

Exhibit WITN00740129

## **Appendix 2**



**Post Office Limited**  
**Audit, Risk and Compliance Board Sub-  
Committee**  
**Briefing Book**  
**Half Year ended 23 September 2012**

Exhibit WITN00740129

<b>Section</b>	<b>Page</b>
1. Glossary	3
2. Introduction	4
3. Accounting Policies	4
4. Primary Statements	5
5. Operating profit	8
6. Revenue	9
7. Costs and people	13
8. Quality of earnings	17
9. Exceptional items and provisions	18
10. Interest, cash, debt, funding, hedging and going concern	20
11. POL funding analysis	22
12. Property, plant and equipment and non-current assets held for sale	24
13. Investments	25
14. Litigation and claims- potential claims regarding Horizon	26

## 1 Glossary review

Below is a listing of key abbreviations used throughout this document with the full meaning given:

Abbreviation	Meaning
ATM	Automated teller machine
BIS	Department for Business Innovation & Skills
CWU	Communications Workers Union
DVLA	Driver & Vehicle Licensing Authority
DWP	Department of Work & Pensions
Eagle	Deal in August 2012 to sell POFS to the Bank of Ireland, restructure commission rates for personal financial services and extend the contract to 2023
EC	European Council
FRES	First Rate Exchange Services
Gamma	A contract variation made in 2007 with POFS generating £100m cash and income over a number of years in return for a series of commitments through to 2020.
Horizon	Horizon Next Generation- Counter system
JV	Joint venture
LTIP	Long Term Incentive Programme
MDA	Master Distribution Agreement – agreement for distributing RM Mails products through POL outlets
MSA	Master Services Agreement – agreement for services provided between POL and RM post Separation
NBV	Net Book Value
NS&I	National Savings & Investments
NSP	Network Subsidy Payment
NTP	Network Transformation Programme
POCA	Post Office Card Account
POFS	Post Office Financial Services
POL	Post Office Limited
POOC	Project One Off Costs
RM	Royal Mail
RMPP	Royal Mail Pension Plan
SGEI	Services of General Economic Interest
UKBA	United Kingdom Borders Agency
WCF	Working Capital Facility

## **2. Introduction**

This Briefing Book has been prepared to explain the Post Office Limited results for the half year ended 23 September 2012. It is a summary of the key data, trends and analyses to be read in conjunction with the Trading Statement, which readers may find useful to further their own understanding of the results for 2012-13. Post Office Limited has opted not to take advantage of the Companies Act exemption from the preparation of consolidated accounts as it is a wholly owned subsidiary within the Royal Mail Holdings plc group which prepares group accounts. The Trading Statement therefore reports consolidated results.

Most of the analyses are based on the comparison of the half year's actual results to prior year.

Comparison against budget is discussed in the Monthly Performance Report presented to the Post Office Limited Board on a monthly basis.

## **3. Accounting policies**

There have been no changes to the accounting policies in the current year that have had a material impact on the financial information reported in the Annual Report and Financial Statements.

## 4. Primary Statements

### 4.1 Post Office Limited consolidated Profit & Loss account.

#### Post Office Limited consolidated Profit & Loss Account for the six months to 23 September 2012 and 25 September 2011

		Sept 2012	Sept 2011	2011-12
	Section	£m	£m	£m
Continuing operations				
Turnover		501	485	980
Network Subsidy Payment		103	90	180
Revenue	6.	604	575	1160
People costs	7.2	(128)	(123)	(254)
Other operating costs	7.3	(437)	(418)	(875)
Share of post tax profit from joint venture and associates		22	22	31
Operating profit before operating exceptional items	5.	61	56	61
Operating exceptional items	9.1	(21)	(9)	(39)
Operating profit		40	47	23
Profit/(loss) on disposal of fixed assets	9.1	(28)	-	1
Profit before financing and taxation		12	47	24
Net interest payable	11.1	(1)	(4)	(6)
Net pensions interest		1	1	2
Profit before taxation		12	44	19
Taxation credit		-	-	10
Profit for the financial period from continuing operations		12	44	30

Exhibit WITN00740129

## 4.2 Post Office Limited Cashflow Statement

**Post Office Limited consolidated cashflow statement for the six months to 23 September 2012**

	Sept 2012 £m	Sept 2011 £m
Cash flow from operating activities		
Operating profit before exceptional items	61	56
Add back		
Pension operating costs	13	12
Depreciation and amortisation	0	0
Share of post tax profit from joint ventures and associates	(22)	(22)
	52	46
Working capital and other non-cash movements:	128	78
(Increase)/decrease in inventories	(3)	(1)
(Increase)/decrease in receivables	(12)	(5)
Increase/(decrease) in payables	107	43
(Increase)/decrease in client receivables	3	0
Increase/(decrease) in client payables	33	45
Increase/(decrease) in non-exceptional provisions	0	(4)
Pension operating costs paid	(13)	(11)
Receipt of Government Grant	200	0
Cash payments in respect of operating exceptional items	(21)	(21)
Operating exceptionals		
Business transformation	(17)	(10)
Redundancy	(2)	(7)
Redundancy related pension costs	0	(2)
Other	(2)	(2)
Cash inflow from operations	346	92
Income tax received	11	12
Net cash inflow from operating activities	357	104
Cash flows from investing activities		
Dividends received from associates and joint ventures	0	0
Proceeds from sale of property, plant and equipment	2	0
Proceeds from sale of associate company	3	0
Purchase of property, plant and equipment	(11)	(2)
Investment in Associate company	(11)	0
Purchase of intangible assets	(8)	(6)
Net cash outflow from investing activities	(25)	(8)
Net cash inflow before financing activities	332	96
Cash flows from financing activities		
Finance costs paid	(1)	(3)
Payment of capital element of obligations under finance lease contracts	(3)	(2)
Repayment of borrowings	(250)	(50)
Net cash outflow from financing activities	(254)	(55)
Net increase in cash & cash equivalents	78	41
Opening cash & cash equivalents	820	782
Cash & cash equivalents at the end of the period	898	823
Net cash inflow before financing activities	332	96
Finance costs paid	(1)	(3)
Movement in Network Cash	(19)	(44)
Free cash inflow	312	49

