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Post Office Limited – Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)

Meeting to be held at 9.00 am on 31st October 2013
at Camden High Street Branch, 112-114 Camden High Street, London, NW1 0RR

0915	1	Strategy and Funding	Sue Barton
0945	2	Role of the Board and relationship with ShEx post funding	Virginia Holmes
1030	3	Analysis of economics of Crown network model	Sharon Bull
1115		Break	
1130	4	Presentation by the Branch Manager Camden	
1200	5	IR update	Tom Moran
1215	6	Project Maypole	Kevin Seller
1245		**LUNCH to be joined by Mark Russell**	
1345	7	Chief Executive's Report (including Horizon update)	Paula Vennells
1415	8	Financial Performance Update, including Half Year Results and Cost Reduction	Chris Day
1500	9	Minutes of Previous Meeting and matters arising Status report update	Alice Perkins
1505	10	FS Board Sub-Committee Terms of Reference	Virginia Holmes
1510	11	Mutualisation update against timeline	Sue Barton
1520	12	Items for Noting • Significant Litigation Report • Sealings	Alwen Lyons
1525	13	Any other business	Alice Perkins
		Date of next meeting: 27 November Date of next Board Awayday: confirmed for 10 and 11 June 2014	
1530		Visit to Branch	
1630		**CLOSE**	

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POST OFFICE LTD BOARD

Progress Report on Government Funding and Strategic Plan

1. Purpose

1.1. This paper provides the Board with an update on the programme of work that is underway to secure agreement to the 2013/20 Post Office Strategic Plan and the associated Government Funding.

2. Background

2.1. Our engagement with BIS on the need to move the network transformation programme to a mandated approach started on the 1st May with an initial meeting with the Minister to discuss the Strategy. Over the course of this and subsequent meetings with the Minister and the Secretary of State, we continued to promote and push our strategy. In spite of all the evidence and work we put into this activity, both in the pre-meets and the meetings, we failed to secure their agreement to mandation.

2.2. It is in this context, that we have been asked by the Minister and the Secretary of State to develop an approach to network transformation that can be supported by Post Office, the NFSP and BIS. They recognise that doing this will require us to improve the compensation offer to sub-postmasters and have committed that an additional £200m can be made available to enable us to deliver on this requirement. To access this funding we will need to demonstrate the NFSP are on board with the approach and that we can deliver a transformed post office network.

2.3. Over the past five months, we have therefore been working in partnership with the NFSP to develop an approach that, through a combination of enhanced compensation, semi-compulsion (conversion is still voluntary), and communications could deliver the required business outcome and secure the support of all stakeholders.

2.4. The substantive elements of these discussions are now concluded with the details of the alternative network transformation approach and the future of the NFSP agreed. Both agreements fall within the negotiating mandate and associated parameters set out by the Board. This paper provides the Board with an overview of these agreements and sets out the high level steps in the process to securing agreement to our 2013 to 2020 Strategic Plan and Funding. The full documents have been included in the Reading Room area of the Board iPad application.

3. Network transformation - enhanced compensation

3.1. In our September Board update, we set out the key parameters of the negotiation at that stage. The total funding cost of the proposal was £233m and was therefore within the agreed negotiating mandate with £200m being funding by BIS and the remainder being funded out of the available Post Office headroom. Our discussions over the past month have held to the core of this deal with only one change being agreed. This relates to transformation payments.

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3.2. While the principle of transformation payments had been agreed with the NFSP some time ago, we had jointly struggled to develop a mutually acceptable position. In September, our funding estimates had assumed that we would pay £3,000 in transformation payments to both converting and community branches. As we developed our implementation approach, we identified a more valuable approach for Post Office.

3.3. Our blind spot throughout this whole programme has been the income that the sub-postmaster generates from their non post office business activities. With this information we would be able to identify the unviable branches earlier in the process, secure better value from the NFSP agreement to the mandated exit approach and engage more strategically with the symbols and multiples. We therefore tabled an approach that would allow transformation payments to be triggered when sub-postmasters completed a retail survey. This was agreed with the NFSP.

