Royal Mail Holdings plc

Preliminary Statement (Unaudited)
for the year ended 28 March 2010

Contents

Summary Financial Results

Royal Mail Holdings plc announces its results for the year ended 28 March 2010.

	Unaudited 2010 £m	2009 £m
Revenue	**9,349**	9,560
Operating profit before exceptional items	**404**	321
Profit before financing and taxation	**118**	183
Net trading cash outflow	**(517)**	(606)

Refer to the income statement for detail of what is included in the revenue and profit and to note 3 for an analysis of exceptional items. The Group cash flow statement has been summarised on page 13 and outlines the components of the net trading cash outflow.

Highlights

- Despite very difficult trading conditions, the Group increased operating profit to £404m
- Royal Mail Letters, Post Office Limited and Parcelforce Worldwide all saw profit growth year on year
- Decline in mail volumes increased to over 7% and Royal Mail Letters revenue was diluted by losses to competition and customers switching to lower priced products
- Group revenue fell by £211m year on year, the first fall in a decade
- Post Office Limited lost revenue in both Government and Financial Services
- Investment in modernisation and our people changing their working practices has enabled efficiencies to offset falling revenue
- Gross hours have fallen by over 5% in the Letters operation and Group headcount has fallen by around 8,000
- Net trading cash outflow of £517m despite strong operating performance, was driven by funding of the Group's pension obligations and our commitment to invest in modernisation
- The pension accounting deficit increased to £8bn and pension cash payments of almost £900m were made in the year
- In April 2010, the CWU voted in favour of a three year agreement paving the way for Royal Mail Letters to continue with modernisation and ensuring fair reward for our people

Review of the Year

Continued improved performance in the face of many challenges

I am delighted to report that Royal Mail Group ("the Group") has made further good progress in 2010, with operating profit* rising from £321 million to £404 million, a 26% increase on the previous year, despite continuing decline in mail markets in the UK and around the world, and a harsh economic climate.

Overall Group revenue dipped for the first time in a decade to £9,349 million amidst difficult trading conditions, but all four businesses within the Group remained in profit. Competitive pressures from other forms of communication intensified with over 13 million fewer items of mail being handled each day than just five years ago.

Royal Mail continued to make significant advances in implementing modernisation and efficiency measures during the year – including a significant increase in the volume of mail processed automatically. The financial performance of the Group shows a clear, positive impact of our modernisation programme, which will be boosted further following the recent agreement with the Communication Workers Union (CWU). Further momentum in our profitability is essential to mitigate the Group's net cash outflow.

Key performance highlights in 2010

Business unit performance	External revenue		Operating profit*	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Royal Mail Letters	**6,564**	6,707	**121**	58
General Logistics Systems	**1,487**	1,495	**112**	124
Parcelforce Worldwide	**399**	399	**17**	12
Post Office Limited	**838**	908	**72**	41
Other businesses	**61**	51	**82**	86
Group	**9,349**	9,560	**404**	321

*Operating profit is defined as profit before exceptional items

Group cash flow summary

£m	2010	2009
EBITDA before pensions*	**1,082**	1,027
Pension payments	**(867)**	(873)
Exceptionals excluding redundancy related pension payments	**(161)**	(222)
ColleagueShares	**(82)**	(158)
Government grant income	**0**	152
Net capital expenditure	**(441)**	(494)
Other	**(48)**	(38)
Net trading cash outflow	**(517)**	(606)

*Excludes share of post tax profit from joint ventures and associates

Key aspects of the 2010 performance include:

- Group operating profit increased to £404 million – a 26% improvement on the previous year and for the second year running, all four of the Group's businesses are profitable.
- The recessionary trading conditions saw many customers posting fewer letters and belt-tightening by downtrading from premium services such as First Class to Second, together with further switches away from traditional mail to email and web communications. These factors, and falls in traditional Government business in the Post Office network, all resulted in revenue reductions - but the impact was more than offset by modernisation and efficiency improvements cutting costs across the Group.
- Despite strike action by the CWU at local and national level in Royal Mail Letters during 2009, the business made good progress in its transformation plan with a further 150 new or upgraded machines installed, bringing the total to 368 over the last three years. Over 80% of the mail is now sorted to the level of the individual postman or woman's walk, two thirds of A4 sized mail - including magazines and catalogues - are now sorted automatically, and the national rollout of walk sequencing machines, which sort the mail to the exact route followed by the delivery postman or woman began in 2009, and more than five million letters a day are now being processed using this automated technology. We expect this figure to rise steeply in the current year as we roll out the installation of further walk sequencing machines. Five years ago, just half the mail was being sorted automatically.

