Registered Number 2154540

Post Office Limited

Unaudited interim condensed consolidated financial statements

28 September 2014

Our story in summary

Challenge, Commitment and Change

Alice Perkins
Chairman

Paula Vennells
Chief Executive

The first six months of the financial year showed the Post Office making further progress towards its ambition of achieving commercial sustainability. It did so in increasingly volatile and competitive market conditions. As well as value for money, customers now demand convenience and speed and simplicity of service and the Post Office is making great strides, especially in its branch network. But our customers will require even more pace and responsiveness from us if we are to succeed.

The business reduced its reliance on the Network Subsidy Payment from Government, easing pressure on the public purse. This manifested itself in the first six months of the year with the planned £20 million reduction in the payment compared with the same period in the previous year. The operating profit before exceptional items reduced to £23 million (2013: £53 million) including this 20% reduction in the Network Subsidy Payment. The underlying result excluding this was therefore a reduction of £10 million in profit, highlighting the need to take a tough approach to costs and to focus resolutely on improving performance by the year end.

At the same time, the business' programme to transform the branch network has built momentum, progressing faster than ever before. By the end of September 2014, 3,134 branches had been modernised. Of these, 1,076 were opened in the six month period from April to September 2014, compared to 588 in the same six month period in 2013 (an 80% increase in the pace of change).

Similar progress was seen within the Crown branch network, the larger branches directly operated by Post Office Limited. Through a combination of investment, automation, training, cost reduction and franchising, the Crown network, which as recently as 2012-13 was losing £37m per year, continues on a path to break even in 2015. By the end of September, 248 large branches, the majority of the Crown network, had received significant investment to modernise their environment.

As a result of this progress, by the end of September there were more than 85,000 additional opening hours in post offices every week, with around 2,000 branches now open on a Sunday. The Post Office has also developed the network to open almost 150 new access points - helping customers with their Home Shopping Returns. This addresses a key part of the market where ease and convenience is central, where competition is strong, and where the Post Office has an opportunity to benefit from overall market growth.

Overall revenue, excluding the Network Subsidy Payment, was £475 million for the six months compared to £483 million in the same period last year. This performance has been impacted by market pressures, particularly in mails and as more government services migrate to digital channels.

Mails and Retail revenue in the half year was broadly flat compared with prior year. The Post Office continues to work closely with its long term partners in Royal Mail to drive revenue growth. This involves further innovation as seen in the 'Drop and Go' service now used by over 60,000 small businesses and through continued 'Click and Collect' services.

Government Services and Telecoms had a difficult period, with year on year revenue declines of 9.3% and 9.2% respectively – the former impacted by increased use of digital channels as government departments seek to reduce spending and the latter by reduced customer numbers and average revenue per customer.

In both cases however, progress is being made. The introduction of Identity Services points the way forward in Government Services. In Telecoms, the platform developed by the business' new partner will enable the Post Office to introduce new products and promotions more swiftly.

In Financial Services the Post Office performed strongly in the first half of the year with revenue growth of 5.8% including Personal Financial Services revenue growth of 11% year on year. The product suite is being further developed with a current account offer and growing presence in the mortgage market. Our over-the-counter access to cash and foreign currency businesses are also benefitting from greater convenience and enhanced opening hours - particularly notable at a time when traditional banks are closing branches.

To deliver the goal of commercial sustainability, there is an imperative to drive the highest levels of cost efficiency in all Post Office operations and in central support structures. The next six months will see further re-structuring and cost control and we anticipate that the second half of the year will show improving results before exceptional items.

The Post Office, supported by the energy and commitment of its people and partners, is resolute in its determination to build a strong and stable future. The first half year has demonstrated genuine progress but has also underlined the challenges to be faced over the next two to three years to secure this positive future. We are confident this can be done and will lead the business, its partners and its stakeholders through difficult changes in culture and focus to do so.

