Our year so far...

Interim report 2013

29 September 2013

Post Office Limited : Registered number 2154540


welcom
business
business banking
travel

Building a thriving business for the years ahead

Alice Perkins
Chairman

Paula Vennells
Chief Executive

There is no more powerful demonstration of the transformation of the Post Office than the sight of a freshly refurbished branch. The first six months of the 2013/14 financial year have seen another 588 of these branches open, with longer opening hours and more modern environments. By the end of November 2013 more than 1,400 Post Office branches have been transformed, with the benefits this brings to customers, at a time when our network is at its most stable for decades.

This achievement highlights the determination we have to continue to be at the heart of modern communities as the largest retail network in the UK. Longer opening hours, faster service and increased retail sales for subpostmasters will ensure that we have a modern, sustainable Post Office network fit for the 21st century.

That is the backdrop to what has undoubtedly been a challenging period. Our operating profit before exceptional items, which includes £100 million (2012 £103 million) of the Network Subsidy Payment received from Government to support our branch network, decreased by £8 million (13%) to £53 million, against a comparable performance of £61 million in the first six months of the prior year. This is in line with our expectations and is explained further in the Business Review. We remain optimistic about the remainder of the year.

Our strategy of modernisation, growth and customer excellence is key to achieving this goal. Alongside the major changes in our agency network, we are investing in the Crown network and remain on target to turnaround the losses in this part of the business and bring it to break even by 2015. Despite a challenging industrial relations backdrop, the Board is committed to building a commercially sustainable and modern business able to deliver its social purpose whilst competing against other entrants into our markets. We are delighted that on 27 November 2013 the Government announced an additional funding agreement for the Post Office, providing funding of £640 million for 2015-16 to 2017-18.

The first half of the financial year has highlighted challenges in our mails business, with revenue down £10 million compared to the same period last year. We have taken steps to address this, expanding the Drop & Go service which provides an efficient prepaid service for small businesses, online sellers and anyone sending significant amounts of mail regularly.

Working with Royal Mail we have also announced the launch of the UK's largest Click & Collect network to allow us to support online shopping growth by providing a greater choice of convenient parcel delivery and returns options for online retailers and their customers.

Both of these initiatives underline our desire to ensure that we continue to offer our customers a Post Office that is in tune with modern lifestyles and shopping habits.

We are able to report further progress in building our Financial Services business, with revenue up by £1 million year on year. Personal Financial Services revenue (including Post Office branded savings, lending, insurance and travel products) is up 23% from the comparative period. This area of the business is critical to our ambition to grow and further develop as a credible alternative to the high street banks, an ambition underlined through our pilot of current accounts in East Anglia.

In Government Services, we face challenges but remain optimistic for the future, particularly in relation to the role the Post Office can play in supporting the Digital by Default agenda. Our unrivalled physical network can be the perfect partner to this work, providing the vital face to face services which will still be required in a digital age, such as Identity Assurance and helping customers not yet online to access digital services.

The Post Office is unique. It combines a commercial business with an important public purpose. We have served the nation for centuries and for many people we provide access to services which are vital to their lives.

Our network also provides a crucial connection point for thousands of communities and we are absolutely committed to maintaining these critical links. We have made great progress in the last six months to continue to define our public purpose into a single statement. This work, part of a programme which could see the Post Office become a mutual business in the future, has seen us engage the public through a major research programme, the results of which we expect to announce in the second half of the year. A further element is our determination to develop ways of working which meet the test of a mutual business – ensuring that we listen and learn from all stakeholders involved with the business. Significant progress is being made in this area.

It is now 18 months since we began operating as an independent business. We continue to enjoy a strong relationship with Royal Mail, underpinned by contractual agreements, which provides a solid foundation for many years to come. We are combining this with an ambitious strategy in other areas which we are confident will ensure a thriving Post Office business in the years ahead.