## 4.3 Post Office Limited consolidated Balance Sheet

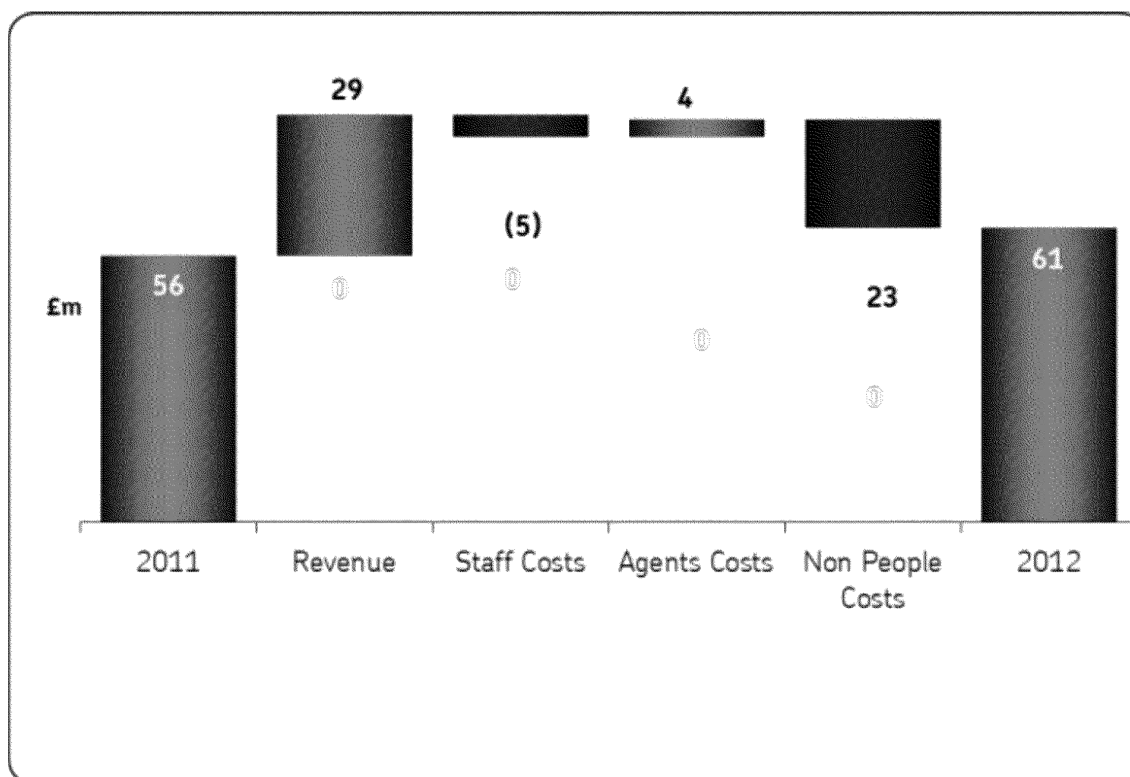
**Post Office Limited consolidated balance sheet at 23 September 2012 and 25 September 2011**

	Sept 2012 £m	Sept 2011 £m	March 2012 £m
<b>Fixed assets</b>			
Intangible assets	-	-	-
Tangible assets	12	11	11
Investments in joint ventures and associates	90	118	90
<b>Total fixed assets</b>	<b>102</b>	<b>129</b>	<b>101</b>
<b>Current assets</b>			
Stocks	9	6	6
Debtors – receivable within one year	226	236	227
Financial assets – investments	119	82	62
Cash at bank and in hand	779	740	758
	<b>1,133</b>	<b>1,064</b>	<b>1,053</b>
<b>Current liabilities</b>			
Creditors – amounts falling due within one year	(893)	(655)	(588)
Financial liabilities – interest bearing loans and borrowings	(127)	(325)	(377)
<b>Net current assets</b>	<b>113</b>	<b>84</b>	<b>88</b>
<b>Total assets less current liabilities</b>	<b>215</b>	<b>213</b>	<b>189</b>
Creditors – amounts falling due after more than one year	(8)	(13)	(8)
Provisions for liabilities and charges	(18)	(19)	(15)
Retirement benefit obligation	53	(315)	(206)
<b>Net assets/(liabilities)</b>	<b>242</b>	<b>(134)</b>	<b>(40)</b>
<b>Capital and reserves</b>			
Called up share capital	-	-	-
Profit and loss account	238	(179)	(85)
Other reserves	4	45	45
<b>Shareholder's surplus/(deficit)</b>	<b>242</b>	<b>(134)</b>	<b>(40)</b>



## 5. Operating profit

### 5.1 Operating profit bridge analysis



### 5.2 Explanations for some of the movements above are as follows:

- \* Revenue explanation is in section 6.1.
- \* The £4.6m increase in Staff costs was mainly due to:
  - Pay awards, and higher Productivity & Bonus costs
  - Higher temporary resource costs driven by recruitment to support various projects and higher agency labour in Network. Year on year the headcount figure has increased by 213.
- \* Agents' cost are £3.5m lower than last year due to a one off payment of £400 made in June 2011 to all agents to maintain stability in the network.
- \* Non people costs (including project one off costs) were higher by £22.6 mainly due to:
  - £16.6m higher project one off costs (POOC),
  - Last year's costs included a £2.4m release relating to WHS TUPE transfers,
  - £0.5m increase in compensation which includes a reassessment of the personal injury provision,
  - £1.8m increase in marketing expenditure,
  - £1.7m increase in property costs,
  - higher cost of sales by £1.8m mainly due higher UKBA volumes as a result of rolling out more ID Services terminals and also due to higher Retail costs due to the Olympic and Jubilee collectables, partially offset by;
  - £1.9m lower Interbusiness costs as a result of Separation.

