POL00362176

Postal Services Holding Company Limited

Company Number: 4074919

Postal Services Holding Company Limited

Annual Report and Financial Statements

for the 52 weeks ended 30th March 2014

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Postal Services Holding Company Limited

Corporate information

Registered office

Postal Services Holding Company Limited
148 Old Street
LONDON
EC1V 9HQ
Telephone GRO
Registered No. 4074919

Auditor

Ernst & Young LLP
1 More London Place
LONDON
SE1 2AF

Actuary

Towers Watson Limited
Watson House
London Road
REIGATE
Surrey
RH2 9PQ

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Strategic Report

Business Review

Postal Services Holding Company Limited (the Company) is a non-trading holding company. The Secretary of State for Business, Innovation and Skills (BIS) owns 100% of shares in the company, including one special share. The Group comprises the Company and its subsidiaries.

At 30 March 2014 the Company had one subsidiary, Post Office Limited which provides access to a wide range of mails, financial, government, telecoms and retail services through its network of Post Office branches across the United Kingdom.

At 30 March 2014 the Company also held an investment in Royal Mail plc, representing 29.99% per cent of the shares of Royal Mail plc. Prior to the Royal Mail plc Initial Public Offering (IPO) which took place on 15 October 2013, the Company owned 100% of the shares in Royal Mail plc. The remaining interest has been classified as an investment under IAS 39 'Financial instruments: Recognition and measurement' and not as an associate under IAS 28 'Investments in associates' as in the opinion of the Directors Postal Services Holding Company Limited does not have significant influence over Royal Mail plc. Royal Mail plc provides a nationwide and international distribution service, principally of mails and parcels. Royal Mail plc primarily operates in the United Kingdom including a number of subsidiaries, associates and a joint venture. It also has a presence in most European countries, through its subsidiary, General Logistics Systems. The proceeds from the IPO were £1.97 billion. The profit of £516 million made on the disposal of 70.01% of the shares held in Royal Mail plc and the profit after tax made by Royal Mail plc of £1,246 million before the IPO have been recorded within Group profit as profit from discontinued operations.

Financial Review

The results of Royal Mail plc have only been included in the Group results until the date of the IPO, and are disclosed as discontinued operations. Therefore the analysis below focuses on Post Office Limited as the principal subsidiary constituting continuing operations of the Group.

Overall Group revenue from continuing operations for the 52 weeks to 30 March 2014 was £1.2 billion, which is a decrease of 4.4 per cent when compared to the prior year (53 weeks to 31 March 2013 restated: £1.2 billion). Operating profit before exceptional items from continuing operations for the 52 weeks to 30 March 2014 rose by 12.6 per cent to £107million compared to the prior year (53 weeks to 31 March 2013 restated: £95 million). These changes principally reflect the impact of the IPO of Royal Mail plc. Further detail on the IPO of the majority shareholding in Royal Mail plc is shown in note 3. A detailed analysis of the trading performance of Post Office Limited and Royal Mail plc is given in their respective financial statements for the 52 weeks to 30 March 2014.

Strategy and Key Performance Indicators (KPIs)

The Company owns 100% of the shares in Post Office Limited and 29.99% of the shares in Royal Mail plc. In respect of its subsidiary Post Office Limited, the Company's strategy in the year was and in the future will continue to be to ensure that Post Office Limited continues to operate its network of Post Office branches across the United Kingdom and that it makes available a wide range of services in these branches. This includes making sure that the business has access to sufficient funding.

In respect of its shareholding in Royal Mail plc, the Company's strategy in the year was to ensure a successful IPO of Royal Mail plc. This was achieved on 15 October 2013. With regard to the retained 29.99% stake, the Company will continue to manage this shareholding in a commercial manner. Until 13 April 2014, the Company's retained stake was subject to a lock-in during which no further sale of shares took place. The Company has been informed that the Secretary of State for the Department for Business, Innovation and Skills has no current plans to engage in any transaction in respect of shares in Royal Mail plc.

In November 2013 Post Office Limited launched a strategy – Securing the Future – which will see it grow and develop as a retailer through to the end of the decade. The vision set out was backed by Government through a further £640 million investment of funding over three years to assist management in transforming its business. Securing the Future recognises the challenges that Post Office Limited faces and the changes that must be made to ensure that the organisation flourishes in the years to come.

The core aim of Securing the Future is to set out the steps the business plans will take to achieve the over-arching goal of commercial sustainability. This aim is underpinned by four clear ambitions:

- To broaden and increase its market presence.
- To maintain its unrivalled physical network and expand its digital services.
- To create an organisation and operating model that is cost effective, agile and customer focused.
- To be an organisation that lives and breathes the principles of mutualisation.

The delivery of Securing the Future will build a more commercial, customer-focused Post Office Limited that remains at the heart of communities, with a purpose that shapes all it does. It will continue to be a trusted partner, helping customers, existing and new, meet a new generation of requirements.

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Strategic Report (continued)

Key Performance Indicators are the metrics that are used by the Company to measure progress towards achieving its strategic goals:

Maintain a minimum Post Office network size of 11,500 Post Office branches.	Post Office Limited's network at 30 March 2014 was comprised of 11,696 Post Office branches.
Secure funding from BIS for Post Office Limited for the period commencing 1 April 2015.	On 27 November 2013 the BIS committed £640 million funding to Post Office Limited, subject to European Commission State Aid approval, for the 3-year period starting 1 April 2015.
Post Office Limited to report a positive net asset position for the year ending 30 March 2014.	Post Office Limited reported net assets of £404 million for the year ending 30 March 2014.
Successfully deliver the Initial Public Offering of Royal Mail plc.	On 15 October 2013 the Royal Mail plc Initial Public Offering took place.

Post Office Limited's management use Key Performance Indicators to measure the progress towards financial sustainability and the conditions required – customer satisfaction, transformed branches and employee engagement – for the successful delivery of its strategy. Further discussion of these Key Performance Indicators is included within the Post Office Limited Annual Report and Financial Statements 2013/14.

	2014	2013	Change
Turnover	£979m	£1,024m	£(45)m
Operating profit before exceptional items	£107m	£94m	£13m
Operating loss before depreciation, amortisation, exceptional items and Network Subsidy Payment(1)	£(93)m	£(116)m	£23m
Net cashflow	£151m	£(283)m	£(434)m
Crown branch losses	£(26)m	£(37)m	£11m
Customer satisfaction	87%	87%	-
New main and local format branches	2,058	507	1,551
Employee engagement index	57%	55%	2%

Principal Risks and Uncertainties

This section describes the current principal risks facing the Company. The Company's subsidiary Post Office Limited is responsible for managing and reporting risk in accordance with its risk management framework that has been approved by its Audit and Risk Committee.

Key Risk	Impact
European Commission State Aid Approval: That BIS is not able to secure approval from the European Commission in respect of Post Office Limited's funding for the period commencing 1 April 2015 prior to 31 March 2015.	Post Office Limited might not be able to continue to maintain its network of Post Office branches or make available a wide range of services in these branches.
Royal Mail plc Share Price: That the share price in Royal Mail plc declines, reducing the value of the Company's investment in Royal Mail plc.	The value of the Company's investment in Royal Mail plc declines.

The information below details the key business risks of the Group's principal subsidiary, Post Office Limited, their potential impact and how Post Office Limited manages them.

Key Risk	Impact	Mitigation
Changes in Customer Preferences: There is decline in Post Office Limited's traditional income streams as customer preferences change. New income streams may fail to grow sufficiently to exceed the losses from traditional products in decline.	Post Office Limited might not be able to reduce its reliance on Government subsidy.	Post Office Limited has introduced new services in growth areas and continue to refine and develop these product offerings. There is an active programme in place to deliver the growth trajectory. Progress is monitored rigorously and risks to the programme are actively managed.
Business Transformation Programmes: Post Office Limited is managing a significant number of change programmes to modernise its business and to enable	Failure to implement the modernisation programme would leave	There are detailed plans in place to manage the transformation and ensure it is delivered within budget and on time. The 2013/14 objectives have been met.

1 The Network Subsidy Payment is Government Grant revenue put towards the costs of maintaining the Post Office network.

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its processes to operate independently of those of Royal Mail plc. These include the network, Crown and IT transformation programmes. The success of Post Office Limited's strategic plan depends on the successful realisation of benefits from these programmes.	Post Office Limited with an unsustainable cost base and a continued reliance on significant Government subsidy.	Delivery is tracked monthly by a Transformation Board made up of Executive Committee members which provides direction and oversight over the programmes' delivery.
Engagement Risk: The support of Post Office Limited's staff and subpostmasters and engagement with them during this significant time of change is key to the successful delivery of Post Office Limited's strategy. Withdrawal or lack of support from staff or subpostmasters, whether driven by concerns over existing programmes and initiatives or historic cases, could cause delays in the transformation programmes and limit Post Office Limited's ability to meet business objectives.	Lack of support from staff and subpostmasters would jeopardise the ability to meet strategic goals of growth, profitability and reduced reliance on Government subsidy.	Post Office Limited maintains a fluid and comprehensive engagement programme with unions, staff and subpostmasters. These include regular meetings with the National Federation of Subpostmasters, the Communication Workers Union and Unite; senior management briefings to staff and subpostmasters; and events to engage people in its vision and strategy. Post Office Limited has a people plan aimed at addressing staff motivation and skill needs. This includes development of new leadership and reward frameworks and increased focus on recruitment and training. The business has created a Branch User Forum and a branch support programme and plan further initiatives.
Regulatory & Compliance: There is a risk of non-compliance with the changing regulatory environment. Post Office Limited operates under an extensive regulatory environment, including areas such as financial and postal services, procurement, competition law and data security.	Failure to comply with regulation could result in fines, adverse outcomes for Post Office Limited's customers and significant damage to the Post Office brand.	Post Office Limited's legal and compliance team works closely with the relevant business owners in identifying new requirements and monitoring compliance. Regular compliance tests are conducted across the entire branch network, covering a broad range of regulatory requirements. The results are closely monitored and corrective action taken where required.
Business Continuity: Post Office Limited has particular operational risks relating to disruption of its services. This includes adverse weather conditions, industrial action, systems breakdown and the failure of a critical supplier.	Breakdowns in the network would reduce quality of service, increase costs and damage Post Office Limited's reputation.	Post Office Limited brings together a wide range of business continuity arrangements under one central policy and governance framework to ensure that the business is capable of withstanding any significant threat to its ongoing operations. This includes contingency planning and training in the event of disruption, such as industrial action or IT failure. The ability of key suppliers to meet Post Office Limited's requirements is closely monitored.

GRO

Roger Lowe
Director
10 December 2014

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Postal Services Holding Company Limited

Directors' Report

The Directors present the Group Annual Report and Financial Statements of the Postal Services Holding Company Limited ('the Company'). These financial statements relate to the 52 weeks ended 30 March 2014 (2013 53 weeks ended 31 March 2013).

Results and dividends

The overall Group revenue from continuing operations for the year was £1.2 billion (2013 restated £1.2 billion). Operating profit before exceptional items from continuing operations was £107 million (2013 restated £95 million). Profit after tax from discontinued operations for the year was £1.8 billion (2013 restated £570 million). The Directors do not recommend the payment of a dividend (2013 £nil dividend).

Expected future developments

The Company expects that State Aid approval will be received from the European Commission in respect of Post Office Limited's £640 million funding from BIS for the period commencing 1 April 2015 on or prior to 31 March 2015. Furthermore the Company does not currently have any further plans to engage in any transactions in respect of shares in Royal Mail plc.

Research and development

There was no research and development expenditure during the year (2013 £nil).

Political contributions

No political contributions were made in the year (2013 £nil).

Directors and their interests

The following have served as Directors of the Company during the 52 weeks ended 30 March 2014 and up to the date of approval of these financial statements:

	Appointed	Resigned
Mark Russell	9 September 2013	
Roger Lowe	9 September 2013	
Ruth Elliot	9 September 2013	
Donald Brydon		10 September 2013
Alice Perkins		10 September 2013

No Director has a beneficial interest in the share capital of the Company and the Directors are not remunerated for their positions within the Company.

People

The Company is a non-trading holding company and does not have any permanent full-time employees. The Company's Directors are employed on a permanent part-time basis.

Post Office Limited's goal is to ensure that all of its employees are engaged and involved in the business of Post Office Limited and are aligned and equipped to meet the business's objectives. As part of its commitment to drive better service for customers Post Office Limited continues to focus on improving the quality of its leadership, professionalising key roles and achieving greater employee involvement in decision making.

Training and development programmes have been put in place to support Post Office Limited's ambition to create a high performance customer-oriented sales culture. This ambition is further supported by a range of bonus schemes which are based on the achievement of Post Office Limited's business targets.

Underpinning all of this is a need for dignity at work, where everybody feels valued, is treated fairly and equally with everyone playing a full part in helping Post Office Limited to achieve its goals.

Regular employee opinion surveys are conducted to allow employees an opportunity to express their views and opinions on important issues. This two-way communication encourages all Post Office Limited employees to contribute towards making business improvements.

Corporate Responsibility

The Company and Post Office Limited are committed to carrying out their activities in a socially responsible manner in respect of the environment, employees, customers and local communities.

