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Officers and Professional Advisers

Headquarters

Spring Valley Industrial Estate
Douglas
ISLE OF MAN
IM2 1AA

Board Members

Mr E A Crowe MLC – Chairman, appointed 30 July 2008
Mrs P M Crowe – Chairman, to 14 June 2008
Mr C G Corkish MBE MHK – Vice Chairman
Mr C D Pemberton
Mr M Bathgate
The Ven B Partington OBE

Chief Executive

Mr A W Chacksfield FCILT

Principal Bankers

Isle of Man Bank
2 Athol Street
Douglas
ISLE OF MAN
IMI IJA

Principal Advocates

HM Attorney General
Attorney General's Chambers
3rd Floor, St Mary's Court
Douglas
ISLE OF MAN
IMI IEU

Auditors

KPMG Audit LLC
Heritage Court
PO Box 93
Douglas
ISLE OF MAN
IM99 IHN



Mr E A Crowe MLC



Mr C G Corkish MBE MHK



Mr C D Pemberton



Mr M Bathgate



The Ven B Partington OBE



Mr A W Chacksfield FCILT

Our Vision

The **Isle of Man Post Office** will be a successful, innovative and socially responsible Postal Services Provider, achieving excellence in all that it does.

We will be mindful of our Corporate Social Responsibilities by:

- Treating our customers with respect by placing them at the centre of our decision making process
- Dealing with our customers in an open and honest manner, ensuring our tariffs are easy to understand
- Conducting our business with integrity to the highest ethical standards
- Ensuring all confidential data is protected in line with the highest international standards
- Being a good “corporate citizen” and ambassador for the Island
- Respecting the environment within which we operate, recognising the importance of the Island’s traditions and heritage
- Treating each other with fairness and respect





Chairman's Statement

The Isle of Man Post Office results for the 52 weeks ended 29 March 2009 are pleasing and reflect much hard work during the year against an extremely challenging business environment.

The second half of the year saw unprecedented volatility in world financial markets and the virtual collapse of many UK and international banking groups. In particular the difficult economic environment led to a substantial reduction in the return on our invested funds, an important source of income for us in previous years.

Despite these trading conditions, the financial result for the year was very good and reflected the continued benefits of adhering to the Strategic Plan agreed in November 2007 and the efforts of the staff across the whole spectrum of the business.

We have seen significant growth in our Integrated Mailing Solutions (IMS) business unit, and have invested in and developed new technology to enhance our digital image and scanning products. This investment is already proving of benefit and new opportunities continue to open up for us in this area.

We continue to support our retail outlets and we regularly review the range of services offered through the retail network with the objective of adding new services and products in order to assist with the viability of those outlets.

Isle of Man Stamps and Coins (previously known as the Philatelic Bureau) remain highly valued by collectors around the World, a fact illustrated by our attendance at the Beijing Olympics Stamp and Coin Expo, Olympex, held before the Beijing Olympic Games. We look forward to developing the relationship with our colleagues in the China National Post Office further:

And, of course, we remain very proud of our Mails and Parcels Businesses which form the core of our operation. It is important that we continue to invest in these areas to maintain the high standards of customer service and innovation needed to ensure we continue to meet or exceed our customers' expectations.

We have also commenced a project to review the business's property holdings to ensure they meet the needs of our future operations. As part of this review the Board purchased a new property at Barleyfields near our headquarters with the intention of creating a new, modern site for Isle of Man Stamps and Coins and for the Licensing Unit as well. This also allows us to create some expansion room for IMS.

Going forward we will continue to face tough trading conditions as well as declining markets in some areas of our business. It is no time to rest on our laurels; we face ever increasing challenges and competition from a variety of sources. We have already begun the process of creating a fresh new look for the business, and will continue to look for new opportunities to widen our business base in order to consolidate our position whilst maintaining a dynamic, successful and sustainable business.

In closing I would like to thank all our customers for their continued support. We endeavour to maintain a first rate, competitively priced service across all of our product lines and achieving the highest standards of customer service remains our objective.

It is also important that I express my gratitude to my fellow Board Members, the Chief Executive, Executive Directors, Management and Staff right across the whole of our business operations. These results have been achieved through their hard work and I look forward to working with them to continue to drive the Isle of Man Post Office forward.

E Alan Crowe MLC

Chairman





Chief Executive's Report

Our Results

It is very pleasing to report a good year's trading for the Isle of Man Post Office despite a very difficult last quarter. During the last three months we saw a 3% fall in general mail throughput and a 12.5% fall in our premium special delivery product as a result of world financial turmoil. In addition we saw an 80% reduction in interest earned from our reserves as interest rates fell dramatically. While these issues, together with 4 days less trading than the previous financial year, had their impact, total Income still grew by 6% lifting from £23.1m to £24.4m year on year.

The resultant profit for the year grew by a very satisfactory 12% from £1.98m in the FY 07/08 to £2.22m in the FY 08/09. Despite interest receipts on our reserves being down by £307k our operating profit was up 58%. Once this operating profit is adjusted to remove the impact of pensions accounting standards (FRS 17 – see note 9) it shows a true improvement of 26%, a very healthy result.

TURNOVER 2009	£24.4m
TURNOVER 2008	£23.1m
OPERATING PROFIT 2009	£1.5m
OPERATING PROFIT 2008	£0.9m
CONTRIBUTION TO GOVERNMENT 2009	£1m
CONTRIBUTION TO GOVERNMENT 2008	£0.89m

These results enabled the Isle of Man Post Office to increase its year on year contribution to the general revenue of the Island from £892k to £1m. We are extremely proud to be able to make such a contribution at a time when the Treasury faces some difficult decisions.

Further we were able to deliver these results while maintaining the cheapest next day letter post tariff in the British Isles, see below, together with a consistently high level of service.

Next day basic letter tariffs by Jurisdiction throughout the British Isles as at 1st April 2009

Jurisdiction	Next day delivery throughout the British Isles	Next day local delivery
Isle of Man Post Office	33 pence	32 pence
Royal Mail	39 pence	39 pence
Jersey Post	42 pence	37 pence
Guernsey Post	43 pence	36 pence

In addition we continued to offer free delivery for mail and packets up to 2 kilos to all BFPO addresses throughout the year together with a special rate for Island residents of 28 pence for local Christmas cards between 1st December and Christmas Eve 2008.

The credit for these results lies with all parts of the Business, from our cleaning staff to our Business Unit General Managers, from our Postmen/ladies to our administration staff and from our Statutory Board Members to our Sub-Postmasters – all ably guided by our Chairman Mr Alan Crowe MLC.

