Registered Number 2154540

Post Office Limited

Unaudited interim condensed consolidated financial statements

27 September 2015

Our story in summary

Real progress in a challenging marketplace

Tim Parker
Chairman

Paula Vennells
Chief Executive

Whilst significant challenges lie ahead, real progress is being made in delivering a better Post Office for our customers: a force for good in communities across the UK and a business with a commercially sustainable future.

Financial Improvement

The first half of 2015/16 saw the Post Office continue its progress towards long-term financial sustainability. Our operating loss before exceptional items and taking account of the Network Subsidy Payment maintained a downward trend at £23 million. This is an improvement of £34 million compared with the first six months of last year. The Network Subsidy Payment from Government was reduced by £15 million as planned in the same period. Efficiency improved with turnover maintained and costs (before exceptional items) reduced by 5.8%.

This is good progress and has been achieved amid rapid change and significant competitive pressure in our key markets – Mails and Retail, Financial Services, Government Services and Telecoms. However, to deliver a commercially sustainable network we must increase our pace of modernisation and focus on greater efficiency.

Building Turnover

Turnover was stable at the half-year. Our mails business delivered increases in sales volumes (in areas such as home shopping returns) mitigating a scheduled contractual reduction in fixed fees. Government Services revenue dipped 1.5% as gains in Home Office and new identity related services were insufficient to counteract a halving of revenue from DVLA following the withdrawal of the paper tax disc. The recovery in our Telecoms business continued with 5.1% growth compared to the same period last year and an increase in customer numbers.

Personal Financial Services, which now accounts for almost half of our overall Financial Services turnover, recorded £7million (10.6%) growth compared to the first half of last year (6.6% on a like-for-like basis excluding our Travel Insurance business). Our Travel Insurance business turnover increased by £3 million as the Post Office has increased its ownership of the value chain. Meanwhile, turnover in traditional Financial Services (such as bill payment, premium bonds and postal orders) fell by 4.9%. The impact of these factors saw Financial Services turnover overall grow by 2.0% in the half year.

Personal Financial Services, now consolidated under the Post Office Money brand, is a critical element in our strategy. The quality of our developing offer to customers was recognised in the first six months of the year, with awards received including Best Direct Home & Contents Insurance Provider (Your Money Direct Awards 2015) and Best Fixed Rate Mortgage Lender (What Mortgage Awards 2015).

At the start of October our subsidiary, Post Office Management Services Limited (POMS) acquired the Post Office Money insurance products and services previously managed within Post Office's joint insurance business with Bank of Ireland UK. This includes vehicle, home, life, pet and small business insurances. The acquisition will support our drive to be a leading challenger in UK Financial Services. We recognise, however, that any turnover growth in this highly competitive and fast moving market will continue to be very hard won.

Modernisation and Efficiency

Our focus on delivering better service for our customers saw a further 740 Post Offices modernised in the half-year, taking our programme total to over 4,800. These branches are delivering longer opening hours, more efficient ways of working and more attractive environments for customers in their local communities. The benefit for customers from this continued pace of change was reflected in our announcement in August that over 3,000 branches are now open on Sundays. This number will continue to grow throughout the financial year.

The benefits of investment and modernisation are demonstrated by the way changes within the Crown branch network are now flowing through to the financial numbers. These branches recorded a half year loss of £3m in the first six months of 2015/16 compared to a loss of £13 million in the first half of last year. The Crown network is on track to breakeven.

At the same time we are further improving the online customer journey with the full modernisation and refresh of our website during the half-year.

Continuing Progress

Performance in the half-year shows the Post Office reducing its reliance on the taxpayer, building a stronger commercial business, driving towards financial breakeven and ultimately, a return on the assets employed in the business.

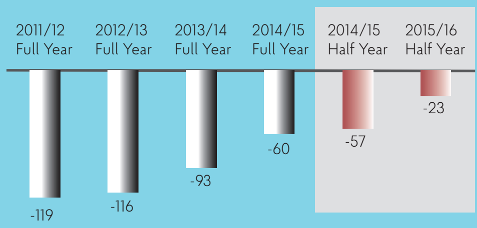
We are realistic, however, about the work still to do. We will face substantial challenges in sustaining this performance in the remainder of the 2015/16 financial year and beyond. The Network Subsidy Payment will reduce by a further £15 million in the second half of the year while we are under pressure to reduce costs and improve customer service to compete in strongly contested markets. To continue the financial performance of the first half of the year will demand rigour to deliver further efficiency gains and a continued focus on customer service to secure and build on our turnover.