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Directors' Report (continued)

Disabled employees

The Company and Post Office Limited's policy is to give full consideration to applications for employment from disabled persons. Employees who become disabled whilst employed receive full support through the provision of training and special equipment to facilitate continued employment where practicable. The Company and Post Office Limited provide training, career development and promotion to disabled employees wherever appropriate.

Post balance sheet events

In July 2014, the Company received a dividend of £39.9m from Royal Mail plc in respect of its shareholding in Royal Mail plc. In accordance with the funding agreement announced on 27 October 2010, for which European Commission State Aid approval was received on 28 March 2012, Post Office Limited received £330 million of funding on 1 April 2014.

Going Concern

In making their assessment of going concern, the Directors of the Group have reviewed the assessments made by the Directors of Post Office and the value of its retained shareholding in Royal Mail. As a result of these and also their own findings, the Directors of the Group believe that it will be able to meet its liabilities as they fall due and that it is appropriate to prepare the financial statements on a going concern basis. Further details are provided in accordance with the fundamental accounting concept in note 2 to the financial statements.

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the auditor is unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors Indemnities

The Directors of the Company have been given Crown indemnity in respect of liabilities which they may incur as a result of holding, or having held, that office. This indemnity applies from the date on which they were appointed as a Director of the Company and will continue to apply irrespective of whether he or she has ceased to be a Director of the Company.

Auditor

The auditor, Ernst & Young LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

By Order of the Board

GRO

Roger Lowe
Director
Postal Services Holding Company Limited (company number 4074919)
10 December 2014

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Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of the Company and the financial performance and cash flows of the Group and of the Company for that period. Under that law the Directors have elected to prepare the Group consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'). In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- State that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and of the Company to enable them to ensure that the Group consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that to the best of their knowledge:

- The Group consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and in accordance with the provisions of the Companies Act 2006 give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- The Company financial statements prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland', give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The management report contained in this report includes a fair view of the development and performance of the business and the position of the Group as a whole and of the Company, together with a description of the principal risks and uncertainties they face.

By Order of the Board

GRO

Roger Lowe
Director
10 December 2014

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Independent Auditor's Report to the members of Postal Services Holding Company Limited

We have audited the consolidated financial statements of Postal Services Holding Company Limited for the 52-week period ended 30 March 2014 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of cash flows, the Consolidated balance sheet, the Consolidated statement of changes in equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 30 March 2014 and of its profit for the 52-week period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Postal Services Holding Company Limited for the 52-week period ended 30 March 2014.

Ernst & Young LLP

Richard Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
12 December 2014

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Postal Services Holding Company Limited

Consolidated income statement

For the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013

	Notes	2014 £m	2013 Restated £m
Continuing operations			
Turnover		**979**	1,024
Network Subsidy Payment for Post Office Limited		**200**	210
Revenue		**1,179**	1,234
People costs	4	**(703)**	(737)
Distribution and conveyance costs		**(5)**	(3)
Other operating costs	5	**(399)**	(431)
Share of post tax profit from joint venture and associates	12	**35**	32
Operating profit before exceptional items		**107**	95
Operating exceptional items	6	**45**	(47)
Operating profit		**152**	48
Profit on disposal of property, plant and equipment		**3**	13
Loss on disposal of business		**-**	(30)
Profit before financing and taxation		**155**	31
Finance costs	7	**(3)**	(4)
Finance income	7	**1**	221
Net pension interest	24	**5**	3
Profit before taxation		**158**	251
Taxation credit/(charge)	8	**13**	(26)
Profit for the financial year from continuing operations		**171**	225
Profit after tax for the year from discontinued operations	3	**1,762**	570
Profit for the year		**1,933**	795
Profit attributable to:			
Equity holder of the parent company		**1,932**	791
Non-controlling interest		**1**	4

Consolidated statement of comprehensive income

For the 52 weeks ended 30 March 2014 and 53 weeks ended 30 March 2013

	Notes	2014 £m	2013 Restated £m
Profit for the financial year from continuing operations		**171**	225
Profit for the financial year from discontinued operations		**1,762**	570
Other comprehensive income/(expense) for the period:		**420**	(587)
Items that will not be subsequently reclassified to profit or loss:			
Actuarial (losses)/gains on defined benefit schemes	24	**(308)**	(201)
IFRIC 14 adjustment relating to pensions	24	**(45)**	(8)
Taxation on items taken directly to equity	8	**80**	(209)
Items that may be subsequently reclassified to profit or loss:			
Translation differences on foreign currency net investments		**1**	(5)
Movements in fair value of available for sale financial asset		**708**	-
Losses on cash flow hedges deferred into equity		**(16)**	(1)
Losses/(gains) on cash flow hedges released from equity to income		**-**	2
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		**-**	(1)
(Losses)/gains on financial assets deferred into equity		**-**	(2)
Gains on financial assets released from equity to income		**-**	(217)
Taxation on items taken directly to equity	8	**-**	55
Total comprehensive income for the period		**2,353**	208
Total comprehensive income for the period attributable to:			
Equity holder of the parent company		**2,352**	204
Non-controlling interest		**1**	4

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Consolidated statement of cash flows

For the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013

	Notes	2014 £m	2013 £m
Cash flow from operating activities			
Operating profit before exceptional items		504	730
Adjustment for:			
Depreciation and amortisation		140	280
Share of post tax profit from joint venture and associates	12	(35)	(32)
EBITDA before exceptional items		609	978
Working capital movements:		(18)	207
Decrease in inventories		3	6
Increase in receivables		(42)	(11)
Increase in payables		25	141
Decrease/(increase) in client receivables		82	(102)
(Decrease)/increase in client payables		(91)	196
Net increase in derivative assets		5	(15)
(Decrease)/increase in non-exceptional provisions		-	(8)
Difference between pension costs charged in operating profit and pension cash flows		42	(4)
Receipt of Government grant		215	200
Cash payments in respect of operating exceptional items		(321)	(325)
Cash inflow from operations		527	1,056
Income taxation paid		(3)	(28)
Net cash inflow from operating activities		524	1,028
Cash flows from investing activities			
Dividends received from joint venture and associates	12	34	40
Finance income received		3	31
Proceeds from sale of property, plant and equipment		29	54
Proceeds from sale of associate company		3	2
Cash disposed of with subsidiary company		(685)	-
Proceeds from disposal of subsidiary company		1,957	-
Transfer to Government under the Postal Services Act		(3,206)	-
Purchase of property, plant and equipment		(170)	(424)
Investment in associate		-	(11)
Acquisition of business		-	(3)
Purchase of intangible assets (software)		(68)	(63)
Payment of deferred consideration in respect of prior years' acquisitions		-	(3)
Net sale/(purchase) of financial assets investments (non-current)		-	1,361
Net sale/(purchase) of financial assets investments (current)		1,256	(1,226)
Net cash outflow from investing activities		(847)	(242)
Net cash (outflow)/inflow before financing activities		(323)	786
Cash flows from financing activities			
Finance costs paid		(26)	(53)
Payment of capital element of obligations under finance lease contracts		(43)	(77)
Cash received on sale and leasebacks		57	58
Repayment of borrowings		(291)	(686)
Net cash outflow from financing activities		(303)	(758)
Net (decrease)/increase in cash and cash equivalents		(626)	28
Effect of exchange rates on cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the period	16	1,321	1,293
Cash and cash equivalents at the end of the period	16	695	1,321

Postal Services Holding Company Limited

Consolidated balance sheet

At 30 March 2014 and 31 March 2013

(Registered number 04074919)

	Notes	2014 £m	2013 £m
Non-current assets			
Property, plant and equipment	9	**10**	1,931
Leasehold land payment		**-**	3
Goodwill	10	**-**	196
Intangible assets (mainly software)	11	**-**	139
Investments in joint venture and associates	12	**61**	63
Financial assets – pension escrow investments	13	**-**	20
– derivatives	20	**-**	3
Other receivables		**15**	19
Retirement benefit asset net of IFRIC 14 adjustment	24	**148**	922
Deferred tax assets	8	**-**	112
		234	3,408
Non-current assets held for sale		**-**	2
Current assets			
Inventories	14	**6**	32
Trade and other receivables	15	**302**	1,344
Income taxation receivable		**2**	5
Financial assets – investments	20	**1,698**	-
– derivatives	20	**-**	10
– short-term deposits	20	**-**	1,257
Cash and cash equivalents	16	**745**	1,321
		2,753	3,969
Total assets		**2,987**	7,379
Current liabilities			
Trade and other payables	17	**(768)**	(2,478)
Financial liabilities – interest bearing loans and borrowings	18	**-**	(291)
– obligations under finance leases	19	**(3)**	(82)
– derivatives	19	**-**	(2)
Income taxation payable		**-**	(16)
Provisions	23	**(70)**	(138)
		(841)	(3,007)
Non-current liabilities			
Financial liabilities – interest bearing loans and borrowings	18	**-**	(973)
– obligations under finance leases	19	**-**	(230)
– derivatives	19	**-**	(1)
Provisions	23	**(8)**	(134)
Other payables		**(28)**	(60)
Deferred tax liabilities	8	**-**	(23)
		(36)	(1,421)
Total liabilities		**(877)**	(4,428)
Net assets		**2,110**	2,951
Equity			
Share capital	25	**-**	-
Share premium		**430**	430
Retained earnings		**1,678**	1,176
Other reserves		**2**	1,341
Equity attributable to equity holder of parent company		**2,110**	2,947
Non-controlling interest		**-**	4
Total equity		**2,110**	2,951

The financial statements on pages 10 to 52 were approved by the Board of Directors on 10 December 2014 and signed on its behalf by:

GRO

Roger Lowe

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Postal Services Holding Company Limited

Consolidated statement of changes in equity

For the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013

	Share capital £m	Share premium £m	Retained earnings £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Escrow reserve £m	Other Reserves £m	Equity holder of the parent £m	Non-controlling interest £m	Total equity £m
At 31 March 2013	**-**	**430**	**1,176**	**73**	**10**	**1,256**	**2**	**2,947**	**4**	**2,951**
Profit for the period	-	-	1,932	-	-	-	-	1,932	1	1,933
Other comprehensive (expense)/income for the period	-	-	435	1	(16)	-	-	420	-	420
Share issue	10	-	(10)	-	-	-	-	-	-	-
Employee Free Shares issue	-	-	12	-	-	-	-	12	-	12
Disposal of subsidiary	(10)	-	83	(74)	6	-	-	5	(5)	-
Transfer from Escrow reserve	-	-	7	-	-	(7)	-	-	-	-
Transfer to HM Government (note 25)	-	-	(1,957)	-	-	(1,249)	-	(3,206)	-	(3,206)
At 30 March 2014	**-**	**430**	**1,678**	**-**	**-**	**-**	**2**	**2,110**	**-**	**2,110**

	Share capital £m	Share premium £m	Retained earnings £m	Financial Assets Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Escrow reserve £m	Other Reserves £m	Equity holder of the parent £m	Non-controlling interest £m	Total equity £m
At 26 March 2012	-	430	(1,998)	166	78	8	-	47	(1,269)	-	(1,269)
Profit for the period	-	-	791	-	-	-	-	-	791	4	795
Other comprehensive (expense)/income for the period	-	-	(418)	(166)	(5)	2	-	-	(587)	-	(587)
Transfer to Escrow reserve	-	-	(1,256)	-	-	-	1,256	-	-	-	-
Pension deficit transfer to HM Government on 1 April 2012 (note 25)	-	-	4,012	-	-	-	-	-	4,012	-	4,012
Sale of interest in associate	-	-	45	-	-	-	-	(45)	-	-	-
At 31 March 2013	-	430	1,176	-	73	10	1,256	2	2,947	4	2,951

A description of the nature and application of the reserves in the above tables is included in note 25.

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Postal Services Holding Company Limited

1. Authorisation of financial statements and statement of compliance with IFRSs

The Group's financial statements for the year ended 30 March 2014 were authorised for issue by the Board on 10 December 2014 and the balance sheet was signed on behalf of the Directors (as at 30 March 2014) by Roger Lowe.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as they apply to the financial statements of the Group for the year ended 30 March 2014.

2. Accounting policies

Basis of preparation and accounting
The Group comprises Postal Services Holding Company Limited (the Company), which is wholly owned by HM Government, and its subsidiary (together the Group). The Company is incorporated in the United Kingdom and the financial statements are produced in accordance with the Companies Act 2006 (the Act) and applicable IFRSs. The UK is the Group's country of domicile.

The Group consolidated financial statements are presented in Sterling and all values are rounded to the nearest £m except where otherwise indicated. These consolidated financial statements have been prepared on a historic cost basis, except for pension assets, derivative financial instruments and available for sale financial assets, which have been measured at fair value.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertaking. The financial statements of the major subsidiary are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Transfer prices between business segments are set on a basis of charges reached through negotiation with the respective businesses.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group. Where the Group ceases to hold control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group held control. These results are disclosed as a separate line and are described as discontinued operations. In line with the requirements of IFRS5 'Non-current assets held for sale and discontinued operations', the comparative information in the consolidated income statement and associated notes are restated, whilst the consolidated balance sheet is not restated.

Non-controlling interest represents the portion of profit/loss, gains/losses and net assets relating to subsidiary that are not attributable to members of the Company. The non-controlling interest balance is presented within equity in the consolidated balance sheet, separately from parent shareholder's equity.