Our Business

Our Mails Business Unit is well led by Malcolm MacPherson, its Managing Director. It remains the bedrock of our Business producing some 70% of our revenue. It provides the operations that meet our statutory obligation to provide a universal letter post service for the Isle of Man. Malcolm and our Chief Operating Officer, Mike Kelly, maintain a very close and special relationship with Royal Mail who provide both our service to and from parts of the UK as well as our international services. Despite traditional mail volumes declining by two and a quarter percent during the year, Mails still managed to put in a solid financial performance.

Our Retail Business Unit. Martyn Quine is the General Manager of our network of Crown and Sub-Post Offices. Tight management control throughout the year has continued to reduce traditional losses. Foreign Exchange, which is offered throughout the network, grew by 20% to a position whereby we believe we are now the number one provider on the Island.

I am also pleased to report a major customer service step forward in that BBC licence fees can now be paid in stage payments via cards and an improvement in the BBC's electronic record keeping which has reduced incorrect billing. The introduction of Postal Kiosks was, however, delayed owing to supplier issues. These are now planned for introduction during the current financial year.



Our Philatelic Business Unit. During the year the Philatelic Bureau was re-named "Isle of Man Stamps and Coins". It is run by Dot Tilbury. Revenue was slightly down year on year following an outstanding 2007/08. Innovation during the year included an Isle of Man Post Office presence at the Beijing Olympic Stamp Expo. This resulted in the Isle of Man achieving the third highest number of commemorative stamp sales of any Postal Jurisdiction during the Games. Another first was our stamps to celebrate Lewis Hamilton becoming F1 world champion in 2008.

Our Parcels Business Unit is managed operationally by Kevin Christian and commercially by Sam Babb. They in turn report to the Managing Director of the Mails Business Unit. This Parcels Business Unit provides the operation to meet our statutory obligation to provide a universal service for parcels for the Isle of Man.

In a similar manner to the Mails Business Unit it has a special relationship with the UK, but in this case with Parcelforce. Parcelforce provide services to and from the UK as well as our international service. The Parcels Business Unit has a number of large Home Shopping customers. Revenues have remained much in line with expectations but tight cost control has contributed to the overall improvement in our operating margin.

Our Integrated Mailing Solutions Business Unit. Last year our undoubted shining star was our Philatelic Business. This year it is unquestionably IMS. Under the management of Tony Randle revenues have grown by more than 30%. In addition some very significant customers were gained towards year end and their impact will only become apparent in the financial year 2009/10. It provides services to complement our Mails Business Unit adding value and drawing extra business for it. Services include Mail Opening, Printing, Fulfilment, Scanning and Data Capture, Stationery and Franking.

Our Vehicle Licensing Business Unit is managed by Stephen Webster and provides the Island's community with vehicle, driving and dog licences. It is tightly run in order to keep cost down but still provides an Island wide facility through our retail network.

Our Customer Service

Our customers are the reason we exist. We recognise that dealing with them in a professional and courteous manner is fundamental to the proper functioning of our Business. We achieve this by:

- A central Customer Service team staffed by individuals with extensive experience across all parts of our Business. They feed back issues to the various Business Units to help continuously improve our service delivery.
- On going Customer Service training for all employees. During the year 96% of our staff completed a one day course on "understanding good service from a customer perspective". Included on the course were virtually all our

postal operatives, all senior management and representing the Board, one of our Statutory Board Directors.

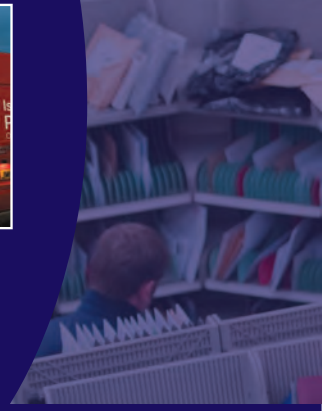
- Customer Service is centre stage on all our other training courses from our induction training through IT training to specialist training in the various parts of our Business.
- Customer Service is also a key item in all Meetings where employee feedback is actively encouraged.

Our Commitment

The Isle of Man Post Office is committed to playing a full role in the Island's life through its ongoing support of the Island's economy and its support for the Island's community. We will endeavour to find new ways to generate revenues to replace declining traditional Letter Post. Customer Service will remain at the centre of our Business with a focus on improving the ease by which our services can be accessed. Our staff are just as fundamental to this commitment as they were to our success during the 2008/09 financial year. As such I take this opportunity to express my thanks for their hard work and commitment.

Anthony W Chacksfield FCILT
Chief Executive





Business Review

Challenges in our industry

Isle of Man Post Office is an entirely self-sufficient Statutory Board of the Isle of Man Government. Unlike other government departments, we receive no finance from the central government reserves yet we contribute 45% of our profits to the Treasury department, helping towards building schools, providing healthcare and other essential components that make our Island such an enjoyable place to live and work.

The challenges we face are not dissimilar to those of postal operators around the globe:

- Dealing with declining volumes of traditional mail as technological substitution accelerates
- Generating sufficient revenues to ensure long term sustainability and growth by establishing new sources of income
- Creating a commercial, innovative and customer responsive culture
- Maintaining an affordable service to all users without discriminating against unprofitable ones
- Endeavouring to increase the amount of visitors to our Post Office Retail network
- Trying to operate in a commercial manner within the restrictions of government

Statutory obligation

Like other global postal operators, we have the obligation of providing a comprehensive postal service to everyone, irrespective of economic viability. We face increasing losses in delivering this statutory obligation (SO) and whilst the SO funding gap in other jurisdictions is often filled partly by government subsidies, for example in the UK, we receive no subsidies whatsoever. This is why it is of paramount importance for us to continue to diversify our business activities and to do this, we need to act in a commercial manner in a heavily competitive environment.

The price of a stamp

We are proud that our stamp rate continues to be the most competitive first class rate in the British Isles and amongst the lowest in Europe. Isle of Man Post Office is committed to reducing costs to ensure stamp prices remain good value for residents and businesses.

Changing markets

The global postal industry faces an uncertain future with technological substitution (primarily internet usage) reducing traditional mail volumes by more than 10% each year. This, coupled with the recent economic climate, means that Isle of Man Post Office faces a decline in traditional mail volumes after many years of consistent growth – by 2% in the year to March 2009 with the underlying trend showing a greater decline.

Traditional mail faces stiff competition from technological substitution and the latter part of the year saw volumes decline by about 10%. We expect volumes to reduce further in the coming year; though the slowly improving economic climate should see some recovery in Direct Mail volumes which will help to mitigate the rate of decline.

19,519,000 items posted

However, with strong continued growth in the online retailing sector the volume of parcels and packets being delivered increased by 14% and 6% respectively. We are keen to continue this trend in the future and have identified several business opportunities worthy of pursuit.