Our progress to date is built upon the collective effort and support of all the people that make up the Post Office – postmasters and their teams, colleagues in branches, Supply Chain and support functions, suppliers and partners.

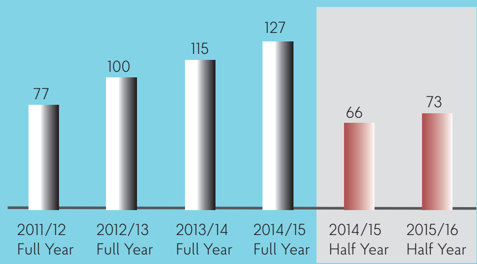
We would like to thank them all for their commitment and for their service to our customers.

In summary, the Post Office is trading competitively and improving efficiency in very competitive markets. We are confident that we can build a Post Office that is both commercially viable and protects its social purpose.

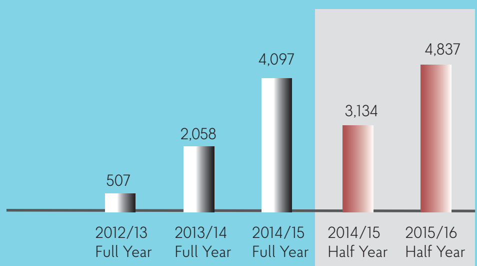
Operating loss before depreciation, amortisation, exceptional items and Network Subsidy Payment (EBITDAS) (£million)



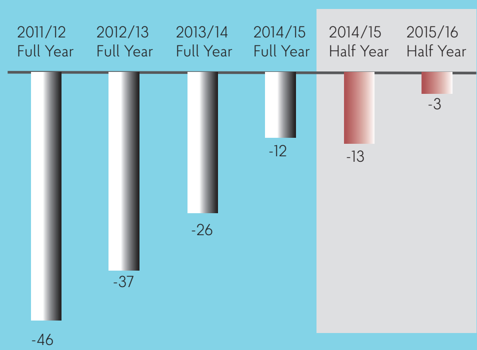
Personal Financial Services Turnover (£million)



New main and local format branches



Crown branch losses (£million)



Business review
Key performance figures
six months ended 27 September 2015

Summary results

The Post Office tracks a Key Financial Performance Indicator of operating loss before depreciation, amortisation, exceptional items and Network Subsidy Payment. The loss decreased by £34 million to £23 million (2014: £57 million). This decrease in the loss is driven by continued cost efficiencies.

The operating profit before exceptional items has increased by £19 million to £42 million (2014: £23 million) driven by cost savings offset by the reduction in the Network Subsidy Payment of £15 million.

An error was identified in the calculation for postmasters' compensation within the Network Transformation programme on the balance sheet and exceptional items charged in the 2014/15 half year and full year. The March 2015 exceptional charge has been restated by £87 million of which £67 million was restated into the September 2014 exceptional charge. This has resulted in a timing error related to recognition of the liability. It has not impacted payments to postmasters or the overall cost of the programme.

The profit before financing and taxation of £12 million has increased from a restated loss of £47 million driven by lower charges for exceptional items and by the improved operating profit before exceptional items.

	2015 £m	2014 £m	Change £m
Turnover	**477**	475	2
Operating profit before exceptional items	**42**	23	19
Operating loss before depreciation, amortisation, exceptional items and Network Subsidy Payment (EBITDAS)	**(23)**	(57)	34
Net cashflow	**(94)**	100[1]	(194)

Summary Group Profit and Loss Account

	2015 £m	2014 restated £m	Variance £m	Variance %
Turnover	**477**	475	2	0.4
Network Subsidy Payment	**65**	80	(15)	(18.8)
Revenue	**542**	555	(13)	(2.3)
People costs	**(118)**	(125)	7	5.6
Other operating costs	**(406)**	(431)	25	5.8
Total costs	**(524)**	(556)	32	5.8
Share of profit from joint ventures and associates	**24**	24	0	0.0
Operating profit before exceptional items	**42**	23	19	82.6
Operating exceptional items	**(30)**	(70)		
Profit/(loss) before financing and taxation	**12**	(47)		
EBITDAS	**(23)**	(57)	34	59.6