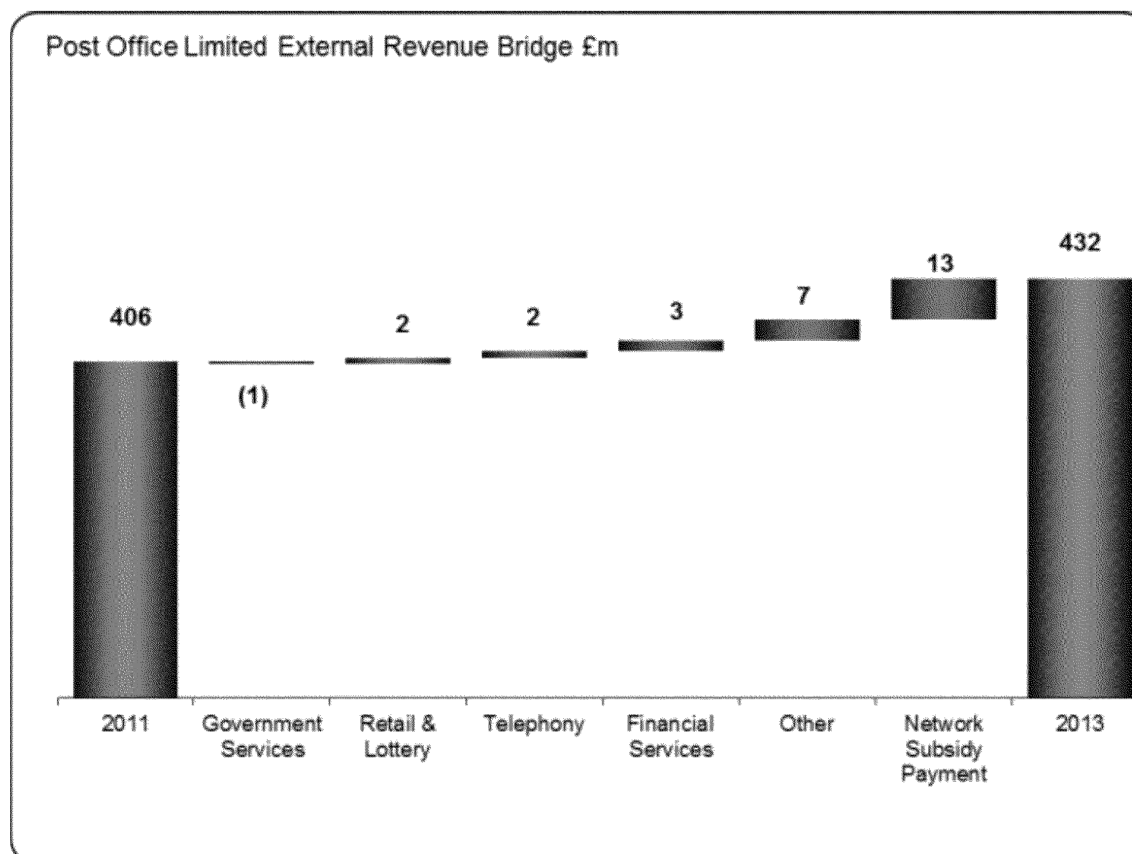


Exhibit WITN00740129

## 6. Revenue

	Sept 2012 £m	Sept 2011 £m
Revenue		
External Revenue	432	406
Internal Revenue	172	169
Total Revenue	604	575

### 6.1 Post Office Limited – External revenue analysis



The increase in year on year external revenue of £26.8m (7%) to £432.3m (2011 £405.5m) is driven by the £13m increase in the Network Subsidy payment and an increase of £13.8m in like for like income.

The following commentary gives further detail on the external revenue variances by category:

#### 6.1.1 Government Services

The £0.8m (1%) decrease in Government Services revenue is principally due to:

- \* £2.2m lower DVLA revenues as volumes are below the minimum guaranteed income levels and a one-off Service Level Agreement payment last year, and
- \* £1.0m adverse from falling numbers of POCA accounts through natural attrition and migration of customers to bank accounts.

This was offset by

- \* £1.9m higher revenues from the new UKBA contact.

#### 6.1.2 Retail & Lottery

Retail and Lottery revenues have increased by £1.9m:

- \* Lottery is flat with last year, with both periods seeing high levels of rollovers,
- \* Retail up £1.9m benefiting from collectibles for the Olympic and Paralympic games as well as the Jubilee.

#### 6.1.3 Telephony

Year on year increase in Telephony of £2.1m (3.5%) has resulted from:

- \* 22k more customers, following last year's Q4 marketing campaign, offset by;
- \* A decrease in E Top Up revenues of £0.8m is due to volume reduction.

#### 6.1.4 Financial Services

Financial Services income has increased by £3.3m (2.5%) year on year. This continues the trend of increases in new products offsetting the decline of traditional products. The main variances are:

- \* a £7.7m increase in POFS products particularly savings related products (Growth Bonds, Instant Saver and Reward Saver - £2.6m, £1.8m and £1.4m favourable respectively). This includes the benefit of the renegotiated commission rates following the 'Eagle' deal, and
- \* a £0.2m increase in ATM revenue, driven by increased volumes as machines reach maturity.