3.4. As this proposal applied to the whole of the sub-postmaster community not just those converting or in the community category, we had to reduce the absolute value of the payment. The £3,000 transformation payment for converting and community branches has therefore been replaced with £2,000 of transformation payments for all sub-postmasters. Payment will only be triggered when the survey is completed and there will be attached conditions to ensure we can recover the payment should incorrect information be provided. This change increased our funding costs by £4m to £237m.

3.5. While this change was beneficial to Post Office, we also recognised it had value for the NFSP. They had been looking for ways to secure some form of transformation payment for all sub-postmasters in this financial year and this provided a mechanism for this to happen. In that context we have used this as a lever to secure agreement there will be no further pay demands or discussions with the NFSP, apart from new products that may be introduced after this agreement is made, up to and including 2014/15. This removes a risk to our P&L over the coming two years and also removes a significant amount of workload for Post Office and NFSP and therefore allows both organisations to focus jointly in delivering NT and the MOU.

3.6. The table below sets out the final position of these discussions:

Compensation option	**Latest negotiated position**	**Associated cost £m**
Enhanced compensation for exit	26 months of compensation only applied to those who are yet to exit with payment capped at £200k.	£123m
Enhanced compensation for Locals conversion	12 months full pay to all converting locals applied retrospectively Protection of CTP to September 2015	£41m £21m
Transformation related payments	£2,000 for all branches completing the retail survey	£22m
Cost of CTP associated with slower conversion		£30m
Grand total		**£237m**

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3.7. This change adds £4m of additional costs into the total funding profile projections that we provided to the Board in September. This cost will be incurred in 2013/14 and 2014/15. This is incremental to the Strategic Plan projections that were approved by the Board in May 2013.

£m	13/14	14/15	15/16	16/17	17/18	18/19	19/20	Total
Additional exceptional costs *(no impact on P&L)*	23	13	70	68	33	0	0	207
Additional on-going operating costs *(impact on P&L)*	2	1	5	7	5	5	5	30
Total	**25**	**14**	**75**	**75**	**38**	**5**	**5**	**237**
Cumulative total		**39**	**114**	**189**	**227**	**232**	**237**	

(please see section 4.2 below for the comparison to the Strategic Plan)

3.8. Based on this projection, we will be able to hold within the £200m of additional funding which BIS can provide, with £189m of additional funding being required through to the end of the proposed two year funding period, i.e. 2015/17.

3.9. We are currently evaluating the options around funding. While our funding requirement is for £189m over the period, we could seek to secure the full £200m available. In addition, BIS have indicated that a three year funding deal is possible and discussions are progressing on this basis. We believe that the three year deal may be helpful in ensuring that the possibility, either perceived or real, of political intervention post a 2015 election is limited.

4. Delivering the required business outcome

4.1 In our September Board paper, we provided an overview of the projected business outcome that this alternative approach would deliver. This remains unchanged with the chart below representing our latest thinking on the rate of transformation that this new approach will deliver.