- Royal Mail Letters' operating profit has more than doubled to £121 million despite an overall revenue fall of £143 million. The profit margin remains low – less than 2% - but the financial performance shows convincingly that Royal Mail's modernisation plan is working and delivering real benefits.

- Post Office Limited's revenue fell by £70 million in 2010 and the business' net cash outflow reflects the investment being made to refurbish Crown branches and improve the network's IT capabilities to boost efficiency and reduce overheads. The recession naturally depressed income, but despite the difficult trading conditions, average branch remuneration across the network increased by 5% last year.

- The Group's headcount reduced by almost 8,000 in 2010 and as in previous years, the reduction was managed without any compulsory redundancy – an approach we will do our utmost to maintain as we complete Royal Mail's modernisation. The total UK workforce now numbers 168,500, more than 60,000 fewer than in the spring of 2002, when the company began its journey back from the time it was losing well over £1 million a day and regularly failing almost all its quality targets.

- Record target-beating performance was delivered by Royal Mail's postmen and women in the spring and early summer of 2009. However, we very much regret that CWU strike action during the summer and autumn inevitably resulted in Royal Mail falling short of some of its annual quality of service targets. A huge effort is underway to ensure we again deliver the above-target performance we have previously provided.

- Parcelforce Worldwide continued to perform well in the hugely competitive time-guaranteed parcel sector. Despite the recession, it maintained its revenue at £399 million for the year and its operating profit rose to £17 million – a 42% increase. Parcelforce 24 quality of service improved to 97.7% and there was also a 1.0% improvement to 96.8% in the level of parcels delivered on the first visit to the customer, a vital indicator of quality and customer satisfaction in the parcel sector.

- GLS's revenue fell slightly year on year, although it still delivered significant profits and strong margins for the Group and in the industry. As in the UK, the trading landscape was exceptionally tough, but cost savings in its delivery operations limited the resulting fall in operating profit - down just under 10% to £112 million in 2010.

Three major events

This was my first full year as Chairman and it was certainly eventful.

Towards the end of the year Adam Crozier decided to leave the Group to take up the position of Chief Executive of ITV plc. His clarity of purpose and strong leadership marked a period when the Group recovered from significant losses to be again profitable. Adam leaves behind a Group with a sense of purpose, a modernising agenda and good people. Together with colleagues I have been conducting a search for his successor and we will make an announcement as soon as possible.

The second major event was the withdrawal of the Postal Services Bill which was put on ice in the summer of 2009 and which then fell away with the advent of the General Election. The Board has consistently welcomed the plans for a new regulator and for the way in which the pension deficit would be handled by Government under the terms of the Bill. As it turned out it was not to be and, while the Bill may have gone, the three central challenges highlighted within it - resolving the historic pension deficit, establishing a fairer regulatory regime and allowing the company flexible access to capital – still need to be tackled.

The strikes called by the CWU in the summer and autumn of 2009 damaged customers' confidence in the Letters business and had an adverse effect on the Group as a whole. I understand that change is very difficult for everyone, but with falling revenue in core parts of the Group we have no choice but to modernise. It is therefore a great pleasure to note the result of the CWU ballot which endorsed the agreement struck between the Group and the CWU, and which will allow for further progress towards our modernisation goals. The agreement will help us to protect the Universal Service while providing our people with a fair reward which recognises the important role they play in achieving the transformation we need. On both sides there were tireless efforts to find a mutually agreeable way forward and I would like to place on record my gratitude to all involved within the business and the CWU, as well as to ACAS and especially to Roger Poole who so ably and independently helped to construct the framework within which this deal was able to be reached.

We still face major issues and challenges

- The average daily mail bag now contains around 71 million letters, packets and parcels. Mail volumes declined by 7.3% in 2010, the steepest fall since volumes peaked at 84 million in 2005. All other major postal operators around the world expect volumes to decline further – TNT Post Group in The Netherlands, for example, is planning for a volume reduction of up to 9% this year and around 30% over the next five years, while the United States Postal Service is currently seeing its mail volumes decline by 13% a year.

- The volumes of mail handled by rivals under access arrangements with Royal Mail grew by over 20% in the last 12 months and more than one in three letters – a total of 6,400 million items – was posted last year with a competitor, but delivered by a Royal Mail postman or woman. Access mail now accounts for more than half of all business mail.

- The Group had a net trading cash outflow of £517 million, reflecting the continued investment being made in sorting technology, new equipment for postmen and women, improvements to Crown Post Office branches - as well as continuing heavy cash payments to the Pension Fund amounting to £867m in 2010.