A vital role in the community

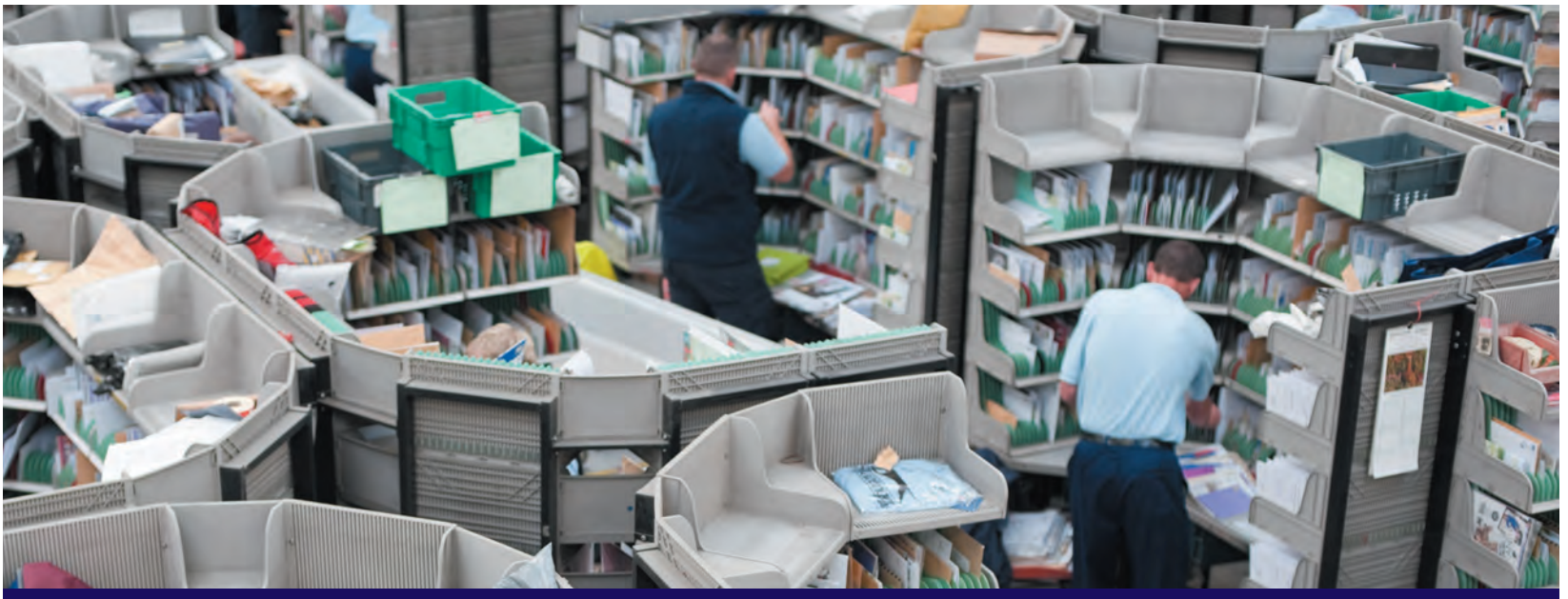
Our 25 sub-post offices and 2 crown offices continue to play a large part in the Island's community. As mentioned earlier, Foreign Exchange is now one of our most popular products and we are committed to offering the best rates, 0% commission and speedy transactions through the most convenient channel.

2,367,000 kilos of mail handled

During 2008 we significantly altered the way in which sub-postmasters were remunerated, moving away from an outdated and confusing payment system to a new transaction based system, offering clarity and equality across the network. Not only has this incentivised sub-postmasters to increase new business but it offers a fairer and more commercial approach to remuneration.

33,776,000 items delivered

Transactions across the Network were slightly down by 2% between 2007 and 2008 and this only confirms the need for us to focus on increasing and diversifying our range of products and services throughout the entire post office network.



Outsourcing solutions for businesses big and small

Integrated Mailing Solutions (IMS) continues to thrive and grow at an enormous pace expanding upon its extensive list of services along the way. Operating in a completely commercial environment with a client base in the Isle of Man, UK and globally, IMS services complement our main Mails unit and have formed an integral part of the business. IMS deal with both large multi-national companies and small local companies, providing them with tailor made high-quality mailing services such as statement production and marketing mailings and specialist scanning services such as data capture and document management.

During 2008 we started working towards receiving ISO 27001 : 2005 accreditation, the internationally recognised data security standard for ensuring adequate controls addressing confidentiality, integrity and availability of information are in place to safeguard clients' data. The process is complex and rigorous and has enabled us to audit our entire security process from start to finish, for the full complement of IMS services. We hope to receive accreditation in 2009.

Towards the latter part of the year IMS secured a large 2 year contract for daily Data Capture services with one of the UK major media companies. This massive achievement represents the result of many months of hard work by our IMS department.

Driving through efficiency

Working closely with the Department of Transport our Vehicle Licensing business unit has helped to develop a new vehicle licence database linked to the Post Office Retail Network. This has allowed for a two way interactive link directly between us and the Department of Transport's Vehicle Licence database. Not only has this increased the speed of transactions but it has made the system more efficient and improved the accuracy of information.

The vehicle registration documents are now also computer generated and the old handwritten log books are being phased out at the time of licence renewal. This new modernised system is enabling us to improve our overall service to customers and keeping them central to our decision making process.

Promoting the Island internationally

Isle of Man Stamps and Coins is committed to issuing stamps which reflect the history and culture of our Island whilst commemorating national and international events.

During the past twelve months the Isle of Man Post Office has promoted the Island internationally: at a philatelic exhibition in China, following a successful initial visit during the Olympic games to the Beijing Olympic Stamp Expo and in London and New York, where the Chris Killip Manx Mills photographs and stamps were exhibited. During the year to March 2009, around 80% of the

philatelic stamp issues produced by the Isle of Man Post Office had a theme or content linked to Manx identity, culture and heritage, something which we will undoubtedly continue in the future to help promote the Island to a wider international audience.

Growth within online retail

Operating in a highly competitive market place, the general trend for our Parcels unit is one of significant growth within the online retail industry in particular. We feel that there are many opportunities to be explored in this area which would introduce new revenue streams into the business and help us diversify further.

99% complaints handled successfully

Investing in People

At the very heart of our business are our people. Employing 384 staff over 7 locations, we invest in specialist training and development to help each individual realise their full potential. Our people are both employees and customers, which helps to foster a genuine interest and pride in everything they do. As well as making an impact on our business, this high level of personal involvement makes a real difference within the community. Our Postal workers, for example, will keep an eye out for elderly people living alone.