Key performance figures

six months ended 29 September 2013

Summary Group Profit and Loss Account

	2013 £m	2012 £m	Variance £m	Variance %
Turnover	**483**	501	(18)	(3.6)
Network Subsidy Payment	**100**	103	(3)	(2.9)
Revenue	**583**	604	(21)	(3.5)
People costs	**(131)**	(128)	(3)	(2.3)
Other operating costs	**(422)**	(437)	15	3.4
Share of post tax profit from joint ventures and associates	**23**	22	1	4.5
Operating profit before exceptional items	**53**	61	(8)	(13.1)
Operating exceptional items	**132**	(10)		
Profit on disposal of property, plant and equipment	**2**	2		
Loss on sale of associate	**-**	(30)		
Profit before financing and taxation	**187**	23		

Revenue by pillar

	2013 £m	2012 £m	Variance £m	Variance %
Mails and Retail	**184**	196	(12)	(6.1)
Financial Services	**139**	138	1	0.7
Government Services	**75**	84	(9)	(10.7)
Telecoms	**65**	63	2	3.2
Other	**20**	20	0	0
Turnover	**483**	501	(18)	(3.6)
Network Subsidy Payment	**100**	103	(3)	(2.9)
Revenue	**583**	604	(21)	(3.5)

Key Financial Performance Indicators

Turnover (£m)	Operating profit before exceptional items (£m)	Operating loss before exceptional items and Network Subsidy Payment (£m)	Operating cash flow (£m)
483	**53**	**(47)**	**(142)**
2012: 501	2012: 61	2012: (42)	2012: 78

Revenue

The Post Office's revenue has declined by £21 million, including a £3 million reduction in the Network Subsidy Payment. Turnover decreased from £501 million in the first 6 months of the prior year, to £483 million this half year with encouraging growth in the Financial Services and Telecoms businesses more than offset by decline in the Mails and Retail and Government Services businesses. The Network Subsidy Payment is government grant revenue towards the costs of maintaining the Post Office network. This payment decreased by £3 million from the previous year to £100 million consistent with the Government Funding Agreement. This will reduce further in 2014-15 as set out in the current funding agreement with the government.

Mails and Retail

Mails and Retail revenue of £184 million decreased by £12 million (2012–£196 million). Of this, revenue in relation to Royal Mail products decreased by £10 million, driven primarily by lower consumer parcel volumes through the Post Office and lower stamps revenue due to the sales peak ahead of the price rise at the end of April 2012. In addition, retail revenue decreased by £1 million, as the comparative figure last half year included revenue from the collectibles relating to the Diamond Jubilee and Olympics memorabilia. Revenue derived from sales of lottery tickets declined by £1 million.

Financial Services

The Financial Services offering continues to grow, using our position at the heart of communities to offer products that are simple, fair, accessible and transparent, and value for money.

Financial Services revenue in the first half of the year increased by £1 million to £139 million (2012–£138 million). Personal Financial Services revenue rose by 23%, driven by strong growth in savings products (particularly Growth Bonds and Reward Saver) and the growth of the new mortgage products. Revenue from traditional financial services products, including bill payment services and Postal Orders, continued to decline. This was due to the increasing provision of electronic alternatives to paper-based products and the increasing use of alternative payment methods.

The Department for Work and Pensions contract for cash cheques and green giros has ceased, and National Savings and Investments' (NS&I) decision to provide most of their products through their own direct channel has resulted in a further reduction in revenue.

Government Services

Government Services revenue of £75 million declined by £9 million (2012–£84 million) due to a lower volume and rate per transaction for DVLA motoring work and a reduction in the number of active Post Office Card Account (POCA) accounts. Revenue from the Passport Check & Send service increased by £1 million due to an increased share of a growing market.

Two major new contracts have been signed with Government Departments. Her Majesty's Passport Office has signed a contract under the Front Office Counter Services framework that will allow for the continuation of the popular Passport check and send service. A contract has also been signed with Government Digital Service for the provision of Identity Assurance services.

Telecoms

Telecoms revenue of £65 million represented an increase of £2 million (2012–£63 million). Revenue from HomePhone and Broadband rose driven by an uplift in our average revenue per user following the introduction of more attractive packages last year. Revenue from our Mobile top-up business was lower than the previous half year, as more customers continue to migrate away from pre-pay services onto contracts. Despite this reduction in income, the Post Office is still a significant provider in the top-up market, and its share of the retail market has been maintained at around 5%.