- With the structural decline we are seeing in mail volumes – a phenomenon also seen in postal markets around the world - and further decline in traditional Government business in the Post Office network, it is essential we become leaders in innovation and devise new products and services to offer our customers in the rapidly changing world in which we all live.
- We continue to engage with the postal regulator, Postcomm, on the regulatory framework within which we operate. As competition intensifies, we remain convinced that regulation should be as focused as possible, but of course with protection and safeguards for those customers, especially consumers and small businesses, who use stamped mail and may not have other or easy access to other forms of communication like email. But with most mail now subject to full competition – from rival operators or rival forms of communication - it is essential that the regulatory constraints we face are appropriate and relevant to the competitive market in which we are operating.
- In March 2010, we agreed Post Office network funding of £180 million with the Government to cover 2011/12.

– and pensions

The Group and the Trustees have worked hard to find a solution to the problem of the actuarial deficit, which is expected to be significantly higher than the previous figure of £3.4 billion when the current valuation is completed, and continue to do so. In 2010 the Group paid £867m into the pension schemes, of which £291m was to help fund the historic deficit. I would like to thank Jane Newell and her fellow Trustees for all their work in the past year.

Royal Mail Letters – the next phase

Royal Mail has continued to modernise its operations, with a further £500 million invested in the last 12 months largely in new technology and equipment for our postmen and women, bringing the total to over three quarters of the £2 billion investment programme since 2006. Continuing to invest in our business will be essential to keep up the pace and progress of modernisation.

Two years ago, just 34 new or upgraded sorting machines had been installed across the nationwide Royal Mail network. Now, there are 368 new or upgraded machines in operation with 150 new pieces of equipment installed over the last 12 months. The next phase of modernisation will involve the completion of the installation of over 500 walk sequencing machines – 100 of which are already in place.

We have also made progress in rationalising our mail centre network. Four centres closed in the last 12 months – Oxford, Reading, Oldham and Stockport – and further consultations are planned. The final size of the mail centre network – currently there are 64 centres - will depend on mail volumes.

We have also made significant progress on the World Class Mail programme to improve the efficiency of our large sorting offices, with strong input from our people at all levels being crucial. After the significant efficiency gains already seen at Gatwick mail centre where the programme began, there are now 12 centres engaged in the drive to ensure that mail centres - which typically sort several million letters a day - are not just using the most modern equipment, but are operating at world class levels of efficiency.

Royal Mail Letters has put the safety of its people at the heart of its operations and the investment in the well-being of our people as they go about their daily work has resulted in an impressive 12% reduction in serious accidents last year. Our ultimate goal remains zero accidents and we are determined to keep our focus on safety with this topic high on the agenda of every Board meeting.

The decline in mail volumes accelerated in 2010. The daily mail bag of around 71 million items is now at levels last seen in the mid 1990s, a time when we were accustomed to seeing year on year growth in letter volumes. The trend for e-substitution will continue and a key priority going forward must be for Royal Mail to become a leader in innovation with new products and services based around our unique ability to deliver to the UK's 28 million addresses and a passion for meeting the needs and wishes of our customers.

Post Office Limited

The Post Office ended the year with a change of leadership with the appointment of David Smith to succeed Alan Cook as Managing Director. The business has already undergone significant change under Alan Cook's leadership as it continued to adapt to the challenges of a changing market and to develop new revenue streams. However, challenges remain for the new leadership.

Overall Post Office Limited's revenue declined by £70 million to £838 million mainly as a result of less income from the Post Office Card Account (POCA) used by around 4.5 million people to receive their pensions and other benefits. Customers have continued to switch from the POCA to a bank account – resulting in less revenue for the network – and a new contract for the POCA, which came into effect in October 2009, rewards the Post Office at a lower rate per account.

The Post Office has continued to expand its range of financial services – a business insurance product was launched last year and mortgages at competitive rates of interest were rolled out to the nationwide network after a successful regional trial – and it remains one of the fastest growing brands in the highly competitive financial services sector with more than 2.2 million customers. However, revenue fell back in this sector due to the difficult market conditions.

The Post Office has attracted £9 billion in savings, it insures the cars, homes, pets or businesses of 550,000 customers, it issues more than 3,000 credit cards a week to new customers and over 600,000 consumers now carry one in their wallets. The rollout of free-to-use cash machines continued with 2,000 now installed at Post Office branches, making it one of the UK's biggest no-fee cash machine networks.

In addition, the Post Office remains the market leader in the provision of foreign currency and one of the biggest providers of travel insurance. It also grew its revenue from its HomePhone services in 2010.

The future

Despite the very significant pressures in all parts of the Company, Royal Mail Group has continued to demonstrate its ability to withstand the combined pressures of recession and competition and has shown real momentum in driving forward our modernisation and making the changes which are so important if the Company is to survive and thrive.