Turnover of staff remains very low and recent staff surveys have confirmed that our staff feel happy and well managed.

2008 has been a challenging but rewarding year; however 2009 will hold its own set of challenges which we look forward to work through to ensure our continued success.

Isle of Man Post Office
Oik Postagh Ellan Vannin



Isle of Man STAMPS & COINS
Cowraghyn Post as Cooinaghyn Ellan Vannin



Statement of Internal Control

Introduction

The Isle of Man Post Office is constituted as a Statutory Board of Tynwald under The Post Office Act 1993. This statement is made in accordance with the requirements of the Isle of Man Government's Corporate Governance Principles and Code of Conduct ("the Code").

The Isle of Man Post Office's Strategic Plan for the five year period 2008-2013 was approved by the Board in November 2007. It defines the Isle of Man Post Office's vision, mission and values and included a strategy statement. Key stakeholders were identified, with business objectives developed for the next 3-5 years.

Responsibilities of the Board and the Accounting Officer

The Board controls the strategy and policy within the Isle of Man Post Office. It is the Board's responsibility to ensure that the work of the Accounting Officer and other senior officers supports the strategy and policy approved by the Board.

As Accounting Officer, the Chief Executive of the Isle of Man Post Office, is responsible for implementing and maintaining systems of Internal Control and Corporate Governance which:

- ensure compliance with legislation and other regulations;
- safeguard public money, ensure that it is properly accounted for and that it is used economically, efficiently and effectively; and
- supports the achievement of the strategy and policies approved by the Board.

In discharging this responsibility, the Chief Executive works with senior officers to put in place arrangements for the governance of the Isle of Man Post Office's affairs and the stewardship of resources, in accordance with the Code.

Internal Control and Corporate Governance environment

The system of Internal Control is based on ongoing processes designed to:

- identify the principal risks to the achievement of the organisation's strategic aims and objectives;
- identify the principal risks associated with the organisation's operational activities;
- consistently evaluate the nature and extent of the above risks and agree appropriate mitigating controls;

- provide assurance that key risks are being managed efficiently, effectively and economically and that existing controls are robust;
- ensure adherence throughout the organisation to Isle of Man Post Office policies and relevant legislation.

The system of Internal Control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The following are considered to be the main aspects of the Internal Control and Corporate Governance framework.

The Isle of Man Post Office's Corporate Governance and Risk Management framework

The Isle of Man Post Office has in place a system of Corporate Governance and Risk Management which is designed to enable it to assess its performance in these areas and determine, where appropriate, actions to improve the control environment.

The Board of the Isle of Man Post Office has published a schedule of delegated authorities to enable the day to day operation of the business. The Board has also published a statement of powers which it has reserved solely to itself.

The Isle of Man Post Office has established Risk Registers at operational and strategic levels; issues arising out of these registers form part of the standing agenda at operational and Board meetings.

Following a co-ordinated assessment of all forms of assurance currently available to the Board and its Audit and Risk Committee, a formal Assurance Framework has been agreed. This establishes a systematic mechanism to ensure the adequacy and operation of existing key controls and systems to manage the Isle of Man Post Office's major risks.

The Isle of Man Post Office's Internal Audit Plan is an integral part of the above framework, providing appropriately focussed supplementary or 'independent' assurance. Audit needs are determined according to the strength, independence and criticality of each of the current assurances.

Board meetings: The Board Members are non-executive and their appointment is approved by Tynwald. The Board meets regularly and consists of a Chairman and four other Board Members. Board meetings are also attended by the Chief Executive and Executive Directors.

The Board receives reports from the Isle of Man Post Office Executives on operational matters and ensures that the work of the Accounting Officer and other senior Executives supports the strategy and policy approved by the Board.



A detailed, consolidated report is submitted to the Board quarterly by each Business Unit Manager / Department Head.

Audit & Risk Committee: The Audit & Risk Committee is a Committee of the Board and consists of two members of the Isle of Man Post Office Board. It meets quarterly. The meetings are also normally attended by the Chief Executive, the Finance Director, the Risk and Systems Manager and a representative from Isle of Man Government Internal Audit. A representative from the external auditors also attends meetings as appropriate.

The Committee ensures that the business maintains a systematic approach to Risk Management. It reports to the Board on issues concerning corporate governance, risk, internal control, financial reports and associated information issued by the Isle of Man Post Office. It is also the principal point of contact for the external auditors.

The Audit and Risk Committee is active in embedding Risk Management practices through regular, comprehensive, department-level reviews.

Remuneration Committee: The Remuneration Committee is a Committee of the Board and consists of two members of the Isle of Man Post Office Board. It meets at least once per year. The Committee makes recommendations to the Board on Executive Directors' (including Chief Executive's) pay and conditions.

Isle of Man Post Office Internal Audit: The Isle of Man Post Office maintains its own internal audit resource. The head of internal audit is charged with oversight of the risk management process within the organisation and reports directly to the Chief Executive, whilst maintaining a right of communication direct to the Chairman of the Board.

The internal audit division of Treasury supplements the internal audit function providing information, support and guidance as required, and performs audits of risk management systems within the Isle of Man Post Office.

Monthly Management Review Meetings: The Chief Executive and the Executive Directors meet with managers on a monthly basis to formally review their business units and departmental financial and operational performance.

Review of internal control and corporate governance environment

The effectiveness of the Isle of Man Post Office's internal control and corporate governance arrangements is continuously assessed by the work of management and the Audit & Risk Committee.

In addition, the Risk and Systems Manager works with management to assess compliance with the code of corporate governance, review items on the risk registers and to ensure action is being taken against outstanding issues.

Each year, business unit and departmental managers complete an assessment of their compliance with the code of corporate governance and agree actions for the forthcoming period. Further evidence as to the effectiveness of internal controls and corporate governance arrangements is provided by reports issued during the year by the Isle of Man Post Office's internal audit, Treasury internal audit, external audit and other external reviews. These reports are also reviewed by the Audit & Risk Committee.

Report on internal control and corporate governance environment

Attention is drawn to the fact that systems of Internal Control and Corporate Governance are designed to manage rather than eliminate the risk of failure to achieve objectives. They can therefore only provide reasonable and not absolute assurance. Accordingly, reasonable assurance is given that the Post Office's internal control and corporate governance arrangements are adequate and operated effectively during the period ended 29 March 2009.

Progress on Corporate Governance Implementation

This year's Audit Plan has been developed and structured against an agreed Assurance Framework. This provides enhanced assurance over the effectiveness of the controls and processes used to ensure the organisation's Strategic Plan objectives are progressed and achieved.