Operating costs

People costs of £131 million have increased compared to the first 6 months of the prior year by £3 million mainly due to higher pension costs and historical pay agreements.

Other operating costs have decreased by £15 million to £422 million mainly due to lower sales volumes.

Joint venture

The share of profit from the joint venture, First Rate Exchange Services Holdings Limited, increased by £1 million to £23 million.

Exceptional items

Operating exceptional items include the costs of delivery of major change and the impairment of non-current assets. These are offset by Government grant funding, received towards the transformation programme and recognised to match the associated costs. In addition a gain of £102 million arose on the change to the terms of the Royal Mail Pension Plan. In the half year Network Transformation resulted in costs of £55 million. Costs of £5 million relate to the IT transformation programme which will create the appropriate IT infrastructure for the future. Government grant funding of £129 million has been recognised to offset the costs as appropriate including £31 million to cover costs incurred in 2012-13 but not covered by the 2012-13 grant.

Operating cash flow

There has been an operating cash outflow of £142 million during the period in contrast to the comparative half year which saw a net cash inflow of £78 million. This change in cash flow is driven by differing working capital movements due to the timing of Easter relative to the March 2013 and March 2012 year ends. The cash position of the business remains strong, with cash and cash equivalents of £829 million (2012-£898 million).

Financials

Interim condensed consolidated income statement

	Notes	Half year to 29 September 2013 Unaudited £m	Half year to 23 September 2012 Unaudited £m
Continuing operations			
Turnover		**483**	501
Network Subsidy Payment		**100**	103
Revenue	3	**583**	604
People costs excluding restructuring costs		**(131)**	(128)
Other operating costs		**(422)**	(437)
Share of post tax profit from joint ventures and associates		**23**	22
Operating profit before exceptional items		**53**	61
Operating exceptional items	4	**132**	(10)
- government grant		**129**	35
- Royal Mail Pension Plan amendment		**102**	-
- restructuring costs		**(64)**	(24)
- other		**(35)**	(21)
Operating profit		**185**	51
Profit on disposal of property, plant and equipment		**2**	2
Loss on sale of associate		**-**	(30)
Profit before financing and taxation		**187**	23
Finance costs		**(1)**	(2)
Finance income		**-**	1
Net pensions interest		**2**	1
Profit before taxation		**188**	23
Taxation credit	5	**2**	18
Profit for the period from continuing operations		**190**	41

Interim condensed consolidated statement of comprehensive income

	Notes	Half year to 29 September 2013 Unaudited £m	Half year to 23 September 2012 Unaudited £m
Profit for the period from continuing operations		**190**	41
Other comprehensive income:			
Remeasurements on defined benefit surplus	6	**(54)**	(32)
Income tax effect	5	**(2)**	(11)
Total comprehensive income/(expenditure) for the period		**134**	(2)

There are no other comprehensive income items that will be reclassified to the profit and loss in subsequent periods.

Interim condensed consolidated statement of cash flows

	Notes	Half year to 29 September 2013 Unaudited £m	Half year to 23 September 2012 Unaudited £m
Cash flows from operating activities			
Operating profit before exceptional items		**53**	61
Adjustment for:			
Depreciation and amortisation		**-**	-
Share of profit from joint ventures and associates		**(23)**	(22)
Pension operating costs		**13**	13
Working capital movements:		**(6)**	131
Decrease/(increase) in trade and other receivables		**73**	(10)
(Decrease)/increase in trade and other payables		**(81)**	143
Decrease/(increase) in inventories		**1**	(3)
Increase in non-exceptional provisions		**1**	1
Pension operating costs paid		**(13)**	(13)
Cash receipts in respect of operating exceptional items:		**153**	178
Government grant		**215**	200
Restructuring costs		**(59)**	(17)
Other		**(3)**	(5)
Net cash inflow from operating activities		**177**	348
Income tax recovered		**10**	11
Cash flows from investing activities			
Investment in associate		**-**	(11)
Proceeds from sale of property, plant and equipment		**2**	2
Proceeds from disposal of associate		**-**	2
Purchase of non-current assets		**(38)**	(20)
Net cash (outflow) from investing activities		**(36)**	(27)
Net cash inflow before financing activities		**151**	332
Cash flows from financing activities			
Finance costs paid		**-**	(2)
Payments to finance lease creditors		**(2)**	(2)
Repayment of bank borrowings		**(291)**	(250)
Net cash (outflow) from financing activities		**(293)**	(254)
Net (decrease)/increase in cash and cash equivalents		**(142)**	78
Effect of exchange rates on cash and cash equivalents		**-**	-
Cash and cash equivalents at the beginning of the period		**971**	820
Cash and cash equivalents at the end of the period	7	**829**	898