This was offset by

- \* a £1.7m decline in NS&I revenues as NS&I look to provide some of their products, particularly savings, through their own direct channel,
- \* a £1.5m decrease in Banking revenue from:
  - o a £1.6m fall from the Department of Work and Pensions (DWP) as volumes continue to fall as the Government is migrating customers to other payment methods, and
  - o a £0.4m fall in Santander business revenues due to rate reduction from renegotiated contract, offset by
  - o an increase of £0.5m in personal banking.
- \* flat revenues from Payment Services due to:
  - o a £0.7m decline from bill payments, as utilities and other bill payment clients continue to migrate customers to other payment methods such as direct debit and online, and
  - o a £0.7m increase in Postal Order income (including write back of uncashed Postal orders over 2 years old).

### 6.1.5 Other

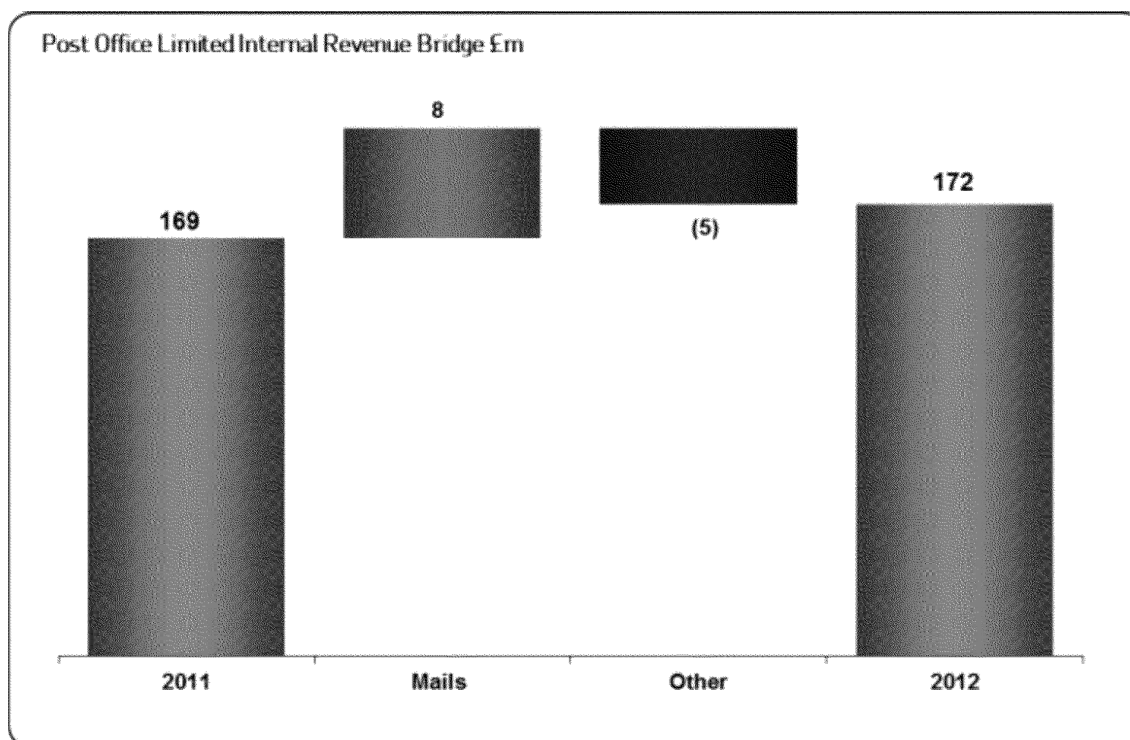
Year on Year increase of £7.3m was due to:

- \* a £6.5m movement due to the MDA (agreement post Separation) excluding Mailwork income from internal revenue (see 6.2.2). This will be corrected for year end, and
- \* an increase in Gamma income of £1.2m due to a change in the way the payments are structured.

This was offset by

- \* a £0.4m reduction from marketing services, primarily Photo Booth income where volumes and rates have reduced.

### 6.2 Post Office Limited – Internal revenue analysis



The following commentary gives further detail on the £2.4m internal revenue variances:

#### 6.2.1 Mails

The £7.7m (4.7%) increase in Mails Revenue is driven by strong volumes accounting for £6.4m of the increase and £1.3m driven by price.

- \* Approximately £3.4m of the £6.4m volume variance was driven by stamp sales ahead of the price rise in April.
- \* The new Mails Distribution Agreement resulted in a reduction in fixed fee of £15.7m which is more than offset by increases in variable commissions of £17.0m resulting in a net price variance of £1.3m.

#### 6.2.2 Other

The £5.3m decrease in other is due to:

- \* a £6.5m movement due to the MDA (agreement post Separation) excluding Mailwork income from internal revenue. This will be corrected for year-end (see 6.1.5) offset by £1.5m increase in Swindon Stores income as a result of Olympic stamp storage.

**7. Costs and people**

This section discusses expenditure, excluding exceptionals.

**7.1 Total costs analysis (excluding exceptionals)**

The following provides a breakdown of costs for the half year ending 23 Sept 2012 compared to the half year ending 25 Sept 2011:

	Section	Sept 2012 £m	Sept 2011 £m	Variance £m	Variance %
<b>Expenditure - (pre- exceptional)</b>					
Wages & Salaries		89	87	(2)	(2%)
Overtime		5	4	(1)	(16%)
Productivity/Bonus		7	8	1	13%
Employers NI		9	9	(1)	(8%)
Pensions		13	12	(1)	(10%)
Projects (temp people resource)		1	1	(0)	(30%)
Temporary Resource		4	2	(2)	(79%)
<b>STAFF COSTS</b>	<b>7.2.1</b>	<b>128</b>	<b>123</b>	<b>(5)</b>	<b>(4%)</b>
Agent costs	7.3.1	235	239	3	1%
Collection, Delivery & Conveyance Charges	7.3.2	1	1	(0)	(10%)
Compensation	7.3.3	1	(2)	(3)	126%
Property Facilities	7.3.4	3	2	(1)	(53%)
Property Maintenance	7.3.5	3	2	(1)	(31%)
Vehicles	7.3.6	1	1	(0)	(20%)
Computers & Telephones	7.3.7	36	36	(0)	(1%)
Consultancy, Marketing & Legal Fees	7.3.8	12	4	(8)	(170%)
Staff & Agent Related Costs & Consumables	7.3.9	0	5	6	108%
Finance	7.3.10	9	7	(2)	(32%)
Cost of Sales	7.3.11	58	56	(2)	(3%)
Other Operating Costs	7.3.12	10	10	1	5%
Depreciation	7.3.13	0	0	(0)	(151%)
Interbusiness Expenditure	7.3.14	41	43	2	5%
Group Overheads	7.3.15	7	10	3	28%
Projects (excluding temp people resource)	7.3.16	21	4	(16)	(371%)
<b>TOTAL OTHER OPERATING COSTS</b>	<b>7.3</b>	<b>437</b>	<b>418</b>	<b>(19)</b>	<b>(5%)</b>
<b>TOTAL EXPENDITURE (Pre Exceptionals)</b>		<b>565</b>	<b>541</b>	<b>(24)</b>	<b>(4%)</b>

## 7.2 People costs (2012 £128m vs 2011 £123m)

### 7.2.1 Staff costs (2012 £128m vs 2011 £123m)

Staff costs have increased in total by £5m to £128m, representing 25% (2011 25%) of the cost base. The number of people employed increased by 213 to 7,912 at 23 Sept 2012 (2011 7,699) primarily due to the Network Transformation Programme. NTP staff costs are included within exceptional costs.

The staff cost movement comprises:

- \* A total increase of £2m (2%) in Wages and Salaries an increase reflecting impact of the agreed pay awards.
- \* Employers NI has increased marginally.
- \* Pension costs have increased by £1m (10%) as a result of a change in the FRS 17 rate for the RMPP service cost to 18.2% (2011 17.1%) driven by market conditions at 25 March 2012 and due to the increase in staff.
- \* Productivity costs have decreased by £1m (13%) driven by the reduced LTIP costs.
- \* Temporary resource costs have increased by £1m (67%) driven by recruitment to support various projects and higher agency labour in Network.

### 7.2.2 Staff numbers

The following analysis shows the movements in the number of people employed during the year.

The staff numbers were as follows:

	Period end employees		Average employees	
	23 Sept 2012	25 Sept 2011	2012	2011
Total employees	<b>7,912</b>	7,699	<b>7,867</b>	7,722

### 7.2.3 Average cost per employee

The 2012 average number of employees of 7,867 includes 192 NTP employees who have been excluded for the purposes of this calculation. The average annual cost per employee based on the average number of people employed at 23 September 2012 of 7,675 excluding NTP (2011 7,722) has increased by 5% to £33,355 (2010-11 £31,856) due to the pay awards.

## 7.3 Other Operating costs (2012 £437m vs 2011 £418m)

## 7.3.1 Agents costs (2012 £235m vs 2011 £239m)

	23 Sept 2012	25 Sept 2011
Total Agents number	8,061	8,207

There were 8,061 Agents at the half year-end 23 September 2012 (2011 8,207). The 146 (2%) reduction in Agents is mainly due to natural attrition in the Post Office network.

The average annual cost per Agency branch (excluding VAT and NI) is £42,283 (2011 £43,394), a 3% decrease which is mainly due to a move away from fixed pay.

Total agents costs have decreased by £4m (1%) due to the one off payment made in 2011 of £400.

7.3.2 Collection, Delivery & Conveyance charges have generally remained flat year on year.

7.3.3 Compensation costs have increased by £3m mainly due to a one off provision release relating to the CWU TUPE claim for the WHS transfers in 2011-12 of £2m.

7.3.4 Property Facilities costs have increased by £1m due to external venue costs relating to Post Office Vision events and cross company electricity charges.

7.3.5 Property Maintenance costs have increased by less than £1m due to the increased number of Post & Go machines requiring annual maintenance.

7.3.6 Vehicles costs have remained flat.

7.3.7 Computers and Telephones costs have generally remained flat year on year.

7.3.8 Consultancy, Marketing & Legal Fees have increased by £8m mainly due to the higher number of IT Programmes in 2011/12 requiring contractor/ consultancy individuals and spend for 'point of sale' and rebranding. Note that the increase is charged to projects through the Staff and Agent Related line below.

7.3.9 Staff and Agent related Costs & Consumables have decreased by £5m due to increased number of programmes which has resulted to higher recharges to projects.

7.3.10 Finance costs have increased by £2m due to a one off purchase order benefit last year of £0.5m and increased Bureau and ATM losses.



- 7.3.11 Cost of Sales has increased by £2m driven by higher Retail costs due to the Olympic and Jubilee collectables combined with higher UKBA volumes as a result of rolling out more ID Services terminals and telephony sales campaign. The main reasons are detailed below:

Cost of Sales

	Sept 2012	Sept 2011	Variance	Variance	
	£m	£m	£m	%	Comments
Home Phone	40	39	(1)	(2%)	Increase of £1m due to more customers, following marketing campaign
Retail	3	2	(1)	(54%)	Increased Sales
Financial Services	1	2	1	63%	Decrease in Travel Insurance
Government Services	15	14	(1)	(8%)	Increase due to higher UKBA volumes as a result of rolling out more ID Services terminals and higher ATM usage
Total	58	56	(2)	(3%)	

- 7.3.12 Other operating costs have remained flat.

- 7.3.13 Depreciation costs have remained flat.