Business review

Key performance figures

six months ended 28 September 2014

Summary Group Profit and Loss Account

	2014 £m	2013 £m	Variance £m	Variance %
Turnover	**475**	483	(8)	(1.7)
Network Subsidy Payment	**80**	100	(20)	(20.0)
Revenue	**555**	583	(28)	(4.8)
People costs	**(125)**	(131)	6	4.6
Other operating costs	**(431)**	(422)	(9)	(2.1)
Total costs	**(556)**	(553)	(3)	(0.5)
Share of profit from joint ventures and associates	**24**	23	1	4.3
Operating profit before exceptional items	**23**	53	(30)	(56.6)
Operating exceptional items	**(3)**	132		
Profit on disposal of property, plant and equipment	**-**	2		
Profit before financing and taxation	**20**	187		

Revenue by segment

	2014 £m	2013 £m	Variance £m	Variance %
Mails and Retail	**183**	184	(1)	(0.5)
Financial Services	**147**	139	8	5.8
Government Services	**68**	75	(7)	(9.3)
Telecoms	**59**	65	(6)	(9.2)
Other income	**18**	20	(2)	(10.0)
Turnover	**475**	483	(8)	(1.7)
Network Subsidy payment	**80**	100	(20)	(20.0)
Revenue	**555**	583	(28)	(4.8)

Key Financial Performance Indicators

Turnover (£m)	Operating profit before exceptional items (£m)	Operating loss before depreciation, amortisation, exceptional items and Network Subsidy Payment (£m)	Net cash flow (£m)
475	**23**	**(57)**	**93**
2013: 483	2013: 53	2013: (47)	2013: (142)

Business review

Revenue

Turnover decreased by £8 million from £483 million in the first 6 months of the prior year, to £475 million this year with growth in the Financial Services business more than offset by decline in the Government Services and Telecoms businesses. The Mails and Retail business remained almost flat with £1m (0.5%) decline. The Network Subsidy Payment decreased by £20 million from the previous year to £80 million in line with the Government Funding Agreement. This will reduce further in 2015-16 as set out in the current funding agreement with the government.

Mails and Retail

The Mails and Retail pillar includes all services provided for Royal Mail and Parcelforce as well as Lottery and retail services. Mails and Retail revenue of £183 million decreased by £1 million (2013: £184 million). This reduction in revenue was in relation to Royal Mail products and was driven primarily by continued lower parcel volumes through the Post Office. Retail revenue and revenue derived from the sales of lottery tickets remained flat.

Financial Services

The Financial Services pillar includes Post Office branded personal financial services products, ATMs and travel services as well as traditional services such as bill payment and over-the-counter banking transactions. It offers products that are simple, fair, accessible and transparent, and value for money.

Financial Services revenue in the first half of the year increased by £8 million to £147 million (2013: £139 million). Personal Financial Services revenue rose by 11%, driven by growth in insurance, savings, international money transfer and mortgage products. Revenue from traditional financial services products, including bill payment services, National Savings and Investments (NS&I) premium bonds and Postal Orders, is generally continuing to decline but grew in the 6 month period by £1m largely due to increased premium bond sales following the increase in the maximum limit for holdings that took effect in June 2014.

Government Services

The Government Services pillar covers services provided under contract to Government departments. Government Services revenue of £68 million declined by £7 million (2013: £75 million) mainly due to a reduction in the number of active Post Office Card Account (POCA) accounts. Revenue from car tax renewals continues to decline as more customers tax their vehicles via phone or online and it is a similar story for Passports where the launch of a new online journey has led to a decline in Post Office revenue.

Telecoms

The Telecoms pillar includes the Post Office HomePhone and Broadband services as well as e-top up services and phonecards. Telecoms revenue of £59 million decreased by £6 million (2013: £65 million). Revenue from HomePhone and Broadband decreased driven by a reduction in customer numbers and in the average revenue per user (ARPU). The reduction in the customer base is largely due to increased competition from bundle providers (phone/broadband/TV/mobile). The reduced ARPU is primarily due to changing customer behaviours as land lines are used less and remaining usage is migrating to 'anytime' packages which generate less revenue. 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. The Post Office is still a significant provider in the top-up market, and its share of the declining retail market has been maintained at around 5%.

Operating costs

People costs of £125 million have decreased compared to the first 6 months of the prior year by £6 million. This includes savings in the Crown network as well as wider efficiencies, the outsourcing of some IT functions and lower performance related bonuses.

Other operating costs have increased by £9 million to £431 million which includes higher IT costs during the implementation of the transformation and for the newly outsourced elements of IT and higher marketing costs.

