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Registered Number 2154540

Post Office Limited
Annual Report and Accounts
2006-2007



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Post Office Limited

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Post Office Limited

Directors' Report

The Directors present the accounts for Post Office Limited (the Company) These accounts relate to the 52 weeks ended 25 March 2007 (2006 52 weeks ended 26 March 2006)

Principal activities

The Company's principal activities are the provision of access to a wide range of Government, financial travel and retail services through its network of Post Office branches and other channels across the United Kingdom (UK)

Review of the business and future developments

The operating loss before exceptional items for 2007 was £126m (2006 £130m) after including, for the first time £75m of Social Network Payment The comparable loss to 2006 was therefore £201m

During the year, £75m was transferred to Post Office Limited from Royal Mail Group Ltd, its immediate parent company This was transferred from the Mails Reserve and allocated by Post Office Limited to the Rural Network Reserve In addition, Post Office Limited received £75m from the Government in the form of a subsidy recorded within revenue as a Social Network Payment Under the terms of an agreement, Post Office Limited allocated £75m to the Rural Network Reserve on receipt of the Social Network Payment During the year, £150m of this reserve was applied towards the maintenance of a rural network of Post Office® branches

Even with the Social Network Payment being treated as income, losses at the current level are clearly unsustainable Traditional income has declined and been partially offset by the growth in new income Additionally significant cost reductions were delivered by the focus in the year on reducing headcount along with continuous cost reviews across all discretionary areas as well as securing benefits flowing from various efficiency programmes Cost savings and efficiency improvements remain fundamental to turning the business around

The business has embarked on a wide-ranging plan, to create a strong and viable network in the long-term called "fivetoelven" which aims to return Post Office Limited to profit and re-establish the Post Office® as an essential part of people's lives by 2011 focussing on our Brand and Customer Proposition Products, Channels Strategy, Operations and People The Operations strand has two main components

- Following a successful trial in 2006-07 involving a retail partnership under which six Crown branches were transferred to WH Smith branches, a deal was concluded in April 2007 which will involve the transfer of a further 70 branches to the retailer A further 15 Crown Offices have been identified as being suitable for a franchise partner while the remaining 373 Crown Offices will remain owned and managed by the Post Office®
- Complete 2,500 compensated closures of agency branches whilst meeting the Government's Access Criteria which are Nationally, 99% of the UK population to be within 3 miles and 90% of the population to be within 1 mile of their nearest post office outlet, 99% of the total population in deprived urban areas across the UK to be within 1 mile of their nearest post office outlet, 95% of the total urban population across the UK to be within 1 mile of their nearest post office outlet, 95% of the total rural population across the UK to be within 3 miles of their nearest post outlet, and 95% of the population of the postcode district to be within 6 miles of their nearest post office outlet

The Government announced a public consultation on 14 Dec 2006 and the outcome was announced on 17 May 2007 which included the access criteria above

The Post Office® has been piloting new ways that villagers and people living in the countryside can continue to use its services These include mobile Post Offices – in specially adapted vans – and branches in pubs village halls tea rooms and churches

The overall winner of the Best Post Office 2006 Competition, in association with National Savings and Investments was Hungerford Road Post Office in Crewe, Cheshire Customers voted saying the team was "the best in every way" in everything from serving customers efficiently to caring about them

Other winners in different categories included the Cnwch Coch branch near Aberystwyth in Ceredigion, for innovation in providing services The counter there is run from what used to be "the smallest room in the house" The winner of the best rural Post Office was The Wheatsheaf Pub in Crudwell, Malmesbury in Wiltshire

Post Office Limited

Directors' Report (continued)

In everyday business, the Post Office® continued to strive to give its customers the best possible deal. Six new currencies, including the Namibian dollar and the Uruguayan peso, were added to the market-leading travel money portfolio to bring the total to 78 and the number of Post Offices in which customers could buy euros – the best-selling currency – over the counter without pre-ordering was expanded from 2,500 to almost 6,500.

A pre-paid PIN-protected travel money card further enhanced the product portfolio. Customers can load this electronic wallet with cash to spend abroad. Post Office credit card holders also benefited from being able to use their credit card abroad without being charged commission – one of the few cards to offer this benefit.

Travel insurance cemented its reputation by being recognised by the travel industry as the Post Office® beat nine other companies to win Best Travel Insurance Direct Provider at the 2006 British Travel Awards.

The traditional connection of the Post Office® with savings was also reinforced with the Instant Saver Account, which encouraged people to invest their savings with the Post Office®. Almost two billion pounds were deposited as customers took advantage of one of the best high street rates on the market and one of the few products that swiftly adjusted its rates in line with the Bank of England's rate rises.

The postal order was modernised and revamped on its 125th anniversary. Rather than making up values from 13 different printed postal order amounts and stamps to make up the odd penny, customers could now ask them to be made out for any amount and printed out on the spot. One new market that helped Postal Orders reach more than £369m worth of sales was internet shopping as more customers paid for goods on online auctions using postal orders instead of electronic methods.

Results and dividends

The loss after taxation for the year was £159m (2006 £156m loss). The Directors do not recommend the payment of a dividend.

Land and buildings

The net book value of the Company's land and buildings, based upon a historic cost accounting policy and excluding fit-out, is £18m (2006 £21m). In the opinion of the Directors, the aggregate market value of the Company's land and buildings exceeds this net book value by £60m (2006 £66m).

Pensions

Royal Mail Group Ltd is the sponsoring employer for the Royal Mail Pension Plan and Royal Mail Senior Executive Pension Plan (both defined benefit schemes), and for the Royal Mail Retirement Savings Plan (a defined contribution scheme). Based on assets, the Royal Mail Pension Plan is the sixth largest pension scheme in the UK.

The assets and liabilities of the defined benefit schemes, as measured under accounting standards, are reported as a net pension deficit in the consolidated balance sheet of Royal Mail Holdings plc, the ultimate parent company. The gross assets and liabilities and Post Office Limited's share of the net deficit are significantly larger than any of the Company's other assets and liabilities.

Royal Mail Group Ltd has the legal relationship with the Trustees of the defined benefit schemes and, as such, the Trustees hold Royal Mail Group Ltd liable for the actuarial deficit in the schemes. However, under an agreement between Post Office Limited and Royal Mail Group Ltd, Royal Mail Group Ltd provides employees engaged in the business of Post Office Limited. Post Office Limited meets the full costs of employment and is responsible for the funding of the pension deficit attributable to these employees. Consequently, Post Office Limited recognised a balance sheet deficit on full adoption of FRS 17. This was based on employee numbers over 12 years and represented approximately 7% of the total balance sheet deficit (pre deferred tax) at that time. The net pensions interest, deficit recovery payments and actuarial gains or losses are also allocated on this basis, giving the Company approximately 7% of the total balance sheet deficit (pre deferred tax) at the balance sheet date. The current service cost, regular future service contributions and curtailments are computed separately for Royal Mail Group Ltd and Post Office Limited based on common factors/rates.