Revenue by segment

	2015 £m	2014 £m	Variance £m	Variance %
Mails and Retail	**182**	183	(1)	(0.5)
Financial Services	**150**	147	3	2.0
Government Services	**67**	68	(1)	(1.5)
Telecoms	**62**	59	3	5.1
Other income	**16**	18	(2)	(11.1)
Turnover	**477**	475	2	0.4
Network Subsidy payment	**65**	80	(15)	(18.8)
Revenue	**542**	555	(13)	(2.3)

Revenue

The Post Office's turnover increased from £475 million in the first 6 months of the prior year, to £477 million this year with growth in the Financial Services and Telecoms businesses more than offsetting small declines in the Government Services and Mails and Retail businesses. The Network Subsidy Payment decreased by £15 million from the previous year to £65 million in line with the Government Funding Agreement. This will reduce further in 2016/17 as set out in the current funding agreement with the government. Revenue has declined by £13 million, including this reduction in the Network Subsidy Payment.

Mails and Retail

The Mails and Retail pillar includes all services provided for Royal Mail and Parcelforce as well as Lottery and retail services such as sales of collectibles as well as packaging and stationery.

	2015 £m	2014 £m	Variance %
Mails services	**160**	160	0.0
Retail and Lottery	**22**	23	(4.3)
Mails and Retail	**182**	183	(0.5)

Mails and Retail turnover of £182 million decreased by £1 million (2014: £183 million). This reduction in turnover from Lottery and Retail services was driven by a 6% reduction in branches offering retail following branch refurbishments. Turnover in relation to Royal Mail products remained flat as increases in sales volumes, such as for returns of home shopping purchases, mitigated the contractual reduction in the fixed fee from Royal Mail.

[1]restated as disclosed on page 12

Financial Services

The Financial Services pillar includes Post Office Money products, ATMs and Travel products as well as more traditional services such as bill payment and over-the-counter banking transactions.

	2015 £m	2014 £m	Variance %
Personal Financial Services	**73**	66	10.6
Bill payment, banking and other Financial Services	**77**	81	(4.9)
Financial Services	**150**	147	2.0

Across Financial Services in aggregate, turnover increased by £3 million to £150 million (2014: £147 million), a rise of 2.0%.

Personal Financial Services turnover increased by £7 million (10.6%) driven by strong growth in international money transfers and increased turnover from new travel insurance intermediation activities undertaken by the Post Office Management Services Limited subsidiary. Additional operating costs of £4 million were incurred in carrying out these new activities. Turnover from traditional Financial Services products, including bill payment services, business banking services, National Savings and Investments (NS&I) premium bonds and Postal Orders declined by £4 million. NS&I premium bonds revenue remained flat but ceased to be available from Post Offices from 1 August 2015.

On 30 September 2015, Post Office Limited acquired from Bank of Ireland the business and assets of their joint insurance business. Immediately following acquisition, Post Office Limited transferred the business to its Post Office Management Services Limited subsidiary, which will operate the business alongside its existing travel insurance activities.

Government Services

The Government Services pillar covers services provided under contract to Government departments.

	2015 £m	2014 £m	Variance %
DWP	**39**	40	(2.5)
Home Office	**17**	15	13.3
DVLA	**6**	11	(45.5)
Other Government Services	**5**	2	150.0
Government Services	**67**	68	(1.5)

Government Services turnover of £67 million declined by £1m (2014: £68 million). DVLA revenue decreased by £5 million as customers increasingly use the online channel for motor vehicle licence payments, a trend which has accelerated since the paper disc was withdrawn in October 2014. Home Office revenue has increased by £2 million, driven by passport check & send services and biometric enrolment services for foreign migrants. Other Government Services turnover has also increased by £3 million largely for identity related services, including Cabinet Office's new Verify online identity service.

Telecoms

The Telecoms pillar includes the Post Office HomePhone and Broadband services as well as e-top up services and phonecards.