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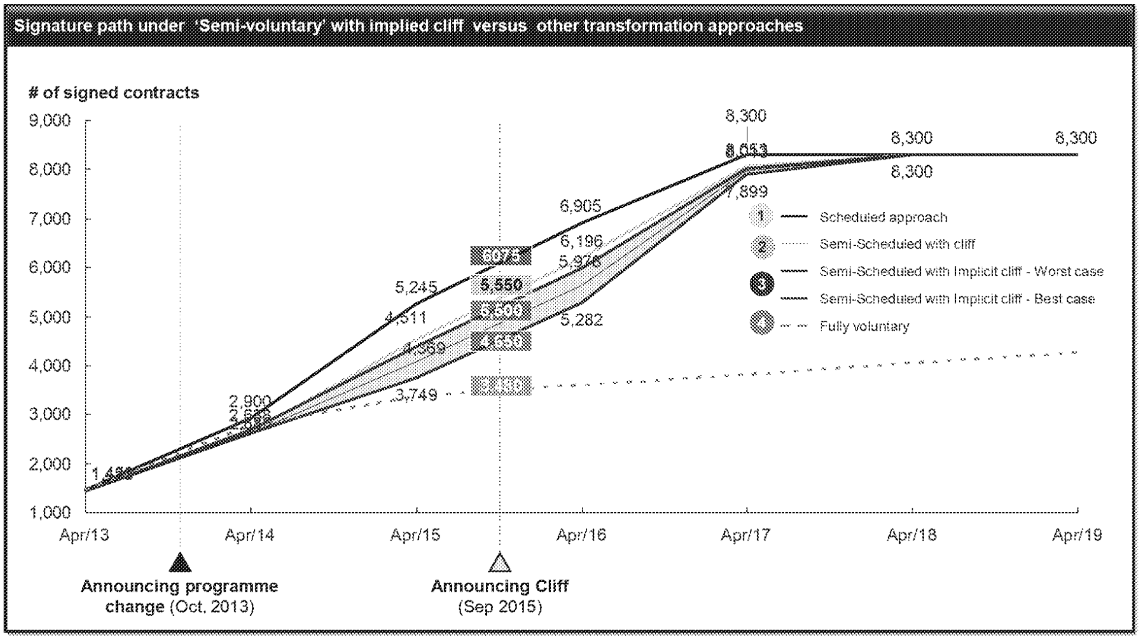

4.2 The revised approach while still delivering the full transformation of the network will do so at a slower pace. Our assessment is that the scale of the gap in profit before subsidy terms, i.e. EBITDAS, from the Strategic Plan could be in the order of £5m in 2015/16 and £30m cumulatively over the period through to 2019/20.

£m	13/14	14/15	15/16	16/17	17/18	18/19	19/20
Strategic Plan EBITDAS	-98	-63	0	53	92	105	115
Revised Strategy EBITDAS	-100	-64	-5	46	87	100	110
Gap to be mitigated	**2**	**1**	**5**	**7**	**5**	**5**	**5**

4.3 Our current view is that this gap is of a magnitude which could be mitigated. This would allow us to continue to deliver against our Strategic goal of achieving breakeven in 2015/16. It is important to note this is based on us achieving the mid-point of the range set out in the chart above.

5. Future of the NFSP

5.1 The final element of our negotiations with the NFSP has focused on their future. The NFSP understand that as network transformation progresses, independent retailers without much retail will not be viable. These are the core of their current membership, so not only will they likely lose these members, they will have to reinvent their organisation so it is capable of serving a new sub-postmaster community for whom the agenda is operating a post office within a broader retail context. The challenge is that this will take time and investment. It is clear that they had seen mutualisation as a possible solution to this problem, however as they have recognised that this will not happen in the near future, the urgency around this issue has increased.

5.2 It is in this context, that the NFSP had tabled the outlined proposal. The Board discussed the key elements of this in September and provided guidance on the

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approach that should be taken in these discussions. The team have now concluded the substantive elements of these discussions with the NFSP and can confirm the outcome is within the Board's mandate. The key elements are as follows:

- Term of agreement: the agreement is for 15 years and contains regular review points. At the Board we had discussed the possibility of making these review points time based or even linked to funding. We concluded that the approach of regular reviews was more valuable as it allows us to trigger a review at any point and disconnects this agreement from our funding discussions with BIS.

- Organisational support payment: funding is divided into two components. The first component is related to day to day funding and is capped at £1.5m per annum from 2014/15. This commits the Post Office to top up the subscription fees that the NFSP generates to the value of £1.5m per annum. They currently generate around £1.2m of funding per annum, however, we should recognise that this will decline over time and Post Office's funding will therefore increase.

- Grant funding: this component of funding is linked to development of services for sub-postmasters. The funding starts at £0.5m in this financial year and increases to £1m per annum thereafter. The fund is ring fenced and jointly administered with funding only being released when 'suitable' grants/ services are agreed. Examples of possible sub-postmaster services/ benefits are included but at this stage we have no commitment to any specific area.