- 7.3.14 Interbusiness expenditure has decreased by £2m due to reduced property and facilities management charges.

- 7.3.15 Group overhead expenditure has decreased by £3m due to general reduction in Group charges as a result of Separation.

- 7.3.16 Non people related project expenditure has increased by £17m due to the acceleration of work towards full implementation of major transformation programmes such as Brand Marketing, IT Delivery, Finance Roadmap and Front Office of Government as well as the costs of separation from Royal Mail.

## 8 Quality of Earnings

Post Office Limited (consolidated)	2012-13	2011-12	Growth	
	£m	£m	£m	%
<b>Operating profit before exceptional items</b>	<b>61</b>	<b>56</b>	<b>5</b>	<b>9%</b>
Network Subsidy Payment	(103)	(90)	(13)	(14%)
Project one off costs	22	5	17	(340%)
<b>Operating (loss) before project one off costs, exceptional items and NSP</b>	<b>(20)</b>	<b>(29)</b>	<b>9</b>	<b>31%</b>
Litigation re 2007-08		(2)		
<b>Total adjustments</b>	<b>0</b>	<b>(2)</b>		
<b>Total adjusted operating (loss) before project one off costs, exceptional items and NSP</b>	<b>(20)</b>	<b>(31)</b>	<b>11</b>	<b>35%</b>

Each item in the table is explained further below:

### 8.1 Network Subsidy Payment

The Network Subsidy Payment increased from £180m in 2011-12 to £210m in 2012-13. The Network Subsidy Payment has been accounted for as a government grant in both years.

### 8.2 Project one off costs

Project one off costs are non exceptional costs of project activity in the year. They increased in 2012-13 as the pace of implementation towards the new plan has continued. These costs do not form part of the underlying business as usual performance of the company.

### 8.3 Litigation relating to 2007-08

This cost relates to a provision for litigation relating to the CWU challenge regarding the transfer of staff to WH Smith during 2007-08. £6m was raised in 2008-09 and £4m of it released in 2009-10 when the CWU lost their challenge. All routes of challenge were exhausted during 2011-12 and the remaining £2m was released.

## 9. Exceptional items and provisions

### 9.1 Exceptional items and provisions summary

The following exceptional items were recognised in the consolidated income statement for the six months ended 23 September 2012 and 25 September 2011

Exceptional items	Section	2012-13		2011-12	
		£m	£m	£m	£m
Operating Exceptionals					
Capital grants utilised	9.2	35		-	
Restructuring costs: Network Transformation		(14)		-	
Provision for restructuring: Severance	9.3	(6)		(1)	
IT & Change transformation costs	9.4	(3)		-	
Project Eagle exceptional costs of disposal	9.4	(1)		-	
Sub-total			11		(1)
Other operating exceptional costs:					
Impairments	9.5		(32)		(8)
Total operating exceptionals			(21)		(9)
Non-operating exceptionals:					
Loss on disposal of fixed asset investment	9.6		(30)		-
Profit on disposal of property	9.7		2		-
Net Exceptional costs			(49)		(9)

9.2 Grants received at the start of 2012/13 arising from the 2010 Government Funding Agreement have been designated by BIS towards POL's capital expenditure and agents' compensation. The remainder of the grant offsets NTP operating costs. At half year grants utilised of £35m – accounted for as exceptional income – matches £21m of capex and £14m NTP opex.

9.3 Restructuring: severance (2012/13 £6m vs 2011/12 £1m)

Included in the £6m charge is £5m in respect of Crown Transformation, a programme to return the Crown network to profit by 2014/15, and this phase of redundancy will release c. 135 Crown staff.

9.4 Other charges (2012/13 £4m vs 2011/12 £nil)

Costs attributable to IT & Change Transformation programme, a commitment to modernisation arising from the 2010 Government strategic plan, and Project Eagle, the disposal of POL's interest in the POFS associate investment, have been accounted for as operating exceptionals.

## 9.5 Impairments (2012/13 £32m vs 2011/12 £8m)

Impairments charged in exceptional items comprise:

Impairment	<b>Sep-12</b>	Sep-11
Property, plant and equipment	<b>11</b>	2
Intangible fixed assets	<b>10</b>	6
Investment in associate company: Midasgrange Ltd	<b>11</b>	0
<b>Total fixed asset impairments</b>	<b>32</b>	8

Section 12.1 identifies the impaired capital expenditure as summarised above. The increased investment in Midasgrange was for a C share and relates to the Gamma arrangements. It was impaired to reflect the carrying value of nil. Subsequently the investment has been disposed of.

## 9.6 Loss on disposal of fixed assets (2012/13 £39m vs. 2011/12 £nil)

The associate investment with the Bank of Ireland – in Midasgrange Ltd (POFS) – was disposed of in August 2012. The balance sheet carrying value at the time was £32.4m. Sale proceeds were £2.7m and a loss on disposal of £29.7m has been included in the half year results.

## 9.7 Profit on property disposals (2012/13 £2m vs 2011/12 £nil)

In September 2012 the freehold property of the former Crown office at Woking was sold for £1.75m (NBV £24.0k). There were no equivalent disposals in the first half of 2011/12.

## **10. Interest, cash, debt, funding, hedging and going concern**

### **10.1 Going concern**

Post Office Ltd has net cash and cash equivalents of some £771m (March 2012 £443m) and a borrowing facility of some £1,150m of which £127m (March 2012 £377m) was drawn down. The improvement is driven by the receipt of £200m Government grant in addition to the upfront receipt of the full year NSP of £210m.

The going concern position has been reviewed and the year-end assessment (below) is still applicable.

### **10.2 Background**

On 24 March 2010 a further funding agreement was agreed that provided up to £180m for compensation for losses sustained in parts of the network in 2011-12 as well as providing access to the working capital facility to 31 March 2016. These arrangements received State Aid approval on 23 March 2011 though the working capital facility was limited until 31 March 2012.