	2015 £m	2014 £m	Variance %
HomePhone and Broadband	**60**	57	5.3
E Top-ups and phonecards	**2**	2	0.0
Telecoms	**62**	59	5.1

Telecoms turnover of £62 million increased by £3 million (2014: £59 million). Revenue from HomePhone and Broadband increased driven primarily by a higher average revenue per user (ARPU) following the price rise in January 2015. Although the turnover from our E top-up and phonecards business was flat with the previous half year, customers continue to migrate away from pre-pay services onto contracts and top-up online.

Operating costs

People costs of £118 million have decreased compared to the first 6 months of the prior year by £7 million. This includes savings in the Crown network as well as wider efficiencies partly offset by higher pension costs under IAS19 due to market conditions at the year end.

Other operating costs have decreased by £25 million to £406 million driven primarily by lower postmaster costs by £15 million arising from the Network Transformation programme which has reduced the fixed element of the cost while increasing the element that varies with volume. We have also made savings of £10 million across a number of overhead areas partly offset by higher short-term IT costs during the transformation programme.

Joint venture

The share of profit from the joint venture, First Rate Exchange Services Holdings Limited, remained flat at £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 network transformation programme and recognised to match the associated costs. As noted above an error was identified in the calculation for postmasters' compensation within the Network Transformation programme on the balance sheet and exceptional items charged in the 2014/15 half year and full year. The March 2015 exceptional charge has been restated by £87 million of which £67 million was restated into the September 2014 exceptional charge. This has resulted in a timing error related to recognition of the liability. It has not impacted payments to postmasters or the overall cost of the programme. The Government grant funding for 2015/16 of £150 million (2014: £170 million) was received on 1 April 2015 and has been fully recognised in the first half of the year. Significant expenditure will continue on the delivery of major change in the second half of the year which will be funded out of operating profit.

In the half year the following operating exceptional costs were incurred:

	2015 £m	2014 restated £m
Operating exceptional items		
Network Transformation programme	**(87)**	(141)
Crown Transformation programme	**(16)**	(10)
IT Transformation programme	**(3)**	(6)
Redundancy costs	**(21)**	(10)
Other exceptional items	**(8)**	(7)
Restructuring costs	**(135)**	(174)
Impairment of intangible assets, property, plant and equipment	**(45)**	(66)
Government grant	**150**	170
Total operating exceptional items	**(30)**	(70)

Net cash flow

There has been a net cash outflow of £94 million during the period in contrast to the comparative half year which saw a net cash inflow of £100 million. The change in cash flow is driven by the repayment of the loan in the current year. The cash position of the business remains consistent, with cash and cash equivalents of £727 million (2014: £737 million).

Interim condensed consolidated income statement

	Notes	Half year to 27 September 2015 Unaudited £m	Half year to 28 September 2014 (Restated) Unaudited £m
Continuing operations			
Turnover		**477**	475
Network Subsidy Payment		**65**	80
Revenue	3	**542**	555
People costs excluding restructuring costs		**(118)**	(125)
Other operating costs		**(406)**	(431)
Share of post tax profit from joint ventures and associates		**24**	24
Operating profit before exceptional items		**42**	23
Operating exceptional items	4	**(30)**	(70)
- government grant		**150**	170
- restructuring costs		**(135)**	(174)
- other		**(45)**	(66)
Operating profit/(loss)		**12**	(47)
Profit/(loss) before financing and taxation		**12**	(47)
Finance costs		**(2)**	(1)
Net pensions interest		**4**	4
Profit/(loss) before taxation		**14**	(44)
Taxation (charge)/credit	5	**(4)**	5
Profit/(loss) for the period from continuing operations		**10**	(39)

Interim condensed consolidated statement of comprehensive income

	Notes	**Half year to 27 September 2015 Unaudited £m**	Half year to 28 September 2014 (Restated) Unaudited £m
Profit/(Loss) for the period from continuing operations		**10**	(39)
Other comprehensive income:			
Remeasurements on defined benefit surplus	6	**(21)**	13
Income tax effect	5	**8**	(4)
Total comprehensive income for the period		**(3)**	(30)

