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POST OFFICE

Post Office Limited

Post Office Limited is registered in England and Wales.
Registered number 2154540

The heart of the community

Annual Report and Financial Statements 2013/14

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The Post Office is unique: a commercial business set apart by its public purpose. We believe in the importance of connecting communities and enhancing the powerful role they play in all our lives. We will stay true to this commitment by meeting customer needs through our unrivalled local presence.

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Overview

"Creating a services hub around our Post Office has made it the focus of our community and an essential part of our everyday lives

To find out more about our community services and projects see page 36

OVERVIEW

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Helping our customers meet their needs - traditional and new

"We have made good progress in our ambitious programme to transform the Post Office

Alice Perkins
Chairman

In this second Annual Report since the Post Office became an independent business, we describe the progress we made in the year 2013/14 towards our goal of commercial sustainability

We have taken significant steps forward in four important areas

- Publishing a new strategy through to 2020 and securing funding from our shareholder, Government, through to March 2018
- Increasing our operating profit (including our Network Subsidy Payment) before exceptional items
- Making big strides in transforming our network
- Working with the people who deliver our business and with our external stakeholders in new mutual ways to engage them directly in how we improve the running of our organisation

"We have defined the unique role of the Post Office as a commercial business set apart by a fundamental role in connecting communities and helping them thrive and prosper.

These achievements were secured in a challenging commercial market and we were unable to achieve the revenue growth to which we aspired However, by improving our efficiency and taking more cost out of the business we achieved the increase in operating profit before exceptional items set out in this report This includes a reduction of the losses in our Crown branches

Our new strategy, Securing the Future (published in November 2013), sets out the path we will take to achieving commercial sustainability while remaining at the heart of communities and further developing our digital presence We will continue to be a trusted partner, helping our customers meet their needs – traditional and new

The fact that Government has settled our funding through to March 2018 is most welcome This gives us certainty against which to plan the further investment needed to complete our transformation of the network and the discipline, which we welcome, of reducing our reliance on taxpayer subsidies

The way most people will experience the transformation of the Post Office is by going into one of our modernised branches We have now transformed around 2,000 of our agency branches and almost a third of the Crown network Over 1,000 branches are now trading on a Sunday and we are now open for an additional 50,000 hours a week

We are also working with our people and stakeholders in new mutual ways, with the aim of improving engagement, increasing focus on customers and becoming an organisation that truly listens and learns from those with an interest in the business We demonstrated this commitment to broad engagement by establishing the Post Office Advisory Council, chaired by Tim Franklin, one of our non-executive directors The Advisory Council, which met for the first time in March 2014, will play an important role by giving us the benefit of a cross-section of views, skills and experience from the diverse communities that have a stake in the Post Office in the 21st century

We also completed work to define our public purpose as a business during 2013/14 This important work is a further example of mutual ways of working the statement was drawn up following a comprehensive process of consultation and engagement with customers, staff, subpostmasters and stakeholders For the first time it describes the unique role of the Post Office as a commercial business set apart by a fundamental role in connecting communities and helping them thrive and prosper We will continue to embed this purpose across our business and mark our progress in future reports

I would like to thank the Post Office Chief Executive, Paula Vennells, her team and all the people who work so hard to support the business as we continue along the path to commercial sustainability I would also like to thank my colleagues on the Board for their work in supporting and challenging the Post Office as we undergo this period of change We were sorry to lose Susannah Storey, our first Shareholder Executive representative, from the Board and look forward to working with her successor, Richard Callard

We have made good progress in our ambitious programme to transform the Post Office We know we have a long way to go and the path is not linear The many people who care about the sustainability of the Post Office can take comfort from the steps we have taken so far and the increased pace at which we have worked We will build on this, drawing on the energy and commitment of our people to secure the future of the Post Office for the benefit of the communities that it serves

"Our new strategy, Securing the Future, sets out the path to achieving commercial sustainability while remaining at the heart of our communities and developing our digital presence further. We will continue to be a trusted partner, helping our customers meet their needs - traditional and new.

A unique organisation with a unique role in national life

"We need to ensure that we are putting the customer first every time

Paula Vennells
Chief Executive

The Post Office is changing, and the benefits are becoming more evident

The 2013/14 financial year saw the number of branches we have transformed exceed 2,000, delivering longer opening hours and brighter retail environments to customers across the UK These branches, and our plans to drive the transformation to every corner of the business, underline to our customers, subpostmasters and colleagues the commitment of the Post Office to remain at the heart of communities, connecting people and providing access to key services into the future

"Customer satisfaction is running at over 95% in modernised outlets and opening hours, which have increased by over 62%, are proving popular, with 9% of customers visiting outside traditional opening hours. Subpostmasters are benefitting with increased retail sales.

But the maintenance and development of our physical network is just part of how the Post Office is developing as a business We have an increased presence online and we are investing in technology to ensure that we are easier to do business with

Our clear ambition as we make these changes is to ensure that we put the customer first every time and we are doing this by driving forward with our modernisation and becoming a top class retailer – fast, flexible and with a focus on the detail

None of this is to cloud the reality of what was a tough year In an increasingly competitive market, our revenue was down by 4 5% with particular challenges in the mails market, and it is clear that the Post Office must operate with greater pace than ever before – and focus even more on its customers and commercial realities We demonstrated this clear-sighted approach in 2013/14 Delivery in our complex change programmes was accelerated while we worked hard with our partners to tackle the specific issues faced in the mails market

Given this context it is pleasing therefore that operating profit before exceptional items increased again, up £13 million from last year This profit improvement was delivered through greater cost control that more than offset the decline in revenue At the same time we have managed to prioritise investment in the key transformation programmes as we work towards future financial sustainability

In mails, telecoms and Government Services we have put in place the fundamentals which we believe will allow us to build and open up new revenue streams in the future Meanwhile, we are fast becoming a challenger brand in the financial services market with a widening product portfolio that now, significantly, includes a current account offer

The decline in mails revenue was of course disappointing but we remain confident that we have the right commercial strategy in place and, importantly, the right retail mindset to be able to reverse this position

Strategy and funding

It is also important to reflect that 2013/14 was a momentous year in relation to our future funding The planned £10 million fall in the Network Subsidy Payment received from Government underlines our increasing core strength and ambition to achieve commercial sustainability over the course of the next few years Meanwhile we were also able to secure the funding which will allow the business to continue its transformation and announce the strategy that will deliver this change

To have done so while also making substantial progress in transforming the agency network was an achievement that stood out in 2013/14 We also took pleasing steps forward towards our goal of transforming the Crown branch network, those branches which are directly managed by the Post Office More than 100 – almost a third of the network – were modernised though the year while the annual losses were reduced by £11 million We are moving rapidly towards our goal of financial breakeven in 2015 in this part of our network

Pace and depth

These are major transformation programmes in their own right but they sit within a larger portfolio of structured transformation activities which include major IT and business development programmes I am conscious of the risks and complexities of running a number of large multi-dimensional programmes in parallel, and professional co-ordination structures have been established to oversee implementation However, I am also aware of the pace and depth of the change required to sustain and build this company for the future and there is a determination within the Post Office to drive change forward with confidence and vigour

As this demonstrates, the modernisation of the Post Office reaches far beyond the changes to our physical branch infrastructure Investment in our mobile website, a Travel Money Card app and the next generation of Post & Go automated machines are just three examples of how we are creating a digital and dynamic Post Office

We have also invested in a new e-commerce platform that will give us the ability to improve the quality and ease of use of our online products and services This Common Digital Platform represents a significant investment in our digital future, enabling us to build our emerging digital products and services on a platform that will grow and flex with our changing requirements over the coming years

"The modernisation of the Post Office means more, however, than enhancing our physical branch infrastructure. Investment in our mobile website, a Travel Money Card app and the next generation of Post & Go machines are just three examples of how we are creating a digital and dynamic Post Office.

Change can however be difficult and the industrial relations landscape proved testing in 2013/14 Although we did experience strike action, colleagues pulled together to ensure that service disruptions were kept to a minimum and the critical focus on customer service was maintained

Alongside the work that has gone on to transform the way we deliver our business to customers the last year has also seen some important developments in the way we work as an organisation

We are committed to the principle of developing mutual ways of working This means providing the opportunity for all involved in the Post Office – whether employees, subpostmasters and their employees or wider stakeholders – to share responsibility for building the business and engaging in a two-way dialogue to get the best for our customers

We launched in 2013/14 a Branch User Forum and branch support programme to provide a means through which our front line colleagues can help shape the way the business works More will follow on this track, while the new Post Office Advisory Council is bringing us crucial expertise and insight, which can only benefit our business

Core to this work was the unveiling of our public purpose as a business We are proud of the commitment to communities across the UK, which lies at the heart of this The strategy, which has been agreed with Government, ensures our commitment will be retained and enhanced – for example, by establishing a Community Investment Fund to support subpostmasters in the 'last shop in the village' and help build their businesses

We have since published four milestones that could point the way towards a mutualised Post Office At the heart is the imperative of achieving commercial sustainability – the key deliverable without which mutualisation would not be possible – alongside the work we are undertaking to embed our public purpose within the business and further build a culture of mutual two-way engagement with all our people

Our work with Go ON UK, meanwhile, highlights our commitment to helping make the UK the most digitally skilled nation in the world through assisting those who need to develop skills to succeed online Our Online Centre Locator signposts local digital training and IT learning opportunities to anyone in any of our branches who states their home postcode

"Our work with Go ON UK, meanwhile, highlights our commitment to helping make the UK the most digitally skilled nation in the world through assisting those who need to develop the skills to succeed online.

I would like to thank all those who have worked so hard for the Post Office over the past year Achieving our aims is not possible without the commitment to customers and local communities, as demonstrated by those working in branches up and down the UK

In February 2014 the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) issued a report that outlined the potential of Post Offices in modern Britain It characterised the Post Office in the following way

'The Post Office is an organisation like no other Local Post Offices contribute enormously to the life and soul of their communities, are an essential vehicle for delivering public services, and provide the vital infrastructure that our businesses need to prosper'

Within this Annual Report and Financial Statements, this powerful view is shown in a number of ways alongside the financial results that illustrate the commercial underpinnings necessary to support it

We made significant strides in the transformation of the business in 2013/14 in testing market conditions This has given us the confidence to continue to drive the change that will ensure, in the future, that the Post Office remains vibrant, relevant and secure for the communities it serves

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Shaping a commercial Post Office that remains at the heart of our communities

STRATEGY MODEL

Securing the Future

In November 2013 we launched a strategy - Securing the Future - which will see the Post Office 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 us in transforming our business

Securing the Future recognises the challenges the Post Office 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 to take to achieve the over-arching goal of commercial sustainability This aim is underpinned by four clear ambitions

- To broaden and increase our market presence
- To maintain our unrivalled physical network and expand our 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 that remains at the heart of communities, with a purpose that shapes all we do We will continue to be a trusted partner, helping customers, existing and new, meet a new generation of requirements

Background to the strategy

- The economic downturn has impacted margins across the high street
- Our traditional markets are the scenes of significant pressures as competitors assert their presence
- The volume and margins associated with Government Services have reduced and new business in this area has not materialised as hoped

To stem the decline in traditional services, the Post Office will build on its established position as a retailer of financial services and telecoms products as well as introducing new services in growing markets such as collections and returns

- Our differentiator will be services that are simple, fair and transparent and provide value for money
- Our breadth of offer will make our propositions compelling to our customers

  We will develop targeted product portfolios that attract new customers The development of our small business offering will be a key focus in the short term

Securing the Future not only sets the direction of the Post Office through to 2020, but anticipates us connecting communities across the UK by serving the essential needs of our customers, both individuals and small businesses The Post Office will remain relevant to society by offering products and services that people want and need via the medium that is most convenient to them

As an organisation, the Post Office is unique in its size and reach across the UK as well as the trust that customers place in us. We are determined to continue to serve the UK's changing needs by connecting communities and customers in ever more powerful ways.

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Building our future

In its 2010 policy document, Securing the Post Office Network in the Digital Age, Government set out an ambition to create the opportunity for a mutually owned Post Office

Significant progress was made towards this goal during 2013/14

With the Stakeholder Forum, we developed a clear definition of the Post Office's unique purpose as a commercial business, a crucial pre-requisite of a successful mutual organisation

The Stakeholder Forum included representatives from the National Federation of Subpostmasters, the Communications Workers Union, Consumer Futures, the BBC, Mutuo and the British Youth Council The Forum commissioned a public engagement campaign that ran throughout the summer of 2013 We asked our customers, colleagues, subpostmasters and the public for their views on the purpose of the business

This saw three key themes emerging trust, access and community

A statement of purpose was then drawn up and approved by the Post Office Board in March 2014

'The Post Office is unique a commercial business set apart by its public purpose

'We believe in the importance of connecting communities and enhancing the powerful role they play in all our lives

'We will stay true to this commitment by meeting customer needs through our unrivalled local presence across the UK'

Work has now begun to embed this throughout the business

We also made significant and successful steps to embrace mutual ways of working These include enhanced engagement surveys, the establishment of a Branch User Forum, and the creation of the Post Office Advisory Council

We believe in the importance of connecting communities and enhancing the powerful role they play in our lives.

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Post Office Advisory Council

The Advisory Council held its first meeting in March 2014 following a national campaign to recruit members from a range of backgrounds

The Advisory Council represents a unique mix of people and skills from business, charities and unions, which will help shape the future of the Post Office

The Advisory Council will play an important role in reflecting a cross-section of views, skills and experience from the diverse communities that make up 21st century Britain It will help the Post Office learn from those with an interest in the business, enabling it to innovate and support the transformation of the business

The Advisory Council is made up of 24 members to allow a broad mix of people and interests Members are appointed for a term of four years, non-renewable, with the first appointments mixed between two, three and four years to maintain continuity Meetings will be held three times a year

The Advisory Council will ensure the Post Office remains at the heart of communities by providing an innovative forum through which ideas can be shared and feedback sought

Milestones to mutualisation

Steps such as the creation of the Advisory Council and the definition of our purpose have established a foundation upon which the Post Office and its stakeholders can build a strong future In addition, we have identified and published four key milestones that will need to be met to create the opportunity for mutualisation

- Commercial sustainability must be achieved, building on the successful delivery of our new strategy This will mean developing a business with a track record of revenue and profit growth and positive cashflow generation, which is able to operate wholly independently
- Linked to this, a clear funding relationship with Government will be defined and maintained Such funding will be materially lower than today and the relationship will need to provide the Post Office with improved long-term certainty and visibility as to its future
- The Post Office will deliver measurable success in embedding its purpose statement throughout the business and in meeting the standards it sets
- A culture of mutual engagement will be further developed, demonstrated by strong performance in key engagement measures This will help to encourage new behaviours that support a broad commitment across the business to mutual ways of working, approaches the business is adopting regardless of its future ownership model

The Post Office will work closely with its stakeholders to make progress towards these milestones, reporting on progress annually

Business review

"Drop & Go is easy to use and really saves time at busy periods, allowing me to concentrate on running my business and dealing with my never-ending to-do list

To find out more about our mail services and new innovations see page 18

BUSINESS REVIEW

For more detail on the financial performance in the year please see the Strategic Report from page 38

Mails and retail

£390 million revenue

2012-2013 £409 million -4 6%

+ Over 21,000 Drop & Go priority service customers
+ UK's largest collections and returns network launched

The respective markets for mails, retail products (such as packaging and collectibles) and lottery are changing rapidly with the growth of e-commerce, intensifying competition and increasing customer demands for convenience, quality and value

These pressures increased during 2013/14 and combined with specific issues, including mails pricing changes, reduced National Lottery rollovers and the one-off prior year events such as the Olympics and Diamond Jubilee, caused overall revenues to return to 2011/12 levels with Mails revenue declining by £16 million and Retail and Lottery sales decreasing by £3 million, a fall on the previous year of 4 6%

Actions were undertaken within the year to address these factors and better position the Post Office to take advantage of the underlying e-commerce-driven market growth in packages and parcels

In the Mails market the Post Office offers a nationwide, accessible and trusted network providing a full range of Royal Mail products and services However, the year in which Royal Mail was privatised saw a rapidly changing marketplace with growing competition There are increased alternatives to Royal Mail postal products, while networks of alternative retail locations for posting or pick up are growing, particularly in more heavily populated urban areas Online shoppers also increasingly expect competitive prices and convenience when it comes to delivery

These factors, combined with short-term market adjustments to postal pricing changes, created tough trading conditions for the Post Office Year-on-year revenues fell back and reversed the growth of the previous year But despite these pressures, the Post Office made significant progress in realigning its offer to both meet the competitive challenge and harness the underlying growth fundamentals within the parcels market

These measures included the development of value added services as Drop & Go for small business customers, by the year end more than 21,000 priority services customers were signed up with strong future growth projected Working closely with Royal Mail, the Post Office has expanded its small parcels category It has introduced new approaches that enable consumers and businesses to post a greater range of items through the format delivering better value and convenience These changes were well received and helped turn around the more pronounced volume declines in the first half of the year

In partnership with Royal Mail we also announced our Click and Collect initiative in May 2013 This allows Post Office branches across the network to be used as convenient parcel delivery option for online retailers We are continuing to extend this service and are confident that it targets a growing sector that requires the trust, convenience and accessibility that Post Offices offer

Improvements have also been also been made to the Post & Go vending estate, thereby improving the self-service options available, and improved equipment is now being rolled out into our larger offices

Other retail sales include packaging and National Lottery products (where the Post Office is one of the largest distributors, with 6,000 outlets offering the service) Sales were slightly down year-on-year, impacted by fewer rollovers

The modernisation of the Post Office network, with longer opening hours, improved retail environments and enhanced sales skills, is well underway and continues into 2014/15 It will both ensure the size of the network is maintained and enhance capabilities in Mails and Retail, thereby meeting the changing needs and requirements of consumers and small businesses Steps include improving facilities for collecting and returning items, greater ease in sending mails and packages, and creating the conditions for enhanced Retail and Lottery sales

Financial Services

£279 million revenue

2012-2013 £281 million -0 7%

+ Revenue from Personal Financial Services has increased by 15 2%
+ Launch of current account
+ 100 mortgage specialists in branch and 220 financial specialists
+ Launch of Payment Services Provider service to SMEs

The UK savings market is still characterised by ultra-low base rates Customer rates continue to decline, resulting in low demand for savings products The March 2014 Budget will impact the industry by introducing an increased ISA tax-free savings limit, creation of new Pensioner Bonds and fundamental changes to the pension annuity rules

The mortgage market is extremely competitive, with very low rates and new intermediaries expected Organisations have been focused on meeting the regulatory guidelines of the Mortgage Market Review The credit card market is consolidating, with outstanding balances declining Regulation continues to impact the industry, with the European Union proposing to introduce a cap on interchange fees for transactions

Motor insurance regulatory changes and strong competition have driven premium reductions in the market This is expected to be extended by the My Licence launch, which will give insurers the ability to check driving records Home insurance premiums also dropped over the last year, in spite of the severe weather conditions

This is the environment in which Personal Financial Services at the Post Office continue to grow as we strive to be a significant challenger to the traditional banks and insurers We offer products that are simple, fair, transparent, and value for money, supported by the widest access from the largest retail network in the UK

We provide a well-established range of savings, insurance and lending products in partnership with the Bank of Ireland We remain the number one provider of travel money and provide a range of other services including over-the-counter payment services, cash machines and access to cash for 95 per cent of UK current account debit card holders

Financial services are vital to our strategy of growth and modernisation In the past financial year revenue declined slightly to £279 million but this masks a transformation in the profile of our financial services business Traditional products such as bill payment, while important for footfall into our branches, are declining in volume but we are pleased to have won and retained key contracts At the same time revenue from Personal Financial Services has increased by 15 2%

To support our customers, the Post Office is broadening the financial services offer

In 2013/14 we launched a range of current account products, these are being trialled in 110 branches in the east of England and offer an inclusive approach to banking We have also offered customers the option of discussing their mortgage needs in branch through the deployment of 100 mortgage specialists across the UK We have also entered the Buy-to-Let mortgage market In addition to mortgage specialists, the Post Office has a further 220 financial specialists across the UK

We are increasingly supporting small and medium enterprises (SMEs) This past year saw us launch a Payment Service Provider platform, which allows SMEs to take card, online and mobile payments This illustrates our dedication to supporting the needs of the business community, which remain central to our growth aspirations

The Post Office is proud to remain the market leader in retail foreign exchange and was voted by the public as Best Foreign Exchange retailer and Best Travel Insurance Provider at the 2013 British Travel Awards, for the seventh and eighth year respectively

We have complemented our travel range by adding further currencies to our award-winning Travel Money Card, which has seen over one million loads since it was launched in May 2011 We have also launched a mobile app that allows customers to manage their Travel Money Card easily while abroad

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Government Services

£146 million revenue

2012-2013 £164 million -11 0%

+ Seven year contract signed with HMPO
+ Growth in driving licence renewals

Performance in Government Services was impacted by lower margins in Driver Vehicle and Licensing Agency (DVLA) services and the decline in traditional branch-based services This was offset to a degree by higher volumes in the Passport Check & Send service, however, and the decrease in revenue was in line with expectations