- Support for network transformation: the NFSP provides a commitment to support the rollout of the programme on the agreed financial arrangements through to its completion in 2018.

- Review conditions: the regular reviews will assess the extent to which the NFSP are representing all operating models within the network, the NFSP has transitioned to its new organisation structure (trade association etc.) and has engaged in any activities which are actively detrimental to the Post Office. The reviews will results in agreed actions and where we cannot agree there is a dispute process that can be triggered.

5.3 The details of this agreement have been developed into a Memorandum of Association. A copy of this is included in the Board Reading Room.

6. Next steps

6.1 The conclusion of the NFSP negotiations represents a major step forward in this process however there are still a number of hurdles we have to navigate to get this through to conclusion.

6.2 NFSP: the NFSP now have to take this through their governance process, i.e. Negotiating Committee, Executive Council and Special Conference. They have started this process and are preparing the papers and the ground work. The target date for special conference is last week in November – the details of this

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are being confirmed with BIS as we need to choreograph this with the wider political governance process.

6.3 BIS: Jo Swinson is now fully on board with the plan and the approach. She met with Danny Alexander and Oliver Letwin on the 24th October to start to build Ministerial support beyond BIS. This meeting went well with Jo presenting our case. There were some detailed questions about the process and specific post offices but no substantive questioning of the strategy.

The BIS team are continuing to work with BIS finance and Treasury on their approvals process. Looking forward, Jo has scheduled another discussion with Danny Alexander on the detail of the funding and the BIS team are preparing the paperwork to secure their internal approvals. The first step in their approvals will be to secure agreement to progress to the stage of drafting the legal documentation – this will be done at the end of next week. The second stage will be to secure full agreement – they see this being done just before the NFSP Special Conference.

6.4 The coming weeks will focus on developing the detailed joint plan across Post Office, NFSP and BIS. Co-ordination and control across all the parties will be absolutely critical to getting this over the line.

7. Communications

7.1 The Post Office team are closely engaging with BIS and NFSP and continue to develop and enhance our communications plans. The team are also working on the sub-postmaster communications which will go around the launch and implementation of the new approach.

8. Horizon scanning/ risk assessment

8.1 Horizon scanning has and will continue to be a critical element of this programme of activity. We presented the Board with a detailed risk assessment in last month's Board paper. Until we secure full agreement these risks will remain. We will continue to monitor and update these throughout our work activity.

9. Conclusions

9.1 We have concluded the substantive elements of our discussions with the NFSP and believe the agreed solution delivers the transformation of our network within the funding envelope that is being made available from BIS.

9.2 We also believe that this solution will deliver the network transformation at the pace we require to sustain our business. The Commercial and Financial Services teams have confirmed that the slower pace of transformation will not affect their income projections. The key issue is therefore one of cost.

9.3 Our assessment is that the slower pace could create an EBITDAS gap of £5m in the 2015/16 financial year and would cumulatively reduce EBITDAS by £30m through to 2020. We believe that this is of a scale that can be mitigated, so protecting our strategic goal of breakeven in 2015/16.

9.4 The agreement with the NFSP we believe provides the mechanism that not only secures the future of the NFSP organisation but allows us to play a role in their transformation. It commits them to supporting the successful completion of the

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network transformation through to 2018 on the enhanced terms set out above and gives us the ability to intervene should they undertake activities that are detrimental to our business.

9.5 The next steps relate to securing agreement through the NFSP and BIS whilst as importantly planning for the operationalization of our new network transformation approach. Work is underway on all these elements and we will provide the Board with updates as these progress.

9.6 Given the agreed position lies within the Board's negotiating mandate, we ask the Board to note the progress made, endorse the position the team has secured and approve the next steps that are set out above.

