)	-	-	(600)
Total		460	(600)	-	1 217	1 077
Non-interest bearing						
Cash at bank in hand or in Post Office Limited network		775	-	-	-	775
Derivative assets		9	2	-	-	11
Derivative liabilities		(4)	(1)	-	-	(5)
Total		780	1	-	-	781
Net total financial assets/(liabilities)		862	(654)	(145)	424	487

22 Hedging programmes

The purpose of the Group s hedging programmes is to mitigate volatility in commodity prices and foreign exchange rates As explained in note 20 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 Group 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

Notes to the consolidated financial statements (continued)

22 Hedging programmes (continued)

The Group had the following designated cash flow hedge programmes during the current and previous year

Hedging Activities

i) 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

ii) 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

iii) 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

iv) 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

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

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

vii) The Group had undesignated cash flow hedge programmes for the Post Office Limited Bureau de Change balances the 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 and the percentage of the expected consumption hedged The Group hedges the cost of the underlying commodity and any irrecovable 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 c£100 million to diesel costs each year Total diesel costs for 2013-14 are therefore c£180 million

		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 $/£ exchange rate movements	**82**	**93%**	**83**	**79%**	**85**	**9%**
Jet fuel	US$ price and $/£ exchange rate movements	**16**	**92%**	**16**	**-**	**16**	**-**
Electricity	£ price movement	**20**	**83%**	**19**	**54%**	**20**	**6%**
Gas	£ price movement	**15**	**81%**	**15**	**56%**	**15**	**7%**

		Exposure (excluding fuel duty) and expected consumption hedged 2012					
		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 $/£ exchange rate movements	85	91%	87	51%	86	9%
Jet fuel	US$ price and $/£ exchange rate movements	15	90%	16	52%	16	-
Electricity	£ price movement	20	83%	19	85%	18	20%
Gas	£ price movement	17	78%	15	80%	14	9%

Foreign currency hedging for non-commodity items

As highlighted in note 20 the Group where possible nets exposure to foreign currency internally This is possible because Post Office Limited holds foreign currency cash balances whilst UK Parcels International & Letters (UKPIL) have net liabilities with respect to amounts owed to foreign postal administrations because the UK is a net exporter of mail to the rest of the world The remaining net exposure may be hedged with external forward foreign currency contracts The foreign currency cash balances the foreign postal administration liabilities and the derivatives are all revalued to current market prices at the balance sheet dates meaning that no net gains or losses arise in the income statement

Notes to the consolidated financial statements (continued)

22 Hedging programmes (continued)

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

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

Derivative values

At any point in time the derivative 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) as 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 released when the derivative matures The amounts deferred into equity are released when the hedged transaction occurs The following tables show the derivative contracts entered into at 31 March 2013 and 25 March 2012 and the associated derivative assets and liabilities

	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**	**182k 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**	**17k 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**	**535k 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					**-**	**2**	**-**	**-**
Total					**3**	**10**	**(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	191k 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	29k 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	695k 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)

Notes to the consolidated financial statements (continued)

22 Hedging programmes (continued)

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 Bureau de Change currency holdings within Post Office Limited 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 consolidated balance sheet include the market value of these derivatives but the cumulative gains and losses on these derivatives have been released from the hedge reserve to the income statement to match the exposure to purchasing fuel in March 2013 Therefore there are differences between the derivative balances in this note and the balance on the hedging reserve

23 Provisions

	Exceptional £m	Other £m	Total £m
At 26 March 2012	162	69	**231**
Arising during the year			
– charged in operating exceptional items	157	-	**157**
– charged in other operating costs	-	33	**33**
Unused amounts reversed	(17)	(17)	**(34)**
Utilised in the year	(93)	(24)	**(117)**
Discount rate adjustment	2	-	**2**
At 31 March 2013	**211**	**61**	**272**
Disclosed as			
Current at 31 March 2013	99	39	**138**
Non-current at 31 March 2013	112	22	**134**
	211	**61**	**272**
Current at 25 March 2012	83	55	138
Non-current at 25 March 2012	79	14	93
	162	69	231

Exceptional

Exceptional provisions of £211m (2012 £162m) principally comprise redundancy schemes of £92m (2012 £87m) and £32m (2012 £32m) relating to onerous property and commercial contracts associated with restructuring Current redundancy provisions of £81m are expected to be utilised in 2013-14 with the remainder due within two to three years with the exception of onerous property provisions of £1m expected to be utilised within three to five years and a further £3m over a period greater than 5 years