The Post Office offers a range of services for Government departments, including pensions and benefits payments on behalf of the Department for Work and Pensions (DWP), Passport Check & Send for Her Majesty's Passport Office (HMPO), driving-related services for DVLA and photograph and fingerprint capture service for UK Visa and Immigration

Revenue from Government Services fell 11% from £164 million to £146 million While revenue from Passport Check & Send increased by £2 million, revenue from the DVLA decreased by £14 million This was mainly due to lower fees per transaction under a new contract that became effective from April 2013 Revenue from the payment of benefits through the Post Office Card Account was £6 million lower, impacted by customer attrition

The DVLA framework contract for Front Office Counter services which we secured in 2012 helped us win further Government business in 2013/14 We signed a seven-year contract for Passport Check & Send, which is proving very popular with customers Revenue continued to grow after joint promotional efforts with HMPO and we are working closely with Government to develop services to support online applications

Our Application, Enrolment and Identity (AEI) technology is used to support a variety of transactions including biometric residence permits applications and the 10-year renewal of driving licences Following a joint marketing campaign with the DVLA, which included radio adverts, we saw growth in the renewal of 10-year driving licence renewal applications

During the course of the year the Post Office and DWP held discussions about the future of the Post Office Card Account ahead of the current contract expiring in 2015 An announcement is expected in the coming months, but it is anticipated that access to pensions and benefits will continue beyond March 2015 across the whole Post Office network

In line with the continued drive to reduce Government expenditure, Digital by Default will be a key priority in 2014/15 The Cabinet Office's Government Digital Service (GDS) is on target to deliver 25 exemplar services by 2015 We believe this will present opportunities to the Post Office supporting customers who need to establish their identity online or who require face-by-face support and may not have the skills needed to transact online or who require some form of face-by-face guidance

An exciting development in 2014/15 will be the launch of our Identity Assurance service to support Government's digital agenda We are one of five providers of this service, which will enable people to prove their identity safely and securely when accessing certain Government Services online

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Telecoms

£124 million revenue

2012-2013 £129 million -3 9%

+ Upgraded physical infrastructure with a transfer to a service managed by Fujitsu

The Post Office is a significant player in the telecoms market with around 450,000 customers in HomePhone and Broadband and the largest network of mobile top-up terminals in the UK This places us in a strong position for future development, although 2013/14 presented some significant challenges

Revenue in Telecoms fell 3 9%, from £129 million to £124 million However, we were able to make significant progress in building our infrastructure to enable us to grow customer numbers in the future

Our competitive residential phone and broadband service is the sixth-largest fixed line telecoms provider in the UK We are particularly competitive in the HomePhone-only market, where we offer market leading prices, and recent changes to our broadband pricing have enhanced our competitive positioning However, the market continues to be dominated by the big four telecoms providers

September 2013 saw the transition of our services from BT Wholesale to a managed service provided by Fujitsu This was a large project, which upgraded our physical infrastructure as well as our billing and customer management systems There were some difficulties during the transition that negatively impacted customer experience but Post Office and its partners worked closely to fix the issues

By making use of the TalkTalk network, the Post Office can now provide our customers with access to higher speed broadband services The move to new billing and customer management systems will enable us to deliver innovative solutions to meet the changing needs of our customers in the future Additionally, it will make us easier to do business with through improved customer sign-up processes, email platform and better self-service options

The new telecoms infrastructure will allow us to develop more innovative propositions including offering bespoke products for the SME market, an area that is key to the growth agenda of the Post Office

We maintain the largest network of mobile top-up terminals in the UK and customers can top-up pre-paid mobile phones for the main networks in any of our branches or via 1,800 external ATMs, 2013/14 saw 12 million top-up transactions across the Post Office estate

We have ambitious plans for our telecoms business over the next 12 months We are in a position to leverage the new infrastructure and deliver more compelling propositions in HomePhone and Broadband to both SMEs and residential customers, and we are excited about the opportunity to make a real difference for our customers in the mobile market

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Network modernisation

INTRODUCTION

The Post Office had 11,696 branches at the end of the 2013/14 financial year, making it the largest retail network in the UK. Our unrivalled presence means we have branches within one mile of 93% of the British population.

IN BRIEF

11,696

Post Office branches In our UK network

£20m

Community fund announced by Post Office to support around 3,400 branches as part of our new strategy

9%

Of new customers visit our new style branches outside of traditional hours

We are committed to maintaining a network of at least 11,500 branches, ensuring our products and services are readily accessible across the UK

We are investing heavily in our physical branches with new style main and local branches now a feature of high streets Our branches are increasingly supported by digital and telephone services in line with our ambitions to be a multichannel retailer

Customer service

The Post Office is creating modern, commercially sustainable branches that improve the customer experience

A highlight of 2013/14 was the pace at which this modernisation programme increased, with around 2,000 branches converted so far and another 1,200 branches awaiting transformation

Improved customer service is fundamental to the success of new style modernised branches and this is being delivered by our subpostmasters

Longer hours and improved retail environments are benefitting millions of customers Over 50,000 extra opening hours have been created each week with an average increase in opening hours of 62% On average 9% of customers are also visiting new style branches outside of traditional hours and customer satisfaction is consistently above 95% In addition, more than 1,000 branches are open on a Sunday, meeting the demand for accessible services every day of the week

Average waiting times are just 1 minute and 33 seconds in the smaller modernised branches and 1 minute and 39 seconds in larger ones

Subpostmasters are also benefitting from more efficient ways of working and an increase in revenue, both from their Post Office activities and their accompanying retail business Operator satisfaction with main and local branches is more than 85%

The transformation of our network has received the support of many MPs, with more than 300 officially opening a new branch in their constituency in the past 18 months

Community focus

As part of Securing the Future, the Post Office announced a £20 million Community Branch Fund to support around 3,400 Post Office branches that are effectively the 'last shop in the village' In addition to providing Post Office services, these branches operate the only retail outlet in a community

The fund represents a significant investment into these subpostmasters' businesses and their local communities These branches will continue as they currently operate to ensure our network reach is maintained and they will be able to access funding to improve their service for customers

Crown transformation programme

Work to modernise around 300 Crown branches the Post Office directly manages – normally larger branches in city and town centres – continues at pace

Losses in the Crown network reduced to £26 million from £37 million in because of a transformation programme that aims to increase revenue, enhance customer experience and control costs

A total of 122 branches were modernised during 2013/14 and all branch transformations will be complete by the end of 2014

Customers also have the choice to use new and improved self-service facilities at many branches,

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to post mail, buy stamps and pay for retail items, with staff on hand to help when needed

Growing Financial Services is a key part of the Post Office's strategy and many of our modernised Crown branches now feature private consultation rooms, where customers can talk to specialists about our range of financial products and services

Increasing customer service and reducing our operating costs is a significant part of our plans to achieve break-even by 2015 Excellent customer service will remain at the forefront, however, and future staffing levels will be matched to customer needs

Plans to find retail partners to operate up to 70 of our Crown branches continued and by March 2014, 22 branches had been transferred to new stores run by WH Smith and independent retailers Reaction from customers and colleagues has been extremely positive

In a small number of locations, we are taking the opportunity to relocate branches or consolidate services from two branches into one location This means we can offer improved facilities for customers and reduce property costs while ensuring the branches remain at the heart of communities

Industrial action was called by the Communication Workers Union (CWU) on a number of occasions during 2013/14 in a dispute over pay and the future of the Crown network While the Crown estate accounts for less than 3% of the Post Office network, we regret any inconvenience this caused for customers Throughout the dispute, many colleagues chose not to go on strike and, supported by central staff and managers, the vast majority of Crown branches remained open as normal The Post Office and CWU agreed to intensive talks in December 2013 to find a way forward and an agreement was reached in April

IT infrastructure

To meet the evolving needs of our customers the Post Office is investing in new capabilities, online as well as within branches, and in the right skills to support the technology This year we have engaged ATOS as our service integrator This is a vital part of our modernisation plans, to ensure we have the right capabilities, systems and processes in place to allow customers to access services when and where they want

Our branch network currently has over 230 Post & Go machines that allow customers to undertake transactions without the need to go to a counter During 2014/15 we will roll out more than 500 self-service kiosks to some of our biggest branches These enable customers to access a greater range of services, including priority mail services and mobile phone top-ups

The Post Office has also led the way in payment technology and we have installed contactless payment terminals across 30,000 counter positions This makes the Post Office the biggest user of contactless technology in Europe, allowing customers to pay for transactions of up to £20 using contactless cards and smart phones with a simple tap of their card or mobile phone

Over the past year we made further progress in making the Post Office a truly integrated multichannel business Our digital capability has improved significantly and it is now possible to make mortgage applications and use financial services account management tools online We also launched a Post Office Travel Money Card mobile app, which was well received, it is the first of a number of apps designed to help customers navigate our product offerings more easily

The recently launched Post Office mobile website has received more than 2 5 million hits, proving that our customers are keen to interact with the business across a range of channels We have also invested in a new e-commerce platform that will give us the ability to improve the quality and ease of use of our online products and services

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CASE STUDY/CROWN BRANCH

Belfast City Post Office branch

What's changed?

- Open plan counters
- Three private consultation rooms where customers can discuss financial services
- Self-service kiosks, with staff on hand to help

Customer feedback

"I've always avoided self-service in shops and supermarkets but I tried using the machines at the Belfast branch and I was really impressed The first time I used them, a member of staff was on hand to walk me through the process and guided me every step of the way I regularly post items abroad so this is great for me – it's easy and it saves a lot of time Now, if there's a kiosk free, I'll use it rather than the counter"
Richard Post on the new self-service kiosks

CASE STUDY/CROWN BRANCH

Merthyr Tydfil Post Office branch

What's changed?

- Private consultation room where customers can discuss financial services
- Dedicated travel services counter
- Welcome point where host meets and greets customers

Colleague feedback

"It's much more welcoming How a Post Office looks can really affect a customer's experience We really needed a refresh and it has already made us more proactive as a team We're delighted with the transformation"
Customer Service Consultant
Tracy Hagerty

"It's given us a more positive outlook It feels like a 21st century design that is as professional as any of the banks we compete with Our front office has completely changed and the impact was immediate for everyone who works here"
Customer Service Consultant
Leanne John

Our customers

INTRODUCTION

Post Office has a diverse range of customers. With over 17 million customer visits every week and 95% of the UK population visiting a branch each year, the communities we serve remain at the very heart of what we do. In turn the Post Office provides essential services for the people of the UK.

IN BRIEF

3
Our brand
Voted one of the 3 most trusted brands in the UK

90%
Customer satisfaction
For branch customers that have used Drop & Go or Post & Go

39.9m
Unique visitors
To our website in 2013-14, a year on year growth of 17%

Listening to customers is vital to improving the service we offer New ways of doing this include

- A 3,500-strong customer panel, which gives us the ability to get the views of customers in a matter of days
- The Voice of the Customer, which allows customers to 'tell us how we did today' in nearly 3,000 branches The programme has already provided more than 130,000 customer responses, enabling branches to make immediate customer service changes as well as identifying themes across the network We also received more than 800 'wows' every week, a 'wow' is where customers take the opportunity to praise outstanding service
- Our website now gathers equivalent customer feedback Feedback on our call centres will be added during 2014/15
- We completed extensive research with customers, colleagues and other stakeholders to form the Post Office public purpose
- The Post Office Advisory Council, which provides regular customer input on the future of the Post Office

Listening to customers has told us that being easier to do business with is the most important improvement we can make For customers this means

- Extending opening hours
  Making it easier to send parcels
- Simpler purchase processes
  Being able to do more on self-service machines

These informed our customer priorities in 2013/14 and continue, in the current year

Over the past year we made great strides in moving towards becoming a truly multichannel business Our website had 39 9 million unique visitors in 2013/14, a year-on-year increase of 17%, over 2 5 million visits have been made to our mobile website since its launch in December 2013, and over six million people contacted the Post Office via our telephone contact centres

We are developing functionality across the business that ensures we remain relevant to customers' lives For example, it is now possible to book appointments online to see a mortgage specialist in branch, for SMEs to use Drop & Go as a convenient way to post mail and parcels, and to use self-service kiosks at a number of branches Branch customer satisfaction rises to 90% for those that have used Drop & Go or Post & Go compared with an overall branch satisfaction of 87%

Last year we made good progress by reducing waiting times the average time a customer waited in any branch before being served fell by 10 seconds to 2 minutes 50 seconds and 82 1% of customers were served within 5 minutes, an improvement of 1 4 percentage points on the previous year, 87% of customers told us the wait time was acceptable Moreover, in modernised branches average waiting times are just 1 minute and 33 seconds in local branches and 1 minute and 39 seconds in main branches

This focus on the customer's experience was particularly important in the busy period leading up to Christmas We deployed extra colleagues in our busiest branches, introduced longer opening hours, launched a Christmas help hub on our website and opened eight pop-up Christmas Stamp Shops in busy retail locations, which allowed customers to buy personalised stamps

95% of visitors to the pop-up Post Office had a positive experience* and 81% agreed that the Christmas Stamp Shop made buying stamps fun and enjoyable**

Listening to customers has told us that being easier to do business with is the improvement that is most important to them.

* Source – Voice of the Customer 11 456 responses in December

** Source – Stamp Shop evaluation – 215 customers

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Engaged people are vital to the growth of any commercial organisation

INTRODUCTION

The Post Office has set a clear strategy to transform the business by 2020 and the success of this is predicated on the contribution and engagement of our people.

Engaging with our people

Having engaged teams is important to the Post Office and is essential to the growth of any commercial organisation To meet the aims in our strategy we need all of our colleagues to deliver on the promises that we make to customers, communities, our partners and to Government We value the opinions and ideas of our colleagues Our annual employee engagement survey helps us to gather views, to listen to our people and to take action to make improvements It is a key lever in supporting the shift that we need to make to more mutual ways of working This year we have partnered with Hay Group as an independent research agency for our annual survey We have also introduced an interim Pulse survey, recognising the importance of monitoring engagement levels and gathering the views of our people more regularly

Our overall engagement increased from 55% to 57% Loyalty remains high with 74% of employees saying they would like to still be in the business in two years' time Our people are also proud of Post Office products and services with over three quarters (78%) willing to recommend them to friends and family and 84% saying they understand what customers want from Post Office

While these figures are encouraging, we recognise that the significant transformation Post Office is going through may have an impact on the way people feel We will be working hard over the next 12 months to listen to and engage with our people to address the key findings

This year also saw the introduction of the Branch User Forum This group is made up of subpostmasters and Crown branch colleagues, giving them the opportunity to contribute to the direction of the business The Forum means we are in a better position to get things right first time, for our people and our customers

This year we also conducted an engagement survey with subpostmasters We recognise that we need to have high levels of engagement across the whole organisation for us to deliver our long-term strategy and to meet customer needs It helped us to understand subpostmaster advocacy in relation to the Post Office brand, support the business strategy and to get a better understanding of engagement, particularly in relation to how we could improve the business in ways that have a clear commercial benefit One of the core measures showed that subpostmasters see the Post Office as important for the future growth of their wider business (85% positive)

We will be rolling out similar feedback surveys with our subpostmasters in 2014/15

Our recent work with the National Federation of Subpostmasters in developing our current proposals for the network transformation programme has been a great example of where better engagement has resulted in a better outcome Through sharing, trusting and recognising that a stakeholder can add real value to the business, together we have helped secure an approach to developing our network which, backed by additional Government funding, has ensured that many more subpostmasters can take advantage of investment in the network

We have also initiated a programme looking at the training and support we provide to our subpostmasters The purpose of this is to review every touch point with our subpostmasters and ensure we provide the right tools and information ensuring a positive experience for our customers We have listened to and taken feedback from our people in our agency branch network and will continue to do so into next year as the programme progresses

Investing in capability

We are committed to supporting the development of our people right across the organisation and have continued to look at how we do this in new and innovative ways We recognise that to improve the performance of our business while changing the way we do things, we need to build our leadership capability We therefore launched a development programme for senior leaders that builds commercial acumen and develops a collaborative approach to leading the business

The Crown Leadership Development Programme has also been introduced to help our Crown managers deliver a strong retail offer and enhanced customer experience So far more than 300 managers have joined the scheme In addition we have introduced a number of workshops for line managers to drive and enhance performance in their teams

We have also designed specific development programmes for our Commercial and Financial Services teams Our people's ability to develop relationships with key clients and ensure we comply with our responsibilities

CASE STUDY

Ismail Loonat
Subpostmaster, Batley, Yorkshire, and Post Office Advisory Council member

Ismail has been a subpostmaster for 20 years He's been running his Post Office branch in Batley for 10 years and Ismail is heavily involved in the community, using the office for community events including as a classroom for local children at the weekend

"I've seen many changes over the years and I always try to adapt and develop a long-term strategy for my business I'm working on my strategy for 2020 at the moment

"Batley is a really diverse community, and I try to do lots of networking so people know who we are and what they can use the Post Office for We use the office as a focal point for the community, which encourages people to come and helps develop the business

"When I saw the advert for the Post Office Advisory Council it sounded like the type of thing I already do locally I have a real passion for the Post Office and the community, so by working with the Advisory Council we have an opportunity to share ideas and develop the whole of the Post Office

"This is a really exciting chance to build on the experience we have across the whole of the business and use customer insight to generate new ideas"

"I have a real passion for the Post Office and the community.

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CASE STUDY

Beverley Meier
Acting Branch Manager, Horsham, West Sussex

Beverley joined the Post Office 14 years ago, working in a small village branch, before moving to the Crown network Beverley became Horsham's Acting Branch Manager and started the Crown Leadership Excellence programme last year

"The programme has been really interesting I've worked on the counter for a number of years but the programme has really challenged me to think differently, to think like a retailer

"I've learnt some really practical things For example, I now have a much better understanding of my profit and loss account and how I can personally affect the performance of the business It's also changed the way I support my team

"I think the programme is making me a better manager and I want to continue to progress I also want to use what I've learnt to support the development of others"

"The programme has really challenged me to think differently, to think like a retailer.

This year saw the introduction of the Mains Live conferences, where subpostmasters came together to talk about how we can grow the business The sessions have focused on providing additional support to subpostmasters, the development of colleagues in branches and driving customer excellence The conferences have been well received with plans for further roll out in 2014/15

In addition, we have refreshed our Post Office behaviours across the business, creating the benchmark for the way we will behave with our customers and each other Aligning our behaviours with the strategic direction of the business will play a fundamental part in delivering our strategy and demonstrating mutual ways of working

Following on from the success of 2013/14's management trainee scheme and pilot apprenticeship scheme in the Human Resources Service Centre, in 2014/15 we will welcome our first graduate intake Seven graduates will join the business on two schemes General Management and Finance

Diversity

The Post Office has an overall strategic aim to build an inclusive organisation that is representative of, and understands, its diverse customer needs

We aim to be easy to do business with while creating an inclusive culture that attracts, develops and retains talent from the widest available pool

We are proud of the progress we have made in relation to gender equality Currently, 61 1% of our non-managerial roles are female and last year we saw a 1 4% increase in female representation at first line managerial level Our Chairman and Chief Executive are women

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Last year we signed up as a member to Government's Think, Act, Report initiative Since then we have

- Established a representative Diversity Forum
- Launched an Unconscious Bias training programme that has been completed by over 80 managers, including the Executive Committee
- Launched a Women in Leadership Programme that profiles female role models and provides networking opportunities
- Launched a Female Mentoring scheme that enabled 40 senior manager role models to support other women

Taking positive action in this way has led to an 8 1% increase in black, minority and ethnic (BME) appointments and a 12 7% increase in female appointments at senior levels This is a great start but we recognise there is more we can do

Of our subpostmasters, 40% are female, whereas just 29% of entrepreneurs in the UK are female We are equally proud of our BME representation, with 28 6% of subpostmasters from black, minority and ethnic backgrounds, against a UK average of 13 1%

Helping youth get work experience

For the second year running we have offered paid work experience over the Christmas period, with 42 young people under the age of 24 carrying out eight weeks' work experience in Crown branches in London Since then, 10 individuals have been offered permanent employment with the business

CASE STUDY

Bethany Hurst
Apprentice, HR Service Centre, Bolton

Bethany joined the Post Office in October 2012 "I was in college at the time and decided university wasn't for me, so I started looking for an apprenticeship and saw the Post Office advertised The variety of moving around in the different teams in HR really appealed to me

"This was my first proper job, so it was a bit scary coming into the Centre, but people were really friendly and genuinely interested in me and made me feel valued I wasn't just taken on and forgotten about "

Beth has now worked in each product team within the HR Service Centre and has recently picked up a role in the Pay team

"I'm really happy working in the Pay team and want to stay with the Post Office long term I'd like to get my payroll qualification next and move into management in the future "

Bethany has been nominated by her external NVQ assessor for the National Apprentice of the year award

"People were really friendly and genuinely interested in me and made me feel valued.

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CASE STUDY

Katherine Mearman
Senior Manager, Commercial

Katherine works as part of the marketing team in London and has previously worked for Orange and American Express

"Being part of the Post Office meant I had the opportunity to take a leading role in developing and growing a brand It was a real chance to shape the future of the business"

Katherine is part of our Women in Leadership programme and was recently nominated for a Chartered Institute of Marketing 'Women in Marketing' award

"The Women in Leadership programme provides a real springboard for women who want to get on.