Sue Barton & Kevin Gilliland

25th October 2013

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POST OFFICE LTD BOARD

Crown Economics

1. Purpose

The purposes of this paper are:

1.1 To provide an overview of the Board agenda item 'Analysis of economics of Crown network model'.

1.2 To provide information in advance, to set the context for the agenda item.

2. Background

2.1 In July, the POL Board requested a deeper insight into the economics of the network as a whole, commencing with the Crown network. Whilst the Board has received regular updates on the Crown Transformation programme at an enterprise level it has not yet had the opportunity to understand the impact of those changes on the financials of a single branch.

3. Proposed Approach

3.1 An agenda item of 45 minutes has been scheduled for the October Board meeting that will take place at Camden Crown Office. The session will be largely focused on the P&L statement that the branch manager uses to manage his branch, and considers the impact of the Crown Transformation Programme alongside the wider business strategy.

3.2 A short deck is attached that summarises the programme in aggregate, and is intended as background information to the session. This includes:-

- The journey to achieve a profitable Crown network – provides a high level view of the changing economics over the duration of the Crown Transformation Programme. Creating a more flexible and cheaper operating model is fundamental to delivering our 2020 strategy.

- A financial view of the key activities and sequencing that underpin the journey – this provides further insight on the impact of key activities.

- The shape of the Crown network economics today – highlights the challenges within the projected £23m loss for 2013/14, in terms of the branch economics and the cost to income metrics that we manage against.

- The P&L statement that the Camden branch manager receives on a monthly basis – the Board session will build on this and provide an insight into the changing economics at branch level as we progress through the programme.

3.3 There will be an opportunity during the day to 'walk the floor' and understand on a more practical level the impact of the planned Camden transformation, as well as a view from the branch manager on how he will leverage the transformation to continue to improve the branch economics.

Chris Day
24 October 2013

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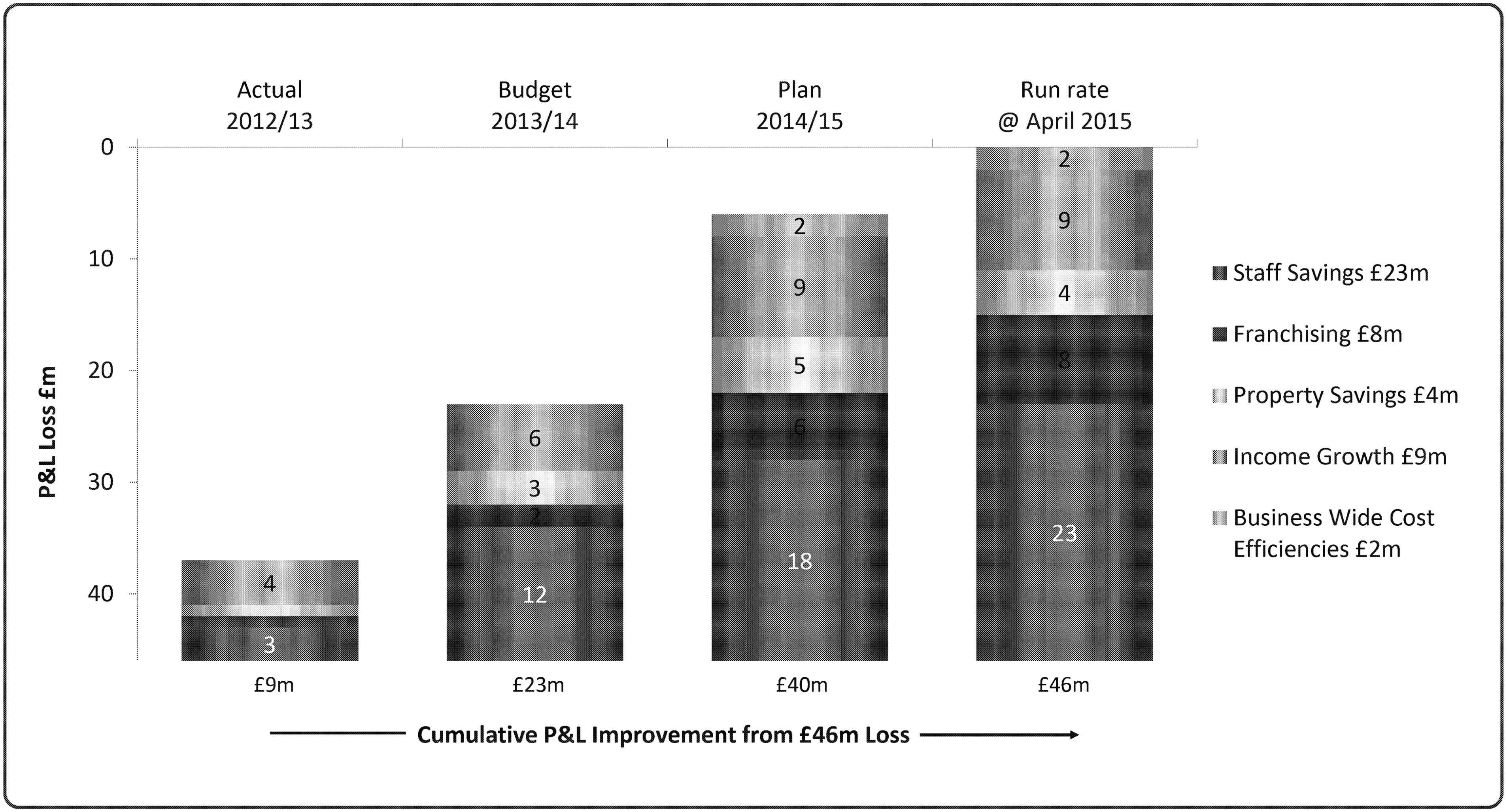
The journey to achieve a profitable Crown network