The Corporate Governance Self-Review Questionnaires (SRQ's) have been revised this year to further improve compatibility with Departmental requirements (as prescribed by Isle of Man Government in the Code) needed to meet each of the principles.

Formal Improvements Schedules have been introduced, recording areas relevant to the Code where improvements are needed e.g. if a conducted activity cannot be substantiated with evidence and requires better documentation.

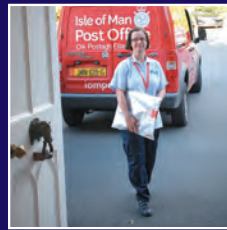
The Isle of Man Post Office's Information Security policy was approved in October 2008, and its Confidential Reporting (Whistle Blowing) Policy was approved in March 2009.

An improved top-down appraisal system has now been agreed and is being introduced, and will be fully operational from 29th March 2009. The Board has recently approved the Terms of Reference for a Properties Committee, which will be set up to review the Business's strategy for the maintenance, development and acquisition of its properties.

Anthony W Chacksfield FCILT

Chief Executive





Statement of responsibilities of the Board

The Isle of Man Post Office is constituted under the Post Office Act 1993 as a Statutory Board of Tynwald. The Chairman and Chief Executive are responsible for preparing their Statement and Report, respectively. The Board is responsible for approving the Chairman's Statement and the Chief Executive's Report and in preparing the accounts, in accordance with applicable law and regulations.

The Audit Act 2006 requires the Board to prepare accounts for each financial year, which meet the requirements of the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006.

The regulations require the Board to prepare the accounts in accordance with UK Accounting Standards, as modified by the Audit Directions 2008.

The accounts are required by law to give a true and fair view of the financial affairs of the Isle of Man Post Office for that period.

In preparing these accounts, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, as modified by the Audit Directions 2008, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Isle of Man Post Office will continue in operation.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial affairs of the Isle of Man Post Office and to enable them to ensure that the accounts comply with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Isle of Man Post Office and to prevent and detect fraud and other irregularities.





Report of the Independent Auditors, KPMG Audit LLC, to the Isle of Man Post Office

We have audited the accounts of the Isle of Man Post Office for the 52 weeks ended 29 March 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the Isle of Man Post Office, as a body, in accordance with section 4 of the Audit Act 2006. Our audit work has been undertaken so that we might state to the Post Office those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Post Office, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Post Office and Auditors

The Board's responsibilities for preparing the accounts in accordance with applicable laws and regulations and UK Accounting Standards, as modified by the Audit Directions 2008, are set out in the Statement of Responsibilities of the Board on page 10.

The Audit Directions 2008 modify the application of UK Accounting Standards by:

- defining who is a related party, which transactions require disclosure and which transactions are exempt from disclosure requirements, and removing the requirement to comply with FRS 8 (Related Party Disclosures).

Our responsibility is to audit the accounts 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 accounts give a true and fair view and are properly prepared in accordance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006. We also report to you if in our opinion the Commission has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Chief Executive's Report and any other information accompanying the accounts and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or inconsistencies with the accounts. Our responsibilities do not extend to any other information and do not include the contents of pages 6 and 7.

We review whether the Statement of Internal Control prepared by the Post Office reflects compliance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006. We report if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounts. We are not required to consider, nor have we considered, whether the Statement on Internal Controls covers all risks and controls.

Basis of opinion

We conducted our audit in accordance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006 and International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Board in the preparation of the accounts, and of whether the accounting policies are appropriate to the Post Office'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 accounts 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 accounts.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice as modified by the Audit Directions 2008, of the Isle of Man Post Office's affairs as at 29 March 2009 and of its profit for the 52 weeks then ended; and
- the accounts have been properly prepared in accordance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006.

KPMG Audit LLC

Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

Profit and loss account

for the 52 weeks ended 29 March 2009

	Notes	52 weeks ended 29 March 2009	(Note 15) 52.5 weeks ended 30 March 2008
		£	£
Total income	1(b)	24,397,518	23,050,415
Cost of sales	1(c)	(18,414,229)	(17,357,738)
Gross profit		5,983,289	5,692,677
Other operating expenditure	1(c)	(4,505,855)	(4,759,756)
Operating profit		1,477,434	932,921
Interest income		741,555	1,049,221
Total profit for the period	2	2,218,989	1,982,142
Unappropriated profit brought forward		-	-
Profit available for appropriation		2,218,989	1,982,142
Contribution to Isle of Man Government Treasury	7	(998,545)	(891,964)
Profit after contribution		1,220,444	1,090,178
Transfer to reserves		(1,220,444)	(1,090,178)
Unappropriated profit carried forward		-	-

The notes on pages 14 to 20 form part of these financial statements.

The Board considers that all results derive from continuing activities.

Statement of total recognised gains and losses

for the 52 weeks ended 29 March 2009

	52 weeks ended 29 March 2009	(Note 15) 52.5 weeks ended 30 March 2008
	£	£
Profit after contribution	1,220,444	1,090,178
Actural gain/(loss) on pension scheme	325,863	(375,507)
Unrealised surplus on revaluation of fixed assets	-	-
Total recognised gains and losses for the period	1,546,307	714,671

Note of historical cost profits and losses

for the 52 weeks ended 29 March 2009

	52 weeks ended 29 March 2009	52.5 weeks ended 30 March 2008
	£	£
Reported profit available for appropriation	2,218,989	1,982,142
Difference between historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount	74,736	74,736
Historical cost profit available for appropriation	2,293,725	2,056,878
Historical cost profit for the period retained after contribution to the Isle of Man Government Treasury	1,295,180	1,164,914

Balance sheet

as at 29 March 2009

Notes	2009		(Note 15) 2008	
	£	£	£	£
Non-current assets				
Fixed assets	1(d), 3	8,518,311	8,198,860	
Investments	4	40	-	
		8,518,351	8,198,860	
Current assets				
Stocks	1(f)	128,647	146,218	
Debtors	5	3,294,802	3,313,267	
Amounts due from Isle of Man Government	7	285,070	37,733	
Short term deposit		5,348,124	3,303,452	
Cash at bank and in hand		10,482,684	11,402,430	
		19,539,327	18,203,100	
Creditors: amounts falling due within one year				
Other creditors	6	2,716,200	2,924,102	
Amounts due to Isle of Man Government	7	5,706,980	5,057,866	
		8,423,180	7,981,968	
Net current assets		11,116,147	10,221,132	
Pension Scheme liability	9	(453,490)	(785,291)	
Net assets		19,181,008	17,634,701	
Represented by:				
Reserves	1(i), 8	19,181,008	17,634,701	

The notes on pages 14 to 20 form part of the financial statements.