Safety, health and wellbeing

The Post Office intends to make healthy and safe working a way of life

We continue to support and encourage colleagues and unions to get involved by providing free health checks, so far more than 3,600 people have had one, or 46% of employees The scheme also provides access to an online wellbeing zone that allows them to track progress on improving health and welfare During 2014 we will use anonymous data from the health checks to build bespoke support for staff

Last year was the fourth running that workplace accidents were reduced, by 11% We also saw a significant reduction in the seriousness of those accidents, which was reflected in a further reduction of accidents that resulted in absence (30%), coupled with a reduction in the length of absences (54%) There is still more to do, but the figures represent a significant improvement on 2012/13

Looking ahead

Diversity, talent and engagement will continue to be a key focus and play an integral part in securing the future of the Post Office Developing mutual ways of working, investing in the capability of our people and putting the customer first will ensure we have a commercially sustainable business with a public purpose

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CASE STUDY

Rita Patel
Subpostmaster, Royal Wootton Bassett, Wiltshire

The Community Enterprise Fund was introduced to encourage ideas that support the community, including mentoring for business start-ups, digital access and training

Rita came up with WithIT, a drop-in class for residents where they are taught how to use tablet devices which was backed by the Fund

"I thought it'd be a brilliant idea to bring the community together and I know many of my customers have been keen to learn how to use tablets

"The launch took place at the local library and the turnout was fantastic 39 people registered to attend regular classes and many more have dropped into the branch since I want to create a community hub where they can make friends and learn something new that they can then share

"The Community Enterprise Fund is a fantastic idea"

CASE STUDY

Gary Shorland
Mortgage Specialist, St Albans, Hertfordshire

Gary joined the Post Office in 2010 as a Financial Specialist and was one of a team of seven who worked on the Post Office mortgage trial

"I'd worked in the banking sector previously so when I saw the role in Post Office advertised and started to do some research into the products and services, I was really surprised by the scale of the product offering There was obviously a lot of potential to grow

"I'm really encouraged by the way things are going The branch refurbishment will make us more modern, exciting and professional and will encourage more customers to come in A key part for customers is that they can come into a branch and speak to you face-to-face That's so important when making big financial decisions"

"I thought it'd be a brilliant idea to bring the community together and I know many of my customers have been keen to learn how to use tablets.

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SUPPORTING COLLEAGUES AND COMMUNITIES

Social and Corporate Responsibility

INTRODUCTION

The Post Office has a responsibility to be inclusive, accessible and sustainable. We developed and expanded our corporate and social responsibility strategy during 2013/14 and continue to work towards meeting our demanding goals in the current year.

Accessibility

The Post Office has long recognised the diverse nature of the communities and the customers we serve We aim to have one of the most accessible branch networks in the country and to assist we provide subpostmasters with matched funding to help finance branch improvements

We also make sure all employees are aware of their obligations under the Equality Act 2010 and that they understand the benefits of adopting a positive approach towards meeting the needs of disabled customers

The Post Office is also aware that not all disabilities are necessarily visible or physical, and we train employees to make adjustments where needed to assist customers

And for those occasions when things do not go to plan, we have a customer complaint system that it is easy to use

Environment and sustainability

The Post Office is committed to minimising any adverse environmental impact

Our targets for 2013/14 included

- 3% reduction in building energy use
- 3% reduction in CO_2 from vehicle fuel
- 3% reduction in water use
- 70% of all waste generated to be recycled

All these targets were exceeded and we have set challenging goals for the current year

Buildings

A large percentage of Post Office buildings now have low-energy lighting and low-water usage utilities, while all fixtures and fittings are now obtained, where possible, from sustainable sources or from materials that can easily be reused or recycled

Under the Network and Crown transformation programmes, buildings must meet these sustainability standards as well as complying with accessibility legislation

Vehicles

By Spring 2014, 57% of our operational fleet of 416 cash-in-transit vehicles met the current Euro 5 emissions standard, with 55% of our fleet incorporating exhaust gas reduction systems Post Office Supply Chain over the past year has achieved between 3 8-4 1Kg of CO_2 per drop

Waste

Most of our buildings are now participating in the Dry Mixed Recycling scheme where everything that can be recycled is segregated into separate bins or bags This is a key initiative to reduce the dependence of the Post Office on sending waste to landfill as it is both expensive and environmentally unsustainable

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BBC Children in Need

In 2013/14 the Post Office continued its long-running association with BBC Children in Need We played a key role, raising over £1 million and in the process became the charity's largest corporate partner Thousands ran a number of activities including the BearFaced campaign where exclusive paw print tattoos were available to buy across the network

Supporting other charities and appeals

The Post Office has supported a number of appeals during 2013/14, including the Philippines Typhoon Appeal and The Prince's Countryside Fund in its efforts to support rural communities devastated by flooding in the south west of England

In conjunction with our IT service provider, CSC, the Post Office donated more than 200 PCs and a similar number of mobile phones to the Malaika Kids The computers help the charity support a school for orphaned children in Tanzania, giving them the opportunity to learn in a safe environment

Your Charity

The Post Office is proud to encourage the support of charitable causes In 2013/14 we launched Your Charity, which enables teams in Crown branches, central support and cash centres to back local causes We also support fundraising efforts with A Helping Hand This provides matched funding of up to £200 per application Your Charity and A Helping Hand will be extended to agency branches in 2014/15

Digital inclusion

As the world becomes increasingly digital, it is important to support the 11 million people in the UK who lack basic online skills, many of whom are our customers As a founder member of Go ON UK the Post Office is committed to tackling digital exclusion

Together with Tinder Foundation and other partners, the Post Office launched the national database Get Connected in branches in June 2013 Every branch can now help customers find their five nearest learning centres and libraries for online training and internet access So far this tool has had over 13,200 searches at over 5,000 Post Office branches

We have developed and expanded our Corporate and Social Responsibility Strategy during 2013/14. We will continue to strive to meet demanding goals in the forthcoming year.

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The Post Office has also continued to be an active partner of Go ON UK and was an integral part of the Go ON North East, a six month campaign to drive up digital skill levels in the north east of England The campaign launch in October 2013 saw Post Office branches amplify the Get Connected campaign, signposting customers to local help A number of branches in the region ran free internet taster sessions to reach out to those who need support Similar campaigns will launch in Northern Ireland and the north west of England during 2014/15

Community Enterprise Fund

We have always been clear in our aim of supporting community initiatives and in 2013/14 the Post Office joined forces with the Department for Communities and Local Government to launch the Community Enterprise Fund The £200,000 scheme invited bids from branches with innovative ideas to support the local community or small businesses in the area Of those that applied, 25 received grants of up to £10,000 each to implement their not-for-profit ideas

The successful bids included those that sought to tackle isolation, improve digital exclusion and provide a hub for the local community to use The Cabinet Office also supported the Community Enterprise Fund by awarding grants to three Post Office branches that were working to relieve isolation

Royal Society of Arts (RSA) report

In February 2014 the RSA published Making the Connection, a report that looked at the many ways Post Office branches are becoming community enterprise hubs and experimenting with new business models to support communities and generate income It found that a number of subpostmasters, especially those that had won grants from the Community Enterprise Fund, were already trialling new products and services

Business in the Community

The Post Office has continued its work with Business in the Community We have partnered with three of the 27 Government-backed Town Teams to help regenerate high streets in Brighton, Stockton-On-Tees and Sydenham, and are helping them plan for a thriving future

We have partnered with three of the 27 Government-backed Town Teams to help regenerate high streets in Brighton, Stockton-On-Tees and Sydenham and are helping them plan for a thriving future.

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British Forces Post Office (BFPO)

BFPO as part of the Defence Equipment and Support organisation of the Ministry of Defence (MOD) is responsible for providing an effective and efficient postal and courier service, in order to sustain the fighting power of members of the UK Armed Forces and other entitled users worldwide

To enable access to these and other relevant postal services, cash withdrawals, bill payments and other Post Office services for those serving abroad, the MOD currently manages a network of 27 BFPOs across the world, which sell a restricted but similar range of products to those available in UK Post Office branches averaging 4500 – 5000 transactions per week across the network

BFPO trainers attend Post Office training courses and in addition they train their own staff as part of their employment group upgrading courses To assist this process from a continuation aspect they also have 13 training sites

British Postal Museum & Archive (BPMA)

Caring for the visual, written and physical records from almost 400 years of innovation and service, The British Postal Museum & Archive (BPMA) has worked to increase access to the world-class archive and museum collections of the former National Postal Museum since 2004

Post Office is committed to the BPMA's vision to open a new, national museum for social and communications history in Central London in 2016 The Postal Museum will open up collections from King Charles I to the present day, telling the important story of the postal service's vital role in shaping our country As well as engaging in this fascinating history, visitors to the museum will also be able to take a ride on a section of the Old Post Office Underground Railway – Mail Rail – for the first time in its 100 year history

In 2013/14 the BPMA achieved

- Planning permission for Mail Rail
- Match funding for a second round application to the Heritage Lottery Fund for £4 5m
- Unprecedented media coverage in local, national and international press, including BBC Breakfast, The Daily Telegraph and Sky News
- Cross-party support through an Adjournment Debate in Parliament tabled by Emily Thornberry, MP for Islington South and Finsbury, with a response from Rt Hon Michael Fallon MP, Minister of State for Business
- Support from a number of public figures including popular historian and TV presenter Dan Snow, television news presenter Nicholas Owen and Mayor of London, Boris Johnson

Along with Royal Mail Group, Post Office has confirmed long-term funding arrangements with the BPMA, providing 25 years of security for its public services

As a key stakeholder in the BPMA, Post Office continues to support the activity of the BPMA and its plans for The Postal Museum, and has worked closely with the BPMA on a number of individual projects over the course of 2013/14 This has primarily focused on the First World War Centenary and includes a touring version of the BPMA's successful Last Post Exhibition, which looks at the role of the Post Office during the conflict The Post Office sponsored version of this exhibition, launched in June 2014, will be displayed in various Crown Post Offices across the country

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Strategic report

"Being open until 10pm means it's much easier for people to pop in and use our Post Office services on their way home in the evening. It's been really great for our business

STRATEGIC REPORT

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Paving the way towards financial sustainability

Chris Day
Chief Financial Officer

SUMMARY RESULTS

The Post Office has faced a challenging year with decreases in turnover in each of the core product pillars Despite this and a planned reduction of £10 million in the Network Subsidy Payment, operating cost savings have resulted in the operating profit before exceptional items increasing by £13 million to £107 million The costs of transformational change in the year were significant as the network modernisation accelerated

Key Financial Performance Indicators

	2014 £m	2013 £m	Variance £m	Variance %
Turnover	979	1,024	(45)	(4 4)
Operating profit before exceptional items	107	94	13	13 8
Operating loss before depreciation, amortisation, exceptional items and Network Subsidy Payment	(93)	(116)	23	19 8
Net cashflow	(283)	151	(434)	-

Profit and Loss Summary

	2014 £m	2013 £m	Variance £m	Variance %
Turnover	979	1,024	(45)	(4 4)
Network Subsidy Payment	200	210	(10)	(4 8)
Revenue	1,179	1,234	(55)	(4 5)
People costs	(255)	(259)	4	1 5
Other operating costs	(850)	(913)	63	6 9
Total costs	(1,105)	(1,172)	67	5 7
Share of profit from joint ventures and associates	33	32	1	3 1
Operating profit before exceptional items	107	94	13	13 8

Revenue

The Post Office's revenue decreased by £55 million (4 5%) to £1,179 million including a decrease of £10 million in the Network Subsidy Payment from Government The Post Office segments income into four pillars Mails and Retail, Financial Services, Government Services, and Telecoms The pillars and their performance are detailed below

	2014 £m	2013 £m	Variance £m	Variance %
Mails & Retail	390	409	(19)	(4 6)
Financial Services	279	281	(2)	(0 7)
Government Services	146	164	(18)	(11 0)
Telecoms	124	129	(5)	(3 9)
Other income	40	41	(1)	(2 4)
Turnover	979	1,024	(45)	(4 4)
Network Subsidy Payment	200	210	(10)	(4 8)
Revenue	1,179	1,234	(55)	(4 5)

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Mails and Retail

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

Mails and Retail revenue of £390 million decreased by £19 million (2013 £409 million) Of this, turnover in relation to Royal Mail products decreased by £16 million, driven primarily by a reduction in consumer parcel volumes and lower stamp sales In addition, retail turnover decreased by £2 million due to the one-off increase in the prior year for collectibles relating to the Diamond Jubilee and the Olympics memorabilia Revenue from sales of Lottery tickets declined marginally by £1 million

Financial Services

The Financial Services pillar includes Post Office branded personal financial services products, ATMs and travel services as well as traditional services such as bill payment and over-the-counter banking transactions

Across Financial Services in aggregate, revenue decreased in 2014 by £2 million to £279 million (2013 £281 million)

Personal Financial Services revenue increased by £15 million (15 2%) driven by strong growth in savings commissions (particularly Growth Bonds, Reward Saver and ISAs), insurance and new mortgage products Revenue from traditional financial services products, including bill payment services, business banking services and Postal Orders, declined This was due to the increasing shift from paper-based to electronically-delivered products and the increasing use of alternative payment methods In addition, the cessation of the Department of Work and Pensions contract for cash cheques (Green Giros) and the continued migration of NS&I products through their own direct channel have resulted in revenue decline

Government Services

The Government Services pillar covers services provided under contract to Government departments This includes services in relation to the work of the Department for Work and Pensions (DWP), the Driver and Vehicle Licensing Agency (DVLA), Her Majesty's Passport Office (HMPO) and UK Visas and Immigration (UKVI)

Government Services revenue of £146 million decreased by £18 million (2013 £164 million) Revenue from the Passport Check & Send service increased by £2 million in line with growth in the overall market Revenue from the DVLA decreased by £14 million mainly due to lower fees per transaction under the new contract effective from 1 April 2013 Revenue from the payment of benefits through the Post Office Card Account was £6 million lower, impacted by customer attrition

Telecoms

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

Telecoms revenue of £124 million (2013 £129 million) decreased by £5 million During the year the HomePhone and Broadband service was transitioned to a new provider and experienced operational issues initially, which both the provider and Post Office resolved as quickly as possible The revenue from HomePhone and Broadband decreased by £4 million, primarily due to a reduction in customer numbers driven by reduced sales and marketing activity following the transition to the new supplier Revenue from e-top ups was £1 million below prior year as more customers moved away from pre-pay and mobile networks reduced their transaction fees However, the Post Office continues to be a significant provider in the top-up market and its share of the retail market has been maintained at approximately 5%

Other income

Other income is generated primarily from the Supply Chain business that manages and distributes cash for Post Offices and for third parties It also offers warehousing services, mainly to Royal Mail Other income decreased by £1 million to £40 million (2013 £41 million)

Network Subsidy Payment

The Network Subsidy Payment is Government Grant revenue put towards the costs of maintaining the Post Office network The payment decreased by £10 million in the year to £200 million, this will continue to reduce as set out in the current funding agreement with Government

Costs

Total costs decreased by £67 million to £1,105 million (2013 £1,172 million)

People costs

People costs of £255 million (2013 £259 million) decreased by £4 million reflecting efficiency savings, particularly in the Crown network driven by the Crown transformation programme, and lower performance-related bonuses, partly offset by some pay increases and higher pension costs

Other operating costs

Other operating costs decreased by £63 million to £850 million (2013 £913 million), driven largely by lower sales volumes resulting in lower subpostmasters' costs and cost of sales There was also a decrease in investment in new products and services which had been particularly high during 2012/13

Joint venture and associate

Share of operating profit from the joint venture (First Rate Exchange Services Holdings Limited) was £33 million (2013 £32 million), £1 million higher than in 2013 when the result also included the associate, Midasgrange Ltd, until its sale on 1 September 2012 First Rate Exchange Services Holdings Limited results improved mainly through delivering efficiencies in operating costs

Exceptional items

	2014 £m	2013 £m
Operating exceptional items		
Restructuring costs including subpostmasters' compensation	(259)	(79)
Impairment of investment, property, plant and equipment	(115)	(66)
Royal Mail Pension Plan amendment	102	-
Government Grant	317	98
Subtotal operating exceptional items	45	(47)
Non-operating exceptional items		
Profit on disposal of property, plant and equipment	3	2
Loss on sale of associate	-	(30)
Net exceptional items	48	(75)

Restructuring costs

Restructuring costs include the costs of delivery of major change Network transformation resulted in costs of £94 million for subpostmasters' compensation (2013 £12 million) and £97 million programme costs (2013 £40 million) with the increases in each reflecting the greater pace of transformation this year In addition programme costs of £9 million (2013 £nil) were incurred in relation to Crown transformation Costs of £21 million relate to IT transformation (2013 £10 million) that will create the appropriate IT infrastructure for the future Redundancy costs of £23 million were incurred during the year and mainly related to the Crown network (2013 £11 million) There were further business transformation payments charged in the year of £5 million (2013 £4 million) In addition, a gain of £102 million arose on the change to the terms of the Royal Mail Pension Plan (see page 93)

Government Grant

In addition to the Network Subsidy Payment, the Post Office receives Government Grant funding towards the transformation programme Government Grant funding of £215 million was received in the year The additional Government Grant funding is included within operating exceptional items to match the associated costs £102 million of the 2012/13 grant also remained available for use in the year The entire balance of £317 million of this Government Grant funding has been allocated (2013 £98 million) in accordance with the designation letters, dated 2 April 2012 and 27 March 2013, from the Department of Business, Innovation and Skills, to cover £94 million capital expenditure (2013 £66 million), £88 million network transformation related subpostmasters' compensation (2013

£12 million) and £135 million network and IT transformation programme costs (2013 £20 million)

Cash Flow and Net Debt

Post Office Limited operates a Treasury function and manages its own financial assets (including network cash) and financial liabilities (mainly Government loans)

The Treasury function derives its authority from the Board and provides regular reports for Board review It has the authority to undertake financial transactions relating to the management of the underlying business risks, however, it does not engage in speculative transactions and does not operate as a profit centre The principal financial instruments utilised are deposits and borrowings

The cash position of the business remains strong with cash and cash equivalents of £688 million (2013 £971 million) There was a net cash outflow during the year of £283 million (2013 inflow £151 million) The outflow was driven by the repayment of the opening loan balance of £291 million Net debt (excluding cash in the Post Office network) decreased by £183 million year on year as shown in the table below

	2014 £m	2013 £m
Net cash inflow from operating activities	69	257
Income tax recovered	11	11
Net cash outflow from investing activities	(66)	(24)
Net cash inflow before financing activities	14	244
Add/(deduct) movement in cash in the network included in net cash inflow	171	(121)
Finance costs paid	(2)	(4)
Net decrease in net debt	183	119
Net debt brought forward at the beginning of the year	(206)	(325)
Total net debt carried forward at the end of the year	(23)	(206)

Post Office Limited's borrowing facility from Government and the associated Framework Agreement imposes constraints on the purposes for which the facility can be used and the availability of external borrowing Post Office Limited's treasury policy is to minimise the amount drawn down on the loan in order to reduce its interest cost The facility is limited to a maximum of £1 15 billion or the amount of security available (mainly network cash), whichever is the lower The maximum drawn down under the facility during the year was £261 million on 19 and 20 December 2013 but there was no loan drawn down at 30 March 2014 The facility is available at two days' notice and has an end date of 31 March 2018

Pensions

Post Office Limited is the employer within the Post Office Section of the Royal Mail Pension Plan (RMPP) and is a participating employer within the Royal Mail Defined Contribution Plan (RMDCP) Royal Mail Group Limited is the principal employer of the Royal Mail Senior Executives' Pension Plan (RMSEPP) and Post Office Limited is a participating employer within RMSEPP RMPP and RMSEPP are both defined benefit plans

On 1 April 2012 – after the granting of state aid by the European Commission on 21 March 2012 – almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP), built up until 31 March 2012, were transferred to HM Government On this date, the RMPP was also sectionalised, with Royal Mail plc and Post Office Limited each responsible for their own sections in future This pensions transfer left the RMPP fully funded on an actuarial basis in respect of historic liabilities at this date During 2013/14 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 on 15 October 2013 and effective from 1 April 2014 The key change is 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 resulted in a one-off exceptional gain of £102 million

The balance sheet pension position moved from an asset of £97 million at March 2013 to an asset of £148 million at March 2014 The improvement in position is primarily due to the change in terms noted above offset by an actuarial loss mainly arising from lower than expected asset values

Both defined benefit plans closed to new members in March 2008, and RMSEPP closed to future accrual on 31 December 2012 New employees are offered membership of the RMDCP

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Pension cash payments for all plans

The future funding of ongoing pension contributions into RMPP and deficit payments into RMSEPP was agreed with the respective pension trustees during the year and payments were made in accordance with the agreements

	2014 £m	2013 £m
Regular pension contributions	(23)	(24)
Funding of the pension deficit - RMSEPP	(1)	(2)
Payments relating to redundancy	(1)	(2)
Net cash payments	(25)	(28)

The regular future service contributions cash rate for RMPP expressed as a percentage of pensionable pay remained at 17 1% (2013 17 1%) The regular rate of employee contributions for the RMPP remains unchanged at 6%

Events after the reporting period

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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BUSINESS RISK

The information below details the key business risks, their potential impact and how the Post Office manages them

Key risk	Impact	Mitigation
Changes in customer preferences		
There is decline in the traditional Post Office income streams as customer preferences change. New income streams may fail to grow sufficiently to exceed the losses from traditional products in decline	The Post Office might not be able to reduce its reliance on Government subsidy	We have 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		
We are managing a significant number of change programmes to modernise the Post Office and enable its processes to operate independently of those of Royal Mail These include the network, Crown and IT transformation programmes The success of the Post Office strategic plan depends on the successful realisation of benefits from these programmes	Failure to implement the modernisation programme would leave the Post Office with an unsustainable cost base and a continued reliance on significant Government subsidy	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 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 our staff and subpostmasters and engagement with them during this significant time of change is key to the successful delivery of our strategy Withdrawal or lack of support from our staff or subpostmasters, whether driven by concerns over existing programmes and initiatives or historic cases, could cause delays in the Post Office transformation programmes and limit our ability to meet business objectives	Lack of support from our staff and subpostmasters would jeopardise our ability to meet our strategic goals of growth, profitability and reduced reliance on Government subsidy	We maintain 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 our people in our vision and strategy. We have 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 We have 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. The Post Office 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 our customers and significant damage to the Post Office brand	Our 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		
The Post Office 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 the Post Office's reputation	The Post Office 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 the Post Office's requirements is closely monitored

Chris Day
Chief Financial Officer
Post Office Limited
25 June 2014

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Governance

"Before heading abroad I just load up my Travel Money Card using the TMC app, without even leaving my flat. Simple.