Exceptional provisions also comprise £67m (2012 £39m) in respect of potential industrial diseases claims of which £4m is expected to be utilised in 2013-14 relating to both current and former employees of the Group The Group s liability in respect of former employees arose in 2010 as a result of a Court of Appeal judgement 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

A further £20m (2012 £nil) relates to IT systems costs associated with the separation of Royal Mail Group Limited and Post Office Limited of which £14m is expected to be utilised in 2013-14 with the remainder due in the following year

Other

Other provisions of £61m (2012 £69m) include those recognised for the expected liabilities arising from property exits in the normal course of business These principally comprise onerous lease obligations and decommissioning costs In addition further provision amounts mainly arise from estimated exposures resulting from legal claims incurred in the normal course of business The majority of the Other provision amounts are expected to be utilised in 2012-13 with the remainder within two to three years except £12m onerous property contracts expected to be utilised within three to five years and a further £7m expected to be utilised over a period greater than five years

Notes to the consolidated financial statements (continued)

24 Employee benefits - pensions

The 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 Group

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 Group 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 (HMG) In order to achieve this HMG 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 £2 922 million was reported in the balance sheet

On 1 April 2012 (one week into the 2012-13 financial year) - after the granting of State Aid by the European Commission to the Government on 21 March 2012 - almost all of the pension liabilities and pension assets of 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 Limited 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 Group would have to make no further deficit cash contributions

The disclosures in this note relate to the year ending 31 March 2013 and show how the value of the assets and liabilities have been calculated at the balance sheet date

The Group operates pension plans as detailed below

Plan	Eligibility	Type
Royal Mail Pension Plan (RMPP)	UK employees	Defined benefit
Royal Mail Senior Executives Pension Plan (RMSEPP)[1]	UK senior executives	Defined benefit
Royal Mail Defined Contribution Plan (RMDCP)	UK employees	Defined contribution
Various other small-scale plans operated by overseas subsidiaries	Overseas subsidiary employees	Defined contribution

[1] RMSEPP closed to new accruals on 31 December 2012

Defined Contribution

A new defined contribution plan (RMDCP) was launched in April 2009 and is open to employees who joined from March 2008 This scheme is being used to comply with the new legislative requirement for automatic enrolment after 3 months service A charge for the UK defined contribution plans of £18m (2012 £12m) was recognised in operating profit before exceptional items within the income statement The Group contributions to these plans was £17m (2012 £12m) Charges in respect of defined contribution plans operated by GLS amounted to £5m (2012 £5m) Group contributions to these plans were £5m (2012 £5m)

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
- Section C is for members (or beneficiaries of members) who joined on or after 1 April 1987 and before 1 April 2008

Notes to the consolidated financial statements

24 Employee benefits - pensions (continued)

Payment of £411m (2012 £408m) was made during the year in respect of regular future service contributions with £410m (2012 £405m) relating to RMPP The regular future service contributions charge for RMPP expressed as a percentage of pensionable pay remained at 17 1% (2012 17 1%) effective from April 2010

Royal Mail Group Limited and Post Office Limited are separately both in discussions 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

For RMSEPP regular future service contributions remained at 35 9% (2012 35 9%) effective from April 2010 until the scheme closed for new accruals on 31 December 2012 Deficit recovery payments were £30 million (including a special one-off payment of £20 million) Royal Mail Group Limited and Post Office Limited and the Trustees have separately reached agreement over the March 2012 actuarial valuation As the Plan is closed to future accrual there will be no regular future service contributions but the Group will continue to make deficit payments of £11 million p a

A current liability of £3m (2012 £5m) has been recognised for payments to the pension plans relating to redundancy During the year payments of £21m (2012 £39m) relating to redundancy were made

A liability of £1m (2012 £1m) has been recognised for future payment of pension benefits to a past Director