Going concern and funding

In making an assessment on the Group's ability to continue as a going concern, the Directors have considered the going concern assessment made by the Directors of the Post Office Limited subsidiary company. This is set out in detail below. After careful consideration of all available information, the Directors are of the view that it is appropriate that the consolidated financial statements have been prepared on a going concern basis.

The Post Office Group has net assets at 30 March 2014 and has operated at a profit before exceptional items during 2013-14 for the sixth year running. 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.

2. Accounting policies (continued)

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 takes the form of a Government Grant and enables the Post Office 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 dependant on direct subsidy. This will not involve a branch closure programme.

The Directors are satisfied with the continued progress made towards modernisation during 2013-14 and that the plans in place and the substantial investment secured will enable the Post Office 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.

Changes in accounting policy and disclosures

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.

Accounting standards issued but not yet applied

The following new and revised accounting standards are relevant to the Group and are in issue but were not effective (and in some instances have not yet been adopted by the EU) at the balance sheet date:

International Accounting Standards (IAS/IFRSs)
Annual Improvements to IFRSs 2010-2012 Cycle
Annual Improvements to IFRSs 2011-2013 Cycle
IFRS 9 Financial Instruments: Classification and Measurement
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Involvement with Other Entities
IFRS 15 Revenue from Contracts with Customers
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)
IAS 27 Separate Financial Statements
IAS 28 Investments in Associates and Joint Ventures
IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

Key sources of estimation, uncertainty and accounting judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and assumptions are continually evaluated based on historical experience and other factors. In the future, actual experience may differ from these estimates and assumptions. In addition the Group has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. The most significant areas where judgements and estimates are made are discussed below:

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Group are determined using methods relying on actuarial estimates and assumptions. These pension figures are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary. Details of the key assumptions are set out in note 24.

2. Accounting policies (continued)

Pension liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. Judgement has been applied in determining that for these purposes a high quality corporate bond constitutes AA rated or equivalent status bonds.

Provisions

The Group has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are detailed in note 23. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

Impairment of non-current assets

The Group assesses whether there are any indicators of impairment for all non-currents assets at each reporting date. Due to ongoing operational losses (excluding the Network Subsidy Payment) in Post Office Limited the carrying value of intangible assets and property plant and equipment in Post Office Limited other than freehold and long leasehold property has been impaired to the recoverable amount.

Investments in joint venture and associates

The Group's investments in its joint venture and associates are accounted for under the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture/associates, less any impairment in value. The income statement reflects the Group's share of post tax profits from the joint venture/ associates.

Any goodwill arising on acquisition of an associate, representing the excess of the cost of the investment compared to the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is included in the carrying amount and not amortised.

Revenue

Revenue reported in the income statement is net of value added tax and comprises Turnover and the Network Subsidy Payment. Turnover principally relates to the rendering of services as follows:

UK Parcels, International & Letters

Account revenue is derived from specific contracts and recognised when the delivery of an item is complete. Prepaid revenue mainly relating to stamp and meter income is recognised when the sale is made, adjusted to reflect a value of stamp and meter credits held but not used by the customer.

General Logistics Systems

Revenue is derived from specific contracts and is recognised at the time of delivery.

Post Office Limited

Revenue is recognised at the time that Government, financial, mails and telecoms services are provided.

The Network Subsidy Payment

Government grant revenue is recognised to match the related costs of providing the network of public post offices that the Secretary of State for Business, Innovation and Skills considers appropriate and which would otherwise not be provided.

Operating exceptional items

Operating exceptional items 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 in the year, in comparison to prior years.

Operating profit

Operating profit is the profit arising from the normal, recurring operations of the business and after charging operating exceptional items defined above. It excludes the non-operating exceptional items for profit or loss on disposal of businesses and profit or loss on disposal of property, plant and equipment. These items are not part of the normal recurring operations of the business but are material, so are presented separately on the face of the income statement to allow a better understanding of financial performance in the year, in comparison to prior years.

Goodwill

Business combinations on or after 29 March 2004 are accounted for under IFRS 3 Business Combinations using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised in the balance sheet as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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2. Accounting policies (continued)

An impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use. For the purpose of such impairment reviews, goodwill is allocated to the relevant cash generating units.

Goodwill arising on the acquisition of equity accounted entities is included in the cost of those entities and therefore not reported in the balance sheet as goodwill.

Intangible assets

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have either a finite or indefinite useful life. Those with a finite life are amortised over their useful life and those with an indefinite life are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Amortisation of intangible assets with finite lives is charged annually to the income statement on a straight-line basis as follows:

Customer listings	3 to 4 years
Software	1 to 6 years

Property, plant and equipment

Property, plant and equipment is recognised at cost, including directly attributable costs in bringing the asset into working condition for its intended use. Depreciation of property, plant and equipment is provided on a straight-line basis by reference to net book value and to the remaining useful economic lives of assets and their estimated residual values. The useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. The lives assigned to major categories of property, plant and equipment are:

Land and buildings:	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life
Plant and machinery	3-15 years
Motor vehicles and trailers	2-12 years
Fixtures and equipment	2-15 years

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Disposal of Investments

When the group disposes of, or loses control, joint control or significant influence over a subsidiary, joint venture or associate, it derecognises the assets (including goodwill) and liabilities of the entity, the carrying amount of any non-controlling interest and any cumulative translation differences recorded in equity. The fair value of the consideration received and the fair value of any investment retained is recognised. The resulting gain or loss is recognised in profit or loss.

Impairment reviews

Unless otherwise disclosed in these accounting policies, assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired. The Group assesses at each reporting date whether such indications exist. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Leases

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Group, are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and capital element of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

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2. Accounting policies (continued)

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefit of incentives are recognised as a reduction of rental expense over the lease term on a straight-line basis.

A leasehold land payment is an upfront payment to acquire a long-term leasehold interest in land. This payment is stated at cost and is amortised on a straight-line basis over the period of the lease.

Trade receivables

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

Financial instruments

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as: financial assets at fair value through the income statement (held for trading); held to maturity investments, loans and receivables or available for sale financial assets as appropriate. Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through the income statement or financial liabilities measured at amortised cost.

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial year end. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial instruments not at 'fair value through the income statement', any directly attributable transactional costs.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, do not qualify as trading assets and have not been designated as either 'fair value through the income statement' or available for sale, are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available for sale financial assets

'Available for sale financial assets' are non-derivative financial assets that are designated as such or are not classified in any of the preceding categories. After initial recognition, interest is taken to the income statement using the effective interest rate method and the assets are measured at fair value with gains or losses being taken to the consolidated statement of other comprehensive income until the investment is derecognised, or until the investment is deemed to be impaired.

The Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. Objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities at fair value through the income statement (held for trading)

Derivatives liabilities are classified as held for trading unless they are designated as hedging instruments. They are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Financial liabilities measured at amortised cost

All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. Non-derivative financial liabilities are initially recognised at the fair value of the consideration received, less directly attributable issue costs. After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Group uses Money Market funds as a readily available source of cash, and these funds are also categorised as cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. Cash equivalents are classified as loans and receivables financial instruments.

Financial assets - pension escrow investments

Financial assets - pension escrow investments comprise cash at bank, conventional gilt edged securities, index-linked gilt edged securities and Treasury bills and money market fund investments.

Conventional gilt edged securities, index-linked gilt edged securities and Treasury bills are classified as available for sale financial instruments on the basis that they are quoted investments that are not held for trading and may be disposed of prior to maturity.

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2. Accounting policies (continued)

Financial assets - other investments
Financial assets - other investments comprise short-term deposits (other investments) with Government, local government or banks with an original maturity of three months or more. Short-term deposits are classified as loans and receivables financial instruments.

Financial liabilities - interest-bearing loans and borrowings
All loans and borrowings are classified as financial liabilities measured at amortised cost.

Financial liabilities - obligations under finance leases
All obligations under finance leases are classified as financial liabilities measured at amortised cost.

Derivative financial instruments
The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group, in line with the Group's treasury management policies. Such derivative financial instruments are initially stated at fair value.

For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

In relation to cash flow hedges to hedge the foreign exchange or commodity price risk of firm commitments that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to relate to an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or non-financial liability, then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit/loss, for example when the hedged transaction actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement in the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the year.

Fair value measurement of financial instruments
The fair value of quoted investments (including conventional gilt edged securities, index-linked gilt edged securities and Treasury bills) is determined by reference to bid prices at the close of business on the balance sheet date. Hence the conventional gilt edged securities, index-linked gilt edged securities and Treasury bills are within Level 1 of the fair value hierarchy as defined within IFRS 7.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models. Specifically, in the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 7.

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

Income tax and deferred tax
The charge for current taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss;

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2. Accounting policies (continued)

- taxable temporary differences associated with investments in subsidiary, associates and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and increased or reduced to the extent that it is probable that sufficient taxable profit will be available to allow them to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Current and deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity, otherwise it is recognised in the income statement.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate.

Pensions and other post-retirement benefits

The pension assets for the defined benefit plans are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the deficit disclosed. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme.

For defined benefit schemes, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The net difference between the interest costs and the expected return on plan assets is recognised as net pension interest in the income statement. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income.

For defined contribution plans, the Group's contributions are charged to operating profit within people costs in the period to which the contributions relate. Overseas subsidiary make separate arrangements for the provision of pensions and other post-retirement benefits.

Contingent liabilities

Contingent liabilities are not disclosed if the possibility of losses occurring is considered to be remote.

Foreign currencies

The functional and presentational currency of Postal Services Holding Company Limited is Sterling (£). The functional currency of the overseas subsidiary in Europe is mainly the Euro (€).

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. The trading results of foreign operations are translated at the average rates of exchange for the reporting period, being a reasonable approximation to the actual transaction rate. The exchange rate differences arising on the translation, since the date of transition to IFRSs, are taken directly to the Foreign Currency Translation Reserve in equity.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Currently hedge accounting is not claimed for any monetary assets and liabilities. All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined.

Government grants

Government grants of a revenue nature are credited to the income statement and are shown separately to the expenditure to which they relate. Government grants relating to assets are recognised as deferred income that is amortised over the useful life of the relevant assets.

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Postal Services Holding Company Limited

3. Discontinued operations

During the year to 30 March 2014 the Group disposed of its subsidiary, Royal Mail plc (formerly Royal Mail Group Limited.) The steps detailing this disposal are set out below.

A new company Royal Mail Limited was incorporated on 6 September 2013 with share capital of 100 ordinary shares of £1.50 each (total £150) issued to Royal Mail Holdings plc. Royal Mail Holdings plc was renamed Postal Services Holding Company plc on 11 September 2013, and Postal Services Holding Company plc was renamed Postal Services Holding Company Limited on 12 December 2013. On 12 September 2013, the special share in Royal Mail Group Limited, held by HM Government, was redeemed at par value of £1. Subsequently, also on 12 September 2013, share capital of 999,999,900 ordinary shares of £1.50 each (total £1,499,999,850) was issued by Royal Mail Limited to Postal Services Holding Company Limited in consideration for the transfer from Postal Services Holding Company Limited of the entire issued share capital of Royal Mail Group Limited. Following this transfer, and therefore as at 12 September 2013, the issued share capital of Royal Mail Limited, which was all issued to Postal Services Holding Company Limited, comprised 1,000,000,000 ordinary shares of £1.50 each (total £1,500,000,000).

On 17 September 2013, Royal Mail Limited approved a reduction of capital by way of solvency statement to cancel £1.49 from each issued ordinary share of £1.50. This reduction of capital was registered on 18 September 2013, and reduced share capital from £1,500 million to £10 million. Following this reduction, and therefore as at 18 September 2013, the issued share capital of Royal Mail Limited, which was all issued to Postal Services Holding Company Limited, comprised 1,000,000,000 ordinary shares of £0.01 each (total £10,000,000). On 19 September 2013, Royal Mail Limited was re-registered as Royal Mail plc. On 15 October 2013, Postal Services Holding Company Limited completed the successful IPO of Royal Mail plc, selling 60.01% of its interest and 10% of its interest was granted free of charge to eligible Royal Mail plc employees. In the financial statements of the Group this grant of shares has been accounted for in the Consolidated income statement and the Consolidated statement of changes in equity. No further accounting will be required in the Group or Company financial statements in respect of the granted shares as Royal Mail plc is the sponsoring employer.

As a consequence of the above Group control of Royal Mail plc was lost on 15 October 2013, and the remaining interest of 29.99% is treated as an investment thereafter. The remaining interest has been classified as an investment under IAS 39 'Financial instruments: Recognition and measurement' and not as an associate under IAS 28 'Investments in associates'. Under IAS 28 a shareholding should be accounted for as an associate if the investee has significant influence. The standard states that the exercise of significant influence is evidenced through representation on the board of directors, participation in policy-making processes, material transactions between the entities, interchange of managerial personnel or provision of essential technical information.

Postal Services Holding Company Limited is not represented on the Royal Mail plc Board of Directors, at no point has it sought to participate in Royal Mail plc policy making processes and there have been no material transactions between Postal Services Holding Company Limited and Royal Mail plc since the date of the IPO. In addition there has been no interchange of managerial personnel or provision of essential technical information between the companies. Therefore in the opinion of the Directors Postal Services Holding Company Limited does not have significant influence over Royal Mail plc and consequently the remaining interest has been classified as an investment. For further detail in relation to the investment in Royal Mail plc refer to note 20.