As we enter the next stage of our evolution it is against a backdrop of regulatory uncertainty with our regulator, Postcomm, shortly to conduct a Licence review, the result of which will have profound implications for the Group. Together with the management team I have been leading a programme of work to define our longer term future in a competitive environment and one in which digital services will be ever more relevant. The output of this work will form an important input to Postcomm's review and will, of course, help to inform the incoming Government. I anticipate that the results of this work will be made public in the next few months.

To echo the words of Adam Crozier at this time last year, we know that despite the challenges of difficult and uncertain markets, we have the resilience and determination to continue our transformation and to become the world's best postal company. The strong and robust performance we have shown over the last 12 months shows we are making good progress.

Thanks

Towards the end of my first year as Chairman I have assumed a more executive role pending the arrival of a new Chief Executive. I would like here to record my thanks to all the colleagues in the Group who have not only made me welcome but given me support and encouragement at all times.

I was sorry to lose Helen Weir from the Board – she had been an excellent Chair of the Audit and Risk Committee - and I was also sorry to lose Andrew Carr-Locke from the Board but delighted to welcome Paul Murray, Les Owen and, after the year end, Nick Horler. The Board will be further strengthened shortly by the appointment of new members with specific consumer experience.

Royal Mail Group is a great enterprise which is proud to be part of the social and economic fabric of our country, and which plays a key role in communities around the UK. Working together we can ensure a long and successful future for the business and its employees and provide a fantastic service for our customers that meets their changing needs.

Donald Brydon
Chairman
Royal Mail Group
20 May 2010

All references to operating profit are before exceptional items.

Royal Mail Holdings plc

Consolidated income statement for the year ended 28 March 2010 and 29 March 2009

	Unaudited 2010 £m	2009 £m
Continuing operations		
Turnover	**9,199**	9,410
Network Subsidy Payment	**150**	150
Revenue	**9,349**	9,560
People costs excluding ColleagueShare and restructuring costs	**(5,746)**	(6,012)
Distribution and conveyance operating costs	**(1,579)**	(1,577)
Other operating costs	**(1,661)**	(1,697)
Share of post tax profit from joint ventures and associates	**41**	47
Operating profit before exceptional items	**404**	321
Operating exceptional items	**(291)**	(149)
Government grant income	**-**	152
ColleagueShare costs	**(44)**	(84)
Other restructuring costs	**(247)**	(217)
Operating profit	**113**	172
Profit on disposal of property, plant and equipment	**5**	11
Profit before financing and taxation	**118**	183
Finance costs	**(98)**	(56)
Finance income	**47**	36
Net pensions interest	**(329)**	(114)
(Loss)/profit before taxation	**(262)**	49
Taxation charge	**(58)**	(278)
Loss for the financial year from continuing operations	**(320)**	(229)
(Loss)/profit attributable to:		
Equity holder of the parent company	**(321)**	(232)
Minority Interest	**1**	3

Royal Mail Holdings plc

Consolidated statement of comprehensive income for the year ended 28 March 2010 and 29 March 2009

	Unaudited 2010 £m	2009 £m
Loss for the financial year from continuing operations	**(320)**	(229)
Other comprehensive loss for the period	**(1,305)**	(4,186)
Translation differences on foreign currency net investments	**(21)**	88
Actuarial losses on defined benefit schemes	**(1,312)**	(4,084)
(Loss)/gain on cash flow hedges deferred into equity	**(12)**	8
Loss/(gain) on cash flow hedges released from equity to income	**21**	(9)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	**(4)**	(14)
Gains on financial assets deferred into equity	**42**	17
Taxation on items taken directly to equity	**(19)**	(192)
Total comprehensive loss for the period	**(1,625)**	(4,415)
Total comprehensive (loss)/income for the period attributable to:		
Equity holder of the parent company	**(1,626)**	(4,418)
Minority interest	**1**	3

Royal Mail Holdings plc

Consolidated statement of changes in equity for the year ended 28 March 2010 and 29 March 2009

Unaudited	**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**	**Minority interest £m**	**Total equity £m**
At 30 March 2009	**430**	**(5,331)**	**23**	**157**	**12**	**47**	**(4,662)**	**6**	**(4,656)**
Loss for the period	**-**	**(321)**	**-**	**-**	**-**	**-**	**(321)**	**1**	**(320)**
Other comprehensive (loss)/income for the period	**-**	**(1,316)**	**32**	**(21)**	**-**	**-**	**(1,305)**	**-**	**(1,305)**
Translation differences on foreign currency net investments	-	-	-	(21)		-	(21)	-	(21)
Actuarial losses on defined benefit schemes	-	(1,312)	-	-	-	-	(1,312)	-	(1,312)
Loss on cash flow hedges deferred into equity	-	-	-	-	(12)	-	(12)	-	(12)
Loss on cash flow hedges released from equity to income	-	-	-	-	21	-	21	-	21
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	-	-	-	-	(4)	-	(4)	-	(4)
Gains on financial assets deferred into equity	-	-	42	-	-	-	42	-	42
Taxation on items taken directly to equity	-	(4)	(10)	-	(5)	-	(19)	-	(19)
At 28 March 2010	**430**	**(6,968)**	**55**	**136**	**12**	**47**	**(6,288)**	**7**	**(6,281)**