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

a) Major long-term assumptions - RMPP and RMSEPP

The major assumptions were

	At 31 March 2013 % pa	At 25 March 2012 % pa
Inflation assumption (RPI)	**3 3**	3 3
Inflation assumption (CPI)	**2 3**	2 3
Discount rate		
- nominal	**4 8**	5 1
- real[2]	**1 5**	1 8
Rate of increase in salaries	**RPI + 1%**	RPI + 1%
Rate of increase for deferred pensions - RMSEPP members transferred from Section A or B of RMPP	**RPI**	RPI
Rate of increase for deferred pensions - all other members	**CPI**	CPI
Rate of pension increases - RMPP Sections A/B	**CPI**	CPI
Rate of pension increases - RMPP Section C[3]	**RPI**	RPI
Rate of pension increases - RMSEPP all members	**RPI**	RPI
Expected average rate of return on assets	**N/A[4]**	5 9

[2] The real discount rate selected reflects the long duration of the schemes

[3] 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)

[4] 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

Notes to the consolidated financial statements

24 Employee benefits - pensions (continued)

Mortality

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

Average expected life expectancy from age 60

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

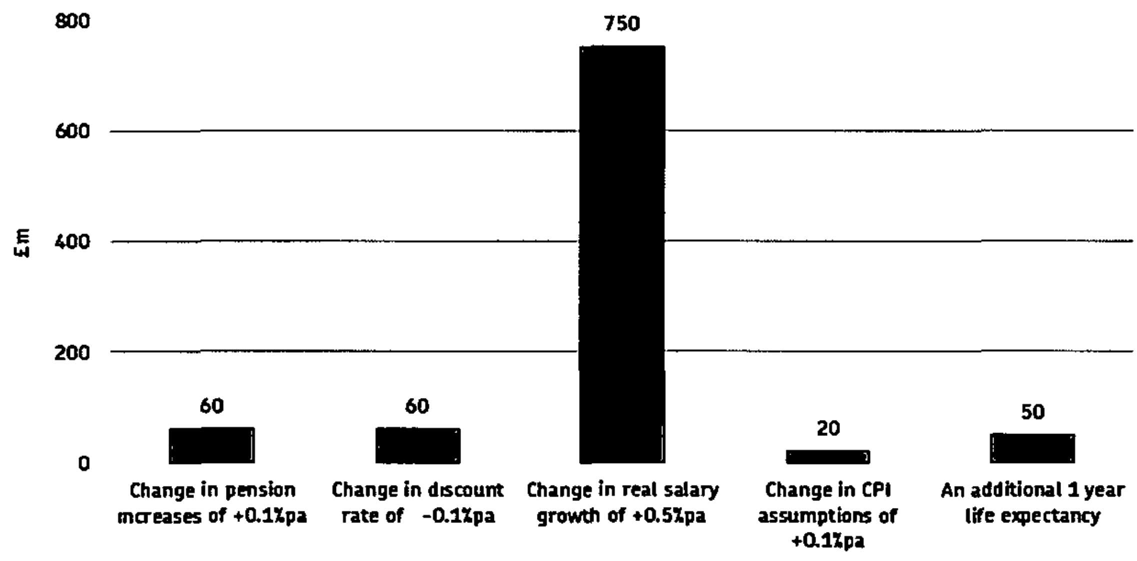
Royal Mail Group Limited and Post Office Limited and the RMPP Trustee are currently in separate discussion about the future funding requirements and this could materially change the pension costs and balance sheet amounts that are reported in future financial statements

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 Demographic assumptions for example mortality remain unchanged from those made in March 2012

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

Sensitivity analysis on RMPP liabilities



Notes to the consolidated financial statements

24 Employee benefits - pensions (continued)

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

	Market value		Long-term expected rate of return	
	2013 £m	2012 £m	2013 % pa	2012 % pa
Equities	**597**	3 385	**n/a[1]**	7 7
Bonds	**2,698**	25 356	**n/a[1]**	5 7
Property	**219**	1 417	**n/a[1]**	6 8
Cash/other	**97**	333	**n/a[1]**	3 4
Derivatives	**-**	254	**n/a[1]**	5 7
Fair value of plans assets	**3,611**	30 745		
Present value of plans' liabilities	**(2,681)**	(33 667)		
Surplus/(deficit) in plans	**930**	(2 922)		
IFRIC 14 adjustment	**(8)**	-		
Surplus/(deficit) in scheme	**922**	(2 922)		

[1] 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

Included within the pension assets are £1 5 billion (2012 £12 5billion) of HM Government bonds

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

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 above 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 as at 31 March 2013 is £1 6bn (March 2012 £10 7bn)

The investment strategy of the RMPP Trustee aims to safeguard the assets of the Plan 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 Plan uses derivatives (such as swaps and futures) to reduce risks whilst maintaining expected investment returns The Plan Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return The Trustee has specified objectives for the investment policy that balance these requirements