Interim condensed consolidated balance sheet

at 29 September 2013 and 31 March 2013

	Notes	29 September 2013 Unaudited £m	31 March 2013 Audited £m
Non-current assets			
Intangible assets		**-**	-
Property, plant and equipment		**11**	11
Investments in joint ventures and associates		**83**	60
Retirement benefit surplus	6	**145**	97
Trade and other receivables		**10**	10
Total non-current assets		**249**	178
Current assets			
Inventories		**7**	8
Trade and other receivables		**269**	352
Cash and cash equivalents		**855**	971
Financial assets - derivatives		**-**	1
Total current assets		**1,131**	1,332
Total assets		**1,380**	1,510
Current liabilities			
Trade and other payables		**(899)**	(874)
Financial liabilities - interest bearing loans and borrowings		**-**	(291)
- obligations under finance leases		**(1)**	(3)
Provisions		**(25)**	(19)
Total current liabilities		**(925)**	(1,187)
Non-current liabilities			
Financial liabilities - obligations under finance leases		**(4)**	(4)
Other payables		**(24)**	(24)
Provisions		**(5)**	(7)
Total non-current liabilities		**(33)**	(35)
Net assets		**422**	288
Equity			
Share capital		**-**	-
Share premium		**465**	465
Retained earnings		**(45)**	(179)
Other Reserves		**2**	2
Total equity		**422**	288

Interim condensed consolidated statement of changes in equity

For the half year ended 29 September 2013

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 1 April 2013 (unaudited)		**465**	**(179)**	**2**	**288**
Profit for the period		**-**	**190**	**-**	**190**
Remeasurements on defined benefit surplus	6	**-**	**(54)**	**-**	**(54)**
Income tax effect	5	**-**	**(2)**	**-**	**(2)**
At 29 September 2013 (unaudited)		**465**	**(45)**	**2**	**422**

For the half year ended 23 September 2012

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 26 March 2012 (unaudited)		465	(552)	47	(40)
Profit for the period		-	41	-	41
Remeasurements on defined benefit surplus		-	(32)	-	(32)
Transfer of pension deficit to government		-	286	-	286
Sale of interest in associate		-	45	(45)	-
Income tax effect	5	-	(11)	-	(11)
At 23 September 2012 (unaudited)		465	(223)	2	244

Notes to the interim condensed consolidated financial statements

1. Accounting policies

The interim condensed consolidated financial statements of Post Office Limited and its subsidiaries (collectively, the Group) for the half year ended 29 September 2013 were authorised for issue in accordance with a resolution of the directors on 4 December 2013.

The information for the year ended 31 March 2013 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the full statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Basis of preparation

These interim condensed consolidated financial statements for the half year ended 29 September 2013 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. This report should be read in conjunction with the Group's Annual Report and Financial Statements 2012-13, which have been prepared in accordance with IFRSs as adopted by the European Union.

Fundamental accounting concept – going concern

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office Limited will be able to meet its liabilities as they fall due for the foreseeable future. Accordingly, on that basis, the Directors consider that it is appropriate that these interim condensed consolidated financial statements have been prepared on a going concern basis.