GOVERNANCE

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Board of Directors

Post Office Limited's Board of Directors is chaired by Alice Perkins CB. As Non-Executive Chairman, she is independent both of the executive management of Post Office Limited and of its Special Shareholder. The Board comprises the Chairman, five other Non-Executive Directors and two Executive Directors.

Board responsibilities

The responsibilities of the Board include setting the business' strategic aims, putting in place the leadership to deliver them, supervising the management of the business and reporting to the Shareholder There are a number of Board committees which deal with specific topics requiring independent oversight, including audit, risk and compliance, nominations of the Board, pensions and senior remuneration

Each committee is chaired by a Non-Executive Director and operates within its own agreed, documented Terms of Reference

Alice Perkins CB, Chairman

Joined the Board in July 2011

Chairman of the Nominations Committee and Member of the Remuneration Committee

Alice had a wide-ranging career in the civil service, which included policy and operational roles in health, social security and public spending in the Treasury Alice was also the Civil Service's Group HR Director in Cabinet Office between 2001 and 2005 Before joining Post Office Limited as Chairman, she served as Non-Executive Director on the boards of Littlewoods, BAA and TNS, where she also chaired the Remuneration Committee Alice is an external member of the Oxford University Council, a business coach at the JCA Group, and a member of the faculty at Meyler Campbell where she teaches senior executives how to coach Alice was appointed as a Non-Executive Director of the BBC Executive Board on 1 April 2014

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Neil McCausland, Senior Independent Director

Joined the Board in September 2011

Chairman of the Remuneration Committee and a Member of the Audit, Risk and Compliance Committee and the Nominations Committee, Member of the Post Office Advisory Council

Neil has had a portfolio of non-executive roles over the last 10 years He is currently Chairman of four companies Snow and Rock, a retail chain selling skiing and outdoor brands, bikes and running gear, Joules, an outdoor lifestyle brand, Create Fertility, a chain of IVF clinics and Skin, a chain of skin treatment clinics specialising in laser hair removal Until recently he was Chairman of footwear company Kurt Geiger, and a Governor of Nuffield Health, which operates hospitals and health clubs Neil began his career at Marks & Spencer, before becoming Managing Director of C&A and Chief Executive of NAAFI (an MOD agency)

Paula Vennells, Chief Executive

Joined the Board in October 2010

Paula has worked for Post Office Limited since 2007 in a number of senior roles including Managing Director She became Chief Executive on 1 April 2012 Previously Paula spent five years with Whitbread plc, latterly as Group Commercial Director She began her career with Unilever and L'Oreal and held directorships in sales and marketing with a number of major retailers including Dixons Stores Group and Argos She is currently a Non-Executive Director and Trustee for Hymns Ancient and Modern Group, a Trustee of Go ON UK and a member of the Future High Street Forum

Chris Day, Chief Financial Officer

Joined the Board in September 2011

Member of the Financial Services Committee and Pensions Committee

Chris joined Post Office Ltd in August 2011 from the BBC where he had been Group Financial Controller since 2005 Prior to that, Chris spent 14 years at Grand Metropolitan/Diageo in a succession of Treasury/Corporate Finance roles in the UK, and as Finance Director in the Netherlands and then Germany Previously Chris worked in investment banking at Manufacturers Hanover Trust/Chemical Bank and as a financial management consultant at KPMG, having started his career with Beecham Group

Richard Callard, Non-Executive Director

Joined the Board in March 2014

Richard Callard is the representative of the Department for Business, Innovation and Skills on the Post Office Limited Board, and is an Executive Director at the Shareholder Executive in BIS Richard is a Chartered Accountant by background and joined ShEx from Deloitte corporate finance in 2007, where he advised the public and private sector on public private partnerships and other infrastructure and project finance deals In addition to his role on the Board of Post Office Limited, Richard leads the Post Office and Green Investment Bank shareholder teams at BIS

Tim Franklin, Non-Executive Director

Joined the Board in September 2012

Member of the Audit, Risk and Compliance Committee and Financial Services Committee, Chairman of the Post Office Advisory Council

Tim Franklin joined the Board of Post Office Limited as a Non-Executive Director on 19 September 2012 Tim's executive career spans both building societies and banking Prior to his board roles in the mutual sector, he was Director of Customer Programmes and Loyalty and Managing Director of Savings at Barclays Tim's experience extends across the private and public sectors too He is a Non-Executive Director of HM Land Registry where he chairs the Audit Committee and was previously on the Boards of Reclaim Fund Limited, Mutual Plus Limited and the Link Cash Machines Network

Virginia Holmes, Non-Executive Director

Joined the Board in April 2012

Chairman of the Pensions Committee and the Financial Services Committee

Virginia brings to the Board extensive knowledge of the financial services industry including both investment management and banking Her experience includes serving as Chief Executive of AXA Investment Managers UK and more than a decade with the Barclays Bank Group where she ultimately served as Managing Director of Barclays Bank Trust Company Virginia currently serves on the Board and Chairs the Investment Committee of the Alberta Investment Management Corporation in Canada During the year, Virginia became the Chair of USS Investment Management Limited, having formerly served as a trustee of the Universities Superannuation Scheme and Chair of its Investment Committee She also serves on the boards of Standard Life Investment Holdings Ltd

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Alasdair Marnoch, Non-Executive Director

Joined the Board in May 2012

Chairman of the Audit, Risk and Compliance Committee

Alasdair Marnoch joined the Board of Post Office Limited as a Non-Executive Director on 23 May 2012 A Chartered Accountant, he chairs the Board's Audit, Risk and Compliance Sub-Committee which reviews the statutory accounts and financial controls Alasdair has had wide experience as Finance Director of a number of FMCG and service businesses, including listed companies He was appointed as Chief Financial Officer at CPA Global, the world's leading provider of intellectual property management software and services, in January 2014 Previously Alasdair served as CFO of the Equiniti Group, a leading provider of complex administration and processing services to the public and private sectors

Alwen Lyons, Company Secretary

Appointed in July 2011

Alwen Lyons joined the Post Office Limited in 1984 as a graduate entrant and has worked at a senior level in several directorates including network, finance and marketing She became the Company Secretary in July 2011, after leading the project to separate Post Office Limited from Royal Mail Group Alwen served as a trustee on the Royal Mail Pension Plan Board for 8 years and was Chair of the Audit and Risk Committee for 7 years

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Corporate governance

The shares in Post Office Limited (the Post Office) were transferred from Royal Mail Group Limited to Royal Mail Holdings plc on 1 April 2012, and the Post Office has operated independently since that date.

Corporate Governance Statement

The Post Office is committed to conducting the Group's business ethically and in accordance with high standards of corporate governance

As the Post Office is not a company with shares listed and traded on a public exchange, it is not formally required to report on its compliance with the UK Corporate Governance Code (the Code) Nonetheless, the Board of the Post Office believes this is an appropriate benchmark for reporting on corporate governance

The Post Office's corporate governance structure follows the spirit of the provisions of the Code in so far as they can apply to a Government-owned entity, which has no private or institutional external shareholders

Legal Ownership Structure

The Post Office is a wholly owned subsidiary of Postal Services Holding Company Limited (formerly named Royal Mail Holdings plc) The Secretary of State for Business, Innovation and Skills (BIS) holds a special share in Post Office Limited The Special Shareholder's rights are set out in the Post Office Limited Articles of Association

A strong link remains between the Post Office and Royal Mail, underpinned by a contractual agreement to continue to supply Royal Mail products and services through the Post Office

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Neither Postal Services Holding Company Limited nor BIS, through its Shareholder Executive (ShEx), have any day-to-day involvement in the operations of the Post Office or the management of its branch network and staff, although Richard Callard, (Executive Director, Post Office Limited and Green Investment Bank, Shareholder Executive) sits on the Board of Post Office Limited as the shareholder representative

The Board

The Board is comprised of the Chairman, the Chief Executive, the Chief Financial Officer and five Non-Executive Directors

The Board is responsible for setting the Post Office's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to the shareholder

Short biographies of all members of the Board appear on pages 48-51 of this Annual Report

The Executive Directors' contracts provide for six months' notice of termination to be given by the Director and 12 months' notice to be given by the Post Office

Non-Executive Directors are not employees of the Post Office but provide services under the terms of an individual Letter of Appointment, signed at the commencement of their directorship Tim Franklin, Virginia Holmes, Alasdair Marnoch and Neil McCausland all met during the year, and continue to meet, the criteria for independence as set out in the Code, and are therefore considered by the Board to be independent

Board Meetings

The Board meets at least eight times a year and has a formal Schedule of Matters Reserved to it

During the year to 30 March 2014 the Board has focused on the Strategy, Financial Performance, Network and Crown Transformation, and the capability of the business

To assist in the execution of its corporate governance responsibilities, the Board has Audit Risk & Compliance, Nominations, Pensions and Remuneration Sub-Committees in place During the year under the review, the Board established a Financial Services Sub-Committee to provide guidance, oversight and authorisation to the development of the Post Office's financial services programmes and activities Also during the year, the Mutualisation Sub-Committee was taken back into the Board

The Schedule of Matters reserved for the Board and the full Terms of Reference for the Board Sub-Committees can be found on the Post Office website

The table overleaf shows the attendance of the Directors at meetings of the Board and its principal Sub-Committees during the year

Additional Board meetings and ad hoc extra meetings were held by teleconference for specific time-critical issues only

The Non-Executive Directors also meet at least twice a year without the Executive Directors

Board Sub-Committees

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee (ARC) is chaired by Alasdair Marnoch The other members are Tim Franklin and Neil McCausland, all are independent Non-Executive Directors The Board considers that the Committee's members have broad commercial knowledge and extensive business leadership experience, and that this constitutes a broad and suitable mix of business and financial experience

The ARC considers the Post Office's financial reporting, including accounting policies and internal financial controls It looks at the levels of risk which exist within the Post Office and the steps taken to mitigate those risks

During the year, the Post Office has been further developing its risk management, internal control and internal audit procedures

One of the ARC's primary responsibilities during the period was to review both the half year trading statement and the full year accounts, to assess the validity of assumptions made and the accounting policies used and to consider the

Non-Executive Directors' Terms of Office

Director	Date of appointment	Term of office	Unexpired term at 30 March 2014	Committee memberships
Alice Perkins	21 July 2011	Rolling 12 month contract	n/a	Nominations (Chair), Remuneration
Richard Callard	26 March 2014	Until removal	n/a	n/a
Tim Franklin	19 September 2012	4 years	2 years, 173 days	ARC, Financial Services
Virginia Holmes	4 April 2012	3 years	1 year, 5 days	Financial Services (Chair), Pensions (Chair), Nominations, Remuneration
Alasdair Marnoch	23 May 2012	3 years	1 year, 49 days	ARC (Chair)
Neil McCausland	22 September 2011	4 years	1 year, 176 days	Remuneration (Chair), ARC, Nominations

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Directors' attendance of meetings

Director	Main Board	Additional Board meetings	ARC	Financial Services Committee	Nominations Committee	Pensions Committee	Remuneration Committee
Alice Perkins	8/9	7/7	3/6†		6/6		5/5
Richard Callard	1/1*						
Chris Day	8/9	6/7	5/6†	2/2		9/9	
Tim Franklin	9/9	4/7	6/6	2/2			
Virginia Holmes	8/9	4/7		2/2	6/6	9/9	5/5
Alasdair Marnoch	8/9	6/7	6/6				
Neil McCausland	8/9	5/7	6/6		6/6		5/5
Paula Vennells	9/9	6/7	4/6†	2/2†	5/6†		1/5†
Susannah Storey#	8/9	4/7				5/9	

*from date of appointment † in attendance by invitation # Susannah Storey left the Board on 26/03/2014

ways in which the Post Office should present its financial performance

A second major responsibility has been to promote the development of a risk management framework suited to the complex nature of the Post Office business This is under way, supported by an agreed strategy The development of risk management and control procedures and the establishment of a full internal audit programme remain areas of high priority

A small internal audit function is now established supported by co-sourcing arrangements with a major firm The Royal Mail Internal Audit function provided an internal audit service until the summer of 2013 The Post Office Internal Audit function focuses on higher-level risk areas providing independent assurance to the ARC, particularly on strategic and major change/IT risks The Head of Internal Audit now reports to the General Counsel on an administrative basis and the ARC Chairman on a functional basis, in line with corporate governance best practice The Head of Internal Audit attends the ARC and meets with the ARC Chairman with or without management through the year

The ARC works with both the internal audit team and Ernst & Young, the external auditor

Remuneration Committee

The Remuneration Committee is a formal committee of the Board and has powers delegated to it under the Articles of Association Its remit is set out in the Terms of Reference formally adopted by the Board, which were last reviewed in February 2014 The Remuneration Committee is chaired by Neil McCausland, the Senior Independent Director The other members are Alice Perkins and Virginia Holmes They are all independent Non-Executive Directors

The Committee is responsible for making recommendations to ShEx on the remuneration of the Executive Directors in accordance with the Articles of Association In doing so, it reviews the remuneration policy and packages of the most senior leadership team, being the roles which report directly to the Chief Executive It also obtains information on salary levels across the business and within external organisations of comparable size in order to set remuneration levels within an appropriate context

The Chief Executive may attend meetings, at the invitation of the Chairman, to discuss matters relating to the remuneration of the Chief Financial Officer and members of the Executive Committee but the Committee upholds the principle that no individual may be involved in discussions concerning their own remuneration

The Committee is able to consult on remuneration matters with the Group People Director, other members of the Human Resources team and with external consultants In the year under review, advice was primarily obtained from New Bridge Street Consultants on market practice and benchmark development New Bridge Street Consultants have no other links with the Post Office that could compromise their independence

No material changes can be made to Directors' base salaries, benefits or incentives without Special Shareholder consent Further details of the schemes now in place, and a table setting out the remuneration paid to all Directors in the year to 30 March 2014, are provided in the Directors' Remuneration Report on page 58

Nominations Committee

The Nominations Committee is chaired by Alice Perkins The other members are Virginia Holmes and Neil McCausland They are all independent Non-Executive Directors

The primary role of this Committee is to recommend to the Board any changes in Board membership and to manage the process for recruiting and replacing Directors This excludes the Non-Executive Director nominated by the Shareholder as their representative The Committee will keep under review the balance of skills, experience and diversity available within the Board and each of the Board Sub-Committees The Nominations Committee also oversees the process for Board and Sub-Committee performance evaluation

During the year the Committee has continued to focus on building the overall capability of the organisation through the consideration and approval of Executive appointments, ensuring effective performance and development of the Senior Leadership, and overseeing the diversity agenda

Pensions Committee

The Pensions Committee is chaired by Virginia Holmes The other member is Chris Day, Chief Financial Officer Susannah Storey resigned from the Pensions Committee on 26 March 2014

The purpose of the Pensions Committee is to make recommendations to the Board in respect of pensions and pre-retirement risk benefits provision within the Post Office and to put into effect appropriate investment strategies for the Post Office section of the Royal Mail Pension Plan (RMPP) on behalf of the Board and in line with the Board's investment beliefs

The Pensions Committee, with the assistance of AON Hewitt, oversaw the investment of RMPP assets in line with the investment strategy previously agreed with the Trustee of the RMPP The transition is ongoing and is due to be completed in 2014

2013 saw the agreement to the implementation of a cap on pensionable pay at RPI (to a maximum of 5%) each year, therefore reducing the salary risk to the RMPP These changes were effective from 1 April 2014 and allowed the Post Office to manage the costs associated with the RMPP and ensured the security of the RMPP for the foreseeable future

The Committee also recommended to the Board a proposed change to the Royal Mail Defined Contribution Plan (RMDCP) This proposal would change the structure of the plan by increasing the Post Office's contribution to the RMDCP as laid out in the table below

The plan members were consulted on the changes This consultation ended on 23 May 2014, with the changes taking effect from 1 June 2014

A summary of the changes are below

Current		Proposed	
Employee Rate	Employer Rate	Employee Rate	Employer Rate
3%	5%	Removed	Removed
4%	6%	4%	7%
5%	7%	5%	8%
-	-	6%	9%

The proposed change was agreed by the Board in March 2014

Financial Services Committee

During the year a new Committee was formed to provide guidance on, oversight of and authorisation for the development of the Post Office's financial services The Committee first met in January and its remit from the Post Office Board includes the activities of First Rate Exchange Services Limited ("FRES"), a 50% joint venture with the Bank of Ireland The Committee has the delegated authority of the Post Office Board for Financial Services matters

The Committee is chaired by Virginia Holmes The other members are Tim Franklin, Non-Executive Director, and Chris Day, Chief Financial Officer

Performance Evaluation

A board effectiveness review was carried out in July 2013 in the form of an informal assessment by the Chairman and Non-Executive Directors An appraisal of the personal effectiveness of the Chairman was carried out by Neil McCausland, Senior Independent Director

The Executive Committee

Below main Board level, the Executive Committee (ExCo) is the most senior management body and is made up of the Chief Executive and each of her direct reports, supported by some business unit heads who report to members of the Executive Committee ExCo works within the delegated authorities established by the Board

The ExCo implements the strategy agreed by the Board and monitors business performance and development at a day-to-day level It meets formally at least once a month to discuss proposals for new business development, receive financial and other performance reports, and address urgent issues, which have arisen within the business requiring senior level resolution Twice yearly it reviews the results of personal performance assessments undertaken throughout the organisation

The Chief Executive, Chief Financial Officer and the Company Secretary attend both Board and ExCo meetings, which facilitates and strengthens the communication channels between the senior leadership team and the Board and its Committees

The Terms of Reference of the ExCo were reviewed in May 2014 and are available for download from the Post Office website The ExCo is supported by four Sub-Committees responsible for Transformation, Risk and Compliance, Commercial and Financial issues

Risk Management

The Post Office has adopted the requirements of the FRC Guide to Corporate Governance and established an approach to the management of risk, tailored to support the Post Office strategy and the ambitious plans for expansion in its chosen markets

Oversight of risk management is carried out by the ARC on behalf of the Post Office Board With a reporting line to the ARC, the Risk and Compliance Committee is responsible on behalf of the ExCo for

- The review and challenge of risk management
- The approval and endorsement of policies to mitigate risk
- The development of the risk management framework

This Committee is chaired by the General Counsel and reports to the ExCo The Committee comprises members of the ExCo, including the Chief Executive

The Business also governs financial and related regulatory risk with its partner, the Bank of Ireland, through established joint regulatory risk committees

Risk Management Framework

The components of risk management in the risk framework were set out in the 2012/13 Annual Report and Accounts and are available on the Post Office website

The risk framework is supported by the Risk and Compliance Team, with dedicated professional resource in place to support and advise line management and assist the risk committees in their management of risk

Progress

The ExCo has identified and refined the top risks in the organisation, focusing on those that affect the 2020 strategy These risks, with their response plans, are regularly reviewed at the Risk and Compliance Committee and the ARC to assure the robustness of risk assessment and management

Risk Appetite

The Post Office is developing its risk appetite statement with a view to establishing where additional risk may be taken to generate new opportunities and/or where further treatment of existing risks is required

Business Continuity

As part of the Post Office approach to risk management, the Post Office brings together a wide range of business continuity arrangements throughout the Group under one central policy and governance framework to ensure that the business is capable of withstanding any significant threat to its ongoing operations The Post Office is committed to ensuring its business has adequate resilience and planning that protects its customers, clients, brand and reputation from business continuity threats, risks and incidents

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The Directors present the Group Annual Report and Financial Statements for the year ended 30 March 2014

Expected future developments

Expected future developments are detailed in pages 12 to 16

Results and dividends

The profit after taxation for the year was £170 million (2013 £49 million) The Directors do not recommend the payment of a dividend (2013 £nil dividend)

Political contributions

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

Research and development

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

Directors and their interests

The following served as Directors during the year

R J Callard (appointed 26 March 2014)
C M Day
T A Franklin
V A Holmes
A Marnoch
N W McCausland
A Perkins CB
S J Storey (resigned 26 March 2014)
P A Vennells

No Director has a beneficial interest in the share capital of Post Office Limited The emoluments of Directors are set out in the Directors' Remuneration Report which appears on pages 58 to 66

People

Our goal is to ensure that all employees are engaged and involved in the business and are aligned and equipped to meet business objectives As part of our commitment to drive better service for customers we continue to focus on improving the quality of our leadership, professionalising key roles and achieving greater employee involvement in decision making

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

Underpinning all of this is a need for dignity at work, where everybody feels valued, is treated fairly and equally, and where everyone plays a full part in helping the business to achieve its goals

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

Corporate Responsibility

The Post Office is committed to carrying out its activities in a socially responsible manner in respect of the environment, employees, customers and local communities Further information can be found on page 34

Disabled employees

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

Post balance sheet events

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

Going Concern

After analysis of the financial resources available and cash flow projections for the Post Office, the Directors have concluded that it is appropriate that the financial statements have been prepared on a going concern basis Further details are provided in accordance with the fundamental accounting concept in note 1 to the financial statements

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information 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

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

Alwen Lyons
Secretary
Post Office Limited
(company number 2154540)
148 Old Street, London EC1V 9HQ
25 June 2014

Neil McCausland
Chair, Committee

Statement by the Chair of the Remuneration Committee

I welcome the opportunity to outline our progress on Executive Remuneration during our second year as an independent business This year has been tough although significant progress has been made towards our strategic objectives We continue to operate in a challenging environment and our remuneration framework reflects these conditions

The Post Office has set a clear strategy for the remainder of this decade to create a thriving business with a strong purpose The strategy will reduce our reliance on the taxpayer, thus leading the business to financial sustainability and a network used and accessed by all sectors of the population

When setting the performance criteria for the 2013/14 incentive schemes, the targets were deliberately made significantly more stretching than previously and as a result, bonuses paid this year are less than the preceding year

"This year has been tough although significant progress has been made towards our strategic objectives. We continue to operate in a challenging environment and our remuneration framework reflects these tough conditions.