The balance sheet pension deficit has decreased from £398m in March 2006 (as restated) to £349m. The decrease in the deficit of £49m principally relates to an actuarial gain of £25m and net pensions interest of £14m. The actuarial gain reflects the Company's share of the total actuarial gain, the majority of which arose due to investment returns on the schemes' assets being in line with market performance and therefore higher than the

Post Office Limited

Directors' Report (continued)

long-term expected rate of return. This gain is recorded in the statement of total recognised gains and losses. The net pensions interest reflects the Company's share of the total net pensions interest, which represents the long-term expected rate of return on the schemes' assets less the unwinding of the discount on the schemes' liabilities. Although liabilities are higher than assets, the expected rate of return on these assets (biased toward equities) is substantially higher than the discount rate for liabilities (high quality corporate bond rate) resulting in a net interest credit. This interest is recorded in the profit and loss account after profit on ordinary activities before interest.

Policy on the payment of suppliers

The Company's policy is to use its purchasing power fairly. Payment terms are agreed in advance for all major contracts. For lower value transactions, the standard payment terms printed on the back of the purchase order apply. It is Company policy to make payments within 45 days of receiving a valid invoice. The Company has sought to comply with the DTI's Better Payment Practice Code. Copies of this can be obtained from the DTI.

The number of days' purchases in creditors at the balance sheet date was 19 (2006 29 days).

Charitable donations

During the year, the Company made charitable donations amounting to £300 (2006 £6,000).

Directors and their interests

The following have served as Directors of the Company during the year ended 25 March 2007 and up to the date of approval of these accounts:

| | <u>Appointed</u> | <u>Resigned</u> |
|---------------------------|------------------|-----------------|
| M S Hodgkinson (Chairman) | | 31 August 2007 |
| J B Anderson | | 14 April 2007 |
| A R Cook | | |
| P M Corbett | | |
| R P Francis | | |
| A L Leighton | | |
| D I Glynn | 26 October 2006 | |
| B J Goggin | | 21 July 2006 |
| S G Halliday | | 31 July 2006 |
| G Hockey-Morley | 26 October 2006 | |
| D W Miller | | 31 July 2006 |
| P A Vennells | 8 January 2007 | |
| S R Whalley | 1 September 2006 | |

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

People

Our goal is to ensure that all employees are engaged and involved in the business and are aligned and equipped to meet business objectives. As part of our commitment to drive better service for customers we continue to focus on improving the quality of our leadership, professionalising key roles and achieving greater employee involvement in decision making. Extensive training and development programmes have been put in place to support our ambition to create a high performance customer-oriented sales culture. This ambition is further supported by a range of bonus schemes which are based on the achievement of business targets. Underpinning all of this is a need for dignity at work, where everybody feels valued, is treated fairly and equally with everyone playing a full part in helping the Company to achieve its goals.

Regular employee opinion surveys are conducted to allow employees an opportunity to express their views and opinions on important issues. This two-way communication encourages all employees to contribute towards making business improvements.

Diversity

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

The Company's policy is to give full consideration to applications for employment from disabled persons. Employees who become disabled whilst employed receive full support through the provision of training and special equipment.

Post Office Limited

Directors' Report (continued)

to facilitate continued employment where practicable. The Company provides training, career development and promotion to disabled employees wherever appropriate.

Our aim is to create a culture and environment where diversity is truly valued and we have a wide range of actions in place to help achieve this.

Pol Strategy and Key Performance Indicators (KPIs)

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

| Customer Service | Great Place to Work | Profitability and Cash Flow | Good Corporate Citizen |
|---|--|--|---|
| <p>Our customers are at the heart of everything we do. The key to winning and keeping customers is to provide a consistently high quality of service. This has been the top priority of everyone in the business and is at the heart of our strategy moving forward. That means:</p> <ul style="list-style-type: none"> • delivering a high quality of service and mails integrity • developing products that match the needs of our customers and • becoming easier to do business with | <p>This initiative established in 2003, works on the basis that we can only move forward and succeed as a business if we involve our people in making change happen.</p> <p>The plan focuses on engaging and involving people in managing and improving their workplace.</p> | <p>Funding from Government on commercial terms has now been secured enabling the Group (excluding Post Office Limited) to support the capital investment programme which addresses the historic underinvestment in the letters business.</p> <p>Post Office Limited and Government have agreed a long-term funding package which will maintain a national network and put Post Office Limited on a sustainable footing.</p> <p>Continuing to develop more efficient ways of working will empower us to succeed in a competitive marketplace, allowing us to maintain sustainable profitability and cash flow to eventually generate a return for our stakeholders.</p> | <p>Corporate Social Responsibility (CSR) is doing the right thing for our people, our business and the communities we operate in, as our:</p> <ul style="list-style-type: none"> • customers want to buy from companies that share their values • colleagues want to work for companies that provide a healthy and safe environment and whose values align to theirs and • communities want companies that create the incomes, the jobs and contribute to the cohesion that builds the neighbourhoods where people want to live and work |
| Customer | People | Financial | Environmental |
| QoS targets | Employee Survey | Turnover | CO ₂ Emissions/1000 items |
| Number of Complaints | Health & Safety | Operating profit | Social & Community |
| Customer Satisfaction Index | RIDDORs (reportable accidents) /1000 staff | Return on sales | Charitable Donations |
| | Sick Absence | Return On Total operating Assets | |
| | | Operating cash flow | |

Post Office Limited

Audit information

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

Qualifying third party indemnity provisions for Directors

At the time the Directors' Report was approved under section 234A of the Companies Act 1985, a partial qualifying third party indemnity provision was and remains in force for the benefit of all Directors of Post Office Limited and for the benefit of one or more persons who were then Directors of the Company. The indemnity is granted under article 129 of the ultimate parent 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.

Going Concern

After analysis of the financial resources available and cash flow projections for the Company, the Directors have concluded that it is appropriate that the financial statements have been prepared on a going concern basis. Further details are provided under fundamental accounting concept in note 1 to the accounts.