	£m
Cash consideration	**1,971**
Net assets disposed of:	
Property, plant and equipment	**1,912**
Goodwill	**202**
Intangible assets	**160**
Investments in joint ventures and associates	**3**
Financial assets	**23**
Retirement benefit asset	**1,862**
Deferred tax assets	**9**
Inventories	**23**
Trade and other receivables	**1,005**
Cash and cash equivalents	**685**
Trade and other payables	**(1,744)**
Financial liabilities	**(1,308)**
Provisions	**(215)**
Deferred tax liabilities	**(186)**
	2,431
Fair value of retained 29.99% interest in investment	**989**
Disposal costs	**(13)**
Profit on disposal	**516**

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3. Discontinued operations (continued)

The profit in the year from discontinued operations, net of tax is as follows:

	2014 £m	2013 £m
Revenue	**4,715**	8,869
People costs	**(2,753)**	(5,147)
Distribution and conveyance costs	**(950)**	(1,785)
Other operating costs	**(615)**	(1,302)
Operating profit before exceptional items	**397**	635
Operating exceptional items	**1,227**	(272)
Operating profit	**1,624**	363
Profit on disposal of property, plant and equipment	**18**	4
Profit on disposal of business	**2**	-
Profit before financing and taxation	**1,644**	367
Finance costs	**(55)**	(104)
Finance income	**2**	27
Net pension interest	**23**	34
Profit before taxation	**1,614**	324
Taxation charge	**(368)**	246
Profit in the financial year from discontinued operations	**1,246**	570

Included within the Group's cash flows are the following amounts are attributable to the discontinued operation:

	2014 £m	2013 £m
Net cash flows from operating activities	**447**	761
Net cash flows from investing activities	**(104)**	(219)
Net cash flows from financing activities	**(10)**	(665)
Net increase/(decrease) in cash and cash equivalents	**333**	(123)

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4. People information

Included in continuing operating expenses:

People costs:

	2014 £m	2013 Restated £m
Wages and salaries	**208**	215
Pensions	**27**	25
Social security	**20**	19
Subpostmasters' fees	**448**	478
Total	**703**	737

People numbers:
The number of people employed, calculated on a headcount basis, were:

	Period end employees		Average employees	
	2014	2013	2014	2013
Post Office Limited	**7,787**	7,886	**7,950**	7,842
UK Parcels, International & Letters (UKPIL)	**-**	149,940	**148,968**	149,710
General Logistics Systems	**-**	13,646	**4,077**	13,569
Group total	**7,787**	175,502	**174,357**	175,134

Directors' emoluments:

	2014 £000	2013 £000
Directors' emoluments	**134**	376
Amounts earned under Long-Term Incentive Plans	**-**	4
Number of Directors accruing benefits under defined benefit schemes	**-**	-

The total amount payable to the highest paid director in respect of emoluments was £89,000 (2013: £200,000). Pension contributions of £nil (2013: £nil) were made to a money purchase scheme on their behalf.

Key management compensation is disclosed in note 27.

5. Other operating costs

Operating profit before exceptional items from continuing operations is stated after charging the following other operating costs:

	2014 £m	2013 Restated £m
Pensions charge to continuing operations (note 24)	**27**	25
Operating lease charges on property, plant and equipment for continuing operations	**61**	82

Research and development expenditure during the year amounted to £nil (2013 £nil).

Auditor's fees	2014 £000	2013 £000
Audit of statutory financial statements	**35**	733
Other fees to auditor:		
Statutory audits for subsidiary	**314**	1,566
Other services (including regulatory audits)	**143**	313
Taxation services	**-**	228
Total	**492**	2,107

6. Operating exceptional items

The results for the year include a number of non-recurring or restructuring costs which fall outside of the Group's normal trading activity. These are items which, in management's judgement, need to be disclosed separately to provide greater visibility of the underlying results of the business.

An analysis of the exceptional items from continuing operations included within the income statement is as follows:

	2014 £m	2014 £m	2013 Restated £m	2013 Restated £m
Business transformation incentive payments		**5**		4
Restructuring costs:				
– Voluntary redundancy	23		11	
– Project and property costs	231		64	
		254		75
Impairments		**115**		66
Government grant – Post Office Limited		**(317)**		(98)
Royal Mail Pension Plan amendment		**(102)**		-
Total operating exceptional items charged to continuing operations		**(45)**		47

The £5m charge (2013 £4m) for Business transformation mainly represents payments linked to the achievement of key modernisation milestones as part of the pay deal with the Communication Workers Union.

Impairments of £115m (2013 £66m) relate to; Post Office Limited comprising £73m (2013 £41m) property, plant and equipment and £42m (2013 £25m) intangible assets.

For further information on the Royal Mail Pension Plan amendment refer to note 24.

7. Net finance costs

The following analysis is in respect of continuing operations and excludes net pensions interest.

	2014 £m	2013 Restated £m
Interest payable on financial liabilities carried at amortised cost	3	4
Finance costs	**3**	4
Interest received on available for sale financial assets	-	(220)
Interest received on loans and receivables financial assets	(1)	(1)
Finance income	**(1)**	(221)
Net finance (income)/costs (excluding net pensions interest)	**2**	(217)

The finance costs of £3m (2013 £4m) include £1m (2013 £1m) in respect of finance charges payable under finance lease contracts.

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8. Taxation

The major components of the income tax charge/(credit) for the years ended 30 March 2014 and 31 March 2013 are:

Continuing operations	2014 £m	2013* £m
Tax charged to the income statement		
Current income tax:		
Current income tax charge/(credit)	**(9)**	(6)
Foreign tax	**-**	-
Adjustments in respect of UK current income tax of previous years	**-**	53
Adjustments in respect of foreign current income tax of previous years	**(2)**	-
	(11)	47
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(2)**	(21)
Income tax debit/(credit) reported in the consolidated income statement in relation to continuing operations	**(13)**	26
Tax charged to equity		
Income tax related to items charged or credited directly to equity:		
Deferred income tax charge (relief) related to actuarial movements in the pension deficit	**(80)**	209
Deferred income tax charge (relief) due to effect of change in tax rate	**-**	-
Deferred income tax charge (relief) related to movements in hedging reserve	**-**	(2)
Current income tax (relief) for pension deficit recovery payment	**-**	-
Current income tax charge for Fair Value adjustments on gilts investments/financial assets	**-**	(53)
Income tax expense (credit) reported in equity	**(80)**	154

A reconciliation between the tax charges and the product of accounting profit/(loss) before tax multiplied by the UK rate of Corporation Tax for the years ended 30 March 2014 and 31 March 2013 is as follows:

	2014 £m	2013* £m
Accounting profit/(loss) before tax from continuing operations	**158**	251
Accounting profit/(loss) before tax from discontinued operations	**2,130**	324
At UK standard rate of Corporation Tax of 23% (2013 24%)	**526**	138
Overseas current tax rates	**-**	1
Tax under (over) provided in prior years	**(1)**	(1)
Non-taxable income	**(123)**	(4)
Non-deductible expenses	**(1)**	14
Associates'/joint venture' profit after tax charge included in Group pre-tax profit	**(8)**	(8)
Net increase (decrease) in tax charge resulting from derecognition (recognition) of deferred tax assets	**(36)**	(367)
Provision deductible when incurred	**-**	-
Deferred relief for asset depreciation and impairment	**-**	-
Effect of change in tax rate on deferred tax	**(3)**	-
Losses from disposals ineligible for relief	**-**	7
Losses extinguished under Postal Services Act	**-**	-
Effect of group relief surrenders to other companies	**1**	-
Total tax charge/(credit) in the income statement	**355**	**(220)**
Tax charge/(credit) in the income statement relating to continuing operations	**(13)**	26
Tax charge/(credit) in the income statement relating to discontinued operations	**368**	(246)

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8. Taxation (continued)

Deferred tax relates to the following:

	Balance sheet		Income statement	
	2014 £m	2013 £m	**2014 £m**	2013* £m
Liabilities				
Accelerated capital allowances	**-**	-	**-**	-
Goodwill qualifying for tax allowances	**-**	(23)	**-**	-
Deferred tax liabilities	**-**	(23)	**-**	-
Assets				
Deferred capital allowances	**-**	244	**-**	-
Provisions and other	**-**	37	**-**	-
Pensions temporary differences	**(21)**	(243)	**-**	-
Losses available for offset against future taxable income	**21**	72	**2**	21
Hedging derivatives temporary differences	**-**	2	**-**	-
Goodwill qualifying for tax allowances	**-**	-	**-**	-
Deferred tax assets	**-**	112	**2**	21
Net deferred tax asset (liability)	**-**	89	**-**	-
Consolidated income statement (relating to continuing operations)	**-**	-	**2**	21
Consolidated income statement (relating to discontinued operations)	**-**	-	**(349)**	284

*Restated following the disposal of 70.01% of the Group's shareholding in Royal Mail plc (formerly Royal Mail Group Limited) and subsequent classification as a discontinued operation. For further detail refer to note 3.

The Group has unrecognised deferred tax assets of £144m (2013:£256m) comprising of £nil (2013:£nil) relating to retirement benefit obligations, £99m (2013:£145m) relating to fixed asset and other timing differences, and £45m (2013:£111m) relating to tax losses. The Group has capital losses carried forward the tax effect of which is £nil (2013:£4m) and temporary differences related to capital losses of £nil (2013: £74m). The Group has rolled over capital gains of £3m (2013:£56m); no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value as it is anticipated that capital losses would arise.

Finance Act 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and to 20% from 1 April 2015. Deferred tax balances have been measured to reflect these changes and reflect the expected timing of reversal.

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9. Property, plant and equipment

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost							
At 1 April 2013	1,723	280	765	1,191	580	1,080	**5,619**
Exchange rate movements	1	-	-	-	-	1	**2**
Reclassification	(18)	-	13	-	-	5	**-**
Additions	93	-	11	7	38	49	**198**
Disposals	(43)	(1)	(16)	(11)	(34)	(34)	**(139)**
Legal entity transfer	(2)	-	-	-	-	-	**(2)**
Reclassification to non-current assets held for sale	(1)	-	-	-	-	-	**(1)**
Disposal of subsidiary	(1,653)	(262)	(660)	(1,186)	(540)	(362)	**(4,663)**
At 30 March 2014	**100**	**17**	**113**	**1**	**44**	**739**	**1,014**
Depreciation and impairment							
At 1 April 2013	923	178	547	722	331	987	**3,688**
Exchange rate movements	-	-	-	1	-	1	**2**
Depreciation	22	2	24	34	27	14	**123**
Impairment	16	-	7	-	7	43	**73**
Disposals	(38)	-	(13)	(10)	(32)	(34)	**(127)**
Reclassification to non-current assets held for sale	(1)	-	-	-	-	-	**(1)**
Disposal of subsidiary	(831)	(164)	(452)	(746)	(289)	(272)	**(2,754)**
At 30 March 2014	**91**	**16**	**113**	**1**	**44**	**739**	**1,004**
Net book value							
At 30 March 2014	**9**	**1**	**-**	**-**	**-**	**-**	**10**
At 31 March 2013	800	102	218	469	249	93	1,931

Depreciation rates are disclosed within accounting policies (note 2). No depreciation is provided on land, which represents £3m (2013 £199m) of the total cost of properties.

9. Property, plant and equipment (continued)

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost							
At 26 March 2012	1,598	276	747	1,228	482	1,037	5,368
Exchange rate movements	4	-	-	2	1	2	9
Reclassification	(29)	1	27	1	-	-	-
Additions	184	4	20	47	120	57	432
Disposals	(32)	(1)	(29)	(87)	(23)	(16)	(188)
Reclassification to non-current assets held for sale	(2)	-	-	-	-	-	(2)
At 31 March 2013	1,723	280	765	1,191	580	1,080	5,619
Depreciation and impairment							
At 26 March 2012	869	173	517	739	296	949	3,543
Exchange rate movements	1	-	-	2	1	-	4
Depreciation	39	6	46	68	46	32	237
Impairment	30	-	-	-	9	22	61
Disposals	(15)	(1)	(16)	(87)	(21)	(16)	(156)
Reclassification to non-current assets held for sale	(1)	-	-	-	-	-	(1)
At 31 March 2013	923	178	547	722	331	987	3,688
Net book value							
At 31 March 2013	800	102	218	469	249	93	1,931
At 26 March 2012	729	103	230	489	186	88	1,825

10. Goodwill

	2014 £m	2013 £m
Cost		
At 1 April 2013 and 26 March 2012	611	599
Exchange rate movements	3	8
Acquisition of businesses	4	4
Disposal of subsidiary	(618)	-
At 30 March 2014 and 31 March 2013	-	611
Impairment		
At 1 April 2013 and 26 March 2012	415	410
Exchange rate movements	1	5
Disposal of subsidiary	(416)	-
At 30 March 2014 and 31 March 2013	-	415
Net book value		
At 30 March 2014 and 31 March 2013	-	196
At 1 April 2013 and 26 March 2012	196	189

The carrying value of goodwill arising on business combinations of £nil (2013 £196m) at the balance sheet date includes £nil (2013 £194m) relating to the General Logistics Systems (GLS) business segment.