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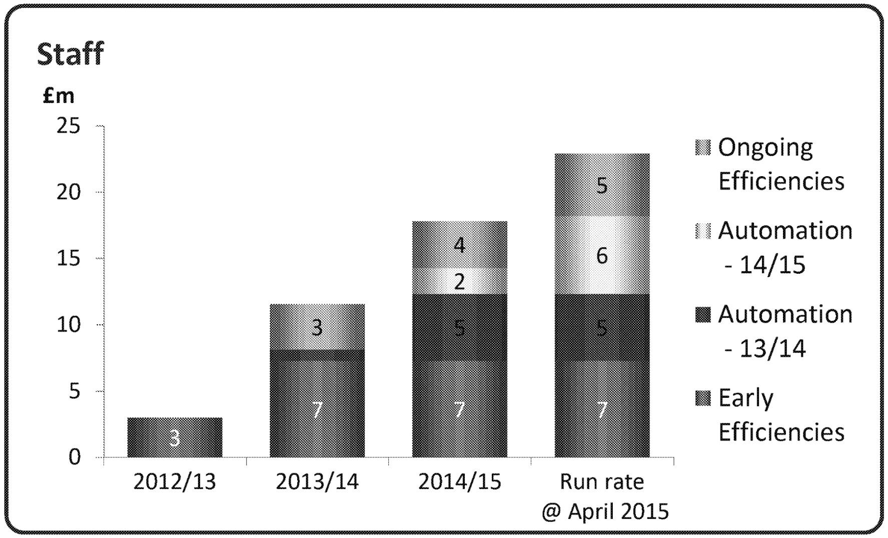
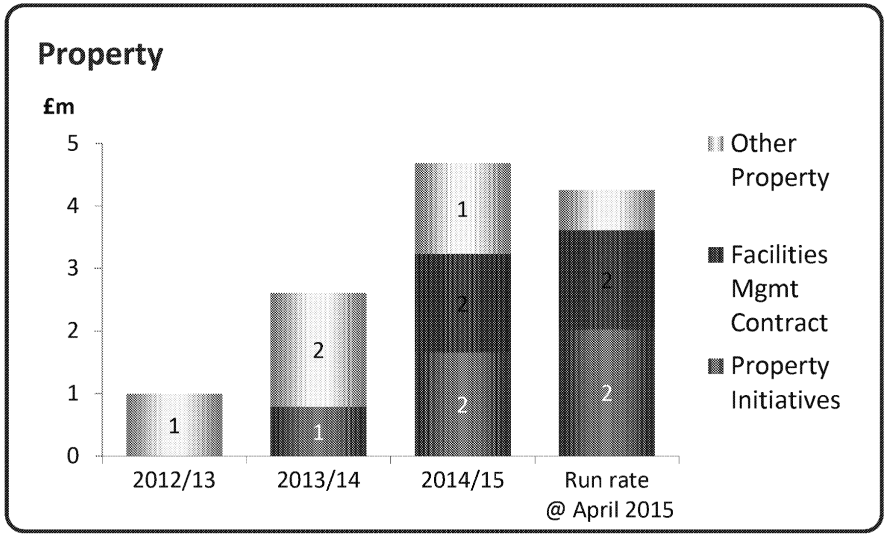