Notes to the consolidated financial statements (continued)

24 Employee benefits - pensions (continued)

c) Movement in plans' assets, liabilities and deficit - RMPP and RMSEPP

IAS 19 requires a reconciliation of opening to closing assets and liabilities

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

	2013 £m	2012 £m
Plans assets at beginning of period	**30,745**	27 685
Increase in value of pension assets 26-31 March 2012[5]	**242**	-
Transfer of pension assets to HM Government[5]	**(28,438)**	-
Company contributions paid	**462**	455
Employee contributions paid	**144**	144
Movement in Company contributions accrued	**(2)**	(8)
Finance income (expected rate of return)	**175**	1 775
Actuarial gains[5]	**303**	1 869
Benefits paid to members	**(20)**	(1 175)
Plans assets at end of period	**3,611**	30 745

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

	2013 £m	2012 £m
Plans liabilities at beginning of period	**(33,667)**	(32 186)
Increase in value of pension liabilities 26-31 March 2012[5]	**(701)**	-
Transfer of pension liabilities to HM Government[5]	**32,450**	-
Current service cost	**(436)**	(407)
Employee contributions	**(144)**	(144)
Curtailment costs[6]	**(20)**	(31)
Finance cost	**(138)**	(1 749)
Actuarial losses[5]	**(45)**	(325)
Benefits paid	**20**	1 175
Plans liabilities at end of period	**(2,681)**	(33 667)

[5] Taken directly to equity

[6] 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.

d) 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 £261m gain (2012 £462m gain)

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of assets	**3,611**	30 745	27 685	25 814	20 071
Present value of liabilities	**(2,681)**	(33 667)	(32 186)	(33 855)	(26 847)
Deficit in plans	**930**	(2 922)	(4 501)	(8 041)	(6 776)

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience adjustment on assets	**545**	1 869	470	4 469	(5 481)
Experience adjustment on liabilities	**81**	(5)	(8)	673	(10)

This disclosure is in accordance with IAS 19

Notes to the consolidated financial statements (continued)

e) Recognised charges - RMPP and RMSEPP

A disaggregation of the amounts recognised in the income statement and statement of comprehensive income and directly in equity is as follows

	2013 £m	2012 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptional items		
– Current service cost	436	407
Total charge to operating profit before exceptional items	**436**	407
Analysis of amounts charged to operating exceptional items		
– Loss due to curtailments (within provision for restructuring charge - note 6)	**13**	15
Total charge to operating profit	**449**	422
Analysis of amounts charged/(credited) to financing		
– Interest on plans liabilities	**138**	1 749
– Expected return on plans assets	**(175)**	(1 775)
Total net (credit)/charge to financing	**(37)**	(26)
Net charge to income statement before deduction for tax	**412**	396
Analysis of amounts recognised in the statement of comprehensive income		
– Actual return on plans assets	**720**	3 644
– Less expected return on plans assets	**(175)**	(1 775)
Actuarial gains on assets (all experience adjustments)	**545**	1 869
– Experience adjustments on liabilities	**81**	(5)
– Effects of changes in actuarial assumption on liabilities	**(827)**	(320)
Actuarial losses on liabilities	**(746)**	(325)
Total actuarial (losses)/gains recognised in the Statement of comprehensive income before deduction for tax	**(201)**	1 544
Analysis of amounts recognised directly in equity		
Transfer of pension assets to HM Government	**(28,438)**	-
Transfer of pension liabilities to HM Government	**32,450**	-
Pension deficit transfer to HM Government on 1 April 2012 recognised in Statement of changes in equity	**4,012**	-

Notes to the consolidated financial statements (continued)

25 Issued share capital and reserves

Authorised share capital

	2013 £	2012 £
Ordinary shares of £1 each	**100,000**	100 000
Special Rights Redeemable Preference Share (Special Share) of £1 each	**1**	1
Total	**100,001**	100 001

Issued and called up share capital

	2013 £	2012 £
Ordinary shares of £1 each	**50,005**	50 005
Special Rights Redeemable Preference Share (Special Share) of £1 each	**1**	1
Total	**50,006**	50 006

The Special Share can be redeemed at any time by its holder (the Secretary of State for Business Innovation and 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 capital paid up on the Special Share in priority to any repayment of capital to any other member The Special Share does not carry any rights to vote