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11. Intangible assets

	2014				2013			
	Master franchise licences £m	Customer listings £m	Software £m	Total £m	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost								
At 1 April 2013 and 26 March 2012	23	32	495	**550**	23	30	431	484
Additions	-	-	79	**79**	-	-	69	69
Disposals	-	-	(7)	**(7)**	-	-	(5)	(5)
Acquisition of businesses	-	1	-	**1**	-	2	-	2
Disposal of subsidiary	(23)	(33)	(324)	**(380)**	-	-	-	-
At 30 March 2014 and 31 March 2013	**-**	**-**	**243**	**243**	23	32	495	550
Amortisation and impairment								
At 1 April 2013 and 26 March 2012	**23**	**28**	**360**	**411**	23	26	300	349
Impairment	-	-	42	**42**	-	-	24	24
Amortisation	-	1	16	**17**	-	2	41	43
Disposals	-	-	(7)	**(7)**	-	-	(5)	(5)
Disposal of subsidiary	(23)	(29)	(168)	**(220)**	-	-	-	-
At 30 March 2014 and 31 March 2013	**-**	**-**	**243**	**243**	23	28	360	411
Net book value								
At 30 March 2014 and 31 March 2013	**-**	**-**	**-**	**-**	-	4	135	139
At 1 April 2013 and 26 March 2012	-	4	135	139	–	4	131	135

The intangible assets above, none of which have been internally generated, have finite lives and are being written down on a straight-line basis.

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12. Investments in joint venture and associates

Joint venture

During 2013-14 (and 2012-13), the Group's only joint venture investment was a 50% interest in First Rate Exchange Services Holdings Limited (note 27), whose principal activity is the provision of Bureau de Change services in Post Office Limited.

Associates

Details of the Group's 2013-14 and 2012-13 associate investments are provided in note 27. The reporting dates for these investments are 30 March 2014. There are no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends, repayment of loans or advances.

	At 31 March 2013 £m	Share of post tax pre dividend profit £m	Disposal £m	Dividend £m	At 30 March 2014 £m
Joint venture					
Share of net assets	59	33	-	(32)	**60**
Goodwill	1	-	-	-	**1**
Net investments	60	33	-	(32)	**61**
Associates					
Share of net assets	3	2	(3)	(2)	**-**
Net investments	3	2	(3)	(2)	**-**
Total net investments in joint venture/associates	63	35	(3)	(34)	**61**

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12. Investments in joint venture and associates (continued)

	At 26 March 2012 £m	Addition £m	Share of post tax pre dividend profit £m	Disposal £m	Dividend £m	At 31 March 2013 £m
Joint venture						
Share of net assets	66	-	33	-	(40)	59
Goodwill	1	-	-	-	-	1
Net investments	67	-	33	-	(40)	60
Associates						
Share of net assets	25	11	(1)	(32)	-	3
Total net investments in joint venture/associates	92	11	32	(32)	(40)	63

	2014			2013		
	Joint venture £m	Associates £m	Total £m	Joint venture £m	Associates £m	Total £m
Share of assets and liabilities:						
Current assets	**175**	-	**175**	184	6	190
Non-current assets	**5**	-	**5**	3	-	3
Share of gross assets	**180**	-	**180**	187	6	193
Current liabilities	**(119)**	-	**(119)**	(127)	(3)	(130)
Non-current liabilities	-	-	-	-	-	-
Share of gross liabilities	**(119)**	-	**(119)**	(127)	(3)	(130)
Share of net assets	**61**	-	**61**	60	3	63
Share of revenue and profit:						
Revenue	**77**	-	**77**	75	61	136
Profit/(loss) after tax	**33**	-	**33**	33	(1)	32

13. Pension escrow investments

The pension escrow investments were established to provide security to the Royal Mail Pension Plan (RMPP) Trustee in support of a 38 year deficit recovery period as agreed with the Trustee in 2009 as part of the last triennial valuation.

As from 1 April 2012, following the transfer of almost all of the RMPP pension liabilities and pension assets to HM Government, all of the pension escrow investments were made available to the Group. The investments were sold during the prior year. Pension escrow investments are analysed in the table below:

	2014		2013	
	Average effective interest rate %	£m	Average effective interest rate %	£m
Treasury bills	-	-	-	-
Gilt edged securities (index-linked)	-	-	-	-
Gilt edged securities (conventional)	-	-	-	-
Money market fund	-	-	0.3	20
Group Total		-		20

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14. Inventories

	2014 £m	2013 £m
Supplies and materials (uniforms, fuel, printing and stationary, mailbags, engineering spares)	**-**	20
Merchandise (retail, lottery products and stamps)	**6**	12
Total	**6**	32

15. Current trade and other receivables

	2014 £m	2013 £m
Trade receivables	**62**	790
Prepayments and accrued income	**82**	314
	144	1,104
Client receivables in the Post Office Limited network	**158**	240
Finance income	**-**	-
Total	**302**	1,344

Refer to note 17 for an explanation of Post Office Limited network balances.

Movements in the provision for bad and doubtful debts were as follows:

	2014 £m	2013 £m
At 1 April 2013 and 26 March 2012	**37**	40
Receivables provided for during the year	**7**	15
Release of provision	**(2)**	(10)
Utilisation of provision	**(6)**	(8)
Disposal of subsidiary	**(19)**	-
At 30 March 2014 and 31 March 2013	**17**	37

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15. Current trade and other receivables (continued)

The amount of trade receivables that were past due but not impaired are as follows:

	2014 £m	2013 £m
Past due not more than one month	**18**	100
Past due more than one month and not more than two months	**2**	9
Past due more than two months	**6**	29
Total past due but not impaired	**26**	138
Provided for or not yet overdue	**53**	689
Provision for bad and doubtful debts	**(17)**	(37)
Total	**62**	790

16. Cash and cash equivalents

Cash and cash equivalents include cash in Post Office Limited's branches and other cash equivalent investments as shown below:

	2014 £m	2013 £m
Cash in the Post Office Limited network	**708**	870
Cash at bank and in hand	**7**	144
Total cash at bank in hand or in the Post Office Limited network	**715**	1,014
Cash equivalent investments: Short-term bank and local authority deposits and money market fund investments	**30**	307
Total cash and cash equivalents	**745**	1,321

Cash and cash equivalents comprise cash at bank and in hand and short term deposits (cash equivalents) with an original maturity date of three months or less. The Group uses Money Market funds as a readily available source of cash and these funds are categorised as cash equivalents. Where interest is earned, this is either at floating or short-term fixed rates based upon bank deposit rates. The fair value of cash and cash equivalent investments is not materially different from the carrying value of £745m (2013 £1,321m).

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consists of £745m defined above, net of a bank overdraft of £50m which is disclosed in note 17.

17. Current trade and other payables

	2014 £m	2013 £m
Bank overdraft	**50**	-
Trade payables and accruals	**189**	1,228
Advance customer payments (for stamps held, not yet used by customers)	**37**	425
Social security	**14**	112
	290	1,765
Client payables in the Post Office Limited network	**437**	528
Capital expenditure payables	**31**	66
Deferred grant income	**-**	102
Other	**10**	17
Total	**768**	2,478

The Group, through Post Office Limited, receives and disburses cash on behalf of Government agencies and other clients to customers through its Post Office branch network. Amounts owed to/from these parties are disclosed separately as client payables (as above) and receivables (see note 15). The level of cash held and the related payables can vary significantly at each balance sheet date.

The fair value of trade and other payables is not materially different from the carrying value.

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18. Loans and borrowings

Below is a summary of loans and borrowings at the year end, the average interest rate, facility availability and security granted.

2014	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of loan drawn down year
BIS loans to Post Office Limited[1]	-	1,150	**1,150**	1.0	2014

[1] BIS - Department of Business, Innovation and Skills.

2013	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of loan drawn down year
BIS loans to Royal Mail Group Limited	973	900	1,873	8.8	2019
BIS loans to Post Office Limited	291	859	1,150	1.0	2013
Total	1,264	1,759	3,023		

The undrawn committed facilities, in respect of which all conditions precedent had been met at the balance sheet date, expire as follows:

	2014 £m	2013 £m
Expiring in one year or less	-	900
Expiring in more than one year, but not more than two years	-	-
Expiring in more than two years	**1,150**	859
Total	**1,150**	1,759

The following securities apply to the Group's committed facilities:

	2014 Facility £m	Facility end date	2013 Facility £m	Facility end date	Security
Post Office Limited facility	**1,150**	**2018**	1,150	2018	Floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items

The Post Office Limited facility of £1,150m is currently restricted to funding the cash and near cash items held within the Post Office Limited network.

The BIS loans to Post Office Limited under the facility are short dated on a programme of liquidity management and mature on average 1 day after the year end (2013 1 day). On maturity it is expected that further loans will be drawn down under this facility, which expires in 2018.

The BIS loans to Post Office Limited become repayable immediately on the occurrence of an event of default under the loan agreements. These events of default include non-payment and insolvency in respect of Post Office Limited. It is not anticipated that the Group is at risk of breaching any of these obligations.

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19. Financial liabilities net and gross maturity analysis

Below is a summary of when all the financial liabilities fall due.

	2014			
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	-	3	-	3
More than one year (non-current)	-	-	-	-
More than one year but not more than two years	-	-	-	-
More than two years but not more than five years	-	-	-	-
More than five years	-	-	-	-
Total	-	3	-	3

	2013			
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	291	82	2	375
More than one year (non-current)	973	230	1	1,204
More than one year but not more than two years	-	60	1	61
More than two years but not more than five years	473	139	-	612
More than five years	500	31	-	531
Total	1,264	312	3	1,579

Obligations under finance leases are either unsecured or secured on the leased assets. These are repayable in variable and fixed amounts over their maturity periods. The average interest rate is 11.5% (2013 4%). The average maturity date is less than 1 year (2013 more than five years).

The tables below set out the gross (undiscounted) contractual cash flows of the Group's financial liabilities. For overdrafts, loans and finance lease contracts, these cash flows represent the undiscounted total amounts payable including interest. For derivatives which are settled gross, these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow. For derivatives which are settled net, these cash flows represent the undiscounted forecast outflow.

19. Financial liabilities net and gross maturity analysis (continued)

	2014		
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Total £m
Amounts falling due in:			
One year or less or on demand (current)	-	3	3
More than one year (non-current)	-	-	-
More than one year but not more than two years	-	-	-
More than two years but not more than five years	-	-	-
More than five years	-	-	-
Total	-	3	3

	2013					
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	320	90	410	120	2	532
More than one year (non-current)	1,435	334	1,769	2	1	1,772
More than one year but not more than two years	29	65	94	2	1	97
More than two years but not more than five years	752	147	899	-	-	899
More than five years	654	122	776	-	-	776
Total	1,755	424	2,179	122	3	2,304

20. Financial assets and liabilities - summary and management of financial risk

The Group's financial assets and liabilities are shown in the table below.

	2014			2013		
	Non- current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Investment in Royal Mail plc	-	1,698	1,698	-	-	-
Pension escrow investments	-	-	-	20	-	20
Cash and cash equivalents	-	745	745	-	1,321	1,321
Other bank and governmental deposits	-	-	-	-	1,257	1,257
Derivative assets	-	-	-	3	10	13
Total financial assets	-	2,443	2,443	23	2,588	2,611
BIS loans to Post Office Limited	-	-	-	-	(291)	(291)
BIS loans to Royal Mail Group Limited	-	-	-	(973)	-	(973)
Total loans and borrowings	-	-	-	(973)	(291)	(1,264)
Finance leases obligations	-	(3)	(3)	(230)	(82)	(312)
Derivative liabilities	-	-	-	(1)	(2)	(3)
Total financial liabilities	-	(3)	(3)	(1,204)	(375)	(1,579)

During the year to 30 March 2014 the Group lost control of its subsidiary, Royal Mail plc, through the disposal of the majority of its shareholding. The remaining interest of 29.99% has been classified as an available for sale financial asset. The fair value of the 29.99% investment at the date of loss of control was £989m, see note 3 for further details. The investment has been remeasured to fair value as at 30 March 2014 and the change in fair value taken to the consolidated statement of other comprehensive income. The fair value of this quoted investment in Royal Mail plc was determined by reference to published purchase price quotations in an active market.

20. Financial assets and liabilities - summary and management of financial risk (continued)

Financial assets and liabilities – financial risk management objectives and policies
The Group's principal financial assets and liabilities comprise quoted investments, short-term deposits, money market liquidity investments, loans and cash. The main purposes of these financial instruments are to raise finance and manage the liquidity needs of the business operations. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from operations and are not disclosed further in this section.

The Group enters into derivative transactions, which create derivative assets and liabilities; mainly commodity price swaps and forward currency contracts. The purpose is to manage the commodity and currency risks arising from the Group's operations. It is, and has been throughout the year under review, the Group's policy that no speculative trading in financial instruments is undertaken.

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

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates to the Group's loans and borrowings and interest bearing financial assets. The BIS loans to Post Office Limited of £nil (2013 £291m) are at short-dated fixed interest rates with average maturity 1 day (2013 average maturity 1 day). The total interest bearing financial liabilities/assets of the Group (excluding the non-current investments) of £34m (2013 £437m) are at short-dated fixed or variable interest rates.