Auditors

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

By Order of the Board



Jonathan Evans

Secretary

London

26 October 2007

Post Office Limited

Statement of Directors' responsibilities in respect of the accounts

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent Auditors' Report to the members of Post Office Limited

We have audited the Company's financial statements for the year ended 25 March 2007 which comprise the profit and loss account, *statement of total recognised gains and losses*, reconciliation of movements in shareholder's funds balance sheet and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the accounts concerning the uncertainty as to the ability of the Company to obtain sufficient additional funds to meet its funding requirements for the foreseeable future. In view of the significance of this uncertainty, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

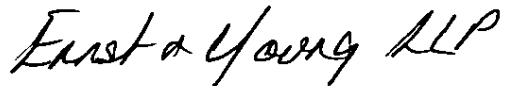
Post Office Limited

Independent Auditor's Report to the members of Post Office Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the Company's affairs as at 25 March 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



Ernst & Young LLP

Registered auditor

London

29 October 2007

Post Office Limited

Profit and loss account

for the years ended 25 March 2007 and 26 March 2006

| | | 2007 | | | 2006 | | |
|--|-------|--------------------------------------|----------------------------|--------------|--------------------------------------|----------------------------|--------------|
| | Notes | Before exceptional items £m | Exceptional items £m | Total £m | Before exceptional items £m | Exceptional items £m | Total £m |
| Turnover | 2 | 1,141 | - | 1,141 | 1,174 | - | 1,174 |
| Social Network Payment | 1 | 75 | - | 75 | - | - | - |
| Total turnover from continuing operations | | 1,216 | - | 1,216 | 1,174 | - | 1,174 |
| Costs | | (1,342) | (88) | (1,430) | (1,304) | (55) | (1,359) |
| Staff costs | 3/5 | (302) | (38) | (340) | (316) | (25) | (341) |
| Depreciation | 11 | (1) | - | (1) | (1) | - | (1) |
| Impairment | 5 | - | (50) | (50) | - | (30) | (30) |
| Other operating charges | 4 | (1,039) | - | (1,039) | (987) | - | (987) |
| Operating loss from continuing operations | 5 | (126) | (88) | (214) | (130) | (55) | (185) |
| Net profit on disposal of tangible fixed assets | | - | 15 | 15 | - | 7 | 7 |
| Loss on ordinary activities before interest | | (126) | (73) | (199) | (130) | (48) | (178) |
| Net interest payable | 7 | (33) | - | (33) | (28) | - | (28) |
| Income from investments | 8 | 23 | - | 23 | 18 | - | 18 |
| Net pensions interest | 19 | 14 | - | 14 | 7 | - | 7 |
| Loss on ordinary activities before taxation | | (122) | (73) | (195) | (133) | (48) | (181) |
| Taxation | 9 | | | 36 | | | 25 |
| Loss transferred to reserves for the financial year | 21 | | | (159) | | | (156) |

Post Office Limited

Statement of total recognised gains and losses for the years ended 25 March 2007 and 26 March 2006

| | Notes | 2007 £m | 2006 As restated £m |
|---|-------|--------------|---------------------------|
| Loss for the financial year | | (159) | (156) |
| Actuarial gains/(losses) on defined benefit schemes | 19 | 25 | (116) |
| Taxation on items taken to reserves | 9 | - | 2 |
| Total recognised gains/(losses) for the financial year | | (134) | (270) |
| Prior period adjustment | 21 | (3) | |
| Total gains and losses since last annual report | | (137) | |

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

Reconciliation of movements in shareholder's funds

| | Notes | 2007 £m | 2006 As restated £m |
|--|-------|--------------|---------------------------|
| Opening shareholder's deficit as previously reported | 21 | (520) | (253) |
| Prior period adjustment | 21 | (3) | - |
| Opening shareholder's deficit as restated | | (523) | (253) |
| Total recognised gains/(losses) for the financial year (see above) | | (134) | (270) |
| Capital contribution re Transfer from Mails Contribution Reserve | 21 | 145 | - |
| Capital contribution re Transfer from Mails Reserve | 21 | 75 | - |
| Capital contribution re Transfer from POL Contribution Reserve | 21 | 231 | - |
| Closing shareholder's deficit | 21 | (206) | (523) |

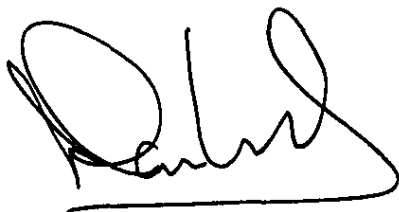
Post Office Limited

Balance sheet

at 25 March 2007 and 26 March 2006

| | Notes | 2007 £m | 2006 As restated £m |
|---|-------|--------------|---------------------------|
| Fixed assets | | | |
| Intangible assets | 10 | - | - |
| Tangible assets | 11 | 18 | 21 |
| Investments in joint ventures and associates | 12 | 5 | 5 |
| Total fixed assets | | 23 | 26 |
| Current assets | | | |
| Stocks | | 10 | 11 |
| Debtors - receivable within one year | 13 | 153 | 183 |
| Corporation tax | | 29 | 33 |
| Financial assets - investments | 14 | 25 | 62 |
| Cash at bank and in hand | 15 | 770 | 783 |
| | | 987 | 1 072 |
| Current liabilities | | | |
| Creditors - amounts falling due within one year | 16 | (547) | (844) |
| Financial liabilities - interest bearing loans and borrowing | 17 | (300) | (360) |
| Net current assets/(liabilities) | | 140 | (132) |
| Total assets less current liabilities | | 163 | (106) |
| Creditors - amounts falling due after more than one year | | (15) | (18) |
| Provisions for liabilities and charges | 18 | (5) | (1) |
| Retirement benefit obligation | 19 | (349) | (398) |
| Net liabilities | | (206) | (523) |
| Capital and reserves | | | |
| Called up share capital | 20 | - | - |
| Profit and loss account | 21 | (236) | (551) |
| Rural Network Reserve | 21 | 30 | 28 |
| POL Funding Reserve | 21 | - | - |
| Shareholder's deficit | | (206) | (523) |

The accounts on pages 11 to 32 were approved by the Board of Directors on 26 October 2007 and signed on its behalf by



Alan Cook



Peter Corbett

Post Office Limited

Notes to the accounts

1. Accounting Policies

The following accounting policies apply throughout Post Office Limited (the Company)

Basis of preparation

On 20 March 2007, Royal Mail Group plc, the Company's immediate parent company had its name changed to Royal Mail Group Ltd as a result of a new funding package agreed between Royal Mail Group Ltd, Royal Mail Holdings plc and Royal Mail Holdings plc's shareholder (the Government). All previous references to Royal Mail Group plc have been changed to reflect the name change to Royal Mail Group Ltd.