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 27 September 2015 Unaudited £m	Half year to 28 September 2014 (Restated) Unaudited £m
Cash flows from operating activities			
Operating profit before exceptional items		**42**	23
Adjustment for:			
Share of profit from joint ventures and associates		**(24)**	(24)
Pension operating costs		**16**	15
Working capital movements:		**(33)**	62
Decrease in trade and other receivables		**49**	6
(Decrease)/increase in trade and other payables		**(83)**	56
Increase in non-exceptional provisions		**1**	-
Pension operating costs paid		**(11)**	(11)
Cash receipts in respect of operating exceptional items:		**26**	70
Government grant		**150**	170
Restructuring costs		**(115)**	(105)
Other		**(9)**	5
Net cash inflow from operating activities		**16**	135
Income tax recovered		**9**	10
Cash flows from investing activities			
Purchase of non-current assets		**(60)**	(81)
Net cash (outflow)/inflow from investing activities		**(60)**	(81)
Net cash (outflow)/inflow before financing activities		**(35)**	64
Cash flows from financing activities			
Finance costs paid		**(2)**	-
Payments to finance lease creditors		**-**	(2)
(Repayment of)/proceeds from borrowings		**(57)**	38
Net cash (outflow)/inflow from financing activities		**(59)**	36
Net (decrease)/increase in cash and cash equivalents		**(94)**	100
Cash and cash equivalents at the beginning of the period		**821**	637
Cash and cash equivalents at the end of the period	7	**727**	737

Interim condensed consolidated balance sheet as at:

	Notes	27 September 2015 Unaudited £m	29 March 2015 (Restated) Audited £m
Non-current assets			
Intangible assets		**1**	-
Property, plant and equipment		**9**	10
Investments in joint ventures and associates		**91**	67
Retirement benefit surplus	6	**182**	205
Trade and other receivables		**7**	10
Total non-current assets		**290**	292
Current assets			
Inventories		**6**	6
Trade and other receivables		**347**	397
Cash and cash equivalents		**727**	821
Total current assets		**1,080**	1,224
Total assets		**1,370**	1,516
Current liabilities			
Trade and other payables		**(621)**	(718)
Financial liabilities - interest bearing loans and borrowings		**(253)**	(310)
- obligations under finance leases		**-**	-
Provisions		**(149)**	(144)
Total current liabilities		**(1,023)**	(1,172)
Non-current liabilities			
Other payables		**(30)**	(30)
Provisions		**(12)**	(6)
Total non-current liabilities		**(42)**	(36)
Net assets		**305**	308
Equity			
Share capital		**-**	-
Share premium		**465**	465
Retained earnings		**(162)**	(159)
Other Reserves		**2**	2
Total equity		**305**	308

Interim condensed consolidated statement of changes in equity

For the half year ended 27 September 2015

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 30 March 2015 (audited) (restated)		**465**	**(159)**	**2**	**308**
Profit for the period		**-**	**10**	**-**	**10**
Remeasurements on defined benefit surplus	6	**-**	**(21)**	**-**	**(21)**
Income tax effect	5	**-**	**8**	**-**	**8**
At 27 September 2015 (unaudited)		**465**	**(162)**	**2**	**305**

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 (audited)		465	(63)	2	404
Loss for the period		-	(39)	-	(39)
Remeasurements on defined benefit surplus		-	13	-	13
Income tax effect	5	-	(4)	-	(4)
At 28 September 2014 (unaudited) (restated)		465	(93)	2	374

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 27 September 2015 were authorised for issue in accordance with a resolution of the directors on 25 January 2016.

The information for the year ended 29 March 2015 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 27 September 2015 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 2015, 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 next 12 months. 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 27 September 2015 and is reporting a profit before exceptional items.

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.

On 27 November 2013 a funding agreement with Government was announced which provided for:

- Funding of £280 million for 2015/16 (received on 1 April 2015)
- 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 30 March 2015 up to 31 March 2018

State Aid approval for the funding for 2015/16 to 2017/18 was received on 19 March 2015.

This investment will take the form of a Government Grant and enables 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 benefiting 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 is a modernisation programme and not a branch closure programme.

The Directors are satisfied with the continued progress made towards modernisation during the half year ended 27 September 2015 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 and is not without risk.