Under section 63(7) of the Postal Services Act 2000 for the purposes of the Companies Act 2006 certain shares issued shall be treated as if their nominal value had been fully paid up

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

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 Following the sale of the pension escrow investments in November 2012 £166m has been transferred to the profit and loss account being the release of the cumulative net gains of £219m deferred into reserves less the cumulative net taxation of £53m taken directly to reserves relating to these investments in prior years

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

Escrow Reserve
Following the Pension Solution on 1 April 2012 (note 24 of the Group financial statements) the Company was directed by HM Government to credit to a separate reserve (Escrow Reserve) from retained earnings an amount equal to the value of the pension escrow investments on that date together with further income on the investments

Other Reserves
Other Reserves of £2m (2012 £47m) comprise £2m (2012 £2m) relating to First Rate Exchange Services Holdings Limited a joint venture entity and £nil (2012 £45m) recognised on the formation of Midasgrange Limited an associate company The transaction to establish Midasgrange Limited involved the Bank of Ireland investing £100m in exchange for a 50% shareholding Midasgrange Limited was an associate of the Group until September 2012 when the investment was disposed of

Notes to the consolidated financial statements (continued)

26 Commitments

Operating lease commitments

The Group is committed to the following future minimum lease payments under non-cancellable operating leases as at 31 March 2013 and 25 March 2012

	Land and buildings		Vehicles and equipment		IT equipment		Total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Within one year	**141**	148	**13**	11	**23**	29	**177**	188
Between one and five years	**433**	458	**14**	18	**17**	16	**464**	492
Beyond five years	**545**	578	**-**	-	**-**	3	**545**	581
Total	**1,119**	1 184	**27**	29	**40**	48	**1,186**	1 261

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 two years The IT commitments relate to 10-year contracts with an average term remaining of four years

Finance lease commitments

	2013		2012	
	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	**90**	**82**	102	90
Between one and five years	**212**	**199**	220	200
Beyond five years	**122**	**31**	131	37
Total minimum lease payments	**424**	**312**	453	327
Less amounts representing finance charges	**(112)**	**-**	(126)	-
Present value of minimum lease payments	**312**	**312**	327	327

The Group has finance lease contracts for vehicles land and buildings and plant and equipment The leases have no terms of renewal purchase options or escalation clauses and there are no restrictions concerning dividends borrowings or additional leases Vehicle leases have a term of between 1 and 7 years depending on the class of vehicle with the average term being 4 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 5 to 8 years with the average being 5 years

Capital commitments

The Group has commitments of £90m at 25 March 2012 (25 March 2012 £97m) which are contracted for but not provided for in the financial statements

Notes to the consolidated financial statements (continued)

27 Related party information

Related party transactions

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

	Counter-party business segment	Sales/recharges to related party 2013 £m	Sales/recharges to related party 2012 £m	Purchases/ recharges from related party 2013 £m	Purchases/ recharges from related party 2012 £m	Amounts owed from related party including outstanding loans 2013 £m	Amounts owed from related party including outstanding loans 2012 £m	Amounts owed to related party including outstanding loans 2013 £m	Amounts owed to related party including outstanding loans 2012 £m
Royal Mail Pension Plan (RMPP)	Other	**2**	9	**-**	-	**-**	-	**-**	-
Quadrant Catering Limited	UKPIL	**-**	-	**26**	35	**-**	-	**3**	3
G3 Worldwide Mail N V (Spring)	UKPIL	**-**	-	**6**	6	**3**	4	**-**	-
Midasgrange Limited	Post Office Limited	**35**	41	**1**	1	**-**	12	**-**	1
First Rate Exchange Services Holdings Limited	Post Office Limited	**27**	31	**125**	128	**7**	5	**11**	8

With the exception of the Royal Mail Pension Plan the companies listed above are either a joint venture or associate of the Group

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
Short-term employee benefits	**4,883**	3 920
Post-employment benefits	**31**	183
Other long-term benefits	**218**	-
Total compensation earned by key management	**5,132**	4 103

Key management comprises executive and non-executive Directors of Royal Mail Group Limited and Post Office Limited

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

The ultimate parent (the Company) and principal subsidiaries

Royal Mail Holdings plc is the ultimate parent company of the Group The consolidated financial statements include the financial results of Royal Mail Holdings plc and the principal subsidiaries listed below