The accounts on pages 11 to 32 have been prepared in accordance with applicable UK Accounting Standards and law, including the requirements of the Companies Act 1985. Unless otherwise stated in the accounting policies below, the accounts have been prepared under the historic cost accounting convention.

The accounts present information about the Company as an individual undertaking and not as a Group. The Company has taken advantage of section 228 of the Companies Act 1985 not to prepare Group accounts on the grounds that its ultimate parent undertaking makes its Group accounts publicly available.

In preparing the financial statements for the current year, the Company has early adopted the Amendment to FRS 17 - 'Retirement benefits' that has been issued by the Accounting Standards Board. In addition to disclosure changes, the Amendment requires that the current bid price, not the mid-market value, is used to fair value quoted securities within pension scheme assets of defined benefit schemes. This has resulted in a prior period adjustment to reduce shareholder's funds at 26 March 2006 by £3m (see note 21). There is no impact on the current year profit and loss account as a result of this change.

No financial instrument disclosures have been presented as the Company is a wholly-owned subsidiary of a company which has presented such disclosures in its Group accounts.

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

Fundamental accounting concept

Post Office Limited had net liabilities as at 25 March 2007 and has operated at a loss during 2006-07 and prior years, primarily because of supporting the loss-making rural network.

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

During the year, Post Office Limited has updated its five-year strategic plan and its future financing is underpinned by:

- rural network funding of £75m received as a Government grant in the second half of 2006-07 in addition to the £75m received during 2006-07 from Royal Mail Group Ltd (its immediate parent company) and £150m received on 2 April 2007 for 2007-08. State aid approval for these payments was received in February 2006.
- short-term funding of £231m received in the second half of 2006-07 to meet the ongoing cash requirements of Post Office Limited. State aid approval for this funding was received in May 2003, and
- a funding agreement with Government announced on 17 May 2007, which provides amongst other matters for a payment from Government by 31 July 2007 of £313m to compensate Post Office Limited for the other net costs of providing certain specified "services of general economic interest". State aid approval for that payment of £313m was received in March 2007.

The funding agreement addresses the following areas all of which are subject to state aid approval:

- the extension to March 2016 of the existing working capital facility of £1.15bn,
- providing network subsidy payments of around £150m per annum in each of the three financial years 2008-09 to 2010-11 for the purposes of meeting up to a specified limit the net costs of maintaining certain loss-making parts of the network, and
- the provision of funding to compensate Post Office Limited for the other net costs of providing certain specified "services of general economic interest".

Post Office Limited

1. Accounting Policies (continued)

Fundamental accounting concept (continued)

After careful consideration and having regard among other factors, to the Government funding package and the requirement to obtain state aid approval for certain elements of this package the Directors believe that Post Office Limited will be able to meet its liabilities as they fall due over the foreseeable future. Accordingly on that basis, the Directors consider that it is appropriate that the accounts are prepared on a going concern basis.

Interbusiness trading

The Company operates through business units that make use of the services of other companies within the Group in order to take advantage of group synergies, having regard to the mutual dependencies that exist. The interbusiness charges recognise these dependencies. The Board's policy is to maintain controls to ensure adherence to appropriate pricing principles.

Turnover

Turnover comprises revenue receivable directly from customers excluding VAT.

Social Network Payment

The Social Network Payment is Government grant revenue recognised to match the related costs of providing the network of public Post Offices that the Secretary of State for Trade and Industry considers appropriate and which would otherwise not be provided.

Intangible fixed assets

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

Amortisation of intangible assets with finite lives is taken annually to the profit and loss account. The useful lives of such intangible assets are in the range of 1-6 years.

Tangible fixed assets

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

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

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

Impairment reviews

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

Post Office Limited

1. Accounting Policies (continued)

Leasing

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Company are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Investments in joint ventures and associates

Investments in associates and joint ventures within the Company's accounts are stated at cost less any accumulated impairment losses.

Stocks

Stocks, which include printing and stationery, retail and lottery products are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock.

Financial assets – investments (current assets)

All current asset investments are held at original investment value and are treated according to standard United Kingdom generally accepted accounting practice.

Deferred tax

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

Deferred tax is not recognised in the following instances:

- on gains on disposal of fixed assets where, on the basis of available evidence, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when there is a commitment to dispose of those replacement assets,
- on unremitted earnings of subsidiaries and associates where there is no commitment to remit those earnings, and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited directly to reserves if it relates to items that are credited or charged directly to reserves. Otherwise it is recognised in the profit and loss account. Further details on deferred tax can be found in note 9 to the accounts.

Post Office Limited

1 Accounting policies (continued)

Pensions and other post-retirement benefits

People working for the Company are employed by Royal Mail Group Ltd and seconded to the Company. Membership of occupational pension schemes is open to most permanent UK employees of the Company. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme.

The pension plans' assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on 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, net of any associated deferred tax balance. Full actuarial valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the deficit disclosed.

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

For defined contribution schemes, the Company's contributions are charged to operating profit as part of staff costs in the period to which the contributions relate.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction (or at the contracted rate if the transaction is covered by a forward foreign currency contract). Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date (or the appropriate forward contract rate). All differences are taken to the profit and loss account.

2. Turnover

Turnover, all from continuing operations, comprises the value of services provided, excluding VAT, from the Company's principal activities, providing access to a wide range of financial and retail services through its network of post office branches across the UK. The Company operates wholly within the United Kingdom.

Post Office Limited

3 Staff costs and numbers

Under an agreement between the Company and Royal Mail Group Ltd, Royal Mail Group Ltd provides employees engaged in the business of the Company. The Company meets the full costs of employment. The following information is provided about these staff:

| | 2007 £m | 2006 £m |
|--|------------|------------|
| Staff costs before operating exceptional items. | | |
| Wages and salaries | 238 | 261 |
| Social security costs | 19 | 19 |
| Pension costs (note 19) | 45 | 36 |
| Total | 302 | 316 |

| | Period end employees | | Average employees | |
|-----------------|----------------------|--------|-------------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Total employees | 9,990 | 11,327 | 10,640 | 11,774 |

| | 2007 | 2006 |
|----------------------|--------|--------|
| Total Subpostmasters | 11,494 | 11,608 |

4. Other operating charges

Other operating charges before exceptional items is stated after charging/(crediting)

| | 2007 £m | 2006 £m |
|--|------------|------------|
| Licence and franchise fees | (1) | (2) |
| Subpostmasters' costs | 534 | 507 |
| Foreign currency exchange losses/(gains) | 4 | (6) |
| Operating lease rentals | 21 | 23 |

Auditors' remuneration amounted to £221,000 (2006: £218,000) for the audit of the statutory accounts and was met by the immediate parent company, Royal Mail Group Ltd. Auditors' remuneration relating to other services supplied to the Company is included in the Company's ultimate parent company Royal Mail Holdings plc Group accounts.