Prior year restatements

In preparing the financial statements for the year ended 29 March 2015, the comparative figures for the year ended 30 March 2014 were restated. In this interim report the comparative figures for the period ended 28 September 2014 have been restated for cash and cash equivalents and trade and other receivables. Credit and debit card receivables were previously included in cash and cash equivalents and have been reclassified to trade and other receivables. These receivables relate to payments made in branch by Post Office Limited customers using debit or credit cards. These payments are reimbursed to Post Office Limited by the card companies within 2 or 3 days post year end. As the cash had not been received as at half year end, the amount has been reclassified to debtors.

The impact on the 28 September 2014 interim financial statements is an increase to trade and other receivables of £44m and a decrease to cash and cash equivalents of £44m. This restatement had no impact on the profit, equity or net assets for the period ended 28 September 2014.

The earliest period presented is 30 March 2014, the impact on this period is an increase in trade and other receivables by £51m and decrease in cash and cash equivalents £51m which has also been restated. Again, there is no impact on profit, equity or net assets.

	As previously reported	Restatement	28 September 2014 Restated
Total Trade and other receivables	**308**	**44**	**352**
Total cash and cash equivalents	**789**	**(44)**	**745**

	As previously reported	Restatement	30 March 2014 Restated
Total Trade and other receivables	317	51	368
Total cash and cash equivalents	738	(51)	687

The above figures tie to the cash flow statement on page 9 if the bank overdrafts of £8m at 28 September 2014 and £50m at 30 March 2014 are factored in; overdrafts are included in trade and other payables on the balance sheet.

In addition, there has been a restatement to the income statement and the balance sheet for the half year ended 28 September 2014 and for the year ended 29 March 2015. The provision for postmasters' compensation had not been fully recognised in the financial statements for the half year ended 28 September 2014 or for the year ended 29 March 2015. The restatement affects exceptional costs, provisions and retained earnings due to the loss for the year changing as a result of a restatement to the exceptional charge. Within this interim report, the comparative income statement for the half year ended 28 September 2014 has been restated as well as the comparative balance sheet for the year ended 29 March 2015.

	As previously reported	Restatement	29 March 2015
Total provisions	(63)	(87)	(150)
Shareholders' funds (retained earnings)	(72)	(87)	(159)
Profit/(loss) for the year	(54)	(87)	(141)

	As previously reported	Restatement	28 September 2014
Total provisions	(86)	(67)	(153)
Shareholders' funds (retained earnings)	(26)	(67)	(93)
Profit/(loss) for the half year	28	(67)	(39)

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 2015. 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 pages 26-27 of the Group's Annual Report and Financial Statements 2014-15. These risks remain relevant for the current financial year.

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 27 September 2015 has been discussed further in the Business Review on page 4. 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 27 September 2015		
	Revenue £m	Directly attributable costs £m	Net revenue £m
Mails & Retail	182	(2)	180
Financial Services	150	(4)	146
Government Services	67	(15)	52
Telecoms	62	(37)	25
Other income	16	-	16
Sub total	**477**	**(58)**	**419**
Network Subsidy Payment	65	-	65
Total	**542**	**(58)**	**484**

	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

Notes to the interim condensed consolidated financial statements

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

	Half year to 27 September 2015 £m	Half year to 28 September 2014 £m
Underlying segment net revenue	**484**	501
Indirect costs	**(466)**	(502)
Share of post tax profit from joint ventures and associates	**24**	24
Operating profit before exceptional items	**42**	23
Operating exceptional items	**(30)**	(70)
Operating profit/(loss)	**12**	(47)
Profit on disposal of property, plant and equipment	**-**	-
Profit/(loss) before financing and taxation	**12**	(47)
Finance costs	**(2)**	(1)
Finance income	**-**	-
Net pensions interest	**4**	4
Profit/(loss) before taxation	**14**	(44)

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 27 September 2015 £m	Half year to 28 September 2014 £m
Government grant	**150**	170
Total Government Grant	**150**	170
Restructuring		
Network transformation including postmasters' compensation	**(87)**	(141)
Crown transformation	**(16)**	(10)
Restructuring - severance	**(21)**	(10)
- other	**(11)**	(13)
Total restructuring	**(135)**	(174)
Other		
Impairment of intangible assets	**(29)**	(25)
Impairment of property, plant and equipment	**(16)**	(41)
Total other	**(45)**	(66)
Total operating exceptional items	**(30)**	(70)