	Share premium £m	Retained earnings £m	Financial Assets Reserve £m	Rural Network Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Other Reserves £m	Equity holder of the parent £m	Minority interest £m	Total equity £m
At 31 March 2008	430	(863)	10	36	69	27	47	(244)	3	(241)
Loss for the period	-	(232)	-	-	-	-	-	(232)	3	(229)
Other comprehensive (loss)/income for the period	-	(4,272)	13	-	88	(15)	-	(4,186)	-	(4,186)
Translation differences on foreign currency net investments	-	-	-	-	88	-	-	88	-	88
Actuarial losses on defined benefit schemes	-	(4,084)	-	-	-	-	-	(4,084)	-	(4,084)
Gain on cash flow hedges deferred into equity	-	-	-	-	-	8	-	8	-	8
Gain on cash flow hedges released from equity to income	-	-	-	-	-	(9)	-	(9)	-	(9)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	-	-	-	-	-	(14)	-	(14)	-	(14)
Gains on financial assets deferred into equity	-	-	17	-	-	-	-	17	-	17
Taxation on items taken directly to equity	-	(188)	(4)	-	-	-	-	(192)	-	(192)
Transfer from Rural Network reserve	-	36	-	(36)	-	-	-	-	-	-
At 29 March 2009	430	(5,331)	23	-	157	12	47	(4,662)	6	(4,656)

Royal Mail Holdings plc

Consolidated balance sheet at 28 March 2010 and 29 March 2009

	Unaudited 2010 £m	2009 £m
Non-current assets		
Property, plant and equipment	**1,935**	1,886
Leasehold land payment	**4**	4
Goodwill	**197**	206
Intangible assets	**99**	78
Investments in joint ventures and associates	**147**	141
Financial assets - pension escrow investments	**1,189**	1,106
- investments	**49**	-
- derivatives	**3**	22
Other receivables	**1**	1
Deferred tax assets	**95**	154
	3,719	3,598
Non-current assets held for sale	**5**	3
Current assets		
Inventories	**38**	32
Trade and other receivables	**1,155**	1,155
Income tax receivable	**14**	17
Financial assets - investments	**1**	7
- derivatives	**24**	43
Cash and cash equivalents	**937**	1,060
	2,169	2,314
Total assets	**5,893**	5,915
Current liabilities		
Trade and other payables	**(2,076)**	(2,231)
Financial liabilities – interest bearing loans and borrowings	**(388)**	(234)
– obligations under finance lease and hire purchase contracts	**(61)**	(29)
– derivatives	**(17)**	(56)
Income tax payable	**(8)**	(13)
Provisions	**(130)**	(136)
	(2,680)	(2,699)
Non-current liabilities		
Financial liabilities - interest bearing loans and borrowings	**(1,138)**	(803)
- obligations under finance lease and hire purchase contracts	**(120)**	(81)
- derivatives	**(1)**	(5)
Provisions	**(146)**	(174)
Retirement benefit obligation – pension deficit	**(8,041)**	(6,776)
Other payables	**(43)**	(32)
Deferred tax liabilities	**(5)**	(1)
	(9,494)	(7,872)
Total liabilities	**(12,174)**	(10,571)
Net liabilities	**(6,281)**	(4,656)
Equity		
Share capital	**-**	-
Share premium	**430**	430
Retained earnings	**(6,968)**	(5,331)
Reserves	**250**	239
Equity attributable to equity holder of parent company	**(6,288)**	(4,662)
Minority interest	**7**	6
Total equity	**(6,281)**	(4,656)

Royal Mail Holdings plc

Consolidated statement of cash flows for the year ended 28 March 2010 and 29 March 2009