The remuneration framework for 2014/15 maintains the broad principles set in 2012/13 of stretching measures and targets The measures in the short-term incentive plan have been reviewed and slightly adjusted to align with our business objectives The performance measures in the long-term incentive plan remain the same to ensure continuity and focus on achieving the long-term business strategy

The Executive Directors have not received an increase to base pay for three years An extensive benchmarking exercise was carried out during 2012/13 which showed that the levels of the Executive Directors' fixed remuneration is below the lower quartile of the market median We recognise that this means a growing gap between the business and the market median may become difficult in the future

We have throughout the year reviewed policies and have, with the advice of our remuneration consultants, reviewed the clawback clause in relation to both the short-term and long-term incentive schemes to align with market and best practice

The Post Office is owned by Government and we have regular dialogue with our Special Shareholder on all matters related to the remuneration of our Executive Directors

The Remuneration Committee is comfortable that the current policy provides the strong link between reward and performance to continue the transformational journey I commend this report to our stakeholders

The Remuneration Report

This report has been prepared in accordance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended in 2013, to the extent that they are applicable for Post Office in its capacity as an unlisted company

In line with the recent changes to Government legislation for reporting pay, the remuneration report has been split into two sections The Remuneration Policy Report sets out the Committee's policy for remuneration and its link to the business strategy The Annual Report on Remuneration sets out how this policy was applied during the year under review, the remuneration received by directors in the year under review and how the Committee intends to implement the policy in the current financial year

Both sections of the report (pages 58 to 66) have been approved by the Remuneration Committee and the Board

GRO

Neil McCausland
Chair, Remuneration Committee
Post Office Limited
25 June 2014

POL00026716

Remuneration Policy report

The Committee is responsible for setting the remuneration packages for the Chief Executive and Chief Financial Officer and determining the overall remuneration policy for the senior team reporting into the Chief Executive

The Committee's intention is that the remuneration policy should align with the business strategy and risk profile so that individuals are motivated to deliver the Post Office's objectives and protect its value The Post Office remuneration strategy is based on the following

- Attracting and retaining the right people within an agreed policy to lead and deliver the strategic plan
- Using incentives appropriately to reward the achievement of the turnaround strategy and promote the long-term viability of the organisation
- Reinforcing an emerging culture of mutual ways of working and partnership
- Providing a transparent approach to the disclosure of pay

Remuneration policy summary

The table [overleaf] describes the current remuneration and the breakdown of the packages for the Executive Directors, which comprise fixed pay (base salary, benefits and cash in lieu of pension contributions) and pay at risk (STIP and LTIP)

The remuneration framework for the Executive Directors requires consent from the Special Shareholder each year During 2013/14, the only material change made to the structure of remuneration was that the Chief Financial Officer's STIP structure was amended in order to align it with the Chief Executive's (albeit with a lower overall percentage of salary available)

POL00026716

Remuneration policy table

Link to strategy	Operation	Maximum values
Base salary		
Determined by reference to the skills and responsibilities of the individual When determining base salary increases, consideration is given to (i) pay and employment conditions elsewhere in the Post Office and (ii) market data on comparable roles	Directors' salaries are reviewed annually in July of each year The external pay benchmarking group is a basket of comparators, selected and agreed with the Special Shareholder There has been no increase to base salary since 2011	There is no a formal cap set on salaries However, when reviewing salaries, the Committee also pays close attention to the level of salary increases across the rest of the workforce
Benefits		
Participation in life and health assurance schemes, company car and private medical schemes are part of Post Office-wide benefit programmes	The value of the benefits package is monitored by the Committee and benchmarked against comparator organisations	The value of the core benefit is reasonable and in proportion with the market
Pension		
Pension provision is provided by the Post Office and is available to all employees to help them meet their retirement needs and provide a competitive remuneration package Executive Directors receive a salary supplement in lieu of pension scheme membership	A salary contribution in lieu of pension is paid as a cash supplement to the Chief Executive and Chief Financial Officer	25% of salary
Short-term Incentive Plan (STIP)		
The STIP drives and rewards performance over a single financial year, against a set of key financial and operational targets taken from the balanced scorecard, set each year according to the current priorities for the business STIP awards are also linked to the achievement of personal performance objectives	The metrics and target ranges are agreed annually with the Board and the Special Shareholder as part of the annual business and budget planning cycle 80% of the STIP award is based on a balanced scorecard and 20% is based on individual performance objectives which are agreed with the Board and require approval by the Special Shareholder The balanced scorecard is set annually to include a mix of financial and non-financial measures (including customer, modernisation and employee engagement measures) The precise metrics and their weightings are determined at the start of each financial year STIP awards may be subject to clawback as described in more detail on page 63	The maximum STIP opportunity for the Chief Executive is 80% of salary (with 48% of salary being payable for on-target performance) The maximum STIP opportunity for the CFO is 67%, with 40% payable for on-target performance

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Link to strategy	-Operation	Maximum values
Long-Term Incentive Plan (LTIP)		
The LTIP is designed to reward and retain key executives and senior managers and to incentivise the achievement of longer term performance goals The payout of the award is based on the achievement of strategic targets linked to the longer term development growth of a sustainable business	Performance measures for the LTIP are drawn from the Post Office Strategic Plan agreed with the Special Shareholder LTIP awards are made annually The performance targets are agreed with the Special Shareholder in advance of each grant and will be described annually in the Report on Remuneration LTIP awards may be subject to clawback as described in more detail on page 63	Up to 98% of salary for the Chief Executive and up to 49% of salary for the Chief Financial Officer is payable at maximum performance
Non-Executive Directors' fees		
To attract and retain a high calibre Chairman and Non-Executive Directors	The fees for the Chairman are reviewed by the Committee and approved by the Special Shareholder The fees of the Non-Executive Directors are reviewed by the Executive Directors and submitted to the Special Shareholder The Chairman is paid a single fee to cover all her duties The Non-Executive Directors are paid a basic fee together with additional fees for chairing Board Sub Committees or the role of Senior Independent Director No fees to the Chairman or Non-Executive Directors are pensionable The fees have not been reviewed since appointment	There is no prescribed maximum annual increase The Committee is guided by the general increase for employees and the Executive Directors The Chairman currently receives a single fee of £100,000 The non-executive directors receive a base fee of £35,000 - £40,000 together with additional fees of £5,000 - £10,000 for chairing Board Sub Committees and for the role of Senior Independent Director

Notes to the policy table

The framework is approved by the Special Shareholder

Differences in remuneration policy for the Executive Directors and employees generally

- The remuneration policy for the Executive Directors inevitably takes account of their level of responsibility and their influence over the Company's performance Accordingly, a higher proportion of their total remuneration package is at risk and subject to performance (under the STIP and LTIP), with the incidence and potential amounts payable under such incentives across the workforce being determined by role and grade within the organisation

Choice of performance measures and approach to target setting under the STIP and LTIP

- Under the STIP, performance is based on achievement against a balanced scorecard and personal performance The balanced scorecard measures achievement of the Company's key operational objectives and includes metrics for financial performance, customer, people and modernisation The Committee reviews the components of the scorecard each year and varies them as appropriate to reflect the priorities for the business in the year ahead
- Under the balanced scorecard, a sliding scale of targets is set for each metric to encourage continuous improvement and challenge the delivery of stretch performance
- Under the LTIP, a minimum level of operating profit must always be met in order for any payment to be made The metrics were carefully chosen to align with the Company's long-term strategic plan, as agreed with the Special Shareholder

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Performance scenarios 2014/2015

The chart below shows the quantum and composition of the current remuneration policy for the Executive Directors under three performance scenarios These are scenarios showing potential remuneration assuming there is no STIP or LTIP payout, (fixed pay only), on-target performance (STIP and LTIP paying out at a target level) and maximum performance (full payout of STIP and LTIP)

Approach to recruitment remuneration

The remuneration package for a new Executive Director would normally be set in accordance with the terms of the Company's remuneration policy in force at the time of appointment

The salary for a new Executive Director may be set below the normal market rate, with phased increases over the first few years as the Executive Director gains experience in their new role

Sometimes, to facilitate an external recruitment, it may be necessary to consider reasonable compensation for remuneration relinquished at a former employer (buyout award) Should this be the case, the terms of any buyout award would reflect (as far as is reasonably possible) the nature, performance conditions and time horizons attaching to the remuneration foregone with the overall package tailored to the individual Any such award would require approval by the Special Shareholder

For an internal appointment, any variable pay element awarded in respect of their previous role will be allowed to pay out according to its terms, adjusted as relevant to take into account their appointment

Statement of pay considerations elsewhere in the Post Office

The Committee takes into account the pay and employment conditions of employees elsewhere in the Post Office when setting the remuneration policy for the Executive Directors The balanced scorecard used for the STIP for Executive Directors is also used to assess performance in the annual bonus for Post Office managers, providing alignment between performance and reward for all employees at manager level and above

Contracts and loss of office payment policy

Each of the Executive Directors has a signed contract with the Post Office

Service contracts normally continue until the Executive Director's agreed retirement date or such other date as the parties agree The service contracts contain provisions for early termination

In summary, the contractual provisions are as follows

Notice period	Other than for certain events such as gross misconduct (in which no notice must be provided by the Company), twelve months to be given by the Post Office and six months by the director
Remuneration-related provisions	Payments in lieu of notice of salary and benefits including health cover, a company car or car allowance, life and health insurance and cash allowance in lieu of pension equivalent to 25% of base salary Payments in lieu of notice are not pensionable
Change of control	There are no enhanced provisions on a change of control

In some circumstances, the Committee may also, at its discretion, pay a bonus to the Executive Director equivalent to the amount that they would have been entitled to and earned under the STIP and LTIP, pro-rated over the portion of the year that they were in service The Committee will take into account the reason for the Executive Director leaving the company and the contribution made to the performance conditions

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Under the LTIP, the default treatment is that any outstanding awards will lapse on termination of employment However, in certain prescribed good leaver circumstances, the awards remain subject to performance conditions measured to the end of the performance period, and reduced by reference to the portion of the period they were employed The definition of good leaver status is set out in the rules

Clawback provision

Executive Directors have clawback clauses in their contracts, as well as the STIP and LTIP rules, which provide for the return of any over-payments in the event of misstatement of the accounts, error or gross misconduct on the part of an Executive Director These provisions are structured in line with market best practice

Non-Executive Directors

Non-Executive Directors' Letters of Appointment are described in the Corporate Governance statement (see page 52)

Statement of consideration of shareholder's views

The Chairman of the Committee communicates regularly with the Shareholder Executive on behalf of the Special Shareholder on all matters concerning executive remuneration and the Special Shareholder approves all aspects of the framework for Executive Director Remuneration

Annual Report on Remuneration

Remuneration for each director for the Financial Year 2013/2014 (audited)

Name	Annualised salary/fees 2013/2014	Actual salary/fees 2013/2014	Benefits 2013/2014	Cash in lieu of pension 2013/2014	STIP 2013/2014	LTIP 2013/2014	Total 2013/2014	Total 2012/2013
Non-Executive Directors								
Tim Franklin[5]	£40,000	£37,097	-	-	-	-	£37,097	£18,667[4]
Virginia Holmes[5]	£40,000	£37,097	-	-	-	-	£37,097	£34,708[4]
Alasdair Marnoch	£45,000	£45,000	-	-	-	-	£45,000	£38,589[4]
Neil McCausland	£50,000	£50,000	-	-	-	-	£50,000	£50,000
Alice Perkins	£100,000	£100,000	-	-	-	-	£100,000	£100,000
Susannah Storey[1]	£0	£0	-	-	-	-	£0	£0
Richard Callard[2]	£0	£0	-	-	-	-	£0	£0
Executive Directors[3]								
Paula Vennells	£250,000	£250,000	£9,494	£62,500	£76,608	£145,250	£543,852	£697,723
Chris Day	£215,000	£215,000	£9,494	£53,750	£54,042	£41,639	£373,925	£407,582
Total 2013/2014	£740,000	£734,194	£18,988	£116,250	£130,650	£186,889	£1,186,971	£1,347,269

[1] Susannah Storey was an employee of the Shareholder Executive of the Department for Business, Innovation and Skills In March 2013 she moved to the Department of Energy and Climate Change She receives no director s fee and resigned from the Board on 26 March 2014

[2] Richard Callard is an employee of the Shareholder Executive of the Department for Business, Innovation and Skills and joined the Board on 26 March 2014 He receives no director s fee

[3] The salaries for Paula Vennells and Chris Day remain unchanged There is no planned increase for the review in July 2014

[4] Tim Franklin joined the Board 19 September 2012 Virginia Holmes joined the Board 4 April 2012 and Alasdair Marnoch joined the Board 23 May 2012 and all received a pro rated payment for 2012/2013

[5] Tim Franklin and Virginia Holmes received £5 000 as a result of taking on the Chairmanship of additional committees

Benefits comprise a company car (or cash equivalent), participation in life and health assurance schemes and private medical provision

Pay at risk paid to Executive Directors in 2013-14 (audited)

a) Short Term Incentive Plan 2013-14

Performance metrics

The STIP payable to both the Executive Directors is based on the 2013/14 Post Office balanced scorecard (80%) and personal performance (20%) Six measures in the scorecard were identified for use in the STIP These relate to financial performance (45%), customer experience (20%), our people (10%) and achievement of specific objectives related to the modernisation programme (25%)

Financial performance was assessed through the use of stretching net revenue and operating profit targets The net revenue target was not met but due to cost control the operating profit target of £102 million was exceeded Our modernisation programme continues as the Post Office proceeds on it journey to transformation Our customers and our people are critically important and stretching targets were set to indicate this Overall performance was satisfactory but not all targets were achieved

b) Long-Term Incentive Plan awards 2011-2014

The LTIP award to pay out this year is based on the three-year performance period ended 30 March 2014 The award values were as follows

Executive	Type of award	Basis of award granted	Value of award	Maximum value of award if all performance targets are met	Vesting determined by performance over
Paula Vennells	Cash	70% of salary target award	£145,250	£245,000	Three financial years to 30 March 2014
Chris Day	Cash	35% of salary target award	£41,639*	£70,234*	Three financial years to 30 March 2014

* 2011/12 LTIP award pro rated as Chris Day commenced employment 1 August 2011

The primary performance condition for the 2011 award was operating profit (sliding scales of targets) based on the strategy plan

Operating profit before exceptional items for the year-ended 30 March 2014 (£107 million) was between the target and stretch level

The STIP and LTIP awarded to the Chief Executive and Chief Financial Officer expressed as a percentage of salary is shown below

	STIP		LTIP	
	2012/2013 Payment as % of salary	2013/2014 Payment as % of salary	2012/2013 Payment as % of salary	2013/2014 Payment as % of salary
Chief Executive	63%	31%	87%	58%
Chief Financial Officer	60%	25%	N/A	19%

Outstanding interests in Long-Term Incentive Plan

Under the remuneration policy, LTIP awards are granted annually The Chief Executive and Chief Financial Officer have the following outstanding awards

	Target award	Stretch award	Performance period
Paula Vennells - Chief Executive			
2012 LTIP	£175,000	£245,000	Three years to 29 March 2015
2013 LTIP	£175,000	£245,000	Three years to 27 March 2016
Chris Day - Chief Financial Officer			
2012 LTIP	£75,250	£105,350	Three years to 29 March 2015
2013 LTIP	£75,250	£105,350	Three years to 27 March 2016

Both the 2012 and 2013 LTIP awards are subject to challenging financial and strategic performance conditions based on business profitability and the maintenance of the network in line with the Special Shareholder's objectives

Total pension entitlements (audited)

Paula Vennells and Chris Day each receive a cash supplement of 25% base pay in lieu of pension scheme membership

Paula Vennells was previously an active member of the Royal Mail Senior Executives Pension Plan (an HMRC approved defined benefit occupational pension scheme) until 5 April 2012 when she left the scheme As a result she retains past pensionable service up until the date she left, any increases in the deferred pension amount is due to revaluation not new accrual

Relative importance of the spend on pay (audited)

The figure below shows the change in employee costs between 2013 and 2014 relative to total revenues

	2014	2013	% difference
Total People Costs	(£255m)	(£259m)	1 5%
Of which related to Directors' pay	(£1 19m)	(£1 35m)	11 9%
Total revenue excluding Network Subsidy Payment	£979m	£1,024m	-4 4%

Remuneration of the Chief Executive over time

The table below shows the total remuneration of the Chief Executive over three financial years, together with her STIP and LTIP payouts in that year

	2012[1]	2013	2014
Total remuneration	£462,505	£697,723	£543,852
STIP (% of maximum)	86%	79%	38%
LTIP vesting (% of maximum)	No LTIP vested	89%	59%

[1] The Post Office became independent from the Royal Mail on 1 April 2012 Hence, the Committee has chosen to set out the Chief Executive s pay data since this date

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How the Committee intends to implement the remuneration policy in 2014/15

Salaries

Salaries for the Executive Directors for 2014/15 are unchanged from last year, at £250,000 for Paula Vennells and £215,000 for Chris Day

The next salary review will take place in July 2015

The Chief Executive has not been awarded any increase in pay since April 2011 There was no increase in pay in April 2012, when the company began operating independently from the Royal Mail Group and the role of the Chief Executive significantly increased The remuneration of the Chief Executive and Chief Financial Officer has been benchmarked and analysis shows both Executive Directors are below the lower quartile of the market median

Performance targets for the STIP and LTIP awards to be granted in 2014 and beyond

For 2014, the STIP will continue to be based on performance against a balanced scorecard (80%) and personal performance (20%)

The LTIP targets will continue to operate with a performance target which is predominantly linked to the Company's operating profit performance

The Committee has chosen not to disclose, in advance, the actual targets applying, as these are deemed to be commercially sensitive

Statement of Consideration of Shareholders Views

When setting the Remuneration Policy for the Executive Directors the Remuneration Committee take into consideration the views of the Special Shareholder The policy for pay at risk concentrates on ensuring remuneration is performance lead with targets aligned with those of the Shareholder

The current economic and political climate is taken into account in terms of restraint on pay to reflect the current practice in the public sector All remuneration for the Executive Directors requires Special Shareholder approval

Fees for the Chairman and Non Executive Directors

No annual increase is proposed to the fees to the Chairman and the other Non-Executive Directors An increase in fees has been made to two Non-Executive Directors who have taken on additional roles chairing Board Sub Committees Their fees are set out in the policy report

Membership of the Committee

The members of the Committee are listed in the table below All of these are independent Non-Executive Directors In total the Committee met five times and all committee members attended each meeting

Committee members
Neil McCausland
Alice Perkins
Virginia Holmes

The Chief Executive attends the meeting by invitation of the Chairman and assists the Committee in its deliberations, except in matters relating to her own remuneration No directors are involved in deciding their own remuneration The Committee also receives advice from the Group People Director, with other members of the Human Resources team and with external consultants

External Advisors

In the year under review, advice on matters related to executive remuneration was primarily obtained from New Bridge Street (NBS), an Aon Hewitt company The total fees paid to NBS in respect of its services to the Committee during the year were £27K Fees are generally agreed in advance for each piece of work carried out by NBS

NBS is a signatory to the Remuneration Consultants' Code of Conduct The Committee has reviewed the operating processes in place at NBS and is satisfied that the advice that it receives is objective and independent

Outside directorships

Subject to Board approval, the Executive Directors are permitted to take on Non-Executive positions with other companies Paula Vennells is a Director of Hymns Ancient and Modern and received a fee of £6,350 in respect of the year ended 31 March 2014

Financial statements

"Post Office has a really interesting proposition for graduates because it's undergoing such change. It's an exciting time to be joining the business and I guess we'll be able to make a real impact.