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 property, long leasehold property and assets in the subsidiary Post Office Management Services Limited 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 27 September 2015 £m	Half year to 28 September 2014 £m
Corporation tax credit for period	**5**	-
Tax over provided in previous periods	**(1)**	1
Current tax	**4**	1
Deferred tax (charge)/credit relating to the origination and reversal of temporary differences	**(8)**	4
Income tax (charge)/credit reported in the condensed consolidated income statement	**(4)**	5

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
Post Office Pension Plan*	UK employees	Defined contribution

* from 1 April 2015 Post Office Pension Plan replaced the Royal Mail Defined Contribution Plan

The charge in the interim condensed consolidated income statement for the defined contribution scheme and the Group contributions to this scheme was £2m in the half year to 27 September 2015. In relation to the defined benefit schemes, payments of £9m 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 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 27 September 2015 % pa	At 29 March 2015 % pa
Rate of increase in salaries	**2.8**	2.8
Discount rate	**3.9**	3.5
Inflation assumption (RPI)	**3.0**	3.0
Inflation assumption (CPI)	**1.9**	1.9

Demographic assumptions, for example mortality, remain unchanged from those made in March 2015.

b) Plans' assets and liabilities

The plan assets and liabilites were:

Sectionalised RMPP	**Market value at 27 September 2015 £m**	Market value at 29 March 2015 £m
Fair value of assets	**370**	379
Present value of liabilities	**(153)**	(150)
Surplus in plan before IFRIC 14 adjustment	**217**	229
Less IFRIC 14 adjustment	**(38)**	(27)
Surplus in RMPP plan after IFRIC 14 adjustment	**179**	202
Surplus in plan for the Post Office Limited share of 7% of RMSEPP after IFRIC 14 adjustment	**3**	3
Total retirement benefit surplus	**182**	205

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 27 September 2015 £m**	Year ended 29 March 2015 £m
Opening net retirement benefit surplus	**229**	170
Current service cost	**(15)**	(25)
Curtailment costs	**-**	(1)
Net financing credit	**4**	7
Employers contributions	**9**	21
Experience adjustments on liabilities	**-**	(1)
Actuarial (losses)/gains	**(10)**	58
Closing net retirement benefit surplus before IFRIC 14 adjustment	**217**	229

Notes to the interim condensed consolidated financial statements

7. Cash and cash equivalents

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

	At 27 September 2015 £m	At 28 September 2014 (Restated) £m
Cash and cash equivalents	**727**	745
Bank overdrafts	-	(8)
	727	737

8. Related party disclosures

There have been no material changes to the related parties listed in the Group's Annual Report and Financial Statements 2014/15. All related party transactions were in the ordinary course of business. The transactions entered into and the balances outstanding as at 27 September 2015 and 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:	**2015 £m**	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
First Rate Exchange Services Holdings Limited	**16**	15	**77**	81	**8**	7	**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 27 September 2015.

9. Capital commitments

Since year end Post Office Limited has signed significant contracts to commit to £88m of future spend on property, plant and equipment.

10. Post balance sheet events

On 30 September 2015, Post Office Limited acquired from Bank of Ireland the business and assets of their joint insurance business. Immediately following acquisition, Post Office Limited transferred the business to its Post Office Management Services Limited subsidiary, which will operate the business alongside its existing travel insurance activities.

Statement of Directors’ responsibilities

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

By order of the Board

Alisdair Cameron
Chief Financial Officer

25 January 2016

Report on review of interim condensed financial statements

The Board of Directors of 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 27 September 2015 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 these policies.

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 2410 (UK and Ireland) , "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 27 September 2015 is not prepared, in all material respects, in accordance with the accounting policies set out in note 1, which comply with IFRSs as adopted by the European Union.

Ernst & Young LLP
London
25 January 2016

Corporate information

Post Office Limited
Interim Report for the half year ended 27 September 2015

Registered Office and Group Head Office
Post Office Limited
Finsbury Dials, 20 Finsbury Street
London EC2Y 9AQ

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.