A further funding agreement with Government was announced on 27 October 2010 which provided for:

- \* Funding of £410m for 2012-13 (received 2 April 2012)
- \* Funding of £415m for 2013-14
- \* Funding of £330m for 2014-15
- \* Extension of the existing working capital facility of £1.15bn 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.

The going concern analysis is based on the latest strategic plan refresh prepared and noted by the Post Office Limited Board and Royal Mail Holdings plc Board in October 2010. This was updated to reflect the 2012-13 budget process and an updated view of the later years as at March 2012. The Post Office Board approved the 2012-13 budget on 15 March 2012 and has undertaken an initial review of the later years.

### **10.3 Assessment for POL**

POL has finished implementing its 2005-11 strategic plan and has completed its closure programme. It posted an operating profit before exceptional items for the first time for a number of years in 2008-09 and has continued to do so but still operates with a cash outflow. The 2011-15 plan is intended to reverse the trend of an increasing Network Subsidy Payment (NSP).

The 2011-15 strategic plan, updated for latest views, has been shown in section 11 and shows that POL has sufficient cash headroom to continue to trade. The available facility has been defined to include network cash, ATM cash, ATM debtor, POCA debtor and SGEI cheques. Headroom was increased as the result of a more widely defined criterion for use of the Working Capital Facility (WCF). In the EC's decision of 23 March 2011 they noted that

“...the WCF is provided on condition that it is used for financing the cash and near-cash requirements involved in delivering the SGEIs...” and not limited it to cash for cash-withdrawal Services of General Economic Interest (SGEI) as previously. Therefore the WCF can now be used to finance all SGEI working capital requirements in particular those associated with HMRC cheques in January and July. This will mean the peak funding requirement from non-WCF sources will no longer be required for those months. This change has had a positive effect on all months of c£40m.

Other changes introduced in the one year funding deal for 2011-12 included the ability to borrow up to £50m from other sources as well as the up to £50m in finance leases previously allowed which would improve the headroom capacity if required.

#### 10.4 Summary conclusion

Based on the analysis there is available borrowing headroom remaining until March 2015. Royal Mail Group Limited is a key trading partner with POL and, in arriving at the conclusion that POL is a going concern, the assumption is made that Royal Mail Group Limited is a going concern or that an alternative mails provider would work similarly with POL providing a similar level of income.

It is believed that POL will be able to meet its liabilities as they fall due in the foreseeable future. It is therefore expected that the POL directors will consider it appropriate to continue to prepare the accounts on a going concern basis.

**11 POL Funding Analysis**

Table 1 MARCH 2012 DRAFT				
£m (cumulative apart from free cash flow)	2011-12	2012-13	2013-14	2014-15
Opening Funds	(321)	(336)	(421)	(451)
Borrowing Facilities	1,150	1,150	1,150	1,150
Restriction due to level of network cash	(326)	(400)	(400)	(400)
Borrowing from other sources – finance leases, bank overdraft etc	21	16	11	6
October 2010 plan free cashflow before assumed equity injection	(15)	(285)	(245)	(207)
Assumed equity injection per October plan		200	215	170
Closing Funds Headroom	509	345	310	268
Adjusted Headroom pre risk	509	345	310	268

Table 2 Risks, with management actions				
£m (cumulative)	2011-12	2012-13	2013-14	2014-15
Headroom pre risk (as above)	509	345	310	268
Risk				
New Govt income does not materialise		(6)	(18)	(42)
Innovation income does not materialise		(2)	(7)	(14)
Pension contribution rates increase		(9)	(18)	(27)
Headroom post risks pre management actions	509	328	267	185
Management actions				
Headroom post risks pre management actions (A)	509	328	267	185

Headroom pre further management actions	509	328	267	185
Further management actions				
Headroom post further management actions (B)	509	328	267	185

Notes:

2011-12 shows the year end outturn and last years are the latest view of the strategic plan.

Available facilities are defined as network cash, ATM cash, ATM debtor, POCA debtor and SGEI cheques.

**Table 1**

This table shows the October 2010 strategic plan cashflow updated for the 2012-13 budget and latest reviews of subsequent years. It demonstrates positive headroom throughout the plan period.

**Table 2**

This table sets out the impact of theoretical downside scenarios if the plan does not generate the income streams anticipated and if the pension scheme costs increase.

Clearly mitigating management actions could be initiated but there remains sufficient headroom even if they are not taken. There are a range of management actions including implementing non-staff cost saving initiatives and closing non NSP offices without compensation, and the overriding principle is that management will take whatever action is required to mitigate any risk that materialises.



There are further actions that could be taken but are not required. These include:

- \* Closure of the defined benefit fund replacing it with the existing defined contribution scheme
- \* Sell shareholding in First Rate
- \* Defer settlement of bureau to First Rate
- \* Sell BT book
- \* Sell property
- \* Sell bill payment business
- \* Sell tax losses
- \* Compulsory redundancy on statutory minimum terms

#### 11.1 Net finance costs (interest) (2012/13 £1m vs 2011/12 £4m)

	2012-13 £m	2011-12 £m
<b>Finance costs &amp; investment income</b>		
Interest received on investments – UK	0.5	0.3
<b>Total finance income</b>	<b>0.5</b>	<b>0.3</b>
Interest charged on Government borrowings	(0.4)	(1.5)
Interest payable on finance leases	(0.7)	(1.0)
Unwinding of discounts	(0.5)	(0.7)
Other finance costs	(0.7)	(0.5)
<b>Total finance costs</b>	<b>(2.3)</b>	<b>(3.7)</b>
<b>Net finance cost</b>	<b>(1.8)</b>	<b>(3.4)</b>

Interest payable on the BIS Loan has reduced due as the amounts borrowed have been lower due to £200m capital grants received at the commencement of the financial year.