FINANCIAL STATEMENTS

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 101 'Reduced Disclosure Framework' 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 101 'Reduced Disclosure Framework', 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

POL00026716

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF POST OFFICE LIMITED

We have audited the consolidated financial statements of Post Office 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 24 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 70, 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 Post Office Limited for the 52-week period ended 30 March 2014

Ernst & Young LLP

Angus Grant (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 June 2014

POL00026716

CONSOLIDATED INCOME STATEMENT
FOR THE 52 WEEKS ENDED 30 MARCH 2014 AND THE 53 WEEKS ENDED 31 MARCH 2013

	Notes	2014 £m	2013 £m
Continuing operations			
Turnover		979	1,024
Network Subsidy Payment		200	210
Revenue		1,179	1,234
People costs excluding restructuring costs	3	(255)	(259)
Other operating costs		(850)	(913)
Share of post tax profit from joint ventures and associates	11	33	32
Operating profit before exceptional items	4	107	94
Operating exceptional items	5	45	(47)
– Government Grant		317	98
– Royal Mail Pension Plan amendment		102	-
– restructuring costs		(259)	(79)
– other		(115)	(66)
Operating profit		152	47
Profit on disposal of property, plant and equipment		3	2
Loss on sale of associate	11	-	(30)
Profit before financing and taxation		155	19
Finance costs	7	(3)	(4)
Finance income	7	1	1
Net financing income relating to pensions	18	5	2
Profit before taxation		158	18
Taxation credit	8	12	31
Profit for the financial year from continuing operations		170	49

POL00026716

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE 52 WEEKS ENDED 30 MARCH 2014 AND THE 53 WEEKS ENDED 31 MARCH 2013

	Notes	2014 £m	2013 £m
Profit for the financial year from continuing operations		170	49
Other comprehensive income			
Remeasurements on defined benefit surplus	18	(52)	14
Income tax effect	8	(2)	(21)
Total comprehensive income for the year		116	42

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

POL00026716

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 52 WEEKS ENDED 30 MARCH 2014 AND THE 53 WEEKS ENDED 31 MARCH 2013

	Notes	2014 £m	2013 £m
Cash flows from operating activities			
Operating profit before exceptional items		107	94
Adjustment for			
Depreciation and amortisation	4	-	-
Share of profit from joint ventures and associates	11	(33)	(32)
Pension operating costs		27	25
Working capital movements		(20)	63
Decrease/(increase) in trade and other receivables		45	(138)
(Decrease)/increase in trade and other payables		(67)	199
Decrease/(increase) in inventories		2	(2)
Increase in non-exceptional provisions		-	4
Pension operating costs paid		(24)	(26)
Cash receipts in respect of operating exceptional items		12	133
Government Grant		215	200
Restructuring costs		(170)	(52)
Other		(33)	(15)
Net cash inflow from operating activities		69	257
Income tax recovered		11	11
Cash flows from investing activities			
Investment in associate		-	(11)
Dividends received from joint ventures and associates	11	32	40
Finance income received		1	1
Proceeds from sale of property, plant and equipment		3	2
Proceeds from disposal of associate		-	2
Purchase of non-current assets		(102)	(58)
Net cash outflow from investing activities		(66)	(24)
Net cash inflow before financing activities		14	244
Cash flows from financing activities			
Finance costs paid		(2)	(3)
Payments to finance lease creditors		(4)	(3)
Repayment of borrowings from BIS		(291)	(86)
Net cash outflow from financing activities		(297)	(92)
Net (decrease)/increase in cash and cash equivalents		(283)	152
Effect of exchange rates on cash and cash equivalents		-	(1)
Cash and cash equivalents at the beginning of the year	13	971	820
Cash and cash equivalents at the end of the year	13	688	971

For the purposes of the consolidated statement of cashflows, cash and cash equivalents consists of £738 million included in note 13, net of a bank overdraft of £50 million which is disclosed in note 14

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CONSOLIDATED BALANCE SHEET
AT 30 MARCH 2014 AND 31 MARCH 2013

	Notes	2014 £m	2013 £m
Non-current assets			
Intangible assets	9	-	-
Property, plant and equipment	10	10	11
Investments in joint ventures and associates	11	61	60
Retirement benefit surplus	18	148	97
Trade and other receivables	12	15	10
Total non-current assets		234	178
Current assets			
Inventories		6	8
Trade and other receivables	12	302	352
Cash and cash equivalents	13	738	971
Financial assets – derivatives	17	-	1
Total current assets		1,046	1,332
Total assets		1,280	1,510
Current liabilities			
Trade and other payables	14	(767)	(874)
Financial liabilities - interest bearing loans and borrowings	15	-	(291)
- obligations under finance leases	21	(3)	(3)
Provisions	16	(70)	(19)
Total current liabilities		(840)	(1,187)
Non-current liabilities			
Financial liabilities – obligations under finance leases	21	-	(4)
Other payables	14	(28)	(24)
Provisions	16	(8)	(7)
Total non-current liabilities		(36)	(35)
Net assets		404	288
Equity			
Share capital	19	-	-
Share premium		465	465
Retained earnings		(63)	(179)
Other Reserves		2	2
Total equity		404	288

The financial statements on pages 72 to 100 were approved by the Board of Directors on 25 June 2014 and signed on its behalf by

GRO

P A Vennells
Chief Executive

GRO

C M Day
Chief Financial Officer

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 52 WEEKS ENDED 30 MARCH 2014 AND THE 53 WEEKS ENDED 31 MARCH 2013

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 1 April 2013		465	(179)	2	288
Profit for the year		-	170	-	170
Remeasurements on defined benefit surplus	18	-	(52)	-	(52)
Income tax effect	8	-	(2)	-	(2)
At 30 March 2014		465	(63)	2	404

Other reserves of £2 million relate to First Rate Exchange Services Holdings Limited, the joint venture entity

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 26 March 2012		465	(552)	47	(40)
Profit for the year		-	49	-	49
Remeasurements on defined benefit surplus	18	-	14	-	14
Transfer of pension deficit to Government	18	-	286	-	286
Sale of interest in associate		-	45	(45)	-
Income tax effect	8	-	(21)	-	(21)
At 31 March 2013		465	(179)	2	288

1 Accounting Policies

Financial year

The financial year ends on the last Sunday in March and for this reason these financial statements are made up to the 52 weeks ended 30 March 2014 (2013 - 53 weeks ended 31 March 2013)

Basis of preparation

The financial statements on pages 72 to 100 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historical cost accounting convention

The Company is incorporated and domiciled in the United Kingdom The Group consolidated financial statements are presented in sterling and all values are rounded to the nearest £m except where otherwise indicated

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertaking Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions are eliminated in full

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

- IFRS 9 Financial Instruments Classification and Measurement
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities
- 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

Fundamental accounting concept – going concern

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

The 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

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

The Directors are satisfied with the continued progress made towards modernisation during 2013-14 and that the plans in place and the substantial investment secured will enable the Group to continue to modernise and to secure its future However, they note that the scale of change required remains significant so not without risk

Critical accounting estimates and judgements in applying accounting policies

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 18

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

The prior year pension deficit transfer to HM Government on 1 April 2012 was taken directly through equity, as in management's judgement this transaction was undertaken with HM Government in its capacity as the owner of Royal Mail Holdings plc, the Company's former parent company, rather than in its capacity as Government

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 16 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) the carrying value of intangible assets and all property plant and equipment other than freehold and long leasehold property has been impaired to the recoverable amount

Revenue

Turnover from Government, financial, mails and telephony services comprises the value of services provided Turnover from all other products comprises the commission received excluding VAT, from the Group's principal activities in providing access to a wide range of financial and retail services through its network of Post Office branches across the UK and other channels Turnover relating to line rental for telephony services is recognised evenly over the period to which the charges relate and revenue from calls is recognised at the time the call is made Turnover from all other transactions is recognised when the transaction is completed All turnover is derived wholly from within the United Kingdom

The Network Subsidy Payment is Government Grant revenue recognised to match the related costs of making available the network of public Post Offices that the Secretary of State for Business, Innovation and Skills considers appropriate

Net revenue

Net revenue is calculated using revenue less the directly attributable costs of delivering the service or product

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

Intangible assets

Intangible assets acquired separately or generated internally are initially recognised at cost and are reviewed for impairment 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

Software	1 to 6 years

Where intangible assets are impaired to their recoverable amount on acquisition the above range of asset lives is not applied

Property, plant and equipment

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use

Depreciation of tangible fixed assets is provided on a straight-line basis by reference to cost and to the remaining useful economic lives of assets and their estimated residual values The lives assigned to major categories of tangible fixed assets are

	Range of asset lives
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

Where property, plant and equipment is impaired to its recoverable amount on acquisition the above ranges of asset lives are not applied This is currently the case for plant and machinery, motor vehicles and trailers and fixtures and equipment

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 reduction of the lease liability so as 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

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 expenses over the lease term on a straight-line basis

Investments in joint ventures and associates

Investments in joint ventures and associates within the Group's financial statements are accounted for under the equity method of accounting Under this 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 The financial statements of the joint venture are prepared for the same reporting period as the Group

Inventories

Inventories include printing and stationery, retail and lottery products, are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock

Taxation

The charge for current income tax is based on the results for the year as adjusted for items which are not taxed or are disallowed It is calculated using tax rates in legislation that has been enacted or substantively enacted by 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
- taxable temporary differences associated with investments in subsidiaries, 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

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 that have been substantively enacted at the balance sheet date Deferred tax balances are not discounted

Current and deferred tax is recognised in the income statements, except to the extent that it relates to items recognised in other comprehensive income or directly to equity In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively Further details on deferred tax can be found in note 8 to the financial statements

Pensions and other post-retirement benefits

People working for the Company were employed by Royal Mail Group Limited and seconded to the Company until 31 March 2012 On 1 April 2012 they were transferred to be directly employed by the Company Membership of occupational pension schemes is open to most permanent UK employees of the Company All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme

The pension assets of the defined benefit schemes 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 funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed

For defined benefit schemes, the amounts charged to operating profit, as part of staff costs, 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 pensions 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 schemes, the Group's contributions are charged to operating profit, as part of staff costs, in the period to which the contributions relate

Foreign currencies

The functional and presentational currency of the Group is sterling (£)

Transactions in foreign currencies are recorded at the spot exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional rate of exchange ruling at the balance sheet date Currently hedge accounting is not applied to any monetary assets and liabilities All differences are therefore taken to the income statement

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

Borrowing costs

Borrowing costs in relation to the working capital loan facility are recognised as an expense when incurred unless they are directly attributable to the construction or development of a qualifying asset, in which case they are capitalised using the weighted average cost of borrowing for the period of construction/development

Government Grants

Government Grants are shown separately in the income statement to match the expenditure to which they relate

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

Financial instruments

The classification of financial instruments included on the balance sheet is set out below

Financial assets

Financial assets are classified into the following categories at fair value through the income statement, loans and receivables, and available for sale as appropriate based on the purpose for which they were required Financial liabilities are classified as either fair value through the income statement or as financial liabilities measured at amortised cost

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 lease and hire purchase contracts are classified as financial liabilities measured at amortised cost

Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates Such derivative financial instruments are stated at fair value Hedge accounting has not been claimed for foreign exchange derivative instruments

Fair value measurement of financial instruments

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date

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 currency and discounted using quoted interest rates 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

Derecognition of financial instruments

A financial asset or liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires

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

2 Segmental reporting

In accordance with IFRS 8 'Operating segments', an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision maker ('CODM') and for which discrete information is available The Group's CODM is the Executive Committee as defined in the Corporate Governance section on page 56

The CODM has determined the operating segments based in the information reviewed by them for the purposes of allocating resources and assessing performance Operating segments have not been aggregated in order to present reportable segments All segmental activities are located wholly within the United Kingdom

The CODM assesses the performance of the operating segments based on net revenue This is calculated using segmental revenue less the directly attributable costs of delivering the service or product The net revenue measure excludes the effect of indirect costs and the effects of non-recurring expenditure such as redundancy costs and asset impairment Interest income and expenditure is not allocated to segments as this type of activity is driven by the central treasury function

Assets and liabilities as recognised on the Group balance sheet are not considered to be segmental assets or liabilities but rather are managed by the Group's central functions The information reviewed by the CODM does not include assets or liabilities split by segment A description of the activities of the business segments is included from page 18 of the Business review

Revenue from a major customer represents approximately 30% of the Group's total revenue in 2014 This revenue was reported within the Mails & Retail segment

	2014		
	Revenue £m	Directly attributable costs £m	Net revenue £m
Mails & Retail	390	(4)	386
Financial Services	279	(1)	278
Government Services	146	(30)	116
Telecoms	124	(78)	46
Other	40	-	40
Sub total	979	(113)	866
Network Subsidy Payment	200	-	200
Total	1,179	(113)	1,066

	2013		
	Revenue £m	Directly attributable costs £m	Net revenue £m
Mails & Retail	409	(5)	404
Financial Services	281	(1)	280
Government Services	164	(30)	134
Telecoms	129	(85)	44
Other	41	-	41
Sub-total	1,024	(121)	903
Network Subsidy Payment	210	-	210
Total	1,234	(121)	1,113

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

	2014 £m	2013 £m
Underlying segment net revenue	1,066	1,113
Indirect costs	(992)	(1,051)
Share of post tax profit from joint ventures and associates	33	32
Operating profit before exceptional items	107	94
Operating exceptional items	45	(47)
Operating profit	152	47
Profit on disposal of property, plant and equipment	3	2
Loss on sale of associate	-	(30)
Profit before financing and taxation	155	19
Finance costs	(3)	(4)
Finance income	1	1
Net pensions interest	5	2
Profit before taxation	158	18

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3 Staff costs and numbers

Employment and related costs were as follows

People costs excluding restructuring costs	2014 £m	2013 £m
Wages and salaries	208	215
Social security costs	20	19
Pension costs (note 18)	27	25
Total	255	259

	Period end employees		Average employees	
	2014	2013	2014	2013
Total employees	7,787	7,886	7,950	7,842

Total employee numbers can be categorised as follows

	2014	2013
Administration	1,691	1,345
Crown Offices	3,946	4,511
Supply Chain	1,553	1,585
Network and Crown transformation programmes	597	445
Total	7,787	7,886

4 Operating profit from continuing operations before exceptional items

Operating profit from continuing operations before exceptional items is stated after charging

	2014 £m	2013 £m
Subpostmasters' fees	448	478
Bureau de Change foreign currency exchange losses/(gains)	2	(1)
Depreciation	-	-
Operating lease charges – Land and buildings	19	20
– Vehicles and equipment	42	62
Fees payable to the group's auditors for audit and other services	£000	£000
– parent company and group audit	314	331
– audit related assurance services	40	-
– other non-audit services	103	103

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5 Operating exceptional items

	2014 £m	2013 £m
Government Grant	317	98
Royal Mail Pension Plan amendment	102	-
Restructuring		
Business transformation	(5)	(4)
Network transformation including subpostmasters compensation	(191)	(52)
Crown transformation	(9)	-
Restructuring – severance	(23)	(11)
– other	(31)	(12)
Other		
Impairment of intangible assets (note 9)	(42)	(25)
Impairment of property, plant and equipment (note 10)	(73)	(41)
Total operating exceptional items	45	(47)

For further information in relation to the Royal Mail Pension Plan amendment refer to note 18 Restructuring costs are those incurred in order to implement the major transformation programmes primarily the Crown and Network programmes which are discussed further in the Financial Review on page 42 Due to ongoing operational losses (excluding Network Subsidy Payment) the carrying value of intangible assets and all property plant and equipment other than freehold and long leasehold property has been impaired to the recoverable amount

6 Directors' emoluments

The Directors received the following emoluments

	2014 £000	2013 £000
Emoluments, excluding pension contributions and Long-Term Incentive Plans (LTIP)*	1,000	1,129
Contributions to pension schemes	-	1
Amounts receivable under LTIP	187	218

*Figures include any cash supplements received in lieu of pension

Directors accruing pension entitlements during the period under

	2014 Number	2013 Number
Defined benefit schemes	-	-
Defined contribution schemes	-	-

The highest paid Director received the following emoluments

	2014 £000	2013 £000
Emoluments and LTIP, excluding pension contributions but including cash supplements received in lieu of pensions	544	698
Company contributions to pension schemes	-	1

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7 Net finance costs

	2014 £m	2013 £m
Interest receivable	1	1
Interest charge, unwinding discount on provisions	(1)	(1)
Interest payable on loans	(2)	(3)
Total	(2)	(3)

8 Taxation

(a) Taxation gains recognised in the year

	2014 £m	2013 £m
Corporation tax credit for year	(9)	(10)
Tax under provided in previous years	(1)	-
Current tax	(10)	(10)
Deferred tax credit relating to the origin and reversal of temporary differences	(5)	(21)
Effect of change in tax rate	3	-
Income tax credit reported in the consolidated income statement	(12)	(31)

Deferred income tax of £2 million (2013 £21 million) has been charged to equity relating to actuarial movements in the retirement benefit surplus This offsets the deferred tax credit of £2 million (2013 £21 million) that has been reported in the consolidated income statement

(b) Factors affecting current tax credit on profit on ordinary activities

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23% (2013 24%) The differences are explained below

	2014 £m	2013 £m
Profit on ordinary activities before tax	158	18
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23% (2013 24%)	36	4
Net decrease in tax charge resulting from recognition of deferred tax assets	(41)	(35)
Expenditure disallowable for tax	1	1
Adjustment in respect of prior period	(1)	-
Losses from disposals ineligible for relief	-	7
Effect of group relief surrenders to other companies	1	-
Associates/joint venture profit after tax included in Group pre-tax profit	(8)	(8)
Total current tax (see above)	(12)	(31)

(c) Deferred tax

Deferred tax assets relate to the following

	Balance sheet		Income statement	
	2014 £m	2013 £m	2014 £m	2013 £m
Pensions temporary differences	(21)	(21)	-	-
Losses available for offset against future taxable income	21	21	2	21
Total deferred tax asset	-	-		
Income statement			2	21

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(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £144 million (2013 £190 million), comprising £94 million (2013 £133 million) relating mainly to fixed asset timing differences, £5 million (2013 £0 million) relating to timing differences on provisions and £45 million (2013 £57 million) relating to tax losses that are available to offset against future taxable profits The Group has rolled over capital gains of £3 million (2013 £3 million), 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 a capital loss would arise

Finance Act 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015 Following these changes the deferred tax balances were reduced from 23% to 20% The impact of this change on deferred tax balances is included in these financial statements

9 Intangible assets

	2014 £m	2013 £m
Cost		
At 1 April 2013, 26 March 2012	208	183
Additions	42	25
Disposals	(7)	-
At 30 March 2014, 31 March 2013	243	208
Amortisation and impairment		
At 1 April 2013, 26 March 2012	208	183
Disposals	(7)	-
Impairment (see note 5)	42	25
At 30 March 2014, 31 March 2013	243	208
Net book value		
At 30 March 2014 31 March 2013	-	-

The above intangible assets relate to software

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10 Property, plant and equipment

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 1 April 2013	87	18	114	42	1	719	981
Reclassification	(5)	-	3	-	-	2	-
Additions	20	-	4	7	-	41	72
Disposals	(2)	(1)	(8)	(5)	-	(23)	(39)
At 30 March 2014	100	17	113	44	1	739	1,014
Depreciation							
At 1 April 2013	77	17	114	42	1	719	970
Impairment (see note 5)	16	-	7	7	-	43	73
Disposals	(2)	(1)	(8)	(5)	-	(23)	(39)
At 30 March 2014	91	16	113	44	1	739	1,004
Net book value							
At 30 March 2014	9	1	-	-	-	-	10
At 31 March 2013	10	1	-	-	-	-	11

Depreciation rates are disclosed within accounting policies (note 1) No depreciation is provided on freehold land, which represents £3 million (2013 £3 million) of the total cost of properties

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11 Investments in joint ventures and associates

The following entities have been included in the consolidated financial statements using the equity method

Joint ventures

During 2013-14 and 2012-13, the Group's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom

Associates

During 2012-13, the Group's only associate investment was a 49 99% interest (4,999 £0 01 ordinary A shares) in Midasgrange Limited, whose principal activity is the provision of personal financial products This investment was disposed of during the year ended 31 March 2013

	Joint venture £m	Associate £m	Total £m
Share of net assets			
Total net investment at 1 April 2013	60	-	60
Share of post tax pre dividend profit	33	-	33
Dividend	(32)	-	(32)
Total net investment at 30 March 2014	61	-	61