Company	Principal activities	Country of incorporation	% equity interest 2013	% equity interest 2012
Royal Mail Group Limited (*)	Mails and parcels services	United Kingdom	**100**	100
Post Office Limited (*)	Counter retail and financial services	United Kingdom	**100**	100
Royal Mail Investments Limited	Holding company	United Kingdom	**100**	100
General Logistics Systems B V	Parcel services	Netherlands	**100**	100
Royal Mail Estates Limited	Property holdings	United Kingdom	**100**	100
Romec Limited	Facilities management	United Kingdom	**51**	51

(*) Direct subsidiary of Royal Mail Holdings plc

Joint venture

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

Notes to the consolidated financial statements (continued)

27 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
Quadrant Catering Limited	Catering services	United Kingdom	**51**	51
G3 Worldwide Mail N V (Spring)	Mail services	Netherlands	**32 45**	32 45
Midasgrange Limited	Financial services	United Kingdom	**-**	50

The majority of Board membership and voting power in Quadrant Catering Limited is held by the Groups business partner hence it is not a subsidiary

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 up until its disposal on 2 April 2013 and the investment in Midasgrange Limited was held by Post Office Limited Midasgrange Limited was an associate of the Group until September 2012

28 Events after the Balance Sheet Date

In accordance with the funding agreement with Government announced on 27 October 2010 for which State Aid approval was received on 28 March 2012 Post Office Limited received £415m of funding on 2 April 2013

On 21 June 2013 Royal Mail Group and Post Office Limited launched a consultation with members of the Royal Mail Pension Plan on a proposal to change the terms of the Plan The consultation will conclude on 25 August 2013 following which both Companies will consider the feedback received before making their final decision and then communicate the outcome to colleagues shortly afterwards

Parent Company financial statements 2012-2013

The majority of the Annual Report and Financial Statements relates to the Royal Mail Holdings plc Group consolidated accounts which comprise the aggregation of all the Group s trading entities (subsidiaries joint venture and associated undertakings) This mandatory section reports the individual balance sheet and notes of the ultimate holding company Royal Mail Holdings plc (the Company)

The Company has elected to prepare its own financial statements for the financial year ended 31 March 2013 in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) which was approved for issue by the Financial Reporting Council on 5 March 2013 (see note 13 for transition disclosures)

Parent Company Balance Sheet

at 31 March 2013 and 25 March 2012

	Notes	2013 £m	2012 £m
Fixed assets			
Investments in subsidiaries	5	-	-
Investments in pension escrow	6	-	1 234
Total fixed assets		-	1 234
Current assets			
Investments	7	1 256	-
Net current assets		**1,256**	-
Net assets		**1,256**	1 234
Capital and reserves			
Share capital	10	-	-
Share premium	11	430	430
Reserves	11	1 256	144
Profit and loss account	11	(430)	660
Shareholder's funds		**1,256**	1 234

The financial statements on pages 60 to 64 were approved by the Board of Directors on 24 July 2013 and signed on its behalf by

Donald Brydon

Notes to the Parent Company financial statements

1 Financial year and statement of compliance

The financial year ends on the last Sunday in March and accordingly these financial statements are made up to the year ended 31 March 2013 (2012 year ended 25 March)

The financial statements of the parent Company Royal Mail Holdings plc (the Company) were authorised for issue by the Board on 24 July 2013

The Company s financial statements have been prepared in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland) which was approved for issue by the Financial Reporting Council on 5 March 2013

2 Accounting policies

Basis of preparation
This is the first year in which the Company has prepared its financial statements under FRS 102 and the comparatives and accounting policies have been restated from previous United Kingdom Generally Accepted Accounting Principles (UK GAAP) to comply with the requirements of FRS 102 The transition to FRS 102 from the previously published UK GAAP financial statements is set out in note 13

The financial statements on pages 60 to 64 have been prepared in accordance with applicable UK accounting standards and law including the requirements of the Companies Act 2006 Unless otherwise stated in the accounting policies below the financial statements have been prepared under the historic cost accounting convention