	Unaudited 2010 £m	2009 £m
Cash flow from operating activities		
Operating profit before exceptional items	**404**	321
Adjustment for:		
Depreciation and amortisation	**278**	257
Share of post tax profit from joint ventures and associates	**(41)**	(47)
Working capital and other non-cash movements:	**(83)**	(80)
(Increase)/decrease in inventories	**(6)**	2
Decrease in receivables	**24**	66
Decrease in payables	**(30)**	(61)
Increase in client receivables	**(14)**	(74)
Decrease in client payables	**(63)**	(50)
Net increase in derivative (assets)/liabilities	**(7)**	24
Increase in non-exceptional provisions	**13**	13
Cash paid in respect of retirement benefit obligations in excess of that charged in operating profit	**(376)**	(345)
Receipt of Government grant	**-**	152
Cash payments in respect of operating exceptional items:	**(293)**	(412)
ColleagueShare	**(82)**	(158)
Other	**(211)**	(254)
Cash outflow from operations	**(111)**	(154)
Income tax paid	**(16)**	(36)
Net cash outflow from operating activities	**(127)**	(190)
Cash flows from investing activities		
Dividends received from joint ventures and associates	**35**	42
Finance income received	**47**	38
Proceeds from sale of property, plant and equipment	**14**	20
Purchase of property, plant and equipment	**(374)**	(436)
Leasehold land payment	**-**	(4)
Acquisition of businesses	**(1)**	(2)
Purchase of intangible assets	**(80)**	(78)
Payment of deferred consideration in respect of prior years' acquisitions	**(7)**	(6)
Net purchase of financial assets investments (non-current)	**(86)**	(19)
Net movement in financial assets investments (current)	**6**	14
Net cash outflow from investing activities	**(446)**	(431)
Net cash outflow before financing activities	**(573)**	(621)
Cash flows from financing activities		
Finance costs paid	**(52)**	(62)
Payment of capital element of obligations under finance lease contracts	**(22)**	(18)
Cash received on sale and leasebacks	**73**	75
New loans	**451**	301
Repayment of borrowings	**(2)**	(48)
Net cash inflow from financing activities	**448**	248
Net decrease in cash and cash equivalents	**(125)**	(373)
Effect of exchange rates on cash and cash equivalents	**(1)**	13
Cash and cash equivalents at the beginning of the period	**1,060**	1,420
Cash and cash equivalents at the end of the period	**934**	1,060

The £934m cash and cash equivalents balance is net of a £3m overdrawn bank balance relating to the General Logistics Systems (GLS) subsidiary. This £3m is included in the Financial liabilities - interest bearing loans and borrowings (current) balance of £388m in the balance sheet.

Summary of Group cash flow statement

£m	**Unaudited 2010**	2009
EBITDA before pensions*	**1,082**	1,027
Pension payments	**(867)**	(873)
Exceptionals excluding redundancy related pension payments	**(161)**	(222)
ColleagueShares	**(82)**	(158)
Government grant income	**0**	152
Working capital	**(83)**	(80)
Cash outflow from operations	**(111)**	(154)
Dividends from Joint Ventures & Associates	**35**	42
Net capital expenditure	**(441)**	(494)
Net trading cash outflow	**(517)**	(606)

*Excludes share of post tax profit from joint ventures and associates

Notes to the Preliminary Statement

1. Accounting Policies

Basis of preparation and accounting

The Group comprises Royal Mail Holdings plc (the Company) – which is wholly owned by HM Government – and its subsidiaries. The Company is incorporated in the United Kingdom under the Companies Act 2006 (the Act) and the financial statements are produced in accordance with the Act and applicable International Financial Reporting Standards (IFRSs).

The financial information contained in this document does not constitute statutory accounts as defined in the Act. The financial information for the year ended 28 March 2010 has been prepared on the basis of accounting policies materially consistent to those set out in the full year annual financial statements of the Group for the year ended 29 March 2009, which have been delivered to the Registrar of Companies. The only changes in policies were the adoption of IFRS 7 Financial Instruments: disclosures, IFRS 8 Operating Segments, IAS 1 (revised) Presentation of Financial Statements and IAS 23 Borrowing Costs.

The Preliminary Statement is presented in sterling and all values are rounded to the nearest £m except where otherwise indicated.

The financial information for the year ended 28 March 2010 has been extracted from the Group's unaudited financial statements which will be delivered to the Registrar of Companies in due course. Accordingly, the Auditor's Report on the Group's full financial statements has yet to be signed.

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

ColleagueShare plan

ColleagueShare is the name for the Group's phantom share plan. The plan, introduced in 2007/08, is a five year plan spanning the accounting years from April 2007 to March 2012 and comprises both a phantom share scheme and a related stakeholder dividend worth up to £5,300 per person throughout the life of the plan. The ColleagueShares represent up to a total of 14% of the projected equity value of the Group. Additionally Royal Mail plans to pay a stakeholder dividend dependent on the achievement of certain targets.