	Joint venture £m	Associate £m	Total £m
Share of net assets			
Total net investment at 26 March 2012	67	22	89
Share of post tax pre dividend profit/(loss)	33	(1)	32
Investment in associate	-	11	11
Disposal	-	(32)	(32)
Dividend	(40)	-	(40)
Total net investment at 31 March 2013	60	-	60

	2014 Joint venture £m	2013 Joint venture £m
Share of assets and liabilities		
Current assets	175	184
Non-current assets	5	3
Share of gross assets	180	187
Current liabilities	(119)	(127)
Share of net assets	61	60
Share of revenue and profit		
Revenue	77	75
Profit after tax	33	33

12 Trade and other receivables

	2014 £m	2013 £m
Current		
Trade receivables	54	32
Prepayments and accrued income	82	71
Client receivables	158	240
Other receivables	8	9
Total	302	352
Non-current		
Prepayments and accrued income	15	10

The Group receives and disburses cash on behalf of Government agencies and other clients to customers through its branch network Amounts owed from/to Government agencies and other clients are disclosed separately as client receivables (as above) and client payables (see note 14)

As at 30 March 2014 trade and other receivables of £17 million (2013 £16 million) were impaired and fully provided for During the year £2 million (2013 £2 million) of the provision has been utilised and an additional £3 million (2013 £4 million) has been provided for Trade and other receivables of £18 million (2013 £8 million) were past due but not impaired The aging analysis of the past due amounts are as follows

	2014 £m	2013 £m
Provided for or not yet overdue	36	24
Past due not more than one month	10	7
Past due more than one month and not more than two months	2	1
Past due more than two months	6	-
Total	54	32

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

13 Cash and cash equivalents

	2014 £m	2013 £m
Cash in the Post Office Limited network	708	879
Short-term bank deposits	30	6
Money market fund investments	-	86
Total cash and cash equivalents	738	971

Cash and cash equivalents comprise amounts held physically in cash, cash deposits available on demand or for three months or less For the purposes of the consolidated statement of cash flows, cash and cash equivalents consists of £738 million defined above, net of a bank overdraft of £50 million which is disclosed in note 14

Where interest is earned it is at a floating or short-term fixed rate The fair value of cash and cash equivalents is not materially different from the carrying value

14 Trade and other payables

	2014 £m	2013 £m
Current		
Bank overdraft	50	-
Trade payables	55	49
Accruals and deferred income	133	110
Advance customer payments	37	50
Social security	14	10
Client payables	437	528
Capital payables	31	18
Business transformation	10	7
Government Grant deferred income	-	102
Total	767	874
Non-current		
Other payables	28	24

Of the £215 million (2013 £200 million) Government Grant received, £215 million (2013 £98 million) has been allocated against income statement expenditure in accordance with the terms and conditions of the Grant The remaining £nil (2013 £102 million) has been deferred into the balance sheet as disclosed above The fair value of trade and other payables is not materially different from the carrying value

15 Financial liabilities – interest bearing loans and borrowings

	2014 £m	2013 £m
Department of Business, Innovation & Skills loans drawn down	-	291

The loans 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) The fair value of borrowings is not materially different from the carrying value On maturity it is expected that further loans will be drawn down under this facility, which expires in 2018 The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date is £1,150 million (2013 £859 million) The average interest rate on the drawn down loans is 1 0% (2013 1 0%)

The facility is currently restricted to funding the cash and near cash items held within the Post Office Limited network

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect

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16 Provisions

	Crown Conversions project £m	Network transformation £m	Other £m	Total £m
At 1 April 2013	7	10	9	26
Charged in operating exceptional items	(2)	93	27	118
Charged in operating costs	-	-	6	6
Utilisation	(3)	(52)	(17)	(72)
At 30 March 2014	2	51	25	78
Disclosed as				
Current	2	48	20	70
Non-current	-	3	5	8
	2	51	25	78

The Crown Conversions project relates to past franchising of Crown offices and onerous property lease provisions are expected to be utilised within four years

The Network Transformation provision relates to the major transformation programme which is discussed further in the Financial Review on page 42

Other provisions of £25 million (2013 £9 million) include property contracts, onerous lease obligations and personal injury claims

17 Financial assets and liabilities

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

	2014			2013		
	Current £m	Non current £m	Total £m	Current £m	Non current £m	Total £m
Cash and cash equivalents	738	-	738	971	-	971
Derivative assets	-	-	-	1	-	1
Bank overdraft	(50)	-	(50)	-	-	-
BIS loan	-	-	-	(291)	-	(291)
Finance leases obligations	(3)	-	(3)	(3)	(4)	(7)
Total financial assets/(liabilities)	685	-	685	678	(4)	674

The Group's principal financial assets and liabilities comprise cash, money market liquidity investments, loans and finance leases The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from operations are disclosed further in notes 12 and 14

The Group enters into derivative transactions, which create derivative assets and liabilities, principally forward currency contracts The purpose is to manage the currency risks arising from the Group's operations

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

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates to the Group's debt obligations and interest bearing financial assets The BIS loans to Post Office Limited of £nil (2013 £291 million) are at short-dated fixed interest rates – average maturity 1 day (2013 average 1 day) On maturity it is expected that further loans will be drawn down under this facility which expires in 2018 The total interest bearing financial liabilities of the Group of £20 million (2013 assets of £92 million) are at short-dated fixed or variable interest rates

The table below sets out the carrying amount by maturity of the Group's financial instruments that are exposed to interest rate risk

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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						
Short-term bank deposits/(overdrafts)	0 5	(20)	-	-	-	(20)
BIS loan	1 0	-	-	-	-	-
Obligations under finance leases	11 5	(3)	-	-	-	(3)
Total		(23)	-	-	-	(23)
Floating rate						
Money market fund investments	0 4	-	-	-	-	-
Non-interest bearing						
Cash in Post Office network	-	708	-	-	-	708
Net total financial assets		685	-	-	-	685

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						
Short-term bank deposits	0 5	6	-	-	-	6
BIS loan	1 0	(291)	-	-	-	(291)
Obligations under finance leases	10 0	(3)	(4)	-	-	(7)
Total		(288)	(4)	-	-	(292)
Floating rate						
Money market fund investments	0 5	86	-	-	-	86
Non-interest bearing						
Cash in Post Office network	-	879	-	-	-	879
Derivative assets	-	1	-	-	-	1
Total		880	-	-	-	880
Net total financial assets/(liabilities)		678	(4)	-	-	674

Foreign currency risk
The Group is exposed to foreign currency risk resulting from balances held to operate Bureau de Change services The Group's foreign currency risk management objective is to minimise the impact on the Income Statement of fluctuations in the exchange rates The Group aims to hedge 90% of significant forecast future currency balances (principally but not restricted to US dollar and Euro) to match the anticipated holding period of the currency The Group hedges its foreign currency risk principally through external forward foreign currency contracts with a number of providers including First Rate Exchange Services Holdings Limited

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group Financial credit risk arises from cash balances (including bank deposits and cash and cash equivalents) held by the Group and business credit risk arises from exposures to customers Business risk includes commissions receivable and client related settlements for amounts paid out of the Post Office network on their behalf

The Group aims to minimise its financial credit risk through the application of risk management policies approved by the Board Counterparties are limited to major banks and financial institutions The policy restricts the exposure to any one counterparty by setting appropriate credit limits

Business credit risk is monitored centrally The individual relationships and the contracts attached to them are managed by dedicated teams and procedures are in place to monitor any concentrations of credit risk The level of bad debt incurred for the Group is less than 2% (2013 less than 1%) of turnover

Capital management
The Group's objectives when managing capital (defined as the net of borrowings and amounts due under finance leases and cash and cash equivalents excluding cash in the Post Office Network) are to safeguard its ability to continue as a going concern and to maintain an optimal capital structure in order to support the business and maximise stakeholder value In managing the Group's capital levels the Board and the Executive Committee regularly monitor the level of debt in the Group, the working capital requirements and the forecast cash flows The Board and Executive Committee plan accordingly following this review process in order to meet the Group's capital management objectives

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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 short-term bank deposits with approved counterparties Borrowing facilities are regularly reviewed to ensure continuity of funding The unused facility for the Group of £1,150 million (2013 £859 million) expires in 2018

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

The tables below set out the gross (undiscounted) contractual cash flows of the Group's financial liabilities For loans and finance leases, these cash flows represent the undiscounted total amounts payable including interest

	2014		
	BIS loan £m	Finance lease £m	Total £m
Amounts falling due in			
One year or less	-	(3)	(3)
More than 1 year but not more than 2 years	-	-	-
More than 2 years but not more than 5 years	-	-	-
More than 5 years	-	-	-
Total	-	(3)	(3)

	2013		
	BIS loan £m	Finance lease £m	Total £m
Amounts falling due in			
One year or less	291	4	295
More than 1 year but not more than 2 years	-	4	4
More than 2 years but not more than 5 years	-	-	-
More than 5 years	-	-	-
Total	291	8	299

18 Pensions

The disclosures in this note relating to the year ended 30 March 2014 and the comparatives for the year ended 31 March 2013 reflect the Post Office Limited sectionalised RMPP scheme which is independently operated by the Group and the approximate 7% share of the RMSEPP scheme 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

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 15 October 2013 and effective from 1 April 2014 The key change was to the definition of pensionable pay which broadly will increase in line with RPI (capped at 5%) in future regardless of actual pay growth The changes have resulted in a one-off exceptional gain of £102 million

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

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

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

Defined Contribution

The charge in the income statement for the defined contribution schemes and the Group contributions to these schemes was £2 million (2013 £1 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 The latest full actuarial funding valuation of RMPP was carried out as at 1 April 2012 using the projected unit method For RMPP, this valuation was concluded at £135 million surplus The latest full actuarial funding valuation of RMSEPP was carried out as at 31 March 2012 using the projected unit method For 100% of the RMSEPP plan, the valuation was concluded at £83 million deficit RMPP includes sections A, B and C each with different terms and conditions

- 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 £21 million (2013 £23 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 £1 million (2013 £2 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 £1 million (2013 £2 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

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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

In June 2010, Government announced that it was intending to change the inflation measure used to determine statutory minimum indexation in deferment and in payment from RPI to CPI from April 2011 Where relevant, the inflation assumption has changed from RPI to CPI

The ultimate cost of the RMPP plan to the company 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

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 company and consequently the transfer resulted in a significant removal of pension risk from the company

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

	2014 £m	2013 £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 cash flows 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 cash flows 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

	2014	2013
Average expected life expectancy from age 60		
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

b) Plans' assets

The assets in the plans for the Group were

	Market value 2014 £m	Market value 2013 £m
Sectionalised RMPP		
UK equities	1	2
Overseas equities	18	27
Government bonds	-	2
Corporate bonds	118	134
Property	5	-
Cash and cash equivalents	38	69
Other assets*	80	9
Fair value of RMPP assets	260	243
Present value of RMPP liabilities	(90)	(144)
Surplus in plan before asset ceiling adjustment	170	99
Less effect of asset ceiling	(23)	(3)
Surplus in plan after asset ceiling adjustment	147	96

*Other assets include a diverse range of managed funds which include investment in real estate, worldwide equities and emerging debt

	Market value 2014 £m	Market value 2013 £m
Share of RMSEPP		
UK equities	1	4
Overseas equities	9	6
Government bonds	-	-
Corporate bonds	13	12
Property	2	1
Other assets	1	2
Fair value of share in plan assets for RMSEPP	26	25
Present value of share in plan liabilities for RMSEPP	(24)	(24)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	2	1
Less effect of asset ceiling	(1)	-
Surplus in plan for share of RMSEPP after asset ceiling adjustment	1	1

A retirement benefit surplus of £148 million is disclosed on the balance sheet, representing the surplus in plans of £170 million and £2 million for RMPP and RMSEPP respectively, and net of tax of £24 million at a rate of 35% on the element of the surplus which is recoverable through a refund from the plans

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

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

	2014 %	2013 %
Securities with quoted price in an active market		
UK equities	-	1
Overseas equities	7	11
Government bonds	-	1
Corporate bonds	45	55
Property	2	-
Cash and cash equivalents	15	28
Other assets	31	4
Total quoted securities	100	100

c) Movement in plans' assets and liabilities

Changes in the fair value of the plans' assets are analysed as follows

	Sectionalised RMPP 2014 £m	Sectionalised RMPP 2013 £m
Assets		
Assets in sectionalised RMPP at beginning of period	243	2,108
Transfer of pension assets to Government	-	(1,953)
Contributions paid	22	25
Employee contributions paid	8	8
Finance income	12	11
Actuarial (losses)/gains	(24)	46
Benefits paid to members	(1)	(2)
Assets in sectionalised RMPP at end of period	260	243

	Share of RMSEPP 2014 £m	Share of RMSEPP 2013 £m
Assets		
Share of assets in RMSEPP at beginning of period	25	21
Contributions paid	1	2
Movement in contributions accrued	-	-
Employee contributions paid	-	-
Finance income	1	1
Actuarial gains	-	1
Benefits paid to members	(1)	-
Share of assets in RMSEPP at end of period	26	25

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

	Sectionalised RMPP 2014 £m	Sectionalised RMPP 2013 £m
Liabilities		
Liabilities in sectionalised RMPP at beginning of period	(144)	(2,313)
Royal Mail Pension Plan amendment	102	-
Transfer of pension liabilities to Government	-	2,239
Current service cost	(25)	(24)
Curtailment costs*	(1)	(2)
Finance cost	(7)	(9)
Employee contributions	(8)	(8)
Actuarial loss	(8)	(29)
Benefits paid	1	2
Liabilities in sectionalised RMPP at end of period	(90)	(144)

	Share of RMSEPP 2014 £m	Share of RMSEPP 2013 £m
Liabilities		
Share of liabilities in RMSEPP plans at beginning of period	(24)	(22)
Current service cost	-	-
Curtailment costs*	-	-
Finance cost	(1)	(1)
Employee contributions	-	-
Actuarial gain/(loss)	-	(1)
Benefits paid	1	-
Share of liabilities in RMSEPP at end of period	(24)	(24)

*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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d) Recognised charges

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

	Sectionalised RMPP 2014 £m	Sectionalised RMPP 2013 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptional items		
Current service cost	25	24
Total charge to operating profit before exceptional items		
Analysis of amounts (credited)/charged to operating exceptional items		
Royal Mail Pension Plan amendment	(102)	-
Loss due to curtailments	1	2
Total (credit)/charge to operating profit	(76)	26
Analysis of amounts charged/(credited) to net pensions interest		
Interest on plan liabilities	7	9
Interest income on plan assets	(12)	(11)
Net pensions credit to financing	(5)	(2)
Net (credit)/charge to the income statement before deduction for tax	(81)	24
Analysis of amounts recognised in the statement of changes in equity		
Transfer of pension liabilities to Government	-	2,239
Transfer of pension assets to Government	-	(1,953)
Gain on transfer to Government	-	286
Total gains recognised in the statement of changes in equity	-	286
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on plan assets	(12)	57
Less expected interest income on plan assets	(12)	(11)
Less taxation on surplus recoverable through plan refunds	(20)	(3)
Actuarial (losses)/gains on assets (all experience adjustments)	(44)	43
Experience adjustments on liabilities	-	(20)
Effects of changes in actuarial assumptions on liabilities	(8)	(9)
Actuarial losses on liabilities	(8)	(29)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	(52)	14

19 Called up share capital

	2014 £	2013 £
Authorised		
Ordinary shares of £1 each	51,000	51,000
Total	51,000	51,000
Allotted and issued		
Ordinary shares of £1 each	50,003	50,003
Total	50,003	50,003

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20 Commitments

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

The Group is committed to the following minimum lease payments under non-cancellable operating leases

	Land and buildings		IT equipment	
	2014 £m	2013 £m	2014 £m	2013 £m
Within one year	20	16	-	15
Between one and five years	45	42	-	-
Beyond five years	31	38	-	-
Total	96	96	-	15

21 Finance lease liabilities

	2014		2013	
	Minimum payments £m	Present value of minimum lease payments £m	Minimum payments £m	Present value of minimum lease payments £m
Within one year	3	3	4	3
Between one and five years	-	-	4	4
Total minimum lease payments	3	3	8	7
Less amounts representing finance charges	-	-	(1)	-
Present value of minimum lease payments	3	3	7	7
Of which				
Current	3	3	3	3
Non-current	-	-	4	4

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

22 Related party disclosures

Joint venture

The following company is a joint venture of the Group

Company	Country of incorporation	% Holding	Principal activities
First Rate Exchange Services Holdings Limited	United Kingdom	50	Bureau de Change

Associates

The following company was an associate of Post Office Limited during the prior year The Group's interest was disposed of in September 2012

Company	Country of incorporation	% Holding	Principal activities
Midasgrange Limited	United Kingdom	50	Financial services

All shareholdings are equity shares

Related party transactions

During the year the Group entered into transactions with the following related parties The transactions were in the ordinary course of business The transactions entered into and the balances outstanding at the financial year end were as follows

	Sales/recharges to related party		Purchases/recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Royal Mail plc	356	371	40	37	29	-	50	4
Romec Limited	-	-	10	8	-	-	8	2
Midasgrange Limited	-	35	-	1	-	-	-	-
First Rate Exchange Services Holdings Limited	27	27	125	125	5	7	6	11

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 Royal Mail plc is an associate of Postal Services Holding Company Limited Midasgrange Limited was an associate of the Group until September 2012 and First Rate Exchange Services Holdings Limited is a joint venture of the Group

The Group trades with numerous Government bodies on an arm's length basis Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted

Separately

- the Group has certain loan facilities with Government (note 15),
- the Group has received a Government Grant of £215 million, £215 million of which was recognised through the income statement, and
- the Group has received the Network Subsidy Payment from Government (note 1)

Key management comprises Executive and Non-Executive Directors of the Post Office Limited Board and the members of the Executive Committee at 30 March 2014 The aggregate remuneration of the key management personnel of the Post Office Group is set out below

	2014 £000	2013 £000
Short-term employee benefits	3,582	3,568
Post-employment benefits	59	119
Other long-term benefits	439	651
Total	4,080	4,338

23 Post balance sheet events

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

24 Immediate and ultimate parent company

At 30 March 2014, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company The largest group to consolidate the results of the company is Postal Services Holding Company Limited, a company registered in the United Kingdom

POL00026716

Parent Company Financial statements 2013-14

POL00026716
POL00026716

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF POST OFFICE LIMITED

We have audited the parent company financial statements of Post Office Ltd for the 52-week period ended 30 March 2014 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet and the related notes 1 to 22 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 101 'Reduced Disclosure Framework'

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 70, 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,
- 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 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 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

Angus Grant (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 June 2014

POL00026716

Company statement of comprehensive income at 30 March 2014

	Notes	2014 £m	2013 £m
Profit for the financial year		169	74
Other comprehensive income			
Remeasurements on defined benefit surplus	13	(52)	14
Income tax effect		(2)	(21)
Total comprehensive income for the year		115	67

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

POL00026716

Company balance sheet at 30 March 2014

	Notes	2014 £m	2013 £m	2012 £m
Intangible assets	2	-	-	-
Tangible assets	3	10	11	11
Investment in subsidiaries	4	-	-	-
Investments in joint ventures and associates	5	1	1	5
Retirement benefit surplus	13	148	97	-
Total non-current assets		159	109	16
Current assets				
Stocks		6	8	6
Debtors - receivable within one year	6	302	352	226
Debtors – receivable in more than one year	6	15	10	-
Financial assets – investments	7	30	92	62
Financial assets – derivatives		-	1	-
Cash at bank and in hand	8	708	879	758
		1,061	1,342	1,052
Current liabilities				
Creditors - amounts falling due within one year	9	(770)	(877)	(587)
Financial liabilities - interest bearing loans and borrowings	10	-	(291)	(377)
Net current assets		291	174	88
Total assets less current liabilities		450	283	104
Creditors - amounts falling due after more than one year	11	(28)	(28)	(8)
Provisions for liabilities	12	(78)	(26)	(14)
Retirement benefit obligation	13	-	-	(206)
Net assets/(liabilities)		344	229	(124)
Capital and reserves				
Called up share capital	14	-	-	-
Share premium		465	465	465
Profit and loss account		(121)	(236)	(589)
Shareholder's surplus/(deficit)		344	229	(124)

The financial statements on pages 103 to 119 were approved by the Board of Directors on 25 June 2014 and signed on its behalf by

GRO

P A Vennells
Chief Executive

GRO

C M Day
Chief Financial Officer

POL00026716

Company statement of changes in equity at 30 March 2014

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 1 April 2013		465	(236)	229
Profit for the year		-	169	169
Remeasurements on defined benefit surplus	13	-	(52)	(52)
Income tax effect		-	(2)	(2)
At 30 March 2014		465	(121)	344

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 26 March 2012		465	(589)	(124)
Profit for the year		-	74	74
Remeasurements on defined benefit surplus	13	-	14	14
Transfer of pension deficit to Government			286	286
Income tax effect		-	(21)	(21)
At 31 March 2013		465	(236)	229

1 Accounting Policies

The accounting policies which follow set out those which apply in preparing the financial statements for the year ended 30 March 2014