Going concern
In making an assessment on the Company s ability to continue as a going concern the Directors have considered the respective going concern assessments made by the Directors of the Royal Mail Group Limited and Post Office Limited subsidiary companies (see note 2 in the Group financial statements) In reviewing these assessments the Directors have taken into account all available information about the future which is at least but not limited to twelve months from the date when the financial statements are authorised for issue They have also taken account of the fact that the Company acts as guarantor for the Royal Mail Group Limited £900m senior debt facility and £500m other loans facility (see notes 18 and 21 of the Group financial statements for further details) and that the escrow reserve and the assets backing the reserve (£1 256m as at 31 March 2013) cannot be used without the agreement of HM Government After careful consideration of all available information the Directors are of the view that it is appropriate that these financial statements have been prepared on a going concern basis

Profit and Loss Account
The Company has not presented its own Profit and Loss Account as permitted by section 408 of the Companies Act 2006 However the results of the Company for the year are disclosed in note 8 and 11 to the Parent Company financial statements

Statement of Cash Flows
The Company has not presented its own Statement of Cash Flows as permitted by section 1 12(b) of FRS 102

Financial instruments
In accordance with section 11 2(b) of FRS 102 the Company has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments Recognition and Measurement (as adopted for use in the EU) to account for its financial instruments

The Company has applied the exemption available in section 1 12(c) of FRS 102 The Company has not disclosed all information required by IAS 39 as the Group s consolidated financial statements in which the Company is included provide equivalent disclosures for the Group as required under Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* of FRS 102

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

Impairment reviews
Unless otherwise disclosed in these accounting policies fixed assets are reviewed for impairment in accordance with section 27 *Impairment of Assets* of FRS 102 if events or changes in circumstances indicate that the carrying value may be impaired The Company assesses at each reporting date whether such indications exist Where appropriate an impairment loss is recognised in the Income Statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount which is the higher of an asset s fair value less costs to sell and its value in use

Notes to the Parent Company financial statements (continued)

2 Accounting policies (continued)

Investments in pension escrow

Investments in pension escrow are financial assets within the scope of IAS 39 *Financial Instruments Recognition and Measurement* The investments are a combination of short-term deposits and long-term investments which mature between 1 day and 44 years but have been included within fixed assets as the investments provided security to the Royal Mail Pension Plan Trustee in support of the 38 year deficit recovery in 2009 as part of the last formal triennial valuation

The investments comprise bank balances Treasury bills and gilt edged securities

Treasury bills index-linked gilt edged securities and conventional gilt edged securities are classified as available for sale financial instruments on the basis that they are quoted investments that are not held for trading and may be disposed of prior to maturity The investments are initially recognised at fair value being the purchase price After initial recognition interest is included in the reported profit/(loss) for the year using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised in the Financial Assets Reserve until the investment is derecognised

Contingent liabilities

In accordance with section 21 *Provisions and Contingencies* of FRS 102 contingent liabilities are not disclosed if the possibility of any outflow of resources occurring is considered to be remote

3 Directors' emoluments

The Directors of the Company are not paid fees by the Company for their services as Directors of the Company The Directors of the Company are paid fees by other companies of the Group

4 Auditor's remuneration

The fees for the audit of the Company are £25 000 (2012 £nil) There are no other fees payable to the auditor for services to the Company

5 Investments in subsidiaries

	Cost £m	Impairment £m	2013 £m	2012 £m
At 31 March 2013 and 25 March 2012	-	-	-	-

On 1 April 2012 Royal Mail Group Limited transferred ownership of the entire issued ordinary share capital of Post Office Limited to the Company at £nil value and for no consideration

Details of the Company s subsidiaries are set out in note 27 of the Group financial statements

Notes to the Parent Company financial statements

6 Investments in pension escrow

	2013 Average effective rate %	2013 £m	2012 Average effective rate %	2012 £m
Cash at bank	-	-	0 4	1
Treasury bills	-	-	0 4	257
Gilt edged securities (index linked)	-	-	4 3	835
Gilt edged securities (conventional)	-	-	4 8	141
Total		-		1 234

The pension escrow investments are discussed further in the Group financial statements (note 13)

7 Current asset investments

	2013 £m	2012 £m
Short-term deposits - Government/local government	**1,256**	-
Total	**1,256**	-

8 Profit and Loss Account

The Company is a non-trading company The profit for the period relates to income from the investments in pension escrow of £221m (2012 £41m) and a tax charge of £55m (2012 £31m credit)

9 Taxation

A current tax charge in respect of prior periods of £53m has also been recognised Following the sale of the pension escrow investments in November 2012 the cumulative net gains of £197m deferred into reserves for accounting purposes were released to the profit and loss account The associated current tax charge of £53m in respect of the gains was similarly released to the profit and loss account and recorded within the current tax charge for the period