Cash flow statement

for the 52 weeks ended 29 March 2009

	52 weeks ended 29 March 2009		(Note 15) 52.5 weeks ended 30 March 2008	
	£	£	£	£
Net cash flow from operating activities	11	2,443,652	2,968,757	
Returns on investments and servicing of finance				
Interest received		587,420	570,488	
Contribution to IOM Government		(891,964)	(471,021)	
Net cash flow from returns on investments and servicing of finance		(304,544)	99,467	
Capital expenditure				
Payments to acquire fixed assets		(1,022,612)	(295,200)	
Receipts from sales of fixed assets		8,470	11,703	
Net cash flow from capital expenditure		(1,014,142)	(283,497)	
Acquisitions and disposals				
Investment in associate company		(40)	-	
Net cash flow from acquisitions and disposals		(40)		
Increase in cash	12	1,124,926	2,784,727	

The notes on pages 14 to 20 form part of this cash flow statement.

Notes

(forming part of the financial statements for the 52 weeks ended 29 March 2009)

I. Accounting policies

a) Basis of accounting

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments as at the balance sheet date and the revaluation of land and buildings as at 28 March 2007, and in accordance with United Kingdom accounting standards as modified by the Audit Directions 2008. They have been prepared in accordance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006. They have also been prepared in accordance with the Isle of Man Statement of Recommended Practice 2007 on accounting for entities subject to the Audit Act 2006 ("the SORP"), to the extent applicable to the Post Office.

b) Turnover

Turnover is the value of services provided and goods sold excluding VAT.

c) Expenses

Expenses are accounted for on an accruals basis. The general policy is that no provision is made for any charges which may be incurred in respect of stamps sold, but unused at the balance sheet date. However where specific circumstances allow the amount and type of stamps to be clearly identified and an estimate of the likely liability to be made, then a provision is made in accordance with FRS 12.

d) Tangible fixed assets

Tangible fixed assets are stated at their net realisable value. For land and buildings, net realisable value is determined by qualified independent professional valuers every 5 years, with an interim valuation in year 3. Assets with short economic lives, such as motor vehicles, office equipment and machines, are included at historical cost less depreciation as an estimate for net realisable value.

Depreciation is not provided on freehold land, but is provided on other assets based on cost or revalued amounts in equal annual instalments over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings

- Freehold (based on the estimated useful remaining life)	10 to 40 years
- Leasehold	over period of lease

Motor vehicles, according to type 5 years

Office equipment and machines

- Letter boxes	5 to 30 years
- Other postal equipment	5 to 10 years
- Office furniture and equipment	5 to 10 years
- Office machines	5 to 10 years
- Safes in sub-offices	20 years
- Computers	3 years

e) Investment in associates

Investment in associates comprise investees where the Post Office has significant influence over that investee's operations. Significant influence is presumed to occur when the Post Office invests in more than 20% of the issued share capital of an investee, in the absence of other circumstances. The Post Office's share of profits or losses of associates is included in the profit and loss account and its interest in their net assets is included in the balance sheet.

f) Stocks

Commemorative stamp costs are fully written off in the year of issue. Other stock is stated at the lower of cost and net realisable value.

g) *Operating leases*

Operating lease payments are charged directly to the profit and loss account on a straight line basis over the term of the lease.

h) *Foreign exchange*

Transactions in foreign currencies are translated at the rate of exchange ruling when the transaction occurs. Monetary assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Differences on exchange are taken to the profit and loss account.

i) *Reserves*

The reserves are managed by agreement of Treasury under Section 6(1) of the Post Office Act 1993.

j) *Pension costs*

The Isle of Man Post Office operates a defined benefit pension scheme. In accordance with Financial Reporting Standard 17 "Retirement benefits" (as revised), the full service cost for the period, adjusted for any changes to the scheme, is charged to the profit and loss account. A charge equal to the expected increase in the present value of the scheme liabilities as a result of the scheme liabilities being one year closer to settlement and a credit reflecting the long-term expected return on assets based on the market value of the scheme assets at the beginning of the period, is included in the profit and loss account.

The balance sheet records as an asset or liability (as appropriate) the difference between the market value of the scheme assets and the present value of the accrued scheme liabilities, net of deferred tax. Accrued scheme liabilities are determined using the projected unit method. The difference between the expected return on assets and that actually achieved in the period is recognised in the statement of total recognised gains and losses.

2. Total profit for the period

Total profit for the period is arrived at after charging:

	52 weeks ended 29 March 2009	(Note 15) 52.5 weeks ended 30 March 2008
	£	£
Auditors' remuneration	6,601	7,122
Depreciation	845,318	888,087
Pension costs (note 9)	1,166,311	1,062,224
Irrecoverable VAT	255,676	278,969
Loss on disposal of fixed assets	3,200	48,601
Rentals payable under operating leases	106,980	181,250

	Land	Buildings	Motor Vehicles	Office Equipment & Machines	Total
	£	£	£	£	£
<i>Cost or valuation</i>					
At 30 March 2008	1,875,000	5,336,511	1,065,569	5,793,451	14,070,531
Additions	-	893,284	252,595	30,559	1,176,438
Disposals	-	-	(201,290)	(559,396)	(760,686)
Revaluation	-	-	-	-	-
At 29 March 2009	1,875,000	6,229,795	1,116,874	5,264,614	14,486,283
<i>Accumulated depreciation</i>					
At 30 March 2008	-	893,082	500,721	4,477,868	5,871,671
Charge for the period	-	159,379	236,080	449,859	845,318
Disposal	-	-	(189,621)	(559,396)	(749,017)
At 29 March 2009	-	1,052,461	547,180	4,368,331	5,967,972
<i>Net book value</i>					
At 29 March 2009	1,875,000	5,177,334	569,694	896,283	8,518,311
At 30 March 2008	1,875,000	4,443,429	564,848	1,315,583	8,198,860

3. Fixed Assets

The freehold land and properties at Spring Valley Industrial Estate and at Regent Street were revalued on 28 March 2007, by qualified independent professional valuers working for Black Grace Cowley, in accordance with Royal Institute of Chartered Surveyors Appraisal and Valuation Standards. The properties were valued on the basis of existing use value. The surpluses that arose were credited to the Fixed Asset Reserve. Depreciation is being charged based upon the revalued amounts and revised estimated useful economic life of the buildings.

On 15 October 2008 the Post Office acquired property at Barleyfields, Isle of Man Business Park. At year end its estimated fair value was equal to its purchase cost.

4. Investment in associates

As part of the acquisition of property at Barleyfields, Isle of Man Business Park, the Post Office acquired 40 shares of Isle of Man Business Park (No4) Management Company Limited, a company incorporated in the Isle of Man, representing 40% of the issued capital of the company. The principal activity of the company is the management of the shared element of the property acquired. The company remained dormant throughout the period to 29 March 2009.