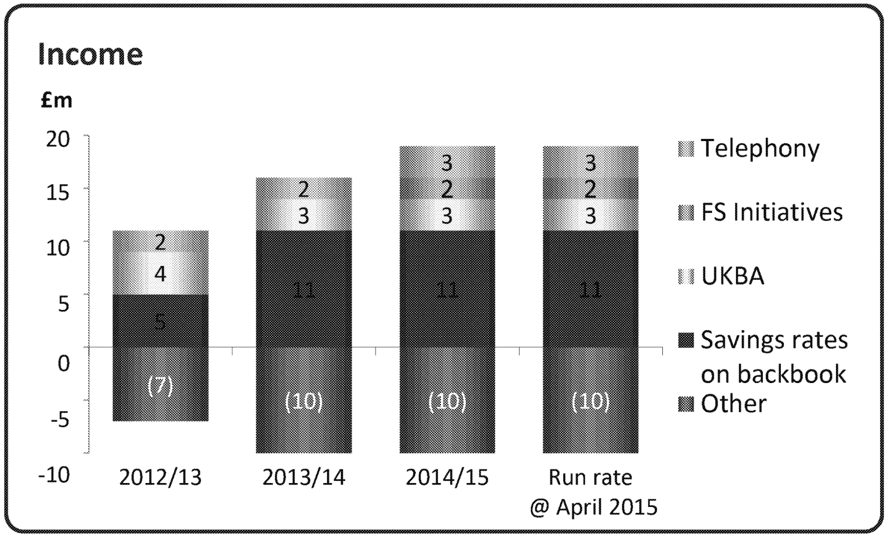
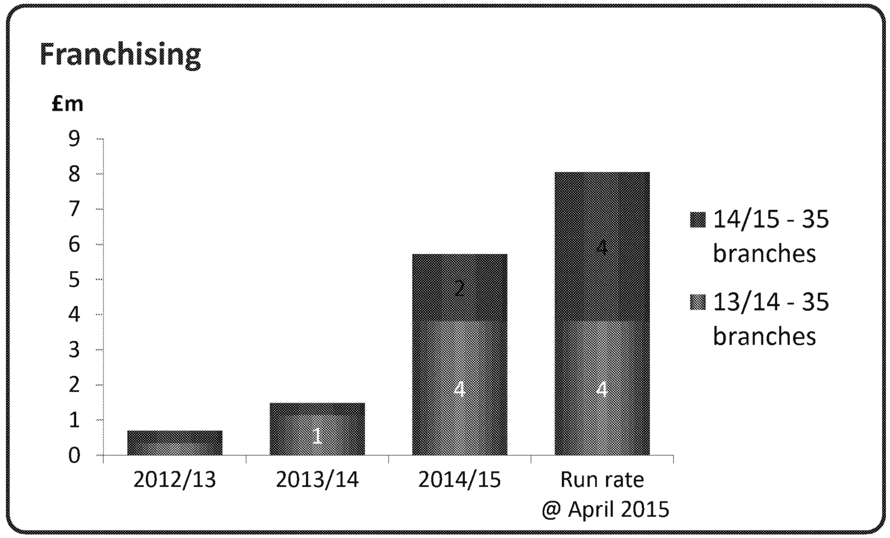
Financial view of the activities that underpin the journey