Joint venture

The share of profit from the joint venture, First Rate Exchange Services Holdings Limited, increased by £1 million to £24 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 the half year Network Transformation resulted in costs of £74 million (2013: £56 million) and Crown Transformation costs were £10m (2013: less than £1 million). Costs of £6 million (2013: £5 million) relate to the IT transformation programme which will create the appropriate IT infrastructure for the future. There have also been severance costs of £10 million (2013: £2 million) and other restructuring costs of £7 million (2013: £1 million). Asset impairments of £66 million (2013: £35 million) are included within operating exceptional items. Exceptional items in the comparative half year included a gain of £102 million which arose on the change to the terms of the Royal Mail Pension Plan.

The Government grant funding for 2014-15 of £170 million (2013: £215 million) was received on 1 April 2014 and has been fully recognised in the half year to offset costs as appropriate (2013: £129 million recognised). Significant expenditure will continue on the delivery of major change in the second half of the year, which will not be funded by the grant.

Profit

The Post Office tracks a Key Financial Performance Indicator of operating loss before depreciation, amortisation, exceptional items and Network Subsidy Payment. The loss increased by £10 million to £57 million (2013: £47 million). This increase in the loss is driven by a combination of the decline in revenue, primarily in Government Services and Telecoms, and a net increase in costs.

The operating profit before exceptional items has decreased by £30 million to £23 million (2013: £53 million) driven mainly by the reduction in the Network Subsidy Payment of £20 million and the increased loss above.

Profit before financing and taxation has decreased from £187 million to £20 million driven by the £30 million reduction in operating profit before exceptional items and the change year on year in exceptional items. This was mainly due to the gain of £102 million which arose on the change to the terms of the Royal Mail Pension Plan in the comparative half year.

Net cash flow

There has been a net cash inflow of £93 million during the period in contrast to the comparative half year which saw a net cash outflow of £142 million. The change in cash flow is driven by the repayment of the loan in the prior year. The cash position of the business remains strong, with cash and cash equivalents of £781 million (2013: £829 million).

Interim condensed consolidated income statement

	Notes	Half year to 28 September 2014 Unaudited £m	Half year to 29 September 2013 Unaudited £m
Continuing operations			
Turnover		**475**	483
Network Subsidy Payment		**80**	100
Revenue	3	**555**	583
People costs excluding restructuring costs		**(125)**	(131)
Other operating costs		**(431)**	(422)
Share of post tax profit from joint ventures and associates		**24**	23
Operating profit before exceptional items		**23**	53
Operating exceptional items	4	**(3)**	132
- government grant		**170**	129
- Royal Mail Pension Plan amendment		**-**	102
- restructuring costs		**(107)**	(64)
- other		**(66)**	(35)
Operating profit		**20**	185
Profit on disposal of property, plant and equipment		**-**	2
Profit before financing and taxation		**20**	187
Finance costs		**(1)**	(1)
Net pensions interest		**4**	2
Profit before taxation		**23**	188
Taxation credit	5	**5**	2
Profit for the period from continuing operations		**28**	190

Interim condensed consolidated statement of comprehensive income

	Notes	**Half year to 28 September 2014** **Unaudited** **£m**	Half year to 29 September 2013 Unaudited £m
Profit for the period from continuing operations		**28**	190
Other comprehensive income:			
Remeasurements on defined benefit surplus	6	**13**	(54)
Income tax effect	5	**(4)**	(2)
Total comprehensive income for the period		**37**	134

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 28 September 2014 Unaudited £m	Half year to 29 September 2013 Unaudited £m
Cash flows from operating activities			
Operating profit before exceptional items		**23**	53
Adjustment for:			
Depreciation and amortisation		**-**	-
Share of profit from joint ventures and associates		**(24)**	(23)
Pension operating costs		**15**	13
Working capital movements:		**55**	(6)
(Increase)/decrease in trade and other receivables		**(1)**	73
Increase/(decrease) in trade and other payables		**56**	(81)
Decrease/(increase) in inventories		**-**	1
Increase in non-exceptional provisions		**-**	1
Pension operating costs paid		**(11)**	(13)
Cash receipts in respect of operating exceptional items:		**70**	153
Government grant		**170**	215
Restructuring costs		**(105)**	(59)
Other		**5**	(3)
Net cash inflow from operating activities		**128**	177
Income tax recovered		**10**	10
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**-**	2
Purchase of non-current assets		**(81)**	(38)
Net cash (outflow) from investing activities		**(81)**	(36)
Net cash inflow before financing activities		**57**	151
Cash flows from financing activities			
Payments to finance lease creditors		**(2)**	(2)
Proceeds from/(repayment of) bank borrowings		**38**	(291)
Net cash inflow/(outflow) from financing activities		**36**	(293)
Net increase/(decrease) in cash and cash equivalents		**93**	(142)
Cash and cash equivalents at the beginning of the period		**688**	971
Cash and cash equivalents at the end of the period	7	**781**	829