The costs of the plan are included in the income statement as an exceptional item throughout the life of the plan and are included within payables or provisions as appropriate. Any long-term liabilities arising in relation to the plan will be discounted at an appropriate high quality corporate bond rate. These discounts will be unwound through the income statement during the life of the plan. The Group will redeem all ColleagueShares by 2012/13.

Funding

Royal Mail Group Ltd

Royal Mail Group Ltd continues to face considerable cash requirements with respect to its investment in modernisation and funding its pension deficit at a time when the mails market has been opened up to full competition and there is ongoing volatility in mail volumes.

On 23 March 2007, a funding package totalling £1.2bn was completed with Government and for which State Aid clearance was received in April 2009. The £900m senior debt facility expires in March 2014. It has been assumed that another facility will be negotiated to be available by this time. The remaining £300m subordinated loan was fully drawn in March 2009 and will not be repaid until the later of the unconditional release of the monies held in escrow for the Royal Mail Pension Plan Trustee or 19 March 2016.

In making an assessment on Royal Mail Group Ltd's ability to continue as a going concern, the Directors have assumed the successful execution of the modernisation plan, that an affordable payment profile will be agreed with the Royal Mail Pension Trustee in relation to the 2009 valuation and have considered the ongoing volatility in the mails market, along with the risk of greater market decline than forecast.

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

Post Office Limited

As part of the funding package announced in May 2007, £150m (2009 £150m) was paid to Post Office Limited during the year to fund the maintenance of a social network of post offices, which was recorded within revenue as a Network Subsidy Payment. The Group did not receive any non-recurring Government grant income in the year under the Industrial Development Act 1982, to compensate Post Office Limited for the other net costs of providing certain specified "services of general economic interest" (2009 £152m).

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

On 24 March 2010, a further funding package was agreed that provides up to £180m for compensation for losses to be sustained in parts of the network in the financial year ending March 2012, as well as providing access to the working capital facility for that year. These arrangements remain subject to State Aid approval.

2. 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. There is no aggregation of operating segments. The four operating segments are:

- Royal Mail Letters: Delivers letters to all addresses in the United Kingdom and offers a number of products to both business and domestic users. The segment also includes certain functions e.g. HR, IT and Finance which support the Group's UK operations.
- Parcelforce Worldwide: The parcels business unit operating within the UK.
- Post Office Limited: A limited company responsible for the network of Post Office branches offering a series of retail services.
- General Logistics Systems (GLS): The European parcels business which, via its subsidiaries and partners, offers its services in 36 European states.

'Other' segments includes PostCap Guernsey Limited and iRed Partnership Limited, both wholly owned subsidiaries; Romec Limited, and NDC 2000 Limited, both part owned subsidiaries; investments in the following associates – Quadrant Catering Limited, Camelot Group plc and Camelot Global Services Limited; and the Group Property unit. The Group Property unit includes Royal Mail Estates Limited, a wholly owned subsidiary. The assets managed centrally by the Group Treasury function are also included within this segment.

The operating segments comprise operations in both the UK and other parts of Europe, the latter being relevant to the GLS business segment. The former includes the remaining three 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 assets and the consolidated financial statements prepared under IFRS.

Unaudited 28 March 2010	**UK operations**					**Other European operations**		
	Royal Mail Letters	**Parcelforce Worldwide**	**Post Office Limited**	**Other**	**Total**	**General Logistics Systems**	**Elimination adjustment**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
External revenue	**6,564**	**399**	**838**	**61**[1]	**7,862**	**1,487**	**-**	**9,349**
Revenue between segments	**95**	**3**	**343**	**152**	**593**	**-**	**-**	**593**
Total revenue	**6,659**	**402**	**1,181**	**213**	**8,455**	**1,487**	**-**	**9,942**
Operating profit before exceptional items	**121**	**17**	**72**	**82**	**292**	**112**	**-**	**404**
Operating exceptional items - ColleagueShare	**(40)**	**(1)**	**(3)**	**-**	**(44)**	**-**	**-**	**(44)**
- impairments	**-**	**-**	**(72)**	**(4)**	**(76)**	**-**	**-**	**(76)**
- other	**(141)**	**(1)**	**(36)**	**7**	**(171)**	**-**	**-**	**(171)**
Profit on disposal of property, plant and equipment	**-**	**-**	**3**	**2**	**5**	**-**	**-**	**5**
Interest expense	**(15)**	**(1)**	**(6)**	**(106)**	**(128)**	**(1)**	**31**[2]	**(98)**
Interest revenue	**28**	**-**	**1**	**44**	**73**	**5**	**(31)**[2]	**47**
Net pensions interest	**(286)**	**(20)**	**(23)**	**-**	**(329)**	**-**	**-**	**(329)**
(Loss)/profit before tax	**(333)**	**(6)**	**(64)**	**25**	**(378)**	**116**	**-**	**(262)**

[1] The 'Other' segments' external revenue comprises £45m (2009 £36m) relating to the provision of engineering services by Romec Limited, £12m (2009 £10m) for print services provided by iRed Partnership Limited, £1m (2009 £1m) for design services provided by NDC 2000 Limited and £3m (2009 £4m) from other miscellaneous business activities.