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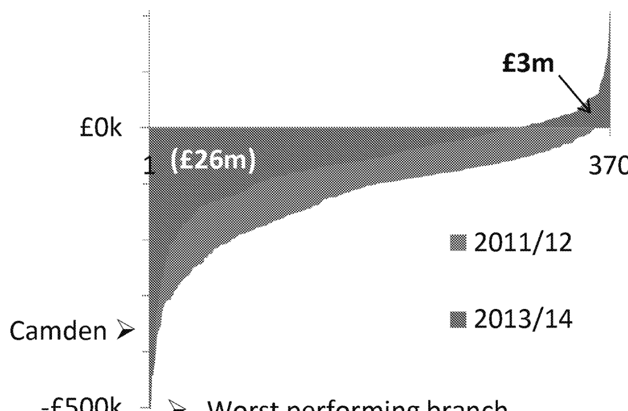
The shape of the Crown economics today - 2013/14

£m	Budget
Income and Distributions	
Variable income	
- Mails	43.2
- Financial Services	29.6
- Government Services	19.9
- Telephony	1.3
Fixed income	24.8
Renewals and Retentions	16.5
Other	14.8
Total Income	**150.1**
Direct Product Costs	(5.0)
Branch costs	
- Staff costs	(99.5)
- Productivity	(6.5)
- Property	(35.4)
- Other branch costs	(4.7)
Infrastructure costs	(22.9)
Allocated central costs	(8.4)
Total Expenditure	**(182.2)**
JV Share of Profits	9.1
Statutory PBIT	**(23.0)**

Income: 17% currently generated in Crowns

- 368 branches
- Individual economics are wide-ranging:



- Best performing branch (Birmingham) now generates £210k pa, from a £35k loss in 2011/12
- Worst performing branch (Trafalgar Square) loses £500k pa

- 77 profitable branches generating £3m vs 291 loss making branches losing £26m

Central costs: 9% allocated to Crowns

Notes:

Staff Cost : Income ratio - metric for branches to manage direct staff costs against transactional income (variable income)

Branch Controllable Cost : Income ratio - incorporates other operational costs

Direct Cost : Income - metric for business to manage direct branch performance

- Staff Cost : Income = 106%
- Branch Controllable Cost: Income = 116%
- Direct Cost : Income = 161%

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CAMDEN Crown Office Profit & Loss account 2013-14

Scope of the Crown Transformation Programme

Branch-led

Business-wide-led

£		13/14 Budget
Focus Product Income	Financial Services	74,246
	Mails & Retail	117,931
	Telephony	2,173
	Government Services	22,342
	Total Focus Product Income	**216,692**
Standard Product Income	Financial Services	78,661
	Mails & Retail	161,565
	Telephony	1,361
	Government Services	115,976
	Income Adjustment	0
	Total Standard Product Income	**357,562**
TOTAL TARGETED INCOME		**574,254**
Less : Direct Product Costs	Marketing Directorate Costs	(30,679)
PRODUCT CONTRIBUTION		**543,576**
Less : Controllable Staff Costs	Ordinary Pay	(490,189)
	Overtime	(12,259)
	Agency/Casual Labour	0
	Employee NI & Social Security	(38,577)
	Pension Costs	(60,926)
	Bonus Payments	0
	TOTAL STAFF COSTS	**(601,951)**
Less : Controllable Non Staff Costs	Cash Holding Costs	(4,012)
	Foreign Currency Holding Cost	(979)
	Consumables	(495)
	Gains & Losses	0
	First Line Fix	0
	Other (remaining)	(754)
	TOTAL NON STAFF COSTS	**(6,239)**
Contribution After All BM Controlled Costs including Direct Product Costs		(64,615)
* BRANCH CONTROLLABLE CONTRIBUTION excluding Direct Product Costs		**(33,936)**
Less : Other Branch Costs (Controlled by CAM, RM or GM)	Long Term Sick/Maternity/	0
	Travel & Subsistence	0
	Branch Property