10 Share capital

Details of the share capital are disclosed in the Group financial statements (note 25)

11 Shareholder's funds

	Share capital £m	Share premium £m	Profit and loss account £m	Escrow Reserve £m	Financial Assets Reserve £m	2013 Total £m	2012 Total £m
At 26 March 2012 and 28 March 2011	-	430	660	-	144	1,234	1 074
Profit/(loss) for the year	-	-	166	-	-	166	72
(Losses) / Gains on financial asset investments	-	-	-	-	(197)	(197)	119
Taxation on items taken directly to reserves	-	-	-	-	-	-	(31)
Transfer of cumulative taxation to Profit and Loss Account	-	-	-	-	53	53	-
Transfer to Escrow reserve	-	-	(1,256)	1,256	-	-	-
At 31 March 2013 and 25 March 2012	-	430	(430)	1,256	-	1,256	1 234

Financial Assets Reserve

The Financial Assets Reserve is used to record fair value changes on available for sale financial assets Following the sale of the pension escrow investments in November 2012 the cumulative net gains of £197m deferred into reserves were released to the profit and loss account and cumulative net taxation of £53m taken directly to reserves relating to these investments in prior year was transferred to the profit and loss account

Notes to the Parent Company financial statements

11 Shareholder's funds (continued)

Escrow Reserve

Following the Pension Solution on 1 April 2012 (note 24 of the Group financial statements) the Company was directed by HM Government to credit to a separate reserve (Escrow Reserve) from retained earnings an amount equal to the value of the pension escrow investments on that date together with any further income on the investments

12 Charges

Details of charges registered over the assets of the Company are contained in the Group financial statements (notes 18 and 21)

13 Transition to FRS 102

The Company financial year ends on the last Sunday in March In previous years the financial statements have been prepared under UK Generally Accepted Accounting Principles (UK GAAP) From this accounting year the Company has elected to produce its Company financial statements in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) which was approved for issue by the Financial Reporting Council on 5 March 2013

This note explains how the Companys previous reported financial performance and position are reported under FRS 102 As a result of the accounting policies adopted under FRS 102 there is no difference with the previously reported financial position at the date of transition on 28 March 2011 or with the financial position at or profit reported for the year ended 25 March 2012 Therefore there are no reconciling items to present under section 35 13 of FRS 102

Basis of preparation

The restated financial statements of the Company have been prepared in accordance with FRS 102 and use the historic cost convention with the exception of certain financial instruments (pension escrow investments) that are measured at fair value

The rules for the first time adoption of FRS 102 are set out in Section 35 of FRS 102 This requires an entity to comply with all the requirements of FRS 102 at the reporting date for its first set of FRS 102 financial statements As a general principle FRS 102 requires the standards effective at the reporting date to be applied retrospectively However retrospective application is prohibited in some areas In addition a number of limited optional exemptions from full retrospective application of FRS 102 are granted Where applicable the options selected by the directors are set out in the notes to the accounts and below

The following comments refer to the differences in accounting policies and presentation of financial information under FRS 102

Investments in subsidiaries

In adopting FRS 102 the Company has adopted the transitional exemption in Section 35 10(f) in relation to its investments in subsidiaries to measure this at deemed cost (the carrying amount as determined under prior GAAP at the date of transition) Therefore the investment in its subsidiaries is stated on the date of transition on 28 March 2011 at £nil

Financial Instruments

In adopting FRS 102 the Company has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments Recognition and Measurement (as adopted for use in the EU) to account for its financial instruments Transitioning from FRS 26 to IAS 39 has resulted in no reconciling items to present

Statement of Directors' responsibilities in respect of the Parent Company financial statements

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

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland) and applicable law Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing 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 applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping 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 and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

DH Brydon

Donald Brydon

Date 24th July 2013

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

We have audited the parent Company financial statements of Royal Mail Holdings plc for the year ended 31 March 2013 which comprise the balance sheet and the related notes 1 to 13 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland)

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors responsibilities statement set out on page 65 the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Boards Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent Company financial statements

- give a true and fair view of the state of the Companys affairs as at 31 March 2013
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Royal Mail Holdings plc for the year ended 31 March 2013

Ernst & Young LLP

Richard Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
24 July 2013