The Group has net assets at 29 September 2013 and is reporting a profit before exceptional items. A funding agreement with Government was announced on 27 October 2010 which provided for:

- Funding of £410 million for 2012-13
- Funding of £415 million for 2013-14
- Funding of £330 million for 2014-15
- Extension of the existing working capital facility with the Department for Business, Innovation & Skills (BIS) of £1.15 billion up to 31 March 2016

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

An additional funding agreement with Government was announced on 27 November 2013 which provided for:

- Funding of £280 million for 2015-16
- Funding of £220 million for 2016-17
- Funding of £140 million for 2017-18
- Extension of the existing working capital facility with the Department for Business, Innovation & Skills (BIS) amended with a limit of £950 million from 31 March 2015 up to 31 March 2018

State Aid approval for the funding for 2015-16 to 2017-18 has not yet been received.

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

The Directors are satisfied with the continued progress made towards modernisation during the half year ended 29 September 2013 and that the plans in place and the substantial investment secured will enable the Group to continue to modernise and to secure its future. However, they note that the scale of change required remains significant so not without risk.

New standards, interpretations and amendments adopted by the Group

The interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in the Group's Annual Report and Financial Statements 2012-13, except for the adoption of new standards and interpretations effective as of 1 April 2013.

The Group applies, for the first time, IAS 19 (Revised 2011) Employee Benefits. This has not required restatements of previous financial statements as the effect of the application of IAS 19R is not material in the opinion of the Directors. IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are recognised in other comprehensive income (OCI) and permanently excluded from profit and loss which is consistent with the existing policy of the Group; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit asset in profit or loss, calculated using the discount rate used to measure the defined benefit surplus. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

In the case of the Group, the transition to IAS 19R and the difference in accounting for interest on plan assets and unvested past service costs has not had a material impact on the net defined benefit plan surplus. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. Risks and uncertainties

The principal and other significant risks and uncertainties affecting the Group were identified as part of the Performance Review, set out on pages 34 and 35 of the Group's Annual Report and Financial Statements 2012-13. These risks remain relevant for the remaining six months of the current financial year. The funding risk should be read in conjunction with the information in note 1 in relation to the additional funding agreement announced on 27 November 2013.

Notes to the interim condensed consolidated financial statements

3. Segmental reporting

The Group's operating segments have been identified as Mails & Retail, Financial Services, Government Services, Telecoms and Other. The performance of these segments in the half year ended 29 September 2013 has been discussed further in the Business Review on pages 4 and 5. Performance is assessed based on net revenue. This is calculated using segmental revenue less the directly attributable costs of delivering the service or product. Assets and liabilities as recognised on the Group balance sheet are not considered to be segmental assets or liabilities but rather are managed by the Group's central functions.

	Half year to 29 September 2013		
	Revenue £m	**Directly attributable costs £m**	**Net revenue £m**
Mails & Retail	**184**	**(2)**	**182**
Financial Services	**139**	**-**	**139**
Government Services	**75**	**(15)**	**60**
Telecoms	**65**	**(40)**	**25**
Other	**20**	**-**	**20**
Sub-total	**483**	**(57)**	**426**
Network Subsidy Payment	**100**	**-**	**100**
Total	**583**	**(57)**	**526**

	Half year to 23 September 2012		
	Revenue £m	Directly attributable costs £m	Net revenue £m
Mails & Retail	196	(3)	193
Financial Services	138	-	138
Government Services	84	(15)	69
Telecoms	63	(40)	23
Other	20	-	20
Sub-total	501	(58)	443
Network Subsidy Payment	103	-	103
Total	604	(58)	546

A reconciliation between underlying segment net revenue and profit before taxation is provided below:

	Half year to 29 September 2013 £m	Half year to 23 September 2012 £m
Underlying segment net revenue	**526**	546
Indirect costs	**(496)**	(507)
Share of post-tax profit from joint ventures and associates	**23**	22
Operating profit before exceptional items	**53**	61
Operating exceptional items	**132**	(10)
Operating profit	**185**	51
Profit on disposal of property, plant and equipment	**2**	2
Loss on sale of associate	**-**	(30)
Profit before financing and taxation	**187**	23
Finance costs	**(1)**	(2)
Finance income	**-**	1
Net pensions interest	**2**	1
Profit before taxation	**188**	23

Seasonality of operations

Due to the seasonality of the Mails & Retail segment higher revenues are usually expected in the second half of the year. This is mainly attributed to the effect of the Christmas period. This information is provided to allow for a better understanding of the results, however management has concluded that this does not constitute 'highly seasonal' as considered by IAS 34.