5. Debtors

	2009	2008
	£	£
Trade debtors	962,686	973,840
Other debtors	1,222,394	1,126,466
Prepayments and accrued income	1,109,722	1,212,961
	3,294,802	3,313,267

6. Other creditors

	2009	2008
	£	£
Trade creditors and accruals	2,025,477	2,076,965
Agency creditors	448,994	611,376
VAT	36,820	34,477
Philatelic subscriber balances	204,909	201,284
	2,716,200	2,924,102

7. Amounts due from and amounts due to Isle of Man Government

	2009	2008
	£	£
<i>Due from Isle of Man Government comprises:</i>		
Treasurer of the Isle of Man	285,070	37,733
<i>Due to Isle of Man Government comprises:</i>		
Agency creditors	4,708,435	4,165,902
Contribution to Treasury	998,545	891,964
	5,706,980	5,057,866

8. Reserves

	Fixed asset reserve	Revenue and general reserve	Development reserve	Total
	£	£	£	£
Balance brought forward	8,198,860	1,000,000	8,435,841	17,634,701
Transfer from profit and loss account	319,451	-	900,993	1,220,444
Actuarial gain on pension scheme	-	-	325,863	325,863
Balance carried forward	8,518,311	1,000,000	9,662,697	19,181,008

Revenue and general reserve

The reserve was established for the purpose of providing working capital for the funding of the day to day activities of the Isle of Man Post Office.

Development reserve

The reserve was established to help finance major capital expenditure.

Fixed asset reserve

Each year a transfer is made to the fixed asset reserve to ensure that its value equals the net book value of fixed assets at the period end.

9. Pension scheme

The Isle of Man Post Office operates a funded defined benefit pension scheme, The Isle of Man Post Office Superannuation Scheme ("the scheme"), providing benefits based on final pensionable pay. Contributions to the scheme are determined by a firm of independent Actuaries employed by the Trustees.

The actuarial assumptions used to calculate scheme liabilities under FRS 17 are as follows:

	2009	2008
Discount Rate	6.63%	6.20%
Salary increase	3.19%	4.37%
Rate of revaluation in deferment	2.69%	3.37%
Pension increase rate	2.69%	3.37%
Expected return on scheme assets	6.13%	6.84%
Price inflation rate	2.69%	3.37%

Assumptions regarding life expectancy of members are based on published statistics and mortality tables. The life expectancies at age 60 utilised in the actuarial assumptions are as follows:

	Men	Woman
Current pensioners	24.80	27.36
Future pensioners now aged 40	26.15	28.46

The expected return on scheme assets is determined as the best estimate of returns expected over the period from dividends, interest and capital gains, taking into account the expected returns for individual asset categories.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Amounts recognised in the balance sheet

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were as follows:

	2009	(Note 15) 2008
	£'000	£'000
Equities	21,045	26,930
Property	2,106	3,118
Bonds	13,309	14,520
Other	115	187
Fair value of scheme assets	36,575	44,755
Present value of funded liabilities	(37,029)	(45,540)
Net pension liability	(454)	(785)

The scheme does not invest in the sponsor's own financial instruments, including property or other assets owned by the sponsor.

9. Pension scheme (continued)

	2009	(Note 15) 2008
<i>Changes in present value of the funded liabilities</i>		
At beginning of period	£'000 45,540	£'000 44,246
Current service cost	1,348	1,524
Employee contributions	405	394
Interest cost	2,871	2,431
Actuarial (gains) / losses	(11,279)	(1,692)
Benefits paid	(1,856)	(1,363)
At end of period	37,029	45,540
<i>Changes in fair value of the scheme assets</i>		
At beginning of period	£'000 44,755	£'000 43,755
Expected return on assets	3,053	2,894
Sponsor contributions	1,172	1,143
Employee contributions	405	394
Actuarial (gains) / losses	(10,954)	(2,068)
Benefits paid	(1,856)	(1,363)
At end of period	36,575	44,755
<i>Amounts recognised in the profit and loss account</i>		
Current service cost	£'000 1,348	£'000 1,524
Interest on scheme liabilities	2,871	2,431
Expected return on scheme assets	(3,053)	(2,893)
Total expense	1,166	1,062
Actual return on scheme assets	(7,901)	826
<i>Effect of FRS 17 on profit</i>		
Total income as reported	£'000 24,398	£'000 23,050
Total expenditure as reported	(22,920)	(22,117)
Less FRS 17 charge	175	381
Restated expenditure pre FRS 17	(22,745)	(21,736)
Restated operating profit pre FRS 17	1,653	1,314
Interest earned	742	1,049
Less FRS 17 adjustment	(182)	(462)
Restated interest income pre FRS 17	560	587
Restated profit available for appropriation pre FRS 17	2,213	1,901

The sponsor's best estimate of contributions to be paid in respect of the Scheme during the 52 weeks ended 28 March 2010 is £1,630,000 (including £419,000 of member contributions).

	2009	(Note 15) 2008
Amounts recognised in the statement of total recognised gains and losses	£'000	£'000
Actual return less expected return on scheme assets	(10,954)	(2,068)
Experience gains and losses arising on scheme liabilities	(425)	719
Change in assumptions underlying present value of scheme liabilities	11,705	973
Net actuarial gains / (losses) recognised in the period	326	(376)
Cumulative net actuarial gains / (losses) recognised in the statement of total recognised gains and losses	£	£
At beginning of period	4,718	5,094
Actuarial gain / (loss) on pension scheme	326	(376)
At end of period	5,044	4,718

Cumulative net actuarial gains/(losses) have been determined as the amounts recognised in the statement of total recognised gains and losses since the period ended 31 March 2004, based on FRS 17 applicable during those years. The revised FRS 17 has been applied for the period ended 29 March 2009. Prior period amounts have not been restated.

	2009	2008	2007	2006	2005
Historical information	£'000	£'000	£'000	£'000	£'000
Present value of scheme liabilities	(37,029)	(45,540)	(44,246)	(43,787)	(37,946)
Fair value of scheme assets	36,575	44,679	43,654	41,200	32,622
Net scheme deficit	(454)	(861)	(592)	(2,587)	(5,324)
Experience adjustments on scheme liabilities	(425)	719	506	95	(1,759)
Experience adjustments on scheme assets	(10,954)	(2,036)	(137)	5,728	977

As required by the revised FRS 17, historical information for 2007 and 2008 has been restated. Amounts for 2006 and 2005 have not been restated and reflect the values applicable under the previous version of the standard.