Interim condensed consolidated balance sheet as at:

	Notes	28 September 2014 Unaudited £m	30 March 2014 Unaudited £m
Non-current assets			
Intangible assets		**-**	-
Property, plant and equipment		**10**	10
Investments in joint ventures and associates		**85**	61
Retirement benefit surplus	6	**163**	148
Trade and other receivables		**12**	15
Total non-current assets		**270**	234
Current assets			
Inventories		**6**	6
Trade and other receivables		**296**	302
Cash and cash equivalents		**789**	738
Total current assets		**1,091**	1,046
Total assets		**1,361**	1,280
Current liabilities			
Trade and other payables		**(762)**	(767)
Financial liabilities - interest bearing loans and borrowings		**(38)**	-
- obligations under finance leases		**(1)**	(3)
Provisions		**(80)**	(70)
Total current liabilities		**(881)**	(840)
Non-current liabilities			
Other payables		**(33)**	(28)
Provisions		**(6)**	(8)
Total non-current liabilities		**(39)**	(36)
Net assets		**441**	404
Equity			
Share capital		**-**	-
Share premium		**465**	465
Retained earnings		**(26)**	(63)
Other Reserves		**2**	2
Total equity		**441**	404

Interim condensed consolidated statement of changes in equity

For the half year ended 28 September 2014

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 31 March 2014 (unaudited)		**465**	**(63)**	**2**	**404**
Profit for the period		**-**	**28**	**-**	**28**
Remeasurements on defined benefit surplus	6	**-**	**13**	**-**	**13**
Income tax effect	5	**-**	**(4)**	**-**	**(4)**
At 28 September 2014 (unaudited)		**465**	**(26)**	**2**	**441**

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		-	(54)	-	(54)
Income tax effect	5	-	(2)	-	(2)
At 23 September 2013 (unaudited)		465	(45)	2	422

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 28 September 2014 were authorised for issue in accordance with a resolution of the directors on 19 November 2014.

The information for the year ended 30 March 2014 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies, including the auditors' report on those accounts. Their report 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 28 September 2014 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 Accounts 2014, 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 28 September 2014 and is reporting a profit before and after 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.

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.

This 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 will not involve a branch closure programme.

The Directors are satisfied with the continued progress made towards modernisation during the half year ended 28 September 2014 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 Accounts 2014. 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 Strategic Report, set out on page 45 of the Group's Annual Report and Financial Statements 2013-14. These risks remain relevant for the remaining six months of the current financial year.

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 income. The performance of these segments in the half year ended 28 September 2014 has been discussed further in the Business Review on pages 3-5. 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 28 September 2014		
	Revenue £m	**Directly attributable costs £m**	**Net revenue £m**
Mails & Retail	**183**	**(2)**	**181**
Financial Services	**147**	**-**	**147**
Government Services	**68**	**(15)**	**53**
Telecoms	**59**	**(37)**	**22**
Other income	**18**	**-**	**18**
Sub total	**475**	**(54)**	**421**
Network Subsidy Payment	**80**	**-**	**80**
Total	**555**	**(54)**	**501**

	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 income	20	-	20
Sub- total	483	(57)	426
Network Subsidy Payment	100	-	100
Total	583	(57)	526

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

	Half year to 28 September 2014 £m	Half year to 29 September 2013 £m
Underlying segment net revenue	**501**	526
Indirect costs	**(502)**	(496)
Share of post tax profit from joint ventures and associates	**24**	23
Operating profit before exceptional items	**23**	53
Operating exceptional items	**(3)**	132
Operating profit	**20**	185
Profit on disposal of property, plant and equipment	**-**	2
Profit before financing and taxation	**20**	187
Finance costs	**(1)**	(1)
Finance income	**-**	-
Net pensions interest	**4**	2
Profit before taxation	**23**	188