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

Foreign currency risk
During the year the Group was exposed to foreign currency risk due to; trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in UKPIL; the balances held to operate the Bureau de Change services within Post Office Limited; and various purchase contracts denominated in foreign currency, all in UKPIL. These risks are mitigated by hedging programmes. Hedging is normally confined to 90% of the forecast exposure where forecast cash flows are highly probable.

For the Bureau de Change business, balances of major currency holdings are hedged along with minor currencies showing a closely correlated movement.

Commodity price risk
During the year the Group was exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe. In addition, the Group was exposed to the commodity price risk of purchasing electricity and gas. Following the disposal of Royal Mail plc the Group has no material exposure to commodity price risk.

Liquidity risk

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

The unused facility for Post Office Limited of £1,150m expires in 2018 (2013 £859m expiring in 2016).

Capital management
The Group regards its capital as share capital, share premium, retained earnings and debt provided by the UK Government. The sole shareholder and the provider of the majority of debt to the Group is the UK Government. The management of capital is closely linked to the Group's relationship with its shareholder. The Group maintains its liquidity requirements by the management of its internal funds and by the drawing down of equity and debt from its shareholder as well as drawing on limited external debt facilities. The Group's debt to equity ratio is determined by its shareholder.

Sensitivity
As a result of the mix of fixed and variable rate financial instruments and the currency and commodity hedge programmes in place, the Group has no material exposure to operating profit risk from interest rate, exchange rate or commodity prices.

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21. Financial assets and liabilities - additional analysis

The following tables show the currency, classification, maturity and effective interest rate of the Group's financial assets and liabilities.

Carrying amounts and fair values

Trade receivables, payables, prepayments, accruals and client payables have been omitted from this analysis on the basis that carrying value is a reasonable approximation for fair value. Pension scheme assets and liabilities are also excluded. Fair values have been calculated using current market prices (published purchase price quotations/forward exchange rates/commodity prices) and discounted using appropriate discount rates. There are no material differences between the fair value (transaction price) of all financial instruments at initial recognition and the fair value calculated using these valuation techniques, except in relation to the investment in Royal Mail plc. For all other financial instruments fair value is equal to the carrying amount. The tables below also set out the carrying amount of the currency of the Group's financial instruments:

	Level	Classification	2014 Total £m	2013 Total £m
Financial assets				
Investment in Royal Mail plc	1	Available for sale	**1,698**	-
Cash at bank, in hand or in Post Office Limited network			**715**	1,014
Cash equivalent investments			**30**	307
- Money market funds		Loans and receivables	-	174
- Short-term deposits - local government		Loans and receivables	-	7
- Short-term deposits - bank		Loans and receivables	**30**	126
Cash and cash equivalents			**745**	1,321
Financial assets - investments (current)			-	1,257
- Short-term deposits - HM Government/local government		Loans and receivables	-	1,257
- Short-term deposits - Bank		Loans and receivables	-	-
Financial assets - pension escrow investments (non-current)	1		-	20
- Money market funds		Loans and receivables	-	20
Derivative assets - current	2		-	10
- non-current	2		-	3
Total financial assets			**2,443**	2,611
Financial liabilities				
Financial liabilities - loans and borrowings (current)			-	(291)
- BIS loans to Post Office Limited		Amortised cost	-	(291)
Obligations under finance leases (current)		Amortised cost	**(3)**	(82)
Financial liabilities - loans and borrowings (non-current)			-	(973)
- BIS loans to Royal Mail Group Limited		Amortised cost	-	(973)
Obligations under finance leases (non-current)		Amortised cost	-	(230)
Derivative liabilities - current	2		-	(2)
Derivative liabilities - non-current	2		-	(1)
Total financial liabilities			**(3)**	(1,579)
Net total financial assets			**2,440**	1,032

There are no financial assets or liabilities designated at fair value through the income statement on initial recognition.

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21. Financial assets and liabilities - additional analysis (continued)

The criteria for codification of 'Level' in the above table is described in the accounting policy 'Fair value measurement of financial instruments' (note 2). None of the financial assets listed above are either past due or considered to be impaired.

Interest rate risk

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The tables below set out the carrying amount by maturity of the Group's financial instruments that are exposed to interest rate risk.

Financial year ended 30 March 2014

	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Cash at bank	-	-	-	-	-	-
Cash equivalent investments:						
- Short-term deposits - bank	0.5	37	-	-	-	**37**
BIS loans to Post Office Limited	-	-	-	-	-	**-**
Obligations under finance leases	11.5	(3)	-	-	-	**(3)**
Total		**34**	**-**	**-**	**-**	**34**
Non-interest bearing						
Investment in Royal Mail plc		1,698	-	-	-	**1,698**
Cash at bank, in hand or in Post Office Limited network		708	-	-	-	**708**
Net total financial assets/(liabilities)		**2,440**	**-**	**-**	**-**	**2,440**

Financial year ended 31 March 2013

	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Cash at bank	3.2	18	-	-	-	**18**
Cash equivalent investments:						
- Short-term deposits - bank	0.4	120	-	-	-	**120**
- Short-term deposits - HM Government/local government	0.4	7	-	-	-	**7**
Financial assets - investments (current)						
- Short-term deposits - HM Government/local government	7.7	1	-	-	-	**1**
BIS loans to Post Office Limited	1.0	(291)	-	-	-	**(291)**
BIS loans to Royal Mail Group Limited	8.8	-	-	(473)	(500)	**(973)**
Obligations under finance leases	3.7	(82)	(60)	(139)	(31)	**(312)**
Total		**(227)**	**(60)**	**(612)**	**(531)**	**(1,430)**
Floating rate						
Cash at bank	0.7	111	-	-	-	**111**
Cash equivalent investments:						
- Money market funds	0.4	174	-	-	-	**174**
- Short-term deposits - bank	0.8	6	-	-	-	**6**
Financial assets - pension escrow investments (non-current)						
- Money market fund	0.3	-	-	-	20	**20**
Total		**291**	**-**	**-**	**20**	**311**
Non-interest bearing						
Cash at bank, in hand or in Post Office Limited network		885	-	-	-	**885**
Financial assets - investments (current)						
- Short-term deposits - HM Government/local government		1,256	-	-	-	**1,256**
Derivative assets		10	3	-	-	**13**
Derivative liabilities		(2)	(1)	-	-	**(3)**
Total		**2,149**	**2**	**-**	**-**	**2,151**
Net total financial assets/(liabilities)		**2,213**	**(58)**	**(612)**	**(511)**	**1,032**

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22. Hedging programmes

The purpose of the Group's hedging programmes is to mitigate volatility in foreign exchange rates. As explained in note 20, interest rate risk is managed using an appropriate mix of fixed and variable rate financial instruments. There are no significant concentrations of credit risk. Accounting rules require the Group to choose whether to designate effective cash flow hedge programmes or not (subject to various tests). The impact of not designating a cash flow hedge programme is that all gains or losses on the derivatives in the programme have to be taken immediately to the income statement and cannot be deferred into equity.

The Group had the following designated cash flow hedge programmes during the current and previous year: however these programmes were disposed of with Royal Mail plc.

Hedging Activities

i) The diesel fuel hedge programme uses forward commodity price swaps in US$ or Sterling and forward currency purchase contracts to hedge the exposure arising from commodity price and US$/Sterling exchange rates for forecast diesel fuel purchases.

ii) The jet fuel hedge programme uses forward commodity price swaps and forward currency purchase contracts to hedge the exposure arising from commodity price and US$/Sterling exchange rates for forecast jet fuel usage.

iii) The air conveyance hedge programme uses US$ forward currency purchase contracts to hedge the exposure arising from US$/Sterling exchange rates for forecast air conveyance purchases.

iv) Three capital programmes (one of which completed during the year) use Euro forward currency purchase contracts to hedge the exposure arising from Sterling/Euro exchange rates for contracted capital expenditure on automation projects.

v) The electricity hedge programme uses forward commodity price swaps to hedge the exposure arising from electricity prices.

vi) The gas hedge programme uses forward commodity price swaps to hedge the exposure arising from gas prices.

vii) The Group had undesignated cash flow hedge programmes for the Post Office Limited Bureau de Change balances, the UKPIL overseas postal operator liabilities and the transactional exposure created by inter-company loans with GLS. The derivative balances of these programmes are not material.

Commodity price hedging

Prior to the disposal of Royal Mail Group plc the Group entered into price swap contracts to lock future purchases (at an agreed volume) into a known price. For diesel and jet these price swaps were sometimes entered into on the US$ price for the commodity (based upon available market prices), in which case the Group used forward foreign currency contracts to lock into a combined sterling price for the commodity

Following the disposal and as at 30 March 2014 the group did not operate a commodity price hedging programme.

Foreign currency hedging for non-commodity items

The exposure may be hedged with external forward foreign currency contracts. The foreign currency cash balances, the derivatives are all revalued to current market prices at the balance sheet dates, meaning that no net gains or losses arise in the income statement.

22. Hedging programmes (continued)

Derivative values

At any point in time, the derivative in these cash flow hedge programmes are either 'in the money' which means the hedged rates are better than current market rates or 'out of the money' which means the hedged rates are worse than current market rates. The gains ('in the money') and losses ('out of the money') as at the balance sheet date are deferred into equity (where the hedge is effective) and an associated financial asset or financial liability is created in the balance sheet. The financial asset/liability is released when the derivative matures. The amounts deferred into equity are released when the hedged transaction occurs. The following table shows the derivative contracts entered into at 31 March 2013 and the associated derivative assets and liabilities. There were no material derivative contracts entered into at 30 March 2014.

	Commodity/ currency	Nominal amount	Maturity date	Average contracted commodity price/ exchange rate	Derivative asset non-current fair value £m	Derivative asset current fair value £m	Derivative liability non-current fair value £m	Derivative liability current fair value £m
2013								
Diesel fuel	Diesel fuel	182k tonnes	Apr 13 - Apr 15	US$931/tonne	-	3	(1)	(1)
Diesel fuel	US$	$169m	Apr 13 - Apr 15	US$1.56/£	1	2	-	-
Diesel fuel	Diesel fuel	93m litres	Apr 13 - Oct 15	£0.5/litre	2	-	-	-
Jet fuel	Jet fuel	17k tonnes	Apr 13 - Dec 13	US$1,016/tonne	-	-	-	-
Jet fuel	Jet fuel	$17m	Apr 13 - Dec 13	US$1.56/£	-	-	-	-
Air conveyance	US$	$29m	Apr 13 - May 14	US$1.60/£	-	1	-	-
Capital programmes	Euro	€4m	Jun 13 - Oct 14	£0.82/€	-	-	-	-
Electricity	Electricity	535k MWH	Apr 13 - Oct 15	£55/MWH	-	1	-	(1)
Gas	Gas	33m therms	Apr 13 - Oct 15	£0.70/therm	-	1	-	-
Cash flow hedges					3	8	(1)	(2)
Other derivatives					-	2	-	-
Total					3	10	(1)	(2)

Other derivatives represent hedges by the Group of other foreign exchange and commodity price exposures, which are not designated under IAS 39 (including the hedge of the Bureau de Change currency holdings within Post Office Limited, the hedge of the trading balance with overseas postal operators and the hedge of inter-company loans with overseas subsidiary).

There are timing differences between the maturity of the derivatives and the maturity of the underlying hedged transaction. Therefore there are differences between the derivative balances in this note and the balance on the hedging reserve.

23. Provisions

	Exceptional £m	**Other £m**	**Total £m**
At 1 April 2013	211	61	**272**
Arising during the year:			
– charged in operating exceptional items	133	-	**133**
– charged in other operating costs	-	13	**13**
Unused amounts reversed	(9)	-	**(9)**
Utilised in the year	(104)	(13)	**(117)**
Discount rate adjustment	-	1	**1**
Disposal of subsidiary	(161)	(54)	**(215)**
At 30 March 2014	**71**	**7**	**78**
Disclosed as:			
Current at 30 March 2014	64	6	**70**
Non-current at 30 March 2014	7	1	**8**
	71	**7**	**78**
Current at 31 March 2013	99	39	138
Non-current at 31 March 2013	112	22	134
	211	61	272

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23. Provisions (continued)

Exceptional

Exceptional provisions of £71m (2013 £211m) principally comprise redundancy schemes of £13m (2013 £92m) and £55m (2013 £32m) relating to onerous property and contracts associated with restructuring and network transformation. Provisions of £64m are expected to be utilised in 2014-15.

Other

Other provisions of £7m (2013 £61m) include those recognised for the expected liabilities arising from items such property exits and personal injury in the normal course of business. The majority of the 'Other' provision amounts are expected to be utilised in 2014-15.

24. Employee benefits - 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

Background

On 1 April 2012, almost all of the pension assets and liabilities of the Royal Mail Pension Plan (RMPP) were transferred to HM Government. On this date the RMPP was also sectionalised with Royal Mail Group Limited and Post Office Limited responsible for their own sections. All employees were transferred to be directly employed by Post Office Limited on the same date.