Financial year

The financial year ends on the last Sunday in March and accordingly, these financial statements are made up to the 52 weeks ended 30 March 2014 (2013 53 weeks ended 31 March 2013)

Authorisation of financial statements and statement of compliance with FRS 101

The parent company financial statements of Post Office Limited (the 'Company') for the year ended 30 March 2014 were authorised for issue by the Board of Directors on 25 June 2014 and the balance sheet was signed on the Board's behalf by P A Vennells and C M Day Post Office Limited is a limited company incorporated and domiciled in England and Wales

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with the applicable accounting standards These financial statements are prepared under the historical cost convention

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own profit and loss account The result dealt with in the accounts of the company amounted to £169 million profit (2013 £74 million profit)

The results of Post Office Limited are included in the consolidated financial statements of Postal Services Holding Company Group which will be available from Companies House

Basis of preparation

The Company has transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice for all periods presented The Company has adopted FRS 101 early which is permitted under the Standard Transition tables showing all material adjustments are disclosed in note 22 The Company has taken advantage of the following disclosure exemptions under FRS 101

(a) the requirements of IFRS 7 Financial Instruments Disclosures

(b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement

(c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of
  i paragraph 73(e) of IAS 16 Property, Plant and Equipment
  ii paragraph 118(e) of IAS 38 Intangible Assets

(d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 'Presentation of Financial Statements'

(e) the requirements of IAS 7 Statement of Cash Flows

(f) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

(g) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'

(h) the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

In making an assessment of the Company's ability to continue as a going concern, the Directors have considered the going concern assessments made in relation to the Group (see note 1 on page 77) and are of the view that it is appropriate that these financial statements have been prepared on a going concern basis

Critical accounting estimates and judgements in applying accounting policies

The Company 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 Company 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 Company 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 13 of the Company financial statements

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

The prior year pension deficit transfer to HM Government on 1 April 2012 was taken directly through equity, as in management's judgement this transaction was undertaken with HM Government in its capacity as the owner of Royal Mail Holdings plc, the Company's former parent company, rather than in its capacity as Government

Provisions

The Company 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 12 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 Company 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) the carrying value of intangible assets and all property plant and equipment other than freehold and long leasehold property has been impaired to the recoverable amount

Intangible fixed assets

Intangible assets acquired separately or generated internally are initially recognised at cost and are reviewed for impairment An impairment loss is recognised in the profit and loss account 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 profit and loss account on a straight-line basis as follows

Software	1 to 6 years

Where intangible fixed assets are impaired to their recoverable amount on acquisition the above range of asset lives is not applied

Tangible fixed assets

Tangible fixed assets are recognised at cost, including attributable costs in bringing the asset into working condition for its intended use

Depreciation of tangible fixed assets 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 lives assigned to major categories of tangible fixed assets are

	Range of asset lives
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

Where tangible fixed assets are impaired to their recoverable amounts on acquisition the above ranges of asset lives are not applied This is currently the case for plant and machinery, motor vehicles and trailers and fixtures and equipment

Impairment reviews

Unless otherwise disclosed in these accounting policies, fixed assets are reviewed for impairment 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 profit and loss account 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 Company 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 reduction of the lease liability so as 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

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 profit and loss account over the lease term The aggregate benefit of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis

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 subsidiaries

Investments in subsidiaries within the Company's financial statements are stated at cost less any accumulated impairment losses The carrying value relates solely to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company and is less than £1m

Stocks

Stocks, which include printing and stationery, retail and lottery products, are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock

Deferred tax

Deferred tax is generally provided in full on timing differences at the balance sheet date, at rates expected to apply when the tax liability (or asset) crystallises based on substantively enacted tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements

Deferred tax is not recognised in the following instances

- on gains on disposal of fixed assets where, on the basis of available evidence, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when there is a commitment to dispose of those replacement assets,
- on unremitted earnings of subsidiaries and associates where there is no commitment to remit those earnings, and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax assets and liabilities are not discounted Deferred tax is charged or credited directly to reserves if it relates to items that are credited or charged directly to reserves Otherwise it is recognised in the profit and loss account

Pensions and other post-retirement benefits

People working for the Company were employed by Royal Mail Group Limited and seconded to the Company until 31 March 2012 On 1 April 2012 they were transferred to be directly employed by the Company Membership of occupational pension schemes is open to most permanent UK employees of the Company All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme

The pension plans' assets of the defined benefit schemes 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, net of any associated deferred tax balance 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

For defined benefit schemes, the amounts charged to operating profit, as part of staff costs, 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 pensions interest in the profit and loss account 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 schemes, the Company's contributions are charged to operating profit, as part of staff costs, in the period to which the contributions relate

Foreign currencies

The functional and presentational currency of the Company is sterling (£)

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction (or at the contracted rate if the transaction is covered by a forward foreign currency contract) Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date (or the appropriate forward contract rate) All differences are taken to the profit and loss account

Debtors

Debtors 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 assets – investments (current assets)

Financial assets – investments in the balance sheet comprise short-term deposits and money market funds All financial assets – investments are classified as loans and receivables and are measured at amortised cost using the effective interest rate method Gains and losses are recognised in the profit and loss account when the investments are derecognised or impaired, as well as through the amortisation process

Financial liabilities – interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost Borrowing costs are recognised as an expense when incurred

Financial liabilities – obligations under finance lease and hire purchase contracts

All obligations under finance lease and hire purchase contracts are classified as financial liabilities measured at amortised cost

Borrowing costs

Borrowing costs are recognised as an expense when incurred unless they are directly attributable to the construction or development of a qualifying asset, in which case they are capitalised using the weighted average cost of borrowing for the period of construction/development

Fair value measurement of financial instruments

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date 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

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

Derecognition of financial instruments

A financial asset or liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires

Government Grants

Government Grants of a revenue nature are recognised to match costs in relation to the performance of certain specified activities

Auditor's remuneration

The remuneration paid to auditors is disclosed in the Group financial statements (note 4)

Director's emoluments

The emoluments paid to Directors are disclosed in the Group financial statements (note 6)

2 Intangible assets

	2014 £m
Cost	
At 1 April 2013	208
Additions	42
Disposals	(7)
At 30 March 2014	243
Amortisation and impairment	
At 1 April 2013	208
Disposals	(7)
Impairment	42
At 30 March 2014	243
Net book value	
At 30 March 2014 and 1 April 2013	-

The above intangible assets relate to software

3 Tangible fixed assets

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 1 April 2013	87	18	114	42	1	719	981
Reclassification	(5)	-	3	-	-	2	-
Additions	20	-	4	7	-	41	72
Disposals	(2)	(1)	(8)	(5)	-	(23)	(39)
At 30 March 2014	100	17	113	44	1	739	1,014
Depreciation							
At 1 April 2013	77	17	114	42	1	719	970
Impairment (see note 5 in the Group Financial Statements)	16	-	7	7	-	43	73
Disposals	(2)	(1)	(8)	(5)	-	(23)	(39)
At 30 March 2014	91	16	113	44	1	739	1,004
Net book value							
At 30 March 2014	9	1	-	-	-	-	10
At 1 April 2013	10	1	-	-	-	-	11

Depreciation rates are disclosed within accounting policies (note 1) No depreciation is provided on freehold land, which represents £3 million (2013 £3 million) of the total cost of properties

4 Investment in subsidiaries

The carrying value of £100 relates solely to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company

5 Investments in joint ventures

	2014 £m	2013 £m
Investment in joint ventures	1	1

Joint ventures

During 2013-14 and 2012-13, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited with a carrying value of £0 6 million (2013 £0 6 million), whose principal activity is the provision of Bureau de Change

First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom

Associates

Details of associates are disclosed in the Consolidated Group financial statements (note 11)

6 Debtors

	2014 £m	2013 £m
Receivable within one year		
Trade debtors	54	32
Prepayments and accrued income	82	71
Client debtors	158	240
Other receivables	8	9
Total	302	352
Receivable after more than one year		
Prepayments and accrued income	15	10

7 Current financial assets – investments

	2014 £m	2013 £m
Money market funds	-	86
Short-term deposits – bank	30	6
Total	30	92

8 Cash at bank and in hand

	2014 £m	2013 £m
Cash in the Post Office Limited network	708	879

9 Creditors – amounts falling due within one year

	2014 £m	2013 £m
Bank overdraft	50	-
Trade creditors and accruals	188	159
Advance customer payments	37	50
Social security	14	10
Client creditors	437	528
Obligations under finance leases	3	3
Capital creditors	31	18
Business transformation payments	10	7
Government Grant	-	102
Total	770	877

10 Financial liabilities – interest bearing loans and borrowings

	2014 £m	2013 £m
Department of Business, Innovation & Skills loans drawn down	-	291
Total facility	1,150	1,150

The loans 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 undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date is £1,150 million (2013 £859 million) The average interest rate on the drawn down loans is 1 0% (2013 1 0%)

The facility is currently restricted to funding the cash and near cash items held within the Post Office Limited network

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect

11 Creditors – amounts falling due after more than one year

	2014 £m	2013 £m
Obligations under finance leases	-	4
Other payables	28	24
Total	28	28

12 Provisions for liabilities

	Crown Conversions Project £m	Network Transformation £m	Other £m	Total £m
At 1 April 2013	7	10	9	26
Charged in operating exceptional items	(2)	93	27	118
Charged in operating costs	-	-	6	6
Utilisation	(3)	(52)	(17)	(72)
At 30 March 2014	2	51	25	78

The Crown Conversions project relates to past franchising of Crown offices and onerous property lease provisions are expected to be utilised within four years

The Network Transformation provision relates to the major transformation programme which is discussed further in the Financial Review on page 42

Other provisions of £25 million (2013 £9 million) include property contracts, onerous lease obligations and personal injury claims

13 Pensions

The disclosures in this note relating to the year ended 30 March 2014 and the comparatives for the year ended 31 March 2013 reflect the Post Office Limited sectionalised RMPP scheme which is independently operated by the Company and the approximate 7% share of the RMSEPP scheme 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

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 on 15 October 2013 and effective from 1 April 2014 The key change was to the definition of pensionable pay which broadly will increase in line with RPI (capped at 5%) in future regardless of actual pay growth The changes have resulted in a one-off exceptional gain of £102 million

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

The Company 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

Defined Contribution

The charge in the profit and loss account for the defined contribution schemes and the Company contributions to these schemes was £2 million (2013 £1 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 Company for a year

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds The latest full actuarial funding valuation of RMPP was carried out as at 1 April 2012 using the projected unit method For RMPP, this valuation was concluded at £135 million surplus The latest full actuarial funding valuation of RMSEPP was carried out as at 31 March 2012 using the projected unit method For 100% of the RMSEPP plan, the valuation was concluded at £83 million deficit RMPP includes sections A, B and C each with different terms and conditions

- 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 £21 million (2013 £23 million) was made by the Company 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 Company pays 7% of the total deficit payment required to fund the deficit in RMSEPP and a payment of £1 million (2013 £2 million) was made by the Company 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 £1 million (2013 £2 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 Company

a) Major long-term assumptions

The size of the RMPP pension surplus, which is large in the context of the Company 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 profit and loss 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

In June 2010, Government announced that it was intending to change the inflation measure used to determine statutory minimum indexation in deferment and in payment from RPI to CPI from April 2011 Where relevant, the inflation assumption has changed from RPI to CPI

The ultimate cost of the RMPP plan to the Company 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

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 Company and consequently the transfer resulted in a significant removal of pension risk from the Company

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

	2014 £m	2013 £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 cash flows 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 cash flows 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

	2014	2013
Average expected life expectancy from age 60		
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

b) Plans' assets

The assets in the plans for the Company were

	Market value 2014 £m	Market value 2013 £m
Sectionalised RMPP		
UK equities	1	2
Overseas equities	18	27
Government bonds	-	2
Corporate bonds	118	134
Property	5	-
Cash and cash equivalents	38	69
Other assets*	80	9
Fair value of RMPP assets	260	243
Present value of RMPP liabilities	(90)	(144)
Surplus in plan before asset ceiling adjustment	170	99
Less effect of asset ceiling	(23)	(3)
Surplus in plan after asset ceiling adjustment	147	96

*Other assets include a diverse range of managed funds which include investment in real estate worldwide equities and emerging debt

	Market value 2014 £m	Market value 2013 £m
Share of RMSEPP		
UK equities	1	4
Overseas equities	9	6
Government bonds	-	-
Corporate bonds	13	12
Property	2	1
Other assets	1	2
Fair value of share in plan assets for RMSEPP	26	25
Present value of share in plan liabilities for RMSEPP	(24)	(24)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	2	1
Less effect of asset ceiling	(1)	-
Surplus in plan for share of RMSEPP after asset ceiling adjustment	1	1

A retirement benefit surplus of £148 million is disclosed on the balance sheet, representing the surplus in plans of £170 million and £2 million for RMPP and RMSEPP respectively, and net of tax of £24 million at a rate of 35% on the element of the surplus which is recoverable through a refund from the plans

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

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

	2014 %	2013 %
Securities with quoted price in an active market		
UK equities	-	1
Overseas equities	7	11
Government bonds	-	1
Corporate bonds	45	55
Property	2	-
Cash and cash equivalents	15	28
Other assets	31	4
Total quoted securities	100	100

c) Movement in plans' assets and liabilities

Changes in the fair value of the plans' assets are analysed as follows

	Sectionalised RMPP 2014 £m	Sectionalised RMPP 2013 £m
Assets		
Assets in sectionalised RMPP at beginning of period	243	2,108
Transfer of pension assets to Government	-	(1,953)
Contributions paid	22	25
Employee contributions paid	8	8
Finance income	12	11
Actuarial (loss)/gain	(24)	46
Benefits paid to members	(1)	(2)
Assets in sectionalised RMPP at end of period	260	243

	Share of RMSEPP 2014 £m	Share of RMSEPP 2013 £m
Assets		
Share of assets in RMSEPP at beginning of period	25	21
Contributions paid	1	2
Movement in contributions accrued	-	-
Employee contributions paid	-	-
Finance income	1	1
Actuarial gains	-	1
Benefits paid to members	(1)	-
Share of assets in RMSEPP at end of period	26	25

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

	Sectionalised RMPP 2014 £m	Sectionalised RMPP 2013 £m
Liabilities		
Liabilities in sectionalised RMPP at beginning of period	(144)	(2,313)
Royal Mail Pension Plan amendment	102	-
Transfer of pension liabilities to Government	-	2,239
Current service cost	(25)	(24)
Curtailment costs*	(1)	(2)
Finance cost	(7)	(9)
Employee contributions	(8)	(8)
Actuarial loss	(8)	(29)
Benefits paid	1	2
Liabilities in sectionalised RMPP at end of period	(90)	(144)

	Share of RMSEPP 2014 £m	Share of RMSEPP 2013 £m
Liabilities		
Share of liabilities in RMSEPP plans at beginning of period	(24)	(22)
Current service cost	-	-
Curtailment costs*	-	-
Finance cost	(1)	(1)
Employee contributions	-	-
Actuarial loss	-	(1)
Benefits paid	1	-
Share of liabilities in RMSEPP at end of period	(24)	(24)

*The curtailment costs in the profit and loss account 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 profit and loss account

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d) Recognised charges

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

	2014 sectionalised RMPP £m	2013 sectionalised RMPP £m
Analysis of amounts recognised in the profit and loss account		
Analysis of amounts charged to operating profit before exceptional items		
Current service cost	25	24
Total charge to operating profit before exceptional items		
Analysis of amounts charged to operating exceptional items		
Royal Mail Pension Plan amendment	(102)	-
Loss due to curtailments	1	2
Total (credit)/charge to operating profit	(76)	26
Analysis of amounts charged/(credited) to net pensions interest		
Interest on plan liabilities	7	9
Interest income on plan assets	(12)	(11)
Net pensions credit to financing	(5)	(2)
Net (credit)/charge to the profit and loss account before deduction for tax	(81)	24
Analysis of amounts recognised in the statement of changes in equity		
Transfer of pension liabilities to Government	-	2,239
Transfer of pension assets to Government	-	(1,953)
Gain on transfer to Government	-	286
Total gains recognised in the statement of changes in equity	-	286
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on plan assets	(12)	57
Less expected interest income on plan assets	(12)	(11)
Less taxation on surplus recoverable through plan refunds	(20)	(3)
Actuarial (losses)/gains on assets (all experience adjustments)	(44)	43
Experience adjustments on liabilities	-	(20)
Effects of changes in actuarial assumptions on liabilities	(8)	(9)
Actuarial losses on liabilities	(8)	(29)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	(52)	14

14 Share Capital

	2014 %	2013 %
Authorised		
Ordinary shares of £1 each	51,000	51,000
Total	51,000	51,000
Allotted and issued		
Ordinary shares of £1 each	50,003	50,003
Total	50,003	50,003

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15 Commitments

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

Details of the Company commitments under non-cancellable operating leases are disclosed in the Group financial statements (note 20)

16 Finance lease liabilities

Details of the Company's finance lease liabilities are disclosed in the Group financial statements (note 21)

17 Related party disclosures

Details of transactions with related parties are disclosed in the Group financial statements (note 22)

18 Operating exceptional items

Details of operating exceptional items are disclosed in the Group financial statements (note 5)

19 Taxation

Details of the taxation gains recognised in the year are disclosed in the Group financial statements (note 8a)

20 Post balance sheet events

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

21 Immediate and ultimate parent company

At 30 March 2014, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company The largest group to consolidate the results of the Company is Postal Services Holding Company Limited, a company registered in the United Kingdom Postal Services Holding Company Limited financial statements can be obtained from Companies House

22 Transition to FRS 101

For all periods up to and including the year ended 31 March 2013, the Company prepared its financial statements in accordance with the previously extant United Kingdom generally accepted accounting practice (UK GAAP) These financial statements, for the year ended 30 March 2014 are the first the Company has prepared in accordance with FRS 101

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 26 March 2012 and the significant accounting policies meeting those requirements are described in the relevant notes

In preparing these financial statements, the Company has started from an opening balance sheet as at 26 March 2012, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101 As such, this note explains the principal adjustments made by the Company in restating its previously published UK GAAP financial statements for the year ended 31 March 2013 No restatements are required in relation to the Company balance sheet for the year ended 25 March 2012

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1 'First time adoption of International Financial Reporting Standards'

IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRSs as effective for March 2014 year ends retrospectively The Company has taken advantage of the following exemptions

Cumulative actuarial gains and losses on pensions and other post employment benefits are recognised in full in equity on the date of transition to IFRS This is the same treatment as under UK GAAP

	Notes	UK GAAP £m	FRS101 remeasurements/ reclassifications £m	IFRS total £m
Reconciliation of equity as at 31 March 2013				
Intangible assets		-	-	-
Tangible assets		11	-	11
Investment in subsidiaries		-	-	-
Investments in joint ventures and associates		1	-	1
Retirement benefit surplus	1	100	(3)	97
Debtors – receivable after more than one year	2	10	(10)	-
Total non-current assets		122	(13)	109
Current assets				
Stocks		8	-	8
Debtors – receivable within one year		352	-	352
Debtors – receivable after more than one year		-	10	10
Financial assets – investments		92	-	92
Financial assets – derivatives		1	-	1
Cash at bank and in hand		879	-	879
		1,332	10	1,342
Current liabilities				
Creditors – amounts falling due within one year		(877)	-	(877)
Financial liabilities – interest bearing loans and borrowings		(291)	-	(291)
Net current assets		164	10	174
Total assets less current liabilities		286	(3)	283
Creditors – amounts falling due after more than one year		(28)	-	(28)
Provisions for liabilities		(26)	-	(26)
Net assets		232	(3)	229
Capital and reserves				
Called up share capital		-	-	-
Share premium		465	-	465
Profit and loss account		(233)	(3)	(236)
Shareholder's surplus		232	(3)	229

1 Under IFRS the retirement benefit surplus as at 31 March 2013 was assessed under IFRIC 14 which requires the maximum asset to be recognised using appropriate recovery methods An element of the defined benefit surplus on the balance sheet was recoverable through a reduction in future pension contributions which created a separate deferred tax liability The remainder was recoverable through a refund from the pension scheme which was subject to a tax deduction at 35% which was shown net against the pension surplus Under UK GAAP no retirement benefit surplus is recognised based on refunds, and the surplus as at 31 March 2013 was recoverable fully through a reduction in future pension contributions and therefore created a larger deferred tax liability

The impact of transition to FRS 101 has been to decrease the retirement benefit surplus as at 31 March 2013 by £3 million in order to recognise the tax deduction on the element of the surplus recoverable through a refund from the pension scheme This also had the effect of reducing the actuarial gain recognised through reserves from £17 million under UK GAAP, to £14 million under FRS 101

The effect of the transition on reported profit of the Company for the year ended 31 March 2013 is as follows

	£m
Profit for the year ended 31 March 2013 under UK GAAP	76
Deferred tax asset	(2)
Profit for the year ended 31 March 2013 under IFRS	74

The corresponding movement in the deferred tax liability is taken through the Company statement of comprehensive income, and therefore has no overall effect on equity

2 The use of FRS 101 requires preparation of a balance sheet in accordance with 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008' which requires presentation of debtors falling due after more than one year within current assets

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