Post Office Limited

5 Operating exceptional items

| | 2007 £m | 2006 £m |
|--|------------|------------|
| Share in Success | - | (10) |
| Provision for restructuring - redundancy costs | (38) | (15) |
| Within staff costs | (38) | (25) |
| Impairment of tangible fixed assets | (15) | (15) |
| Impairment of intangible fixed assets | (35) | (15) |
| Impairments | (50) | (30) |
| Total operating exceptional items | (88) | (55) |

Due to ongoing losses, the carrying value of asset purchases and transfers-in made by Post Office Limited during the year have been impaired to recoverable amount

The Share in Success scheme was launched during 2002. Under the scheme, eligible employees received a one-off discretionary payment on the successful completion of the Group's three-year Renewal Plan. The cost of the three-year scheme was charged to the profit and loss account in 2004-05. A second Share in Success scheme was launched during 2005. Eligible employees and subpostmasters receive a one-off discretionary payment if a specific profit target is met.

6. Directors' emoluments

The Directors received the following emoluments

| | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Emoluments, excluding pension contributions and LTIP* | 1,852 | 1,643 |
| Company contributions to pension schemes | 117 | 175 |
| Amounts receivable under Long-Term Incentive Plans | 1,613 | - |

* Figures include any cash supplements received in lieu of pension

Directors accruing pension entitlements during the period under

| | 2007 Number | 2006 Number |
|------------------------------|----------------|----------------|
| Defined benefit schemes | 8 | 6 |
| Defined contribution schemes | Nil | Nil |

The above excludes emoluments received by the Directors for their services to other parts of the Group

Post Office Limited

6. Directors' emoluments (continued)

The highest paid Director received the following emoluments

| | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Emoluments and LTIP, excluding pension contributions* | 751 | 953 |
| Company contributions to pension schemes | - | 22 |
| Transfer value of accrued pension benefits | - | 141 |

* Figures include any cash supplements received in lieu of pensions

Included within the above emoluments is an amount paid as compensation for loss of office of £nil (2006 £486 000)

7. Net interest (payable)/receivable

| | 2007 £m | 2006 £m |
|-------------------------------|------------|------------|
| Intercompany interest payable | (11) | (10) |
| Other net interest payable | (22) | (18) |
| Total net interest payable | (33) | (28) |

8. Investment income

| | 2007 £m | 2006 £m |
|-----------------------------|------------|------------|
| Dividend from joint venture | 23 | 18 |

9 Taxation

Taxation charge/(credit) in the profit and loss account

| | 2007 £m | 2006 £m |
|---|------------|------------|
| Corporation tax credit for year | (29) | (27) |
| Tax (over)/under provided in previous years | (7) | 2 |
| Current tax (see further analysis below) | (36) | (25) |
| Deferred tax | - | - |
| Total taxation | (36) | (25) |

Post Office Limited

9 Taxation (continued)

Factors affecting current tax (credit)/charge on loss on ordinary activities

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained below

| | 2007 £m | 2006 £m |
|--|-------------|-------------|
| Loss on ordinary activities before tax | (122) | (181) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%) | (36) | (55) |
| Dividend receivable not subject to tax | (7) | (5) |
| Adjustment in respect of prior periods | (7) | 2 |
| Effect of group relief surrenders to other companies | 37 | 48 |
| Deferred/(accelerated) relief for asset depreciation and impairment | 7 | (13) |
| (Accelerated)/deferred relief for pension contributions* | (7) | 4 |
| Provision adjustments not allowable | (1) | (5) |
| Expenditure disallowable for tax | - | (1) |
| Social Network Payment not taxable | (22) | - |
| Total current tax (see above) | (36) | (25) |

*Pension contributions qualify for tax relief in the year in which they are paid Pensions contributions in the year exceeded charges to the profit and loss account

Factors that may affect future tax charges

The Company has £91m (2006 £102m) of unrecognised deferred tax assets relating to tax losses that are available for offset against future trading profits The Company also has £109m (2006 £120m) of deferred tax assets relating to pensions and £155m (2006 £146m) relating to other timing differences, neither of which have been recognised due to the uncertain trading outlook making future profits uncertain These deferred tax assets may be recognised in future if, and to the extent that, suitable taxable profits are expected to become available In his Budget on 21 March 2007 the Chancellor of the Exchequer announced a reduction of 2% in the main rate of corporation tax with effect from April 2008 This would have the effect of reducing the Company's unrecognised deferred tax asset at the balance sheet date by £24m

The Company has capital losses carried forward the tax effect of which is approximately £1m (2006 £1m) These may be set against future capital gains The Company has rolled over capital gains the tax effect of which totals £6m (2006 £10m) It is expected that gains on assets sold in the year will be fully rolled over in due course

Tax effect of non operating exceptional items

The tax effect of the profit on disposal of tangible fixed assets of £15m (2006 £7m) is £nil (2006 £nil) as any gains can be covered by rollover relief

Post Office Limited

10 Intangible assets

| Cost | 2007 £m | 2006 £m |
|---|--------------------|--------------------|
| At 27 March 2006 and 28 March 2005 | 15 | - |
| Additions | 35 | 15 |
| At 25 March 2007 and 26 March 2006 | 50 | 15 |
| Amortisation and impairment | | |
| At 27 March 2006 and 28 March 2005 | 15 | - |
| Impairment | 35 | 15 |
| At 25 March 2007 and 26 March 2006 | 50 | 15 |
| Net book value | | |
| At 25 March 2007 and 26 March 2006 | - | - |
| At 27 March 2006 and 28 March 2005 | - | - |

Post Office Limited

11. Tangible fixed assets

| | <u>Land and Buildings</u> | | | | | |
|-------------------------------------|---------------------------|-------------------------|--------------------------|-------------------------|------------------------------------|-------------|
| | Freehold £m | Long leasehold £m | Short leasehold £m | Motor vehicles £m | Fixtures and equipment £m | Total £m |
| COST | | | | | | |
| At 27 March 2006 | 65 | 16 | 73 | 37 | 636 | 827 |
| Additions | - | - | - | 1 | 7 | 8 |
| Disposals - external | (3) | (2) | (4) | (3) | (3) | (15) |
| Transfers from parent | 1 | - | 6 | - | - | 7 |
| At 25 March 2007 | 63 | 14 | 75 | 35 | 640 | 827 |
| ACCUMULATED DEPRECIATION | | | | | | |
| At 27 March 2006 | 48 | 12 | 73 | 37 | 636 | 806 |
| Depreciation | 1 | - | - | - | - | 1 |
| Impairment | 1 | - | 6 | 1 | 7 | 15 |
| Disposals - external | (2) | (1) | (4) | (3) | (3) | (13) |
| At 25 March 2007 | 48 | 11 | 75 | 35 | 640 | 809 |
| NET BOOK AMOUNT | | | | | | |
| At 25 March 2007 | 15 | 3 | - | - | - | 18 |
| At 27 March 2006 | 17 | 4 | - | - | - | 21 |

Depreciation rates are disclosed within accounting policies (note 1) No depreciation is provided on freehold land, which represents £5m (2006 £5m) of the total cost of properties. The net book value of the Company's land and buildings includes £nil (2006 £nil) in respect of building fit-out.