Prior to 1 April 2012, Royal Mail Group Limited had the legal relationship with the Trustees of both RMPP and RMSEPP and, as such, the Trustees held Royal Mail Group liable for the actuarial deficit in the scheme. All employees were employed by Royal Mail Group Limited and seconded to Post Office Limited under an agreement between Post Office Limited and Royal Mail Group Limited. Post Office Limited met the full costs of employment and was responsible for the funding of the pension deficit attributable to these employees. Consequently Post Office Limited recognised a balance sheet deficit based on employee numbers over 12 years and represented approximately 7% of the total balance sheet deficit at that time. The net pensions interest, deficit recovery payments and actuarial gains or losses were also allocated on this basis, giving the Post Office Limited approximately 7% of the total balance sheet deficit at the balance sheet date. The current service cost, regular future service contributions and curtailments were computed separately for Royal Mail Group Limited and Post Office Limited based on common factors/rates.

Royal Mail Group Limited is the principal employer in Royal Mail Senior Executive Pension Plan (RMSEPP) and Post Office Limited became a participating employer with effect from 1 April 2012. Post Office Limited, the Group's principal subsidiary, continues to account for approximately 7% of the RMSEPP scheme as it has done previously.

Financial year to 30 March 2014

The comparative disclosures in this note for the year ended 31 March 2013 reflect the full RMPP scheme (both the Royal Mail Group Limited and Post Office Limited sections) and the full RMSEPP scheme. In the year to 30 March 2014, up to the date of disposal of Royal Mail plc the disclosures continue to reflect both schemes in their entirety. Following the disposal, and as at 30 March 2014 the disclosures reflect the Post Office Limited sectionalised RMPP scheme and the approximate 7% share of the RMSEPP scheme which was allocated to Post Office Limited as described in the paragraph above.

During the year 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 continuing operations exceptional gain of £102 million (note 6).

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.

The disclosures in this note show how the value of the assets and liabilities have been calculated at the balance sheet date.

Defined Contribution

The charge in the income statement for the defined contribution schemes and the Group contributions to these schemes was £13 million, £2m of which is due to continuing operations (2013 £18 million) during the year. A new defined contribution plan (RMDCP) was launched in April 2009. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Group for a year.

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds. RMPP includes sections A, B and C each with different terms and conditions:

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24. Employee benefits - pensions (continued)

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to members of Section A who chose to receive Section B benefits;
- Section C is for members (or beneficiaries of members) who joined after 1 April 1987 and before 1 April 2008.

A series of changes to RMPP and RMSEPP began to take effect on 1 April 2008.

The changes encompassed:

- the Plans closed to new members from 31 March 2008;
- all pensions and benefits earned before 1 April 2008 are still linked to final salary at the time of retirement;
- from 1 April 2008, defined benefits building up for employee members of the Plan are earned on a career salary basis;
- employees can continue to take their pension on reaching 60 but the normal retirement age increased to 65 for benefits earned from 1 April 2010;
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age at 55, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached; and
- RMSEPP was closed to future accruals on 31 December 2012.

Payment of £270 million, £21m of which is due to continuing operations (2013 £411 million) was made by the Group during the year in respect of regular future service contributions, nearly all relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1% (2013 17.1%), effective from April 2010. This rate is not expected to change materially during 2014-15. For RMSEPP, these contributions have remained at 35.9% (2013 35.9%) until its closure.

The Group pays 7% of the total deficit payment required to fund the deficit in RMSEPP and a payment of £6 million, £1m of which is due to continuing operations (2013 £30 million including a special one-off payment of £20 million) was made by the Group during the year. No RMPP deficit payments were made during 2012-13 or 2013-14. For RMSEPP, deficit recovery payments will be £1 million per annum, from 1 April 2010 to 31 January 2024.

A current liability of £nil (2013 £nil) has been recognised for payments to the pension schemes relating to redundancy. During the year, payments of £9 million, £1m of which is due to continuing operations (2013 £21 million) relating to redundancy were made.

The weighted average duration of the RMPP fund is 28 years, and for the RMSEPP fund is 20 years. Over the next financial reporting period to 29 March 2015 it is expected that employer contributions to the plans will be £21 million and £1 million for RMPP and RMSEPP respectively.

The following disclosures relate to the gains/losses and surplus/deficit in the scheme recognised for RMPP and RMSEPP defined benefit plans in the financial statements of the Group:

a) Major long-term assumptions

The size of the RMPP pension surplus, which is large in the context of the Group and its finances, is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on the surplus and overall income statement charge. The major long-term assumptions in relation to both RMPP and RMSEPP were:

	At 30 March 2014 % pa	At 31 March 2013 % pa
Rate of increase in salaries	**3.2**	4.3
Rate of pension increases - RMPP sections A/B	**2.3**	2.3
Rate of pension increases - RMPP section C	**3.2**	3.2
Rate of pensions increases - RMSEPP members transferred from Section A or B of RMPP	**2.4**	3.3
Rate of pension increases - RMSEPP all other members	**3.3**	3.2
Rate of increase for deferred pensions - RMSEPP members transferred from Section A or B of RMPP	**2.4**	3.3
Rate of increase for deferred pensions	**2.3**	2.3
Discount rate	**4.5**	4.8
Inflation assumption (RPI) - RMPP	**3.3**	3.3
Inflation assumption (CPI) - RMPP	**2.3**	2.3
Inflation assumption (RPI) - RMSEPP	**3.4**	3.3
Inflation assumption (CPI) - RMSEPP	**2.4**	2.3

The ultimate cost of the RMPP plan to the Group will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

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24. Employee benefits – pensions (continued)

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets which mitigates the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes pensionable pay in RMPP, which was amended with effect from 1 April 2014. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this will be partially offset by an increase in the value of the bond holdings and, to some extent, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would increase because pensions would be paid for a longer time.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were transferred to the Royal Mail Statutory Pension Scheme. These liabilities are no longer an obligation of the Group and consequent the transfer resulted in a significant removal of pension risk from the Group.

The following table shows the potential impact on the RMPP assets and pension surplus of changes in key assumptions:

	2014	2013
	£m	£m
Changes in RPI and CPI inflation of +0.1% pa	**(3)**	(4)
Changes in discount rate of +0.1%pa	**3**	4
Changes in real salary growth of +0.1% pa	**(1)**	(6)
Changes in CPI assumptions of +0.1% pa	**(1)**	(1)
An additional 1 year life expectancy	**(3)**	(4)

The sensitivity analysis has been prepared using projected benefit cashflows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cashflows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

Mortality

The mortality assumptions for the RMPP sectionalised scheme are based on the latest self administered pension scheme (SAPS) mortality tables with appropriate scaling factors (106% for male pensioners and 101% for female pensioners). For future improvements the assumptions allow for 'medium cohort' projections with a 1.25% floor. These are detailed below:

Average expected life expectancy from age 60:	**2014**	2013
For a current 60 year old male RMPP member	**26 years**	26 years
For a current 60 year old female RMPP member	**29 years**	29 years
For a current 40 year old male RMPP member	**29 years**	29 years
For a current 40 year old female RMPP member	**32 years**	32 years

24. Employee benefits – pensions (continued)

b) Plans' assets

The assets in the plans for the Group were:

	Market value 2014 £m	2013 £m
UK equities	2	174
Overseas equities	27	404
Government bonds	-	159
Corporate bonds	131	624
Property	6	219
Cash and cash equivalents	38	622
Other assets	82	31
Pooled investments	-	1,378
Fair value of plans' assets	286	3,611
Present value of plans' liabilities	(114)	(2,681)
Surplus in plans	172	930
IFRIC 14 adjustment	(24)	(8)
Surplus in scheme	148	922

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded.

The major categories of plan assets as a percentage of total plan assets are as follows:

Securities with quoted price in an active market:	**2014 %**	2013 %
UK equities	1	2
Overseas equities	9	11
Government bonds	-	5
Corporate bonds	46	18
Property	2	6
Cash and cash equivalents	13	17
Other assets	29	1
Pooled investments	-	38
Total quoted securities	100	98
Securities with no quoted price in an active market:		
UK equities	-	2
Total securities	100	100

c) Movement in plans' assets and liabilities

Changes in the fair value of the plans' assets for continuing operations only are analysed as follows:

	2014 £m	2013 £m
Plans' assets at beginning of period	268	2,129
Transfer of pension assets to HM Government	-	(1,953)
Company contributions paid	23	27
Employee contributions paid	8	8
Finance income	13	12
Actuarial (losses)/gains	(24)	47
Benefits paid to members	(2)	(2)
Plans' assets at end of period	286	268

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24. Employee benefits - pensions (continued)

Changes in the present value of the defined benefit pension obligations for continuing operations only are analysed as follows:

	2014 £m	2013 £m
Plans' liabilities at beginning of period	(168)	(2,335)
Royal Mail Pension plan amendment	102	-
Transfer of pension liabilities to HM Government	-	2,239
Current service cost	(25)	(24)
Employee contributions	(8)	(8)
Curtailment costs	(1)	(2)
Finance cost	(8)	(10)
Actuarial losses	(8)	(30)
Benefits paid	2	2
Plans' liabilities at end of period	(114)	(168)

The curtailment costs in the income statement are recognised on a consistent basis with the associated compensation costs. Estimates of both are included, for example, in any redundancy provisions raised. The curtailment costs above represent the costs associated with those people paid compensation in respect of redundancy during the accounting period. Such payments may occur in an accounting period subsequent to the recognition of costs in the income statement.

Changes in the fair value of the plans' assets for both continuing and discontinued operations are analysed as follows:

	2014 £m	2013 £m
Plans' assets at beginning of period	3,611	30,745
Increase in value of pension assets 26-31 March 2012	-	242
Transfer of pension assets to HM Government	-	(28,438)
Company contributions paid	240	462
Employee contributions paid	75	144
Movement in Company contributions accrued	1	(2)
Finance income	106	175
Actuarial (losses)/gains	(190)	303
Benefits paid to members	(14)	(20)
Disposal of Royal Mail plc	(3,543)	-
Plans' assets at end of period	286	3,611

Changes in the present value of the defined benefit pension obligations for both continuing and discontinued operations are analysed as follows:

	2014 £m	2013 £m
Plans' liabilities at beginning of period	(2,681)	(33,667)
Royal Mail Pension plan amendment	1,452	-
Increase in value of pension liabilities 26-31 March 2012	-	(701)
Transfer of pension liabilities to HM Government	-	32,450
Current service cost	(274)	(436)
Pay accruals included in above pension costs	5	-
Employee contributions	(75)	(144)
Curtailment costs	(10)	(20)
Finance cost	(78)	(138)
Actuarial losses	(119)	(45)
Benefits paid	14	20
Disposal of Royal Mail plc	1,652	-
Plans' liabilities at end of period	(114)	(2,681)

The curtailment costs in the income statement are recognised on a consistent basis with the associated compensation costs. Estimates of both are included, for example, in any redundancy provisions raised. The curtailment costs above represent the costs associated with those people paid compensation in respect of redundancy during the accounting period. Such payments may occur in an accounting period subsequent to the recognition of costs in the income statement.

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24. Employee benefits - pensions (continued)

The retirement benefit asset which was disposed of as part of the disposal of Royal Mail plc can be reconciled to note 3 as detailed below:

	£m
Fair value of assets	**3,543**
Fair value of liabilities	**(1,652)**
IFRIC 14 adjustments	**(29)**
Retirement benefit asset disposed of	**1,862**

d) Recognised charges

An analysis of the separate components of the amounts recognised in the performance statements of the Group is as follows:

	2014 £m Continuing operations	2014 £m Discontinued operations	2013 £m
Analysis of amounts recognised in the income statement:			
Analysis of amounts charged to operating profit before exceptional items:			
– Current service cost	**25**	**249**	436
Total charge to operating profit before exceptional items	**25**	**249**	436
Analysis of amounts charged to operating exceptional items:			
– Royal Mail Pension Plan amendment	**(102)**	**(1,350)**	-
– Loss due to curtailments	**1**	**4**	13
Total (credit)/charge to operating profit	**(76)**	**(1,097)**	449
Analysis of amounts charged/(credited) to financing:			
– Interest on plans' liabilities	**7**	**70**	138
– Interest income on plans' assets	**(12)**	**(93)**	(175)
Total net (credit)/charge to financing	**(5)**	**(23)**	(37)
Net (credit)/charge to income statement before deduction for tax	**(81)**	**(1,120)**	412
Analysis of amounts recognised in the statement of comprehensive income:			
– Actual return on plans' assets	**(12)**	**(73)**	720
– Less: interest income on plans' assets	**(12)**	**(93)**	(175)
– Less: taxation on surplus recoverable through plan refunds	**(20)**	**(24)**	(8)
Actuarial gains on assets (all experience adjustments)	**(44)**	**(190)**	537
– Experience adjustments on liabilities	**-**	**1**	81
– Effects of changes in actuarial assumption on liabilities	**(8)**	**(112)**	(827)
Actuarial losses on liabilities	**(8)**	**(111)**	(746)
Total actuarial (losses)/gains recognised in the Statement of comprehensive income before deduction for tax	**(52)**	**(301)**	(209)

	2014 £m	2013 £m
Analysis of amounts recognised directly in equity:		
Transfer of pension assets to HM Government	**-**	(28,438)
Transfer of pension liabilities to HM Government	**-**	32,450
Pension deficit transfer to HM Government on 1 April 2012 recognised in Statement of changes in equity	**-**	4,012

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25. Issued share capital and reserves

Authorised share capital

	2014 £	2013 £
Ordinary shares of £1 each	**100,000**	100,000
Special Rights Redeemable Preference Share (Special Share) of £1 each	**1**	1
Total	**100,001**	100,001

Issued and called up share capital

	2013 £	2012 £
Ordinary shares of £1 each	**50,005**	50,005
Special Rights Redeemable Preference Share (Special Share) of £1 each	**1**	1
Total	**50,006**	50,006

The Special Share can be redeemed at any time by its holder (the Secretary of State for Business, Innovation and Skills), subject to such redemption being compliant with the Companies Act 2006. The Company cannot redeem the Special Share without the prior consent of its holder. No premium is payable on redemption.