4. Operating exceptional items

These are items of income and expenditure arising from the operations of the business which, due to the nature of the events giving rise to them, require separate presentation on the face of the income statement to allow a better understanding of financial performance.

	Half year to 29 September 2013 £m	Half year to 23 September 2012 £m
Government grant	**129**	35
Royal Mail Pension Plan amendment	**102**	-
Network transformation including subpostmasters' compensation	**(56)**	(14)
Restructuring - severance	**(2)**	(6)
- other	**(6)**	(4)
Impairment of intangible assets	**(18)**	(10)
Impairment of property, plant and equipment	**(17)**	(11)
Total operating exceptional items	**132**	(10)

For further information in relation to the Royal Mail Pension Plan amendment refer to note 6. Due to ongoing operational losses (excluding Network Subsidy Payment) the carrying value of intangible assets and all property plant and equipment other than freehold and long leasehold property has been impaired to the recoverable amount.

5. Taxation

The overall taxation credit in the income statement is calculated by applying the tax rate that would be applicable to the expected total annual earnings to the reported interim profit.

The major components of income tax in the interim condensed income statement are:

	Half year to 29 September 2013 £m	Half year to 23 September 2012 £m
Corporation tax credit for period	**-**	7
Tax under provided in previous periods	**-**	-
Current tax	**-**	7
Deferred tax credit relating to the origination and reversal of temporary differences	**2**	11
Income tax credit reported in the condensed consolidated income statement	**2**	18

Notes to the interim condensed consolidated financial statements

6. Pensions

The Group participates in pension schemes as detailed below.

Name	Eligibility	
Royal Mail Pension Plan (RMPP)	UK employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	UK senior executives	Defined benefit
Royal Mail Defined Contribution Plan (RMDCP)	UK employees	Defined contribution

The charge in the interim condensed consolidated income statement for the defined contribution scheme and the Group contributions to this scheme was £1 million in the half year to 29 September 2013, and payments of £11 million were made in respect of 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 17.1%.

The following disclosures reflect the Post Office Limited sectionalised RMPP scheme which is independently operated by the Group. Disclosures in relation to Post Office Limited's approximately 7% share of RMSEPP (which is operated by Royal Mail Group Limited) have been excluded as they are not considered to be significant to the interim condensed consolidated financial statements.

During the period there was a consultation exercise with members of the defined benefit Royal Mail Pension Plan on proposed changes to the terms. These changes were agreed and implemented on 15 October 2013. The key change was to the definition of pensionable pay which broadly will increase in line with RPI (capped at 5%) in future regardless of actual pay growth. The changes have resulted in a one-off exceptional gain of £102 million.

IAS 19R has been applied retrospectively from 26 March 2012. Expected returns on plan assets of defined benefit plans are not recognised in profit or loss. Interest on net defined benefit surplus is recognised in profit or loss, calculated using the discount rate used to measure the net pension surplus. The impact of transition to IAS 19R retrospectively is not material to the Group, and therefore no restatement has been required.

a) Major long-term assumptions

	At 29 September 2013 % pa	At 31 March 2013 % pa
Rate of increase in pensionable salaries	**3.3**	4.3
Discount rate	**4.6**	4.8
Inflation assumption (RPI)	**3.3**	3.3
Inflation assumption (CPI)	**2.3**	2.3

Demographic assumptions, for example mortality, remain unchanged from those made in March 2013.

b) Plans' assets and liabilities

The plan assets and liabilites were:

Sectionalised RMPP	**Market value at 29 September 2013 £m**	Market value at 31 March 2013 £m
Fair value of assets	**235**	243
Present value of liabilities	**(71)**	(144)
Surplus in plan before IFRIC 14 adjustment	**164**	99
Less IFRIC 14 adjustment	**(21)**	(3)
Surplus in RMPP plan after IFRIC 14 adjustment	**143**	96
Surplus in plan for the Post Office Limited share (at approximately 7%) of RMSEPP	**2**	1
Total retirement benefit surplus	**145**	97

c) Movement in plans' assets and liabilities

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

Sectionalised RMPP	Half year ended 29 September 2013 £m	Year ended 31 March 2013 £m
Opening net retirement benefit surplus/(deficit)	**99**	(205)
Royal Mail Pension Plan amendment	**102**	-
Transfer of pension deficit to government	**-**	286
Current service cost	**(13)**	(24)
Curtailment costs	**-**	(2)
Net financing credit	**2**	2
Employer's contributions	**11**	25
Actuarial (losses)/gains	**(37)**	17
Closing net retirement benefit surplus before IFRIC 14 adjustment	**164**	99

7. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	At 29 September 2013 £m	At 23 September 2012 £m
Cash equivalents	**855**	898
Bank overdrafts	**(26)**	-
	829	898

Notes to the interim condensed consolidated financial statements

8. Related party disclosures

All related party transactions were in the ordinary course of business. The transactions entered into and the balances outstanding as at 29 September 2013 were as follows:

	Sales/recharges to related party		Purchases/recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
Half year to September	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Royal Mail Plc	**169**	172	**18**	18	**-**	-	**11**	9
Midasgrange Limited	**-**	35	**-**	1	**-**	28	**-**	1
First Rate Exchange Services Holdings Limited	**16**	15	**80**	81	**8**	6	**5**	4

For further information in relation to Royal Mail plc refer to note 9. The sales to, and purchases from, related parties are made on normal market prices. Balances outstanding at the half year end are unsecured, interest free, and settlement is made by cash.

The Group trades with numerous government bodies on an arm's length basis. Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted. Separately, the Group has certain loan facilities with government, and receives a government grant and the Network Subsidy Payment from government. There were no material transactions or balance between the Group and its key management personnel during the half year ended 29 September 2013.

9. Post balance sheet events

On 15 October 2013 Royal Mail was listed on the London Stock Exchange as Royal Mail plc. From this date Royal Mail Group Limited ceased to be a subsidiary of Royal Mail Holdings plc which is Post Office Limited's immediate and ultimate parent company. The contractual relationships between Post Office Limited and Royal Mail Group Limited have not changed.

As detailed in note 1, on 27 November 2013 an additional funding agreement with Government was announced.

Statement of Directors' responsibilities

The directors confirm that this condensed set of interim financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union.

By order of the Board

P A Vennells
Chief Executive

C M Day
Chief Financial Officer

4 December 2013

Independent review report to Post Office Limited

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the half year ended 29 September 2013 which comprises the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flows, interim condensed consolidated balance sheet, interim condensed consolidated statement of changes in equity and related notes 1 to 9. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with International Accounting Standards 34, "Interim Financial Reporting," as adopted by the European Union.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standards 34, "Interim Financial Reporting," as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the half year ended 29 September 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP

London

4 December 2013

Our pictures

Front cover

Jonathan and Sarah Armstrong, of Windmill Drive main branch in Bexhill on Sea won the Independent Community Retailer of the Year trophy at the National Federation of Retail Newsagents awards. The duo were recognised for their tireless efforts to make their Post Office branch the heart of their community.

Page 2

Our brand new Crown Office in Milton Keynes which opened in July this year.

Corporate information

Post Office Limited

Interim Report for the half year ended 29 September 2013

Registered Office and Group Head Office

Post Office Limited
148 Old Street
London EC1V 9HQ

Registered No: 2154540

Corporate website

Additional corporate and other information can be accessed on the following website (www.postoffice.co.uk). Information made available on the website is not intended to be, and should not be regarded as being, part of the accounts.