10. Capital commitments

a) Capital commitments at the end of the financial period for which no provision has been made, are as follows:

	2009	2008
	£	£
Authorised but not yet contracted for	164,900	23,709
Contracted for but not yet provided	407,089	107,714

b) Annual commitments under non-cancellable operating leases are as follows:

	2009 Land and Buildings	Other	2008 Land and Buildings	Other
Operating leases which expire:	£	£	£	£
Within one year	–	13,354	–	13,354
In the second to fifth years inclusive	–	–	–	–
Over five years	106,920	–	106,920	–
	106,920	13,354	106,920	13,354

11. Reconciliation of operating profit to net cash flow from operating activities

	52 weeks ended 29 March 2009	52.5 weeks ended 30 March 2008
	£	£
Operating profit	1,477,434	932,921
Depreciation charges	845,318	888,087
Loss on sale of tangible fixed assets	3,200	48,601
Defined benefit scheme - current service cost in excess of contributions	175,891	381,231
Decrease/(increase) in stocks	17,571	(59,462)
(Increase)/decrease in debtors	(9,231)	270,436
Increase in amounts owed to Isle of Man Government	295,197	745,335
Decrease in creditors	(361,728)	(238,392)
Net cash flow from operating activities	2,443,652	2,968,757

12. Analysis of changes in cash (representing net funds)

	As at 29 March 2009	Cash flows	As at 30 March 2008
	£	£	£
Cash at bank and in hand	10,482,684	(919,746)	11,402,430
Short term deposit	5,348,124	2,044,672	3,303,452
	15,830,808	1,124,926	14,705,882

13. Salaries

Remuneration of members, officers (including non-corporate sub-postmasters) and employees of the Post Office are payable within the following bands:

	2009	2008
	Number	Number
£50,000 - £74,999	5	5
£75,000 - £99,999	5	5

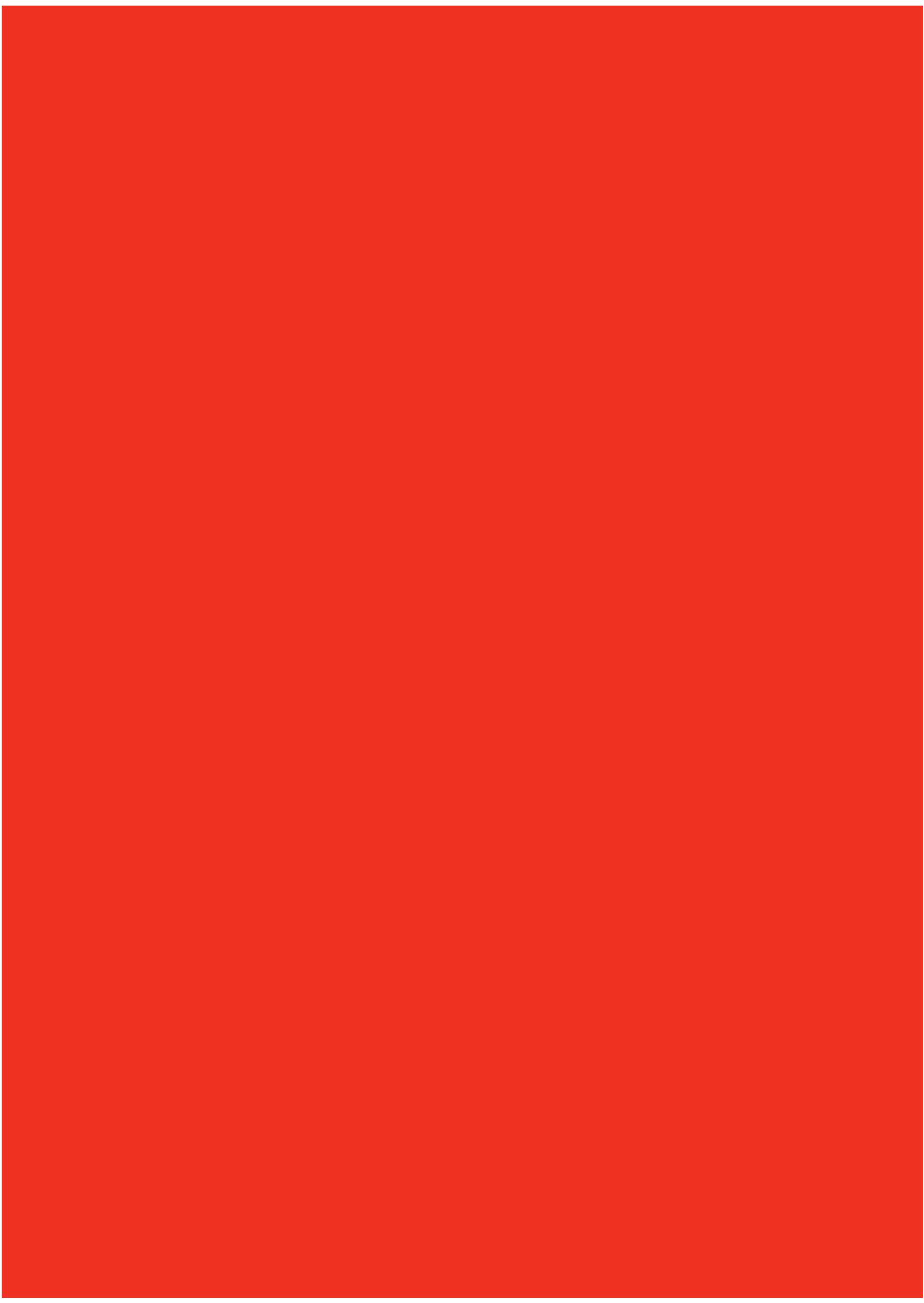
14. Related party transactions

There were no related party transactions requiring disclosure in the accounts.

15. Comparative figures

The revised Financial Reporting Standard 17 "Retirement benefits" applies for financial periods beginning after 6 April 2007 and so is applicable for the first time in the financial statements for the 52 weeks ended 29 March 2009. The main amendment to the reported figures relates to the valuation of scheme assets using current bid price, rather than mid price as was required under the previous standard. The comparative figures have not been restated to reflect the revised FRS as it is considered that the adjustments would not have a material affect on the financial statements taken as a whole. The effect of the revised FRS on the comparative figures would have been:

	Per financial statements 30 March 2008	FRS17 (revised) adjustment	Adjusted amount 30 March 2008
Effect on:	£	£	£
Total profit for the period	1,982,142	(6,443)	1,975,699
Total recognised gains and losses for the period	714,671	25,088	739,759
Pension scheme liability at period end	(785,291)	(76,121)	(861,412)



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