On distribution in a winding up of the Company, the holder of the Special Share is entitled to repayment of the capital paid up on the Special Share in priority to any repayment of capital to any other member. The Special Share does not carry any rights to vote.

Under section 63(7) of the Postal Services Act 2000, for the purposes of the Companies Act 2006, certain shares issued shall be treated as if their nominal value had been fully paid up.

Under sections 72 and 74 of the Postal Services Act 2000, the Secretary of State for Business, Innovation and Skills may issue directions to the Company which, depending on the direction issued, could result in the recognition of a distribution. Directions to this effect have been issued during the year and distributions have been made. These distributions can be seen on the Consolidated statement of changes in equity on page 13.

Reserves identified in the consolidated statement of changes in equity

Financial Assets Reserve
The Financial Assets Reserve is used to record fair value changes on available for sale financial assets.

Foreign Currency Translation Reserve
The Foreign Currency Translation Reserve is used to record the gains and losses arising from 29 March 2004 on translation of assets and liabilities of subsidiary denominated in currencies other than the reporting currency.

Hedging Reserve
The Hedging Reserve is used to record gains and losses arising from cash flow hedges since 28 March 2005.

Escrow Reserve
Following the Pension Solution on 1 April 2012 (note 24 of the Group financial statements), the Company was directed by HM Government to credit to a separate reserve (Escrow Reserve) from retained earnings, an amount equal to the value of the pension escrow investments on that date, together with further income on the investments. Following the disposal of Royal Mail plc the majority of the reserve was transferred to HM Government.

Other Reserves
Other Reserves of £2m (2013 £2m) relate to First Rate Exchange Services Holdings Limited, a joint venture entity.

26. Commitments

Operating lease commitments

The Group is committed to the following future minimum lease payments under non-cancellable operating leases as at 30 March 2014 and 31 March 2013:

	Land and buildings		Vehicles and equipment		IT equipment		Total	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Within one year	**20**	141	**-**	13	**-**	23	**20**	177
Between one and five years	**45**	433	**-**	14	**-**	17	**45**	464
Beyond five years	**31**	545	**-**	-	**-**	-	**31**	545
Total	**96**	1,119	**-**	27	**-**	40	**96**	1,186

Finance lease commitments

	2014		2013	
	Minimum lease payments £m	**Present value of minimum lease payments £m**	Minimum lease payments £m	Present value of minimum lease payments £m
Within one year	**3**	**3**	90	82
Between one and five years	**-**	**-**	212	199
Beyond five years	**-**	**-**	122	31
Total minimum lease payments	**3**	**3**	424	312
Less amounts representing finance charges	**-**	**-**	(112)	-
Present value of minimum lease payments	**3**	**3**	312	312

The aggregate finance charges allocated for the period in respect of finance leases was £470,680 (2013 £738,859). The fair value of finance lease liabilities is not materially different from the carrying value.

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

Capital commitments

Capital commitments contracted for but not provided in the financial statements amount to £68 million (2013 £48 million).

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27. Related party information

Related party transactions

During the year the Group entered into transactions with related parties. The transactions were in the ordinary course of business and included administration and investment services recharged to the Group's pension plan. The material transactions entered into, and the balances outstanding at the financial year end were as follows:

	Counter-party business segment	Sales/recharges to related party 2014 £m	Sales/recharges to related party 2013 £m	Purchases/ recharges from related party 2014 £m	Purchases/ recharges from related party 2013 £m	Amounts owed from related party including outstanding loans 2014 £m	Amounts owed from related party including outstanding loans 2013 £m	Amounts owed to related party including outstanding loans 2014 £m	Amounts owed to related party including outstanding loans 2013 £m
Quadrant Catering Limited	UKPIL	-	-	**12**	26	-	-	**3**	3
G3 Worldwide Mail N.V. (Spring)	UKPIL	-	-	-	6	-	3	-	-
Midasgrange Limited	Post Office Limited	-	35	-	1	-	-	-	-
First Rate Exchange Services Holdings Limited	Post Office Limited	**27**	27	**125**	125	**5**	7	**6**	11

The companies listed above were either a joint venture or associate of the Group for all or part of the year to 30 March 2014.

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 HM 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.

Key management compensation

	2014 £000	2013 £000
Short-term employee benefits	**2,721**	4,883
Post-employment benefits	**-**	31
Other long-term benefits	**1,627**	218
Total compensation earned by key management	**4,348**	5,132

Until the disposal of Royal Mail plc key management comprised executive and non-executive Directors of Royal Mail Group Limited and Post Office Limited. Following this date key management comprises Executive and Non-Executive Directors of the Post Office Limited Board. The aggregate remuneration of the key management personnel of the Post Office Group is set out above.

HM Government is the Company's sole shareholder and accordingly the Directors have no interest in the shares of the Company.

The ultimate parent (the Company) and principal subsidiary

Postal Services Holding Company Limited is the ultimate parent company of the Group. The consolidated financial statements include the financial results of Postal Services Holding Company Limited, its principal subsidiary Post Office Limited and those of Royal Mail plc up to the date of disposal as detailed in note 3.

Company	Principal activities	Country of incorporation	% equity interest 2014	% equity interest 2013
Royal Mail plc	Mails and parcels services	United Kingdom	**29.99**	100.00
Post Office Limited (*)	Counter, retail and financial services	United Kingdom	**100.00**	100.00

(*) Direct subsidiary of Postal Services Holding Company Limited

Joint venture

The Group's 50% interest in First Rate Exchange Services Holdings Limited, a company incorporated in the United Kingdom, is held by Post Office Limited. The company's principal activity is the provision of Bureau de Change services.

27. Related party information (continued)

Associates

The following companies were the principal associates of the Group at the balance sheet date:

Company	Principal activities	Country of incorporation	% ownership 2014	% ownership 2013
Quadrant Catering Limited	Catering services	United Kingdom	-	51
G3 Worldwide Mail N.V. (Spring)	Mail services	Netherlands	-	32.45

28. Events after the Balance Sheet Date

In July 2014, the Company received a dividend of £39.9m from Royal Mail plc in respect of its retained 29.99% shareholding.

In accordance with the funding agreement with government announced on 27 October 2010, for which State Aid approval was received on 28 March 2012, Post Office Limited received £330 million of funding on 1 April 2014.

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Postal Services Holding Company Limited

Parent Company financial statements 2013-2014

The majority of the Annual Report and Financial Statements relates to the Postal Services Holding Company Limited Group consolidated accounts, which comprise the aggregation of all the Group's trading entities (subsidiary, joint venture undertakings). This mandatory section reports the individual balance sheet and notes of the ultimate holding company, Postal Services Holding Company Limited (the Company).

The Company has elected to prepare its own financial statements for the financial year ended 30 March 2014 in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), which was approved for issue by the Financial Reporting Council on 5 March 2013.

Parent Company Balance Sheet

at 30 March 2014 and 31 March 2013

	Notes	2014 £m	2013 £m
Fixed assets			
Investments in subsidiary	5	-	-
Total fixed assets			-
Current assets			
Cash and cash equivalents		**7**	-
Investments	6	**-**	1,256
Net current assets		**7**	1,256
Net assets		**7**	1,256
Capital and reserves			
Share capital	9	**-**	-
Share premium	10	**430**	430
Reserves	10	**-**	1,256
Profit and loss account	10	**(423)**	(430)
Shareholder's funds		**7**	1,256

The financial statements on pages 53 to 56 were approved by the Board of Directors on 10 December 2014 and signed on its behalf by:

GRO

Roger Lowe

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Postal Services Holding Company Limited

Notes to the Parent Company financial statements

1. Financial year and statement of compliance

The financial year ends on the last Sunday in March and, accordingly, these financial statements are made up to the year ended 30 March 2014 (2013 year ended 31 March).

The financial statements of the parent Company, Postal Services Holding Company Limited (the Company) were authorised for issue by the Board on 10 December 2014.

The Company's financial statements have been prepared in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'), which was approved for issue by the Financial Reporting Council on 5 March 2013.

2. Accounting policies

Basis of preparation
The financial statements on pages 53 to 56 have been prepared in accordance with applicable UK accounting standards and law, including the requirements of the Companies Act 2006. Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention.

Going concern
In making an assessment on the Company's ability to continue as a going concern, the Directors have considered the going concern assessment made by the Directors of the Post Office Limited (see note 2 in the Group financial statements). In reviewing these assessment, the Directors have taken into account all available information about the future, which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue. After careful consideration of all available information, the Directors are of the view that it is appropriate that these financial statements have been prepared on a going concern basis.

Profit and Loss Account
The Company has not presented its own Profit and Loss Account , as permitted by section 408 of the Companies Act 2006. However, the results of the Company for the year are disclosed in note 8 and 10 to the Parent Company financial statements.

Statement of Cash Flows
The Company has not presented its own Statement of Cash Flows, as permitted by section 1.12(b) of FRS 102.

Financial instruments
In accordance with section 11.2(b) of FRS 102, the Company has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU) to account for its financial instruments.

The Company has applied the exemption available in section 1.12(c) of FRS 102. The Company has not disclosed all information required by IAS 39, as the Group's consolidated financial statements in which the Company is included, provide equivalent disclosures for the Group as required under Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* of FRS 102.

Investments in joint ventures and associates
Investments in joint ventures and associates within the Company's financial statements are stated at cost less any accumulated impairment losses.

Investments in subsidiary
Investments in subsidiary within the Company's financial statements are stated at cost less any accumulated impairment.

Impairment reviews
Unless otherwise disclosed in these accounting policies, fixed assets are reviewed for impairment, in accordance with section 27, *Impairment of Assets*, of FRS 102 if events or changes in circumstances indicate that the carrying value may be impaired. The Company assesses at each reporting date whether such indications exist. Where appropriate, an impairment loss is recognised in the Income Statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use.

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Notes to the Parent Company financial statements (continued)

2. Accounting policies (continued)

Contingent liabilities

In accordance with section 21, *Provisions and Contingencies*, of FRS 102, contingent liabilities are not disclosed if the possibility of any outflow of resources occurring is considered to be remote.

3. Directors' emoluments

The Directors of the Company are not paid fees by the Company for their services as Directors of the Company. The Directors of the Company are paid fees by other companies of the Group.

4. Auditor's remuneration

The fees for the audit of the Company are £35,000 (2013 £25,000). There are no other fees payable to the auditor for services to the Company.

5. Investments in subsidiary

	Cost £m	Impairment £m	2014 £m	2013 £m
At 30 March 2014 and 31 March 2013	-	-	-	-

On 1 April 2012, Royal Mail Group Limited transferred ownership of the entire issued ordinary share capital of Post Office Limited to the Company at £nil value and for no consideration.

Details of the Company's subsidiary is set out in note 27 of the Group financial statements.

Postal Services Holding Company Limited

Notes to the Parent Company financial statements

6. Current asset investments

	2014 £m	2013 £m
Short-term deposits – Government/local government	-	1,256
Total	-	1,256

7. Profit and Loss Account

The Company is a non-trading company. The profit for the period relates to the Company's disposal of the majority of its shareholding in Royal Mail plc during the year. Further disclosures are made in the Group financial statements (note 3).

8. Taxation

A current tax charge of £nil (2013: £53m) has been recognised in the year. The 2013 tax charge was in relation to the sale of the pension escrow investments in November 2012.

9. Share capital

Details of the share capital are disclosed in the Group financial statements (note 25).

10. Shareholder's funds

	Share capital £m	Share premium £m	Profit and loss account £m	Escrow Reserve £m	2014 Total £m	2013 Total £m
At 1 April 2013 and 26 March 2012	-	430	(430)	1,256	1,256	1,234
Profit for the year	-	-	1,957	-	1,957	219
Transfer to HM Government (note 25 Group financial statements)	-	-	(1,957)	(1,249)	(3,206)	-
Transfer from Escrow reserve	-	-	7	(7)	-	-
Losses on financial asset investments	-	-	-	-	-	(197)
At 30 March 2014 and 31 March 2013	-	430	(423)	-	7	1,256

Escrow Reserve

Following the Pension Solution on 1 April 2012 (note 24 of the Group financial statements), the Company was directed by HM Government to credit to a separate reserve (Escrow Reserve) from retained earnings, an amount equal to the value of the pension escrow investments on that date, together with any further income on the investments.

11. Charges

Details of charges registered over the assets of the Company are contained in the Group financial statements (notes 18 and 21).

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Postal Services Holding Company Limited

Independent Auditor's Report to the members of Postal Services Holding Company Limited

We have audited the parent company financial statements of Postal Services Holding Company Limited for the 52-week period ended 30 March 2014 which comprise the Balance Sheet and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30 March 2014 and of its profit for the 52-week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Post Office Ltd for the 52-week period ended 30 March 2014.

Ernst & Young LLP

Richard Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
12 December 2014