[2] The elimination adjustment (2009 £40m) relates to interest charged between segments.

29 March 2009	UK operations					Other European operations		
	Royal Mail Letters	Parcelforce Worldwide	Post Office Limited	Other	Total	General Logistics Systems	Elimination adjustment	Total
	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	6,707	399	908	51	8,065	1,495	-	9,560
Revenue between segments	102	3	353	159	617	-	-	617
Total revenue	6,809	402	1,261	210	8,682	1,495	-	10,177
Operating profit before exceptional items	58	12	41	86	197	124	-	321
Operating exceptional items – Government grant	-	-	152	-	152	-	-	152
- ColleagueShare	(72)	(2)	(10)	-	(84)	-	-	(84)
- impairments	-	-	(77)	-	(77)	-	-	(77)
- other	(112)	-	(9)	(19)	(140)	-	-	(140)
Profit on disposal of property, plant and equipment	-		8	3	11	-		11
Interest expense	(14)	(3)	(11)	(66)	(94)	(2)	40	(56)
Interest revenue	39	-	5	24	68	8	(40)	36
Net pensions interest	(99)	(7)	(8)	-	(114)	-	-	(114)
(Loss)/profit before tax	(200)	-	91	28	(81)	130	-	49

There is no single customer for which revenues from transactions amount to 10 per cent or more of the total revenues earned in the current year or in the prior period.

3. Operating Exceptional Items

	Unaudited 2010 £m	Unaudited 2010 £m	2009 £m	2009 £m
Government grant income		**-**		152
ColleagueShare - phantom share scheme	**28**		(14)	
- stakeholder dividend	**(72)**		(70)	
		(44)		(84)
Other restructuring costs:				
Provision for restructuring	**(178)**		(113)	
Other exceptional items	**7**		(27)	
Impairment of property, plant and equipment	**(58)**		(38)	
Impairment of intangible assets	**(18)**		(39)	
		(247)		(217)
Total operating exceptional items		**(291)**		(149)

There was no corresponding Government grant received by the Group during the year under the Industrial Development Act (IDA) 1982 (2009 £152m). The 2008/09 amount was used to compensate Post Office Limited for providing certain specified "services of general economic interest".

The £28m release (2009 £14m charge) for the phantom share scheme and £72m (2009 £70m) stakeholder dividend costs are the estimated amounts relating to the Company ColleagueShare plan this year. The Board has agreed to replace the third and final issue of notional shares with an additional stakeholder dividend, the payment of which will be directly linked to the achievement of key modernisation milestones in the future. The stakeholder dividend earned will be paid to qualifying employees in 2010/11 whilst the costs of the phantom share scheme are discounted and the shares are to be redeemed by the Group by 2012/13.

The £178m (2009 £113m) restructuring charge is in respect of employee related redundancy costs of £167m (2009 £113m) resulting mainly from operational efficiency initiatives in Royal Mail Letters and in Post Office Limited. Other Group restructuring exceptional charges of £11m (2009 £4m) were incurred during the year. There were no material exceptional charges or releases relating to property this year (2009 £4m write-back).

Impairments of £76m (2009 £77m) relate to Post Office Limited comprising £57m (2009 £38m) property, plant and equipment and £15m (2009 £39m) intangible assets and iRed Partnership Limited (iRed) comprising £1m (2009 £nil) property, plant and equipment and £3m (2009 £nil) intangible assets. Due to ongoing losses, the carrying values of asset purchases made by Post Office Limited and iRed during the year have been impaired to their recoverable amount.

Other exceptional items include a £7m net credit (2009 £27m charge) comprising the release of an accrual for professional fees of £10m (2009 £18m charge) in connection with Government funding, offset by a charge of £3m (2009 £9m) for other restructuring items charged in the current year.

4. Taxation

The tax charge of £58m (2009 £278m) includes a current tax charge on overseas profits of £31m (2009 £35m), a UK current tax credit of £27m (2009 £1m charge) and a deferred tax charge of £54m (2009 £242m).

A tax charge of £19m has been taken directly to equity (2009 £192m).

The reduction in the tax charge reported in relation to the pre-tax loss compared to last year is mainly due to the decreased amount of deferred tax asset written off.