12. Investments in joint ventures and associates

Joint ventures

During 2006-07 and 2005-06, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited (previously known as First Rate Travel Services Limited until its name changed on 23 February 2006) is a company registered in the United Kingdom.

Associates

During 2006-07 and 2005-06, the Company's only associate investment was a 49.99% interest (4,999 £0.01 ordinary A shares) in Midasgrange Limited whose principal activity is the provision of personal financial products. Midasgrange Limited trades as Post Office Financial Services and is a company registered in the United Kingdom.

Post Office Limited

13. Debtors receivable within one year

| | 2007 £m | 2006 £m |
|--------------------------------|------------|------------|
| Trade debtors | 37 | 57 |
| Prepayments and accrued income | 45 | 48 |
| Client debtors | 61 | 78 |
| Amount due from parent company | 10 | - |
| Total | 153 | 183 |

14. Current financial assets - investments

| | 2007 £m | 2006 £m |
|---|------------|------------|
| Sterling deposits in money market funds | 25 | 62 |

15 Cash at bank and in hand

| | 2007 £m | 2006 £m |
|---|------------|------------|
| Cash in the Post Office Limited network | 768 | 782 |
| Other cash at bank and in hand | 2 | 1 |
| Total | 770 | 783 |

16. Creditors - amounts falling due within one year

| | 2007 £m | 2006 £m |
|---|------------|------------|
| Trade creditors and accruals | 216 | 245 |
| Social security | 11 | 13 |
| Client creditors | 303 | 248 |
| Amounts due to pension schemes relating to redundancies | 13 | 9 |
| Amount due to parent company | - | 327 |
| Amounts due to other group company | 4 | 2 |
| Total | 547 | 844 |

Post Office Limited

17. Loans

Analysis of loans and committed facilities:

| | 2007 £m | 2006 £m |
|----------------------------|--------------|--------------|
| Loans drawn down | 300 | 360 |
| Further committed facility | 850 | 790 |
| Total facility | 1,150 | 1,150 |

The loans under the facility are short dated on a programme of liquidity management and mature on average 16 days after the year end (2006 four days). On maturity it is expected that further loans will be drawn down under this facility, which expires in 2010 (2006 expiry date 2010). The average interest rate on the drawn down loans is 5.7% (2006 4.8%).

The facility is restricted to funding the cash and near cash items held within Post Office Limited network. As at 25 March 2007, the balance of this cash was £768m (2006 £782m) as shown in note 15.

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items. The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect.

18. Provisions for liabilities and charges

| | At 27 March 2006 £m | Charged in operating exceptional items £m | Charged in other operating costs £m | Utilised Non-cash £m | Utilised cash £m | At 25 March 2007 £m |
|--------------|------------------------------|---|---|----------------------------|------------------------|------------------------------|
| Total | 1 | 38 | 3 | (12) | (25) | 5 |

Provisions include amounts relating to organisational design review and onerous property contracts. During the year £38m (2006 £15m) was charged to operating exceptional items, £3m (2006 £nil) was charged to other operating charges and £12m (2006 £9m) was transferred to creditors due within one year. This transfer mainly relates to amounts due to the pension scheme for redundancies with early retirement. The provision balance is expected to be utilised in 2007-08 with the exception of certain property provisions which are expected to be utilised over a longer period.

Post Office Limited

19. Pensions

The Company participates in pension schemes as detailed below

| Name | Eligibility | Type |
|---|----------------------|----------------------|
| Royal Mail Pension Plan (RMPP) | UK employees | Defined benefit |
| Royal Mail Senior Executive Pension Plan (RMSEPP) | UK senior executives | Defined benefit |
| Royal Mail Retirement Savings Plan (RMRSP) | UK employees | Defined contribution |

All references to the Group in this note refer to the combined total of the defined benefit plans disclosed in Royal Mail Holdings plc accounts.

Defined Contribution

The charge in the profit and loss account for the defined contribution schemes and the Company contributions to these schemes was less than £1m (2006 less than £1m) during the year

Defined Benefit

Further disclosures and information in relation to the defined benefit schemes, including the computation of the Company's share of the deficit, are contained in the Directors' Report accompanying these financial statements and in note 25 of the Royal Mail Holdings plc Group accounts

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

Payment of £34m (2006 £25m) was made by the Company during the year in respect of regular future service contributions, nearly all relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has increased from 12.6% (the rate during the prior year) to 20.0%, effective from the beginning of the year. This rate is not expected to change materially during 2007-08. For RMSEPP, these contributions have been at 20.9% (2006 20.9%). The rate increased to 48.2% from 1 April 2007.

Payment of £20m (2006 £5m) was made by the Company during the year to fund the deficit in the schemes, nearly all relating to RMPP. Deficit recovery payments are planned for RMPP over the 17 years from the date of the latest full actuarial valuation. These payments will be made before each 31 March, and may therefore span across the Company's year end (the last Sunday in March). Over the 16 years from 31 March 2007, planned deficit payments are some £18m per annum, increasing in line with RPI (base year is 2006-07). For RMSEPP, deficit recovery payments will be £5m per annum from 1 April 2007 to 31 December 2015.

A current liability of £13m (2006 £9m) has been recognised for payments to the pension schemes relating to redundancy (see note 16). During the year, payments of £8m (2006 £23m) relating to redundancy were made.

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

a) Major assumptions

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

| | At 25 March 2007 % pa | At 26 March 2006 % pa |
|--|--------------------------|--------------------------|
| Rate of increase in salaries | 4.1 | 3.8 |
| Rate of increase in pensions and deferred pensions | 3.1 | 2.8 |
| Discount rate | 5.3 | 4.9 |
| Inflation assumption | 3.1 | 2.8 |
| Expected average rate of return on assets | 7.0 | 7.1 |

Post Office Limited

19. Pensions (continued)

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

Mortality

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

| Average expected life expectancy from age 60 | 2007 | 2006 |
|--|-----------------|----------|
| For a current 60 year old male RMPP member | 26 years | 26 years |
| For a current 60 year old female RMPP member | 29 years | 29 years |
| For a current 40 year old male RMPP member | 28 years | 28 years |
| For a current 40 year old female RMPP member | 30 years | 30 years |

b) Plans' assets and expected rates of return

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

At 25 March 2007

| | Market value | | Long-term expected rate of return | |
|--|-----------------|------------|-----------------------------------|--------------|
| | 2007 £m | 2006 £m | 2007 % pa | 2006 % pa |
| Equities | 15,372 | 17,190 | 8.0 | 7.7 |
| Bonds | 5,693 | 2,682 | 4.6 | 4.2 |
| Property | 2,484 | 1,835 | 6.2 | 5.9 |
| Other assets | 29 | 140 | 4.1 | 3.8 |
| Fair value of plans' assets for the Group | 23,578 | 21,847 | | |
| Present value of plans' liabilities for the Group | (28,563) | (27,435) | | |
| Deficit in schemes for the Group | (4,985) | (5,588) | | |
| Deficit in schemes for the Company (at approximately 7%) | (349) | (398) | | |

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

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

Post Office Limited

19. Pensions (continued)

c) Recognised charges

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

| | 2007 £m | 2006 £m |
|---|--------------|----------------|
| Analysis of amounts recognised in the profit and loss account | | |
| Analysis of amounts charged to operating profit before exceptional items: | | |
| Current service cost | 44 | 36 |
| Past service cost | 1 | - |
| Total charge to operating profit before exceptional items | 45 | 36 |
| Analysis of amounts charged to operating exceptional items: | | |
| Loss due to curtailments (within provision for restructuring charge - note 5) | 12 | 3 |
| Total charge to operating profit | 57 | 39 |
| Analysis of amounts charged/(credited) to net pensions interest | | |
| Interest on plans' liabilities for the Group | 1,342 | 1,162 |
| Expected return on plans' assets for the Group | (1,541) | (1,263) |
| Net pensions interest for the Group | (199) | (101) |
| Share of net pensions interest for the Company (at approximately 7%) | (14) | (7) |
| Total charge to profit and loss account before deduction for tax | 43 | 32 |
| Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL) | | |
| Actual return on plans' assets for the Group* | 1,713 | 4,684 |
| Less expected return on plans' assets for the Group | (1,541) | (1,263) |
| Actuarial gains on assets for the Group (all experience adjustments)* | 172 | 3,421 |
| Experience adjustments on liabilities for the Group | (122) | (161) |
| Effects of changes in actuarial assumptions on liabilities for the Group | 290 | (4,919) |
| Actuarial gains/(losses) on liabilities for the Group | 168 | (5,080) |
| Actuarial gains/(losses) recognised in STRGL for the Group* | 340 | (1,659) |
| Share of actuarial gains/(losses) recognised in STRGL for the Company (at approximately 7%)* | 25 | (116) |

* as restated for 2006 (see note 21 for prior year adjustment)

Post Office Limited

19. Pensions (continued)

d) Movement in (deficit)/surplus in the plans

| | 2007 £m | 2006 As restated £m |
|---|--------------|---------------------------|
| Share of deficit in plans at beginning of period for the Company | (398) | (280) |
| Company contributions paid | 62 | 53 |
| Movement in company contributions accrued | 4 | (15) |
| Current service cost | (44) | (36) |
| Past service cost | (1) | - |
| Curtailment costs* | (12) | (9) |
| Net pensions interest | 14 | 7 |
| Actuarial gain/(loss) (recognised in STRGL) | 25 | (116) |
| Deficit transferred | (1) | (2) |
| Other | 2 | - |
| Share of deficit in plans at end of period for the Company | (349) | (398) |

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

e) History of experience gains and losses – as restated

The cumulative amount of actuarial gains and losses recognised since transition to FRS 17 at 29 March 2004 in the statement of total recognised gains and losses is £62m loss (2006 a loss of £87m). The Directors are unable to determine how much of the pension scheme deficit recognised in transition to FRS 17 is attributable to actuarial gains and losses since inception of the pension schemes. Consequently the Directors are unable to determine the cumulative amount of actuarial gains and losses that would have been recognised in the statement of total recognised gains and losses between inception of the pension schemes and transition to FRS 17.

| | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|--|------------|------------|------------|------------|
| Fair value of assets for the Group | 23,578 | 21,847 | 17,357 | 15,200 |
| Present value of liabilities for the Group | (28,563) | (27,435) | (21,315) | (19,594) |
| Deficit in schemes for the Group | (4,985) | (5,588) | (3,958) | (4,394) |
| Deficit in the schemes for the Company (at approximately 7%) | (349) | (398) | (280) | (308) |

| | 2007 £m | 2006 £m | 2005 £m |
|---|------------|------------|------------|
| Experience adjustment on assets for the Company* | 13 | 239 | 73 |
| Experience adjustment on liabilities for the Company* | (9) | (11) | (21) |

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

20 Share capital

The authorised, allotted, called up and fully paid share capital is 50,000 (2006 – 50,000) ordinary £1 shares beneficially owned by Royal Mail Group Ltd.

Post Office Limited

21. Reserves

| | Profit and loss account £m | Rural Network Reserve £m | POL Funding Reserve £m | 2007 Total £m | 2006 Total £m |
|---|-------------------------------------|-----------------------------------|---------------------------------|---------------------|---------------------|
| Retained (deficit)/surplus at 27 March 2006 as reported | (548) | 28 | - | (520) | (253) |
| Prior period adjustment ⁽¹⁾ | (3) | - | - | (3) | - |
| Retained (deficit)/surplus at 25 March 2007 as restated | (551) | 28 | - | (523) | (253) |
| Loss for the financial year | (159) | - | - | (159) | (156) |
| Actuarial gains/(losses) on defined benefit schemes | 25 | - | - | 25 | (116) |
| Taxation on items taken to reserves | - | - | - | - | 2 |
| Total recognised gains/(losses) for the financial year | (134) | - | - | (134) | (270) |
| Capital contribution re Transfer from Mails Contribution Reserve | 145 | - | - | 145 | - |
| Capital contribution re Transfer from Mails Reserve to Rural Network Reserve | - | 75 | - | 75 | - |
| Allocation to Rural Network Reserve | (75) | 75 | - | - | - |
| Transfer from Rural Network Reserve | 150 | (150) | - | - | - |
| Transfer of interest income to Rural Network Reserve | (2) | 2 | - | - | - |
| Capital contribution re Transfer from POL Contribution Reserve to POL Funding Reserve | - | - | 231 | 231 | - |
| Transfer of interest income to POL Funding Reserve | (2) | - | 2 | - | - |
| Transfer from POL Funding Reserve | 233 | - | (233) | - | - |
| Retained (deficit)/surplus at 25 March 2007 | (236) | 30 | - | (206) | (523) |

- (1) The prior period adjustment relates to the early adoption of the Amendment to FRS 17 'Retirement Benefits' whereby the current bid price not the mid-market value is used to fair value the quoted securities within pension scheme assets of the defined benefit schemes

Transfer from Mails Contribution Reserve

During the period one ordinary share of £1 in Royal Mail Holdings plc (the Company's ultimate parent) was allotted and issued to the Secretary of State for Trade and Industry (the Secretary of State) under section 63(1) of the Postal Services Act 2000 (the Act). Consideration in full of £145m was received on the same day. A share premium of £144,999,999 in Royal Mail Holdings plc resulted from this subscription.

Following a direction issued by the Secretary of State under section 72 of the Act, Royal Mail Holdings plc, upon receipt of the £145m consideration, created the Mails Contribution Reserve and allocated to it a sum of £145m. Under the direction issued, Royal Mail Holdings plc then immediately transferred funds of £145m from the Mails Contribution Reserve to Royal Mail Group Ltd (the Company's immediate parent).

Under the terms of an agreement, the funds transferred have been applied by Royal Mail Group Ltd as reimbursement in full of £145m that had been advanced to Post Office Limited.

Rural Network Reserve

The Rural Network Reserve was created by Post Office Limited, following directions issued by the Secretary of State under section 72 of the Act. The amounts allocated to this Reserve are to be applied as if they were profits available for distribution. The purposes for which the Rural Network Reserve may be utilised are stated in the directions issued and principally relate to the maintenance of a rural network of post offices. A total of £444m has

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21. Reserves (continued)

Rural Network Reserve (continued)

been used from this Reserve towards the maintenance of a rural network between March 2003 and the beginning of the 2006-07 financial year

Following directions issued by the Secretary of State under section 72 of the Act, Royal Mail Group Ltd transferred funds of £75m from the Mails Reserve to Post Office Limited during the period (2006 £nil) and, upon receipt, Post Office Limited allocated these funds to the Rural Network Reserve. In addition, Post Office Limited received £75m during the period (2006 £nil) from the Secretary of State, following an order issued by the Secretary of State under section 103 of the Act. This subsidy has been accounted for as a Government grant and recorded within the profit/loss for the financial year as the Social Network Payment (see note 1). Under the terms of an agreement Post Office Limited immediately allocated £75m to the Rural Network Reserve on receipt of the Social Network Payment. During the period £150m (2006 £147m) of the Rural Network Reserve was applied towards the maintenance of a rural network of Post Offices.

POL Funding Reserve

The POL Funding Reserve was created by Post Office Limited following directions issued by the Secretary of State under section 72 of the Act. The amounts allocated to this Reserve are to be applied as if they were profits available for distribution. The purposes for which the POL Funding Reserve may be utilised are stated in the directions issued, and principally relate to meeting the ongoing requirements of Post Office Limited such as to ensure that it may meet its debts as they fall due. The Reserve has not been used prior to the beginning of the 2006-07 financial year. Of the £233m allocated to the Reserve during the period, £231m arose from funds transferred by Royal Mail Holdings plc from the POL Contribution Reserve (see below) and £2m relates to the transfer of interest (see below). Following a further direction issued by the Secretary of State under section 72 of the Act, the amounts standing to the credit of the POL Funding Reserve were released.

Interest

The transfer of interest relates to income recorded in the profit and loss account, which has been earned on the assets that support the Rural Network and POL Funding Reserves.

Transfer from POL Contribution Reserve

During the period three ordinary shares each with a nominal value of £1 in Royal Mail Holdings plc (the Company's ultimate parent) were allotted and issued to the Secretary of State under section 63(1) of the Act. Consideration in full of £37.5m, £156m and £37.5m respectively was received on the same day as issue (a total consideration of £231m). A share premium of £230,999,997 in Royal Mail Holdings plc resulted from these subscriptions.

Following a direction issued by the Secretary of State under section 72 of the Act, Royal Mail Holdings plc, upon receipt of the £37.5m consideration for the first share, created the POL Contribution Reserve and allocated to it a sum of £37.5m. Under the direction issued, Royal Mail Holdings plc then immediately transferred funds of £37.5m from the POL Contribution Reserve to Post Office Limited and, upon receipt, Post Office Limited allocated these funds to the POL Funding Reserve. Similarly, Royal Mail Holdings plc, upon receipt of the consideration for each of the second and third shares, allocated a sum of £156m and £37.5m respectively to the POL Contribution Reserve, immediately transferred funds equal to these amounts from the POL Contribution Reserve to Post Office Limited and, upon receipt, Post Office Limited allocated these funds to the POL Funding Reserve.

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22. Commitments

Capital commitments contracted for but not provided in the accounts amount to £1m (2006 £nil). The Company is committed to the following minimum lease payments during the next twelve months under non-cancellable operating leases

| | Land and buildings | |
|----------------------------|---------------------------|-------------|
| | 2007 | 2006 |
| | £m | £m |
| For leases which expire | | |
| Within one year | 2 | 2 |
| Between one and five years | 5 | 5 |
| Beyond five years | 10 | 11 |
| Total | 17 | 18 |

23 Related party transactions

The Company has taken advantage of one of the exemptions conferred by FRS 8 'Related Party Transactions', whereby certain details regarding transactions with Group companies do not have to be disclosed where Group accounts are publicly available

24. Immediate and ultimate parent company

At 25 March 2007, the Directors regarded Royal Mail Group Ltd as the immediate parent company and Royal Mail Holdings plc as the ultimate parent company. The results of the Company form part of the Royal Mail Holdings plc Group accounts which are available from that company's website (www.royalmailgroup.com) or from the Company Secretary, 148 Old Street, London EC1V 9HQ.

25 Events after the balance sheet date

A funding agreement for Post Office Limited was announced by Government on 17 May 2007. Details of the announcement are set out in the 'fundamental accounting concept' section of note 1.

A dividend of £24m was proposed by First Rate Exchange Services Holdings Limited. This was not declared and approved by the Board prior to the year end and is therefore not recognised in these accounts.

Since the year end there has been a period of industrial action and discussions are ongoing. Royal Mail Group has recently outlined a series of proposals for pensions on which consultation is to commence shortly. The priority is to protect our existing people's pensions in a way that is affordable and does not expose our people or the business to unacceptable risk going forward.