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 28 September 2014 £m	Half year to 29 September 2013 £m
Government grant	**170**	129
Royal Mail Pension Plan amendment	**-**	102
Business transformation	**(1)**	-
Network transformation including subpostmasters compensation	**(74)**	(56)
Crown transformation	**(10)**	-
Restructuring – severance	**(10)**	(2)
- other	**(12)**	(6)
Impairment of intangible assets	**(25)**	(18)
Impairment of property, plant and equipment	**(41)**	(17)
Total operating exceptional items	**(3)**	132

Due to on-going 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 nil.

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 28 September 2014 £m	Half year to 29 September 2013 £m
Corporation tax credit for period	**-**	-
Tax over provided in previous periods	**1**	-
Current tax	**1**	-
Deferred tax credit relating to the origination and reversal of temporary differences	**4**	2
Income tax credit reported in the condensed consolidated income statement	**5**	2

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 £1m in the half year to 28 September 2014. In relation to the defined benefit schemes payments of £10m 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.

a) Major long-term assumptions

	At 28 September 2014 % pa	At 30 March 2014 % pa
Rate of increase in salaries	**3.0**	3.2
Discount rate	**4.1**	4.5
Inflation assumption (RPI)	**3.1**	3.3
Inflation assumption (CPI)	**2.1**	2.3

Demographic assumptions, for example mortality, remain unchanged from those made in March 2014.

b) Plans' assets and liabilities

The plan assets and liabilites were:

Sectionalised RMPP	**Market value at 28 September 2014 £m**	Market value at 30 March 2014 £m
Fair value of assets	**297**	260
Present value of liabilities	**(116)**	(90)
Surplus in plan before IFRIC 14 adjustment	**181**	170
Less IFRIC 14 adjustment	**(20)**	(23)
Surplus in RMPP plan after IFRIC 14 adjustment	**161**	147
Surplus in plan for the Post Office Limited share (at approximately 7%) of RMSEPP after IFRIC 14 adjustment	**2**	1
Total retirement benefit surplus	**163**	148

c) Movement in plans' assets and liabilities

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

Sectionalised RMPP	Market value at 28 September 2014 £m	Market value at 30 March 2014 £m
Opening net retirement benefit surplus	**170**	99
Royal Mail Pension Plan amendment	-	102
Current service cost	**(14)**	(25)
Curtailment costs	**(1)**	(1)
Net financing credit	**4**	5
Employers contributions	**11**	22
Actuarial gains/(losses)	**11**	(32)
Closing net retirement benefit surplus before IFRIC 14 adjustment	**181**	170

7. Cash and cash equivalents

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

	At 28 September 2014 £m	At 29 September 2013 £m
Cash equivalents	**789**	855
Bank overdrafts	**(8)**	(26)
	781	829

Notes to the interim condensed consolidated financial statements

8. Related party disclosures

There have been no material changes to the related parties listed in the Group's Annual Report and Accounts 2014. All related party transactions were in the ordinary course of business. The transactions entered into and the balances outstanding as at 28 September 2014 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:	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Royal Mail Plc	**165**	169	**21**	18	**26**	-	**31**	11
Romec Limited	**-**	-	**3**	6	**-**	-	**6**	4
First Rate Exchange Services Holdings Limited	**15**	16	**81**	80	**7**	8	**5**	5

The sales to, and purchases from, related parties are made at normal market prices. Balances outstanding at the year end are unsecured, interest free, and settlement is made by cash.

The Group trades with numerous government bodies at 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 balances between the Group and its key management personnel during the half year ended 28 September 2014.

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

C M Day
Chief Financial Officer

19 November 2014

Report on review of interim condensed financial statements

The Board of Directors 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 six months ended 28 September 2014, which comprises the interim condensed consolidated balance sheet of Post Office Limited and its subsidiaries (the Group) and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cashflow statement for the six month period then ended and the explanatory notes. 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 the accounting policies set out in note 1.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRS 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 Standard 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 six months ended 28 September 2014 is not prepared, in all material respects, in accordance with the accounting policies set out in note 1, which comply with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP
London
19 November 2014

Corporate information

Post Office Limited
Interim Report for the half year ended 28 September 2014

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 (corporate.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.