**12. Property, plant and equipment and intangible fixed assets****12.1 Net Book Values**

The net book value (NBV) of land and buildings, plant and fixtures and intangible fixed assets was £12m (Sept 2011 £11m). The movements in the half year were as follows:

<b>Movement in NBV</b>	<b>Land and buildings £m</b>	<b>Vehicles, plant and fixtures £m</b>	<b>Intangible fixed assets £m</b>	<b>Total £m</b>
NBV at 25 March 2012	11	-	-	11
Add capital expenditure	9	3	10	22
Less disposals (mainly property)	-	-	-	-
Less depreciation	-	-	-	-
Less impairment	(8)	(3)	(10)	(21)
<b>NBV at 25 March 2012</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>12</b>

**12.2 Assets held under finance leases**

The value of equipment held under three finance leases is £nil (Sept 2011: £nil) having been impaired in the years in which it was acquired. One finance lease - Supply Chain cash boxes - capitalised and impaired in 2007-8 with an asset value of £2m, expires in the second half of 2012-13.

**12.3 Capital expenditure**

The following table summarises the capital expenditure to 23 September 2012:

<b>Capital expenditure analysis</b>	<b>Land and buildings £m</b>	<b>Vehicles, plant and fixtures £m</b>	<b>Intangibles £m</b>	<b>Total £m</b>
Network Transformation: property-related	5	-	-	5
Supply Chain property-related	1	-	-	1
Property transfers ex RM	1	-	-	1
Other property	2	-	-	2
Technology roadmap	-	-	8	8
Pinpads	-	2	-	2
Secure vehicles	-	1	-	1
Other (items <£1m)	-	-	2	2
<b>Total</b>	<b>9</b>	<b>3</b>	<b>10</b>	<b>22</b>

All capex was impaired except the Property transferred from Royal Mail giving an impairment charge of £21m.

**13. Investments****13.1 Investments in joint ventures and associates**

	<b>Sept 2012 £m</b>	Sept 11 £m
Investment in joint ventures and associates	<b>90</b>	118

**Joint ventures**

During 2012-13 and 2011-12 Post Office Limited's joint venture investment was a 50% interest in First Rate Exchange Services Holdings Limited with a carrying value of £90m (2011 £96m), whose principal activity is the provision of Bureau de Change.

**Associates**

During 2012-13 and 2011-12, Post Office Limited's associate investment was a 49.99% interest in Midasgrange Limited with a carrying value of £nil (2011 £22m), whose principal activity is the provision of personal financial products. Midasgrange Limited trades as Post Office Financial Services and is a company registered in the United Kingdom. During the period POL waived £11m due under Gamma in return for a C share. The share was deemed of nil value and was immediately impaired. This investment was disposed of in August 2012 by the sale of POL's interest to the Bank of Ireland.

**13.2 Movements in investments in JV and associate (consolidated for information)**

	Associate: Midasgrange (POFS) £m	Joint venture: FRES £m	Total £m
At 25 March 2012	22	68	90
Increased investment in Midasgrange	11	0	11
Share of profit/ (loss) after tax	0	22	22
Sub Total	33	90	123
Sale proceeds	(3)	0	(3)
Loss on disposal of investment	(30)	0	(30)
At 23 September 2012	0	90	90

**13.3** The loss on disposal of investments of £28m includes the £30m loss above, offset by a £2m profit made on the sale of property as covered in section 9.7.

**14. Litigation and Claims- Potential Claims regarding Horizon.**

- 14.1 Post Office Ltd has received notification of five potential claims from former subpostmasters. Each of these subpostmasters had their appointments terminated following the discovery at audit of significant cash losses at their respective branches. Two of the subpostmasters were subsequently prosecuted and pleaded guilty to false accounting.
- 14.2 Each has claimed wrongful termination of contract on the basis that the losses are alleged to have arisen due to the unfairness of the system devised by Post Office Ltd and/or have been generated by a computer error in the Horizon system. More specifically, it is alleged that (a) the accounting procedures in place are unfair in that they do not permit subpostmasters to properly verify losses which are alleged to have been incurred, (b) the Horizon system itself contains inherent defects and/or (c) the training and support for subpostmasters using the system is inadequate,
- 14.3 Each subpostmaster is claiming circa £150,000 by way of damages.
- 14.4 Four of the claims remain at the pre-action stage (i.e. there are no live court proceedings). Post Office Ltd has strongly denied liability and rebutted the allegations made. The fifth claim was struck out by the Court and cannot be pursued further.
- 14.5 The last correspondence received on these matters was in December 2011. Post Office Ltd is not aware of any further substantive steps having been taken to advance these claims through the Courts since that date.
- 14.6 Post Office Ltd continues to receive challenges to the integrity of the Horizon system and it is possible that further claims may be received. Reports in the press have previously suggested that solicitors Shoosmiths may have consulted on between 85 and 150 potential cases in total.
- 14.7 Several subpostmasters have also made complaints about Horizon to Members of Parliament. Post Office Ltd has commissioned an independent third party, Second Sight Support Services Ltd, to investigate an initial sample of sixteen cases where allegations have been made that the Horizon system is the source of unresolved accounting shortages. That investigation is ongoing.
- 14.8 Post Office Ltd is also actively considering proposals from Justice for Subpostmasters Alliance, an organisation "established to raise awareness of the issues within the Post Office Horizon system", to develop a system by which individual subpostmasters can raise concerns with Horizon within a "no blame" framework.
- 14.9 On the basis of the evidence to date, no provision has been made and it is not considered appropriate to make any disclosure on this matter. This position is being actively monitored.