Registered Number 2154540

Post Office Limited

Annual Report and Accounts

2007-2008

Contents

Post Office Limited

Directors' Report

The Directors present the accounts for Post Office Limited (the Company). These accounts relate to the 53 weeks ended 30 March 2008 (2007 52 weeks ended 25 March 2007).

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 2008 was £70m (2007 £126m) after including receipt of £150m (2007 £75m) in respect of the Social Network Payment. Post Office Limited does not prepare consolidated accounts and the results of our joint venture and associate businesses – a profit of £36m (2007 £27m) - are therefore excluded from the loss as stated. Instead we show dividend income which for the year under review was a dividend of £24m (2007 £23m).

Losses at the current level are clearly unsustainable. Traditional income has declined more sharply than has been offset by the growth in new income although the gap has reduced significantly. 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.

Following a consultation process, on 17 May 2007 the Secretary of State for Trade and Industry (now Secretary of State for Business Enterprise and Regulatory Reform) announced (i) a funding package for Post Office Limited up to March 2011, (ii) a closure programme involving the compulsory compensated closure of up to 2,500 Post Office branches and (iii) the imposition of certain access criteria designed to ensure the continued maintenance of a national network of Post Office branches. As part of the funding package, the Group received £313m during 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". An additional £150m (2007 £75m) was paid to Post Office Limited during the year to fund the maintenance of a rural network of post offices, which was recorded within revenue as a Social Network Payment - in the prior year an additional £75m of such costs were borne by the Group from reserves.

Both of the above payments made during 2007-08 were in accordance with approval received from the European Commission under relevant State Aid rules.

In order to return Post Office Limited to profit and operate within the agreed funding package a 5 year Plan is being implemented, of which 2008 is the second year. A key part of this Plan is the closure of up to 2,500 Post Office branches. The closure of any branch is always difficult as every outlet is appreciated by its customers, and subpostmasters are rightly regarded as key members of the communities they serve.

The Network Change programme, therefore, which is reducing the size of the branch network in line with the funding provided from the Shareholder, is a major challenge for the business. We are seeking to implement the programme as sensitively as possible, and create the most accessible network within the customer access criteria determined by the Government. There have been more than 75,000 responses to the programme by the end of March 2008, around the halfway mark, and the high level of feedback from customers shows the attachment communities feel towards their local branches, despite the fact that some four million fewer people have been visiting a Post Office branch each week compared to three years ago.

That reduction has been spurred by a further decline in traditional products and services on offer in our branches or, in the case of the TV Licence, the ending of the service altogether. Card Account transactions went down in 2007-08 and more motorists renewed their car tax online rather than at a Post Office counter.

However, declines in traditional revenue were partly offset by income from new services which we have introduced with new products launched in 2007-08. We are now:

- Selling one in 50 of all car insurance policies in the UK;
- Issuing one in every 40 new credit cards in the UK;
- Insuring one in every 200 homes in the UK; and
- Handling savings from almost half a million savers.

Directors' Report (continued)

The business' stretching goal remains - to create a network that has long-term sustainability. We are investing in our Crown office network to improve its attractiveness to customers, and have agreed a new remuneration package for subpostmasters, giving them greater rewards for achieving product sales; we are cutting our overheads and reducing back office costs for the computer system that links the network, and we will continue to develop new products and services.

Revenue shows an increase of £53m (4.4%) over the prior year; however 2008 includes an additional £75m compared to last year for the Social Network Payment (SNP) from Government. This SNP has been recognised as revenue and relates to a Government grant to match the related loss during the year, of providing the network of public post offices that the Secretary of State for BERR considers appropriate, and which would otherwise not be provided.

Underlying trading revenue decreased by £22m (1.9%) mainly due to reduced Card Account transactions, loss of remaining TV Licensing work from the BBC and migration of motoring volumes to the DVLA web application. These decreases have been partly offset by increases in Post Office Limited's new commercial products of which HomePhone revenue (now including broadband) is higher than last year. The business also continues to expand its presence in the fiercely competitive financial services sector.

Overall expenditure has decreased year on year in line with transformation plans. Increases in subpostmasters costs were offset by decreases in staff costs as expected. Improved performance of Post Office Limited's joint venture (First Rate Exchange Service Holdings Limited) and associate (Midasgrange Limited) also offset the revenue decline, ensuring the underlying operating loss was virtually flat year on year, adjusting for the 53rd week.

Results and dividends

The loss after taxation for the year was £406m (2007 £159m 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 £17m (2007 £18m). In the opinion of the Directors, the aggregate market value of the Company's land and buildings at the year end exceeded their net book value by £62m (2007 £60m).

Pensions accounting

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 fourth 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 significant 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 net of deferred tax has decreased from £349m in March 2007 to £205m. The decrease in the deficit of £144m principally relates to an actuarial gain of £124m and net pensions interest of £9m. The actuarial gain reflects the Company's share of the total actuarial gain, this largely arose due to changes in market conditions giving rise to an increase in the assumed real discount rate, although this has been partly offset by a lower than expected return on the assets in line with general market returns. This gain is recorded in the statement of total recognised gains and losses.

Post Office Limited

Directors' Report (continued)

Pensions accounting (continued)
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.

Pension Fund Reform
A series of changes to the Pension Plan began to take effect on 1 April 2008 after intensive talks with the unions and other employee representatives that began a year earlier, and a formal consultation with every pension scheme member. The length of time taken over talks and consultation reflected the Company's determination to listen carefully to the representations it received and as a result a number of significant amendments were made to the original proposals first tabled in the early summer of 2007. The changes to the fund were agreed by the Pension Trustee in March 2008. They encompass:

- The Plan closed to new members from 31 March 2008.
- All pensions and benefits earned before 1 April 2008 are still linked to final salary at the time of retirement.
- From 1 April 2008, defined benefits building up for employee members of the Plan are earned on a Career Salary basis.
- A new defined contribution plan will be launched in April 2009.
- New recruits joining the Company from 31 March 2008 will be able to begin paying contributions to the new plan after they have worked for the Company for a year.
- Employees can continue to take their pension on reaching 60 but the normal retirement age will increase to 65 for benefits earned from 1 April 2010.
- From 1 April 2010 it will be possible to draw pension earned before the change to normal retirement age at 60, and continue working while still contributing into the Pension Plan until the maximum level of benefits has been reached.

The action taken to reform the Pension Plan, together with the establishment of a £1 billion escrow account for the sole benefit of the Plan, if needed, has enabled the Group to have an achievable funding programme based on the last actuarial valuation of the deficit of £3.4 billion in March 2006. However our estimates indicate that the actuarial deficit has since increased significantly due to market changes, further underlining how pensions remain a significant and volatile risk to the Group. The continuing heavy cash calls on the Company - more than £800 million in 2007-08 - to service the Plan and pay the deficit - demonstrates again how crucial it is for the Company to succeed in modernising the Letters business and provide a sustainable future for the Post Office network. The Pension Plan deficit fell in accounting terms from £5.0 billion to £2.9 billion.

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 purchase order apply. It is Company policy to abide by the agreed terms. The Company has sought to comply with the Department for Business Enterprise and Regulatory Reform (BERR) Better Practice Code. Copies of this can be obtained from BERR.

The number of days' purchases in creditors at the balance sheet date was 17 (2007 19 days).

Charitable donations
During the year, the Company made charitable donations amounting to £22,830 (2007 £300).

Directors' Report (continued)

Directors and their interests

The following have served as Directors of the Company during the year ended 30 March 2008 and up to the date of approval of these accounts:

	Appointed	Resigned
M S Hodgkinson (Chairman)		31 August 2007
J B Anderson		14 April 2007
A R Cook		
P M Corbett		
R P Francis		2 May 2008
A L Leighton		
D I Glynn		
G Hockey-Morley		
D L Moore	12 June 2007	
P A Vennells		
S R Whalley		

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.

ColleagueShare Scheme

On 17 May 2007 Royal Mail Holdings plc introduced a phantom share scheme, ColleagueShares; all associated costs for the year have been treated as an operating exceptional item. The value of ColleagueShares is based on a Group share plan valuation model which is updated regularly. This has generated a discounted charge to the income statement of £11m for 2007-08. Fully eligible employees have been allocated 408 notional shares in the Royal Mail Holdings plc with part time staff holding a proportion of this amount. Further allocations will be made over the next two years. ColleagueShares will be sold back to Royal Mail Holdings plc by 2012 and each fully eligible employee has the opportunity to receive up to £3,700 from the sale of the phantom shares. A related stakeholder dividend for the year totalling £16m represents a payment of up to £800 to each eligible employee in recognition of meeting certain Group and business unit targets. This is payable in 2008-09.

Financial instruments

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

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

Directors' Report (continued)

Interest rate risk
The Company's exposure to market risk for changes in interest rates relates to the Company's debt obligations and interest bearing financial assets. The BERR loans to Post Office Limited of £280m (2007 £300m) are at short-dated fixed interest rates - average maturity 1 day (2007 average 16 days).

The total interest bearing financial assets of the Company are at short-dated fixed or variable interest rates. These short-dated financial instruments are maturity managed to obtain the best value out of the interest yield curve.

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

Foreign currency risk
The Company is exposed to foreign currency risk due to the balances held to operate the Bureau de Change services. These risks are mitigated by hedging programmes managed by Royal Mail Group Limited.

In addition, the Company is exposed to the commodity price risk of purchasing electricity and gas. The Company's risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets. These exposures are managed by locking into fixed price contracts with suppliers.

Credit risk
Post Office Limited operates a Credit Policy, which provides a fair and equitable arrangement for all its account customers. The level of credit granted is based on a customer's risk profile assessed by an independent credit referencing agent.

Royal Mail has a dedicated credit management team, which sets and monitors credit limits, and takes corrective action as and when appropriate. With respect to credit risk arising from other financial assets of the Company, which comprise cash, cash equivalent investments, available for sale financial assets, held to maturity financial assets, held for trading financial assets, loans and receivables financial assets and certain derivative instruments, the Company invests/trades only with high quality financial institutions. The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

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

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 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.

Directors' Report (continued)

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
A partial qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006) was and remains in force for the benefit of all the Directors of Post Office Limited and former Directors who held office during the year. 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
28 November 2008

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 Auditor's Report to the members of Post Office Limited

We have audited the Company's financial statements for the 53 week period ended 30 March 2008 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 27. 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.

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 30 March 2008 and of its loss for the 53 week period 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.

Ernst & Young LLP
Registered auditor
London
28 November 2008

Post Office Limited

Profit and loss account

for the 53 weeks ended 30 March 2008 and 52 weeks ended 25 March 2007

		2008			2007		
	Notes	**Before exceptional items £m**	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Continuing operations							
Turnover	2	**1,119**	**-**	**1,119**	1,141	-	1,141
Social Network Payment	2	**150**	**-**	**150**	75	-	75
Total turnover from continuing operations		**1,269**	**-**	**1,269**	1,216	-	1,216
Costs:							
Staff costs	3/5	**(287)**	**(77)**	**(364)**	(302)	(38)	(340)
Depreciation	11	**(1)**	**-**	**(1)**	(1)	-	(1)
Impairment	5	**-**	**(91)**	**(91)**	-	(50)	(50)
Other operating charges	4/5	**(1,051)**	**(214)**	**(1,265)**	(1,039)	-	(1,039)
		(1,339)	**(382)**	**(1,721)**	(1,342)	(88)	(1,430)
Operating loss from continuing operations		**(70)**	**(382)**	**(452)**	(126)	(88)	(214)
Net profit on disposal of tangible fixed assets		**-**	**5**	**5**	-	15	15
Loss on ordinary activities before interest		**(70)**	**(377)**	**(447)**	(126)	(73)	(199)
Income from investments	8	**24**	**-**	**24**	23	-	23
Interest receivable	7	**6**	**-**	**6**	2	-	2
Interest payable	7	**(26)**	**-**	**(26)**	(35)	-	(35)
Net pensions interest	20	**9**	**-**	**9**	14	-	14
Loss on ordinary activities before taxation		**(57)**	**(377)**	**(434)**	(122)	(73)	(195)
Taxation	9	**23**	**5**	**28**	33	3	36
Loss transferred to reserves for the financial year	22			**(406)**			(159)

Post Office Limited

Statement of total recognised gains and losses
for the 53 weeks ended 30 March 2008 and the 52 weeks ended 25 March 2007

	Notes	2008 £m	2007 £m
Loss for the financial year		**(406)**	(159)
Actuarial gains on defined benefit schemes	20	**124**	25
Total recognised losses for the financial year		**(282)**	(134)

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

Reconciliation of movements in shareholder's funds

	Notes	2008 £m	2007 £m
Opening shareholder's deficit		**(206)**	(523)
Total recognised losses for the financial year (see above)		**(282)**	(134)
Share issue	21	**313**	-
Capital contribution re: Transfer from Mails Contribution Reserve	22	-	145
Capital contribution re: Transfer from Mails Reserve	22	-	75
Capital contribution re: Transfer from POL Contribution Reserve	22	-	231
Closing shareholder's deficit	22	**(175)**	(206)

Post Office Limited

Balance sheet
at 30 March 2008 and 25 March 2007

	Notes	2008 £m	2007 £m
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	**17**	18
Investments in joint ventures and associates	12	**5**	5
Total fixed assets		**22**	23
Current assets			
Stocks		**10**	10
Debtors - receivable within one year	13	**148**	153
Corporation tax		**22**	29
Financial assets - investments	14	**163**	25
Cash at bank and in hand	15	**934**	770
		1,277	987
Current liabilities			
Creditors - amounts falling due within one year	16	**(774)**	(547)
Financial liabilities - interest bearing loans and borrowings	17	**(280)**	(300)
Net current assets		**223**	140
Total assets less current liabilities		**245**	163
Creditors - amounts falling due after more than one year	18	**(22)**	(15)
Provisions for liabilities and charges	19	**(193)**	(5)
Retirement benefit obligation	20	**(205)**	(349)
Net liabilities		**(175)**	(206)
Capital and reserves			
Called up share capital	21	-	-
Share premium	22	**313**	-
Profit and loss account	22	**(524)**	(236)
Rural Network Reserve	22	**36**	30
Shareholder's deficit		**(175)**	(206)

The accounts on pages 11 to 32 were approved by the Board of Directors on 28 November 2008 and signed on its behalf by:

Alan Cook **Peter Corbett**

Notes to the accounts

1. Accounting Policies

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

Basis of preparation

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. 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 (Royal Mail Holdings plc) makes its Group accounts publicly available. See note 26 for further details.

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.

FRS 29 Financial Instruments: Disclosures was adopted during the year, although this had no effect on the financial statements as the Company is exempt from applying the standard in accordance with FRS 26 Financial Instruments: Measurement.

Fundamental accounting concept

Post Office Limited had net liabilities as at 30 March 2008 and has operated at a loss during 2007-08 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 and grown in order to replace the lost contribution from traditional income sources, and significant cost reduction programmes continue to be implemented.

During the year, Post Office Limited has updated its five-year strategic plan and will proceed with the implementation of a number of radical programmes which are designed to improve the profitability of the company. These programmes include:

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

The future financing of this Plan is underpinned by:

- rural network funding of £150m received from Government during 2007-08;
- a funding agreement with Government announced on 17 May 2007, which provided a further £313m, which was received on 31 July 2007 to compensate Post Office Limited for the other net costs of providing certain specified "services of general economic interest";
- a further equity injection of £77m received on 1 April 2008 and £75m on 15 April 2008;
- the extension on 18 April 2008 of the existing working capital facility of £1.15bn to 2011 (at the balance sheet date this was to 2010); and
- State Aid approval has been received for the above funding and also for the provision of 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.

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

1. Accounting Policies (continued)

Fundamental accounting concept (continued)

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

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.

ColleagueShare plan

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

The costs of the plan are being charged to the profit and loss account as an exceptional item throughout the life of the plan. 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 profit and loss account during the life of the plan. The Group will redeem all ColleagueShares by 2012.

Although the parent company operates the ColleagueShare phantom share scheme this does not constitute a share based payment arrangement under FRS 20. Consequently the Company has no share based payment arrangements, and therefore, this amendment will have no impact on the financial position or performance of the Company.

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
Motor vehicles and trailers	1 - 12 years
Fixtures and equipment	2 - 15 years

1. Accounting Policies (continued)

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.

Leases
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 joint ventures and associates 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.

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

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

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

Borrowing costs are recognised as an expense when incurred.

Fair value measurement of financial instruments
The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

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

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

1. Accounting Policies (continued)

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 substantively 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.

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.

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 from retail and telephony services comprise the value of services provided, turnover from all other product comprise the commission received from 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 and other channels. Turnover relating to line rental for telephony services is recognised evenly over the period to which the charges relate and revenue from calls is recognised at the time the call is made. Turnover from all other transactions is recognised when the transaction is completed. The Company operates wholly within the United Kingdom.

The Social Network Payment is Government grant revenue recognised to match the related costs of making available the network of public Post Offices that the Secretary of State for Business Enterprise and Regulatory Reform considers appropriate.

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:

Staff costs:	**2008 £m**	2007 £m
Wages and salaries	**230**	238
Social security costs	**17**	19
Pension costs (note 20)	**40**	45
Exceptional staff costs (note 5)	**77**	38
Total	**364**	340

	Period end employees		**Average employees**	
	2008	2007	**2008**	2007
Total employees	**9,163**	9,990	**9,600**	10,640

	2008	2007
Total subpostmasters	**10,768**	11,494

4. Other operating charges

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

	2008 £m	2007 £m
Subpostmasters' costs	**550**	534
Foreign currency exchange (gains)/losses	**(3)**	4
Operating lease rentals - Property	**25**	18
- Equipment	**45**	3

Auditors' remuneration amounted to £206,000 (2007 £221,000) 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

	2008 £m	2007 £m
ColleagueShare costs - phantom share scheme	**(11)**	-
- stakeholder dividend	**(16)**	-
Provision for restructuring - redundancy costs	**(50)**	(38)
Total within staff costs	**(77)**	(38)
Impairment of intangible fixed assets (note 10)	**(51)**	(35)
Impairment of tangible fixed assets (note 11)	**(40)**	(15)
Total impairment	**(91)**	(50)
Agents compensation paid through Agency Network Change (ANC) programme	**(141)**	-
Exceptional charges for project fees for the Crown conversions and ANC programmes	**(43)**	-
Project cost write off	**(9)**	-
Expenses in respect of vacant leasehold property	**(15)**	-
Other restructuring expenses	**(6)**	-
Total other exceptional costs	**(214)**	-
Total operating exceptional items	**(382)**	(88)

Due to ongoing losses, the carrying value of all tangible fixed assets other than freehold and long leasehold property has been impaired to recoverable amount.

The £11m (2007 £nil) phantom share scheme costs and £16m (2007 £nil) stakeholder dividend costs are the estimated costs relating to the first year of the Company ColleagueShare plan. The stakeholder dividend will be paid to qualifying employees in 2008-09 whilst the costs of the phantom share scheme are discounted and will be redeemed by the Royal Mail Group by 2012.

The ANC and Crown conversions programmes are described in the 'Review of the Business and Future Developments' within the Directors' Report.

6. Directors' emoluments

The Directors received the following emoluments:

	2008 £000	2007 £000
Emoluments, excluding pension contributions and LTIP*	**2,367**	1,852
Company contributions to pension schemes	**336**	117
Amounts receivable under Long-Term Incentive Plans	**702**	1,613

* Figures include any cash supplements received in lieu of pension.

Directors accruing pension entitlements during the period under:	2008 Number	2007 Number
Defined benefit schemes	**8**	8
Defined contribution schemes	**Nil**	Nil

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

The highest paid Director received the following emoluments:

	2008 £000	2007 £000
Emoluments and LTIP, excluding pension contributions*	**664**	751
Company contributions to pension schemes	-	-
Transfer value of accrued pension benefits	-	-

* Figures include any cash supplements received in lieu of pensions.

7. Net interest payable

	2008 £m	2007 £m
Interest payable to parent company	**(12)**	(11)
Interest receivable on investments	**6**	2
Interest payable on loans	**(13)**	(21)
Other miscellaneous interest payable	**(1)**	(3)
Total	**(20)**	(33)

8. Income from investments

	2008 £m	2007 £m
Dividend from joint venture	**24**	23

Post Office Limited

9. Taxation

Taxation credit in the profit and loss account

	2008 £m	2007 £m
Corporation tax credit for year	**(27)**	(29)
Tax over provided in previous years	**(1)**	(7)
Current tax (see further analysis below)	**(28)**	(36)
Deferred tax	**-**	-
Total taxation	**(28)**	(36)

Factors affecting current tax credit on loss on ordinary activities
The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2007 30%). The differences are explained below:

	2008 £m	2007 £m
Loss on ordinary activities before tax	**(434)**	(122)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2007 30%)	**(130)**	(36)
Dividend receivable not subject to tax	**(7)**	(7)
Adjustment in respect of prior periods	**(1)**	(7)
Effect of group relief surrenders to other companies	**28**	37
Deferred relief for asset depreciation and impairment	**29**	7
(Accelerated) relief for pension contributions*	**(11)**	(7)
Provision adjustments not allowable	**6**	(1)
Social Network Payment not taxable	**-**	(22)
Losses carried forward	**58**	-
Total current tax (see above)	**(28)**	(36)

*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 £140m (2007 £91m) of unrecognised deferred tax assets relating to tax losses that are available for offset against future trading profits. The Company also has £58m (2007 £109m) of deferred tax assets relating to pensions and £166m (2007 £155m) 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.

The Company has capital losses carried forward the tax effect of which is approximately £1m (2007 £1m). These may be set against future capital gains. The Company has rolled over capital gains the tax effect of which totals £5m (2007 £6m). It is expected that gains on assets sold in the year will be fully rolled over in due course.

From 1 April 2008 the rate of corporation tax decreased from 30% to 28%; the 2008 amounts stated above in respect of unrecognised deferred tax assets reflect the lower future value of deferred tax assets.

Tax effect of non operating exceptional items
There is a tax credit on exceptional items of £5m. This is calculated on a "with and without" basis assuming that losses are surrendered firstly to joint ventures and secondarily to companies in the Royal Mail Group."

The tax effect of the profit on disposal of tangible fixed assets of £5m (2007 £15m) is £nil (2007 £nil) as any gains can be covered by rollover or other forms of relief.

10. Intangible assets

Cost	**2008 £m**	2007 £m
At 26 March 2007 and 27 March 2006	**50**	15
Additions	**51**	35
At 30 March 2008 and 25 March 2007	**101**	50
Amortisation and impairment		
At 26 March 2007 and 27 March 2006	**50**	15
Impairment (see note 5)	**51**	35
At 30 March 2008 and 25 March 2007	**101**	50
Net book value		
At 30 March 2008 and 25 March 2007	**-**	-
At 26 March 2007 and 27 March 2006	**-**	-

The intangible assets above relate to software.

11. Tangible fixed assets

	Land and Buildings					
	Freehold £m	**Long leasehold £m**	**Short leasehold £m**	**Motor vehicles £m**	**Fixtures and equipment £m**	**Total £m**
Cost						
At 26 March 2007	63	14	75	35	640	827
Reclassification	4	-	(4)	-	-	-
Additions	1	-	8	6	16	31
Disposals - external	(4)	-	(6)	(3)	(4)	(17)
Transfers from parent	3	1	4	-	2	10
At 30 March 2008	**67**	**15**	**77**	**38**	**654**	**851**
Depreciation						
At 26 March 2007	48	11	75	35	640	809
Reclassification	4	-	(4)	-	-	-
Depreciation	1	-	-	-	-	1
Impairment (see note 5)	2	2	12	6	18	40
Disposals - external	(3)	-	(6)	(3)	(4)	(16)
At 30 March 2008	**52**	**13**	**77**	**38**	**654**	**834**
Net book value						
At 30 March 2008	**15**	**2**	**-**	**-**	**-**	**17**
At 26 March 2007	15	3	-	-	-	18

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £5m (2007 £5m) of the total cost of properties.

11. Tangible fixed assets (continued)

The transfers from parent in the above table mainly relate to projects managed by the immediate parent (Royal Mail Group) and transferred to Post Office Limited upon completion at historic cost.

12. Investments in joint ventures and associates

Joint ventures

	2008 £m	2007 £m
Investment in joint ventures and associates	**5**	5

During 2007-08 and 2006-07, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited with a carrying value of £0.6m (2007 £0.6m), whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom.

Associates

During 2007-08 and 2006-07, the Company's only associate investment was a 49.99% interest (4,999 £0.01 ordinary A shares) in Midasgrange Limited with a carrying value of £4.6m (2007 £4.6m), 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.

13. Debtors receivable within one year

	2008 £m	2007 £m
Trade debtors	**43**	37
Prepayments and accrued income	**43**	45
Client debtors	**61**	61
Interest debtor	**1**	-
Amount due from parent company	**-**	10
Total	**148**	153

14. Current financial assets - investments

	2008 £m	2007 £m
Money market funds	**78**	2
Short-term deposits – Government/local government	**50**	23
Short-term deposits - bank	**35**	-
Total	**163**	25

15. Cash at bank and in hand

	2008 £m	2007 £m
Cash in the Post Office Limited network	**933**	768
Other cash at bank and in hand	**1**	2
Total	**934**	770

16. Creditors - amounts falling due within one year

	2008 £m	2007 £m
Trade creditors and accruals	**198**	150
Advance customer payments	**75**	57
Social security	**11**	11
Client creditors	**426**	303
Amounts due to pension schemes relating to redundancies	**5**	13
Capital creditors	**24**	9
Obligations under finance lease and hire purchase contracts	**2**	-
ColleagueShare	**16**	-
Amount due to parent company	**15**	-
Amounts due to other group company	**2**	4
Total	**774**	547

17. Loans

Analysis of loans and committed facilities:

	2008 £m	2007 £m
Loans drawn down	**280**	300
Further committed facility	**870**	850
Total facility	**1,150**	1,150

The loans under the facility are short dated on a programme of liquidity management and mature on average 1 day after the year end (2007 16 days). On maturity it is expected that further loans will be drawn down under this facility, which expires in 2011 at the balance sheet date this was to 2010 and extended on 18 April 2008 to 2011. The average interest rate on the drawn down loans is 5.6% (2007 5.7%).

The facility is restricted to funding the cash and near cash items held within Post Office Limited network. As at 30 March 2008, the balance of this cash was £933m (2007 £768m) 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. Creditors - amounts falling due after more than one year

	2008 £m	2007 £m
Obligations under finance lease and hire purchase contracts	**9**	-
Other payables	**13**	15
Total	**22**	15

19. Provisions for liabilities and charges

	Agency Network Change £m	Crown Conversions Project £m	Organisational review £m	Property contracts £m	Colleague-Share £m	Total £m
At 26 March 2007	-	-	1	4	-	**5**
Charged in operating exceptional items	168	51	16	15	11	**261**
Charged in operating costs	-	-	-	2	-	**2**
Utilisation	(41)	(29)	(3)	(2)	-	**(75)**
At 30 March 2008	127	22	14	19	11	**193**

Provisions include amounts in respect of Agency Network change £127m (2007 £nil), a programme to close 2,500 agency branches agreed with Government to be completed during 2008-09, the Crown conversions project £22m (2007 £nil), a programme to transfer 70 branches to WH Smith, the organisational design review and other redundancy £14m (2007 £1m), onerous property contracts £19m (2007 £4m) and ColleagueShare £11m (2007 £nil). These provisions are expected to be utilised in 2008-09 with the exception of ColleagueShare expected to be utilised within 5 years and certain property provisions that are expected to be utilised over a period longer than 3 years.

20. 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 (2007 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. A series of changes began to take effect on 1 April 2008, which are summarised in the Directors' Report.

Payment of £32m (2007 £34m) 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 remained at 20.0%, effective from the beginning of the previous year. This rate is not expected to change materially during 2008-09. For RMSEPP, these contributions have been at 48.2% (2007 20.9%).

Payment of £20m (2007 £20m) 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 less than £1m per annum from 1 April 2007 to 31 December 2015.

A current liability of £5m (2007 £13m) has been recognised for payments to the pension schemes relating to redundancy (see note 16). During the year, payments of £17m (2007 £8m) 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 30 March 2008 % pa	At 25 March 2007 % pa
Rate of increase in salaries	**4.6**	4.1
Rate of increase in pensions and deferred pensions	**3.6**	3.1
Discount rate	**6.5**	5.3
Inflation assumption	**3.6**	3.1
Expected average rate of return on assets	**6.8**	7.0

20. 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:	**2008**	2007
For a current 60 year old male RMPP member	**26 years**	26 years
For a current 60 year old female RMPP member	**29 years**	29 years
For a current 40 year old male RMPP member	**28 years**	28 years
For a current 40 year old female RMPP member	**31 years**	30 years

b) Plans' assets and expected rates of return

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

At 30 March 2008

	Market value		**Long-term expected rate of return**	
	2008	2007	**2008**	2007
	£m	£m	**% pa**	% pa
Equities	**11,090**	15,372	**8.3**	8.0
Bonds	**10,064**	5,693	**5.2**	4.6
Property	**2,565**	2,484	**6.7**	6.2
Other assets	**204**	29	**4.6**	4.1
Fair value of plans' assets for the Group	**23,923**	23,578		
Present value of plans' liabilities for the Group	**(26,846)**	(28,563)		
Deficit in schemes for the Group	**(2,923)**	(4,985)		
Deficit in schemes for the Company (at approximately 7%)	**(205)**	(349)		

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. Certain of the above investments relate to properties occupied by the Group, but the contribution of these properties to the fair value of plans' assets is not material. The pension plans have not invested in any other assets used by the Group or in the Group's own financial instruments.

20. 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:

	2008 £m	2007 £m
Analysis of amounts recognised in the profit and loss account		
Analysis of amounts charged to operating profit before exceptional items:		
Current service cost	**40**	44
Past service cost	**-**	1
Total charge to operating profit before exceptional items	**40**	45
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments (within provision for restructuring charge – note 5)	**20**	12
Total charge to operating profit	**60**	57
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plans' liabilities for the Group	**1,509**	1,342
Expected return on plans' assets for the Group	**(1,640)**	(1,541)
Net pensions interest for the Group	**(131)**	(199)
Share of net pensions interest for the Company (at approximately 7%)	**(9)**	(14)
Total charge to profit and loss account before deduction for tax	**51**	43
Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL)		
Actual return on plans' assets for the Group	**313**	1,713
Less: expected return on plans' assets for the Group	**(1,640)**	(1,541)
Actuarial (losses)/gains on assets for the Group (all experience adjustments)	**(1,327)**	172
Experience adjustments on liabilities for the Group	**(169)**	(122)
Effects of changes in actuarial assumptions on liabilities for the Group	**3,294**	290
Actuarial gains on liabilities for the Group	**3,125**	168
Actuarial gains recognised in STRGL for the Group	**1,798**	340
Share of actuarial gains recognised in STRGL for the Company (at approximately 7%)	**124**	25

Post Office Limited

20. Pensions (continued)

d) Movement in plans assets and liabilities

Assets	**2008 £m**	2007 £m
Share of assets in plans at beginning of period for the Company	**1,650**	1,518
Company contributions paid	**69**	62
Movement in Company contributions accrued	**(8)**	4
Employee contributions	**10**	10
Expected return on plans' assets	**115**	108
Actuarial (loss)/gain	**(92)**	13
Benefits paid	**(70)**	(67)
Other	**-**	2
Share of assets in plans at end of period for the Company	**1,674**	1,650

Liabilities	**2008 £m**	2007 £m
Share of liabilities in plans at beginning of period for the Company	**(1,999)**	(1,916)
Current service cost	**(40)**	(44)
Past service cost	**-**	(1)
Curtailment costs*	**(9)**	(12)
Interest on plans' liabilities	**(106)**	(94)
Employee contributions	**(10)**	(10)
Actuarial gain	**216**	12
Benefits paid	**70**	67
Deficit transferred	**(1)**	(1)
Share of liabilities in plans at end of period for the Company	**(1,879)**	(1,999)

*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.

20. Pensions (continued)

e) History of experience gains and losses

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 gain (2007 a loss of £62m). 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.

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of assets for the Group	**23,923**	23,578	21,847	17,357	15,200
Present value of liabilities for the Group	**(26,846)**	(28,563)	(27,435)	(21,315)	(19,594)
Deficit in schemes for the Group	**(2,923)**	(4,985)	(5,588)	(3,958)	(4,394)
Deficit in the schemes for the Company (at approximately 7%)	**(205)**	(349)	(398)	(280)	(308)

	2008 £m	2007 £m	2006 £m	2005 £m
Experience adjustment on assets for the Company* (at approximately 7%)	**(92)**	13	239	73
Experience adjustment on liabilities for the Company* (at approximately 7%)	**(12)**	(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.

21. Share capital

	2008 £	2007 £
Authorised		
Ordinary shares of £1 each at 26 March 2007 and 27 March 2006	**50,000**	50,000
Increase in ordinary £1 shares in period	**1,000**	-
At 30 March 2008 and 25 March 2007	**51,000**	50,000
Allotted and issued		
Ordinary shares of £1 each at 26 March 2007 and 27 March 2006	**50,000**	50,000
Issue of ordinary £1 shares in period	**1**	-
At 30 March 2008 and 25 March 2007	**50,001**	50,000

On 7 August 2007 the authorised share capital was increased by 1,000 ordinary shares of £1 each. One ordinary £1 share was allotted and issued to Royal Mail Group Ltd (the Company's immediate parent company) in return for £313m cash, initially paid to Royal Mail Group Ltd by the Secretary of State for Business Enterprise and Regulatory Reform under section 8 of the Industrial Development Act 1982, as part of a funding agreement between the Government and Post Office Limited, announced on 17 May 2007. A share premium of £312,999,999 resulted from this subscription. The £313m has been used to compensate Post Office Limited for the costs of providing certain specified 'services of general economic interest'. State Aid approval for the payment of £313m was received in March 2007.

Post Office Limited

22. Reserves

	Share premium £m	Profit and loss account £m	Rural Network Reserve £m	2008 Total £m	2007 Total £m
Surplus/(deficit) as at 26 March 2007 (prior year 27 March 2006)	-	(236)	30	**(206)**	(523)
Loss for the financial year	-	(406)	-	**(406)**	(159)
Actuarial gains on defined benefit schemes	-	124	-	**124**	25
Total recognised gains/(losses) for the financial year	-	(282)	-	**(282)**	(134)
Issue of ordinary share (see note 21)	313	-	-	**313**	-
Capital contribution re: Transfer from Mails Contribution Reserve	-	-	-	-	145
Capital contribution re: Transfer from Mails Reserve to Rural Network Reserve	-	-	-	-	75
Allocation to Rural Network Reserve	-	(150)	150	-	-
Transfer from Rural network Reserve	-	150	(150)	-	-
Transfer of interest income to Rural Network Reserve	-	(6)	6	-	-
Capital contribution re: Transfer from POL Contribution Reserve to POL Funding Reserve	-	-	-	-	231
Surplus/(deficit) as at 30 March 2008 (prior year 25 March 2007)	**313**	**(524)**	**36**	**(175)**	(206)

Rural Network Reserve
The Rural Network Reserve was created by Post Office Limited, following directions issued by the Secretary of State under section 72 of the Postal Services Act 2000 (the Act). Following an order issued by the Secretary of State under section 103 of the Act, Post Office Limited received £150m during the period (2007 £75m). This subsidy has been accounted for as a Government grant and recorded within Revenue as the Social Network Payment (see note 2). Under the terms of the agreement, this sum was allocated from the Profit and Loss Reserve to the Rural Network Reserve on receipt of the payment

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. During the period £150m (2007 £150m) of the Rural Network Reserve was applied towards the maintenance of a rural network of Post Offices and consequently this sum was transferred from the Rural Network Reserve to the Profit and Loss Reserve.

The amounts allocated to this Reserve are to be applied as if they were profits available for distribution.

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.

23. Commitments

Capital commitments contracted for but not provided in the accounts amount to £1m (2007 £1m). The Company is committed to the following minimum lease payments during the next twelve months under non-cancellable operating leases:

	Land and buildings		IT equipment	
	2008 £m	2007 £m	**2008 £m**	2007 £m
For leases which expire:				
Within one year	**2**	2	**12**	-
Between one and five years	**6**	5	**-**	-
Beyond five years	**11**	10	**-**	-
Total	**19**	17	**12**	-

24. Finance lease and hire purchase commitments

	2008		2007	
	Minimum payments £m	**Present value of minimum lease payments £m**	Minimum payments £m	Present value of minimum lease payments £m
Within one year	**2**	**2**	-	-
Between one and five years	**9**	**6**	-	-
Beyond five years	**3**	**3**	-	-
Total minimum lease payments	**14**	**11**	-	-
Less amounts representing finance charges	**(3)**	**-**	-	-
Present value of minimum lease payments	**11**	**11**	-	-

The aggregate finance charges allocated for the period in respect of finance leases was £458,797.

Post Office Limited has finance lease contracts for equipment. The leases have no terms for renewal, purchase options or escalation clauses and there are no restrictions concerning dividends, borrowings or additional leases. The leases have an average term of seven years.

25. 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.

26. Immediate and ultimate parent company

At 30 March 2008, 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.

27. Events after the balance sheet date

Further equity injections of £77m on 1 April 2008 and £75m on 15 April 2008 have been received in accordance with the financing arrangements agreed with Government (see policy note 1), for which two ordinary £1 shares were issued in consideration, which create a share premium of £151,999,998.

A dividend of £27m 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.

COMPANIES HOUSE
ACKNOWLEDGEMENT OF RECEIPT

Please return signed/stamped receipt to:- Neil Owen
Company Secretary's Office
Royal Mail
Room 516
148 Old Street
LONDON
EC1V 9HQ

17 December 2008

COMPANY NAME	**POST OFFICE LIMITED**	
COMPANY NUMBER	**2154540**	
DOCUMENT(S) FILED		
ANNUAL RETURN		
FILING FEE (CHEQUE FOR)		
ANNUAL ACCOUNTS	**X**	
FORM 288a		
FORM 288b		
FORM 288c		
FORM 123		
FORM 88 (2)		
ORDINARY RESOLUTION(S)		
SPECIAL RESOLUTION(S)		
ELECTIVE RESOLUTION(S)		
FORM 225		
FORM 403a		
Memorandum & Articles of Association		

DATE RECEIVED:

SIGNED/STAMPED:

5th Floor, Royal Mail House, 148 Old Street, LONDON EC1V 9HQ
Tel: 0207 250 2492 Fax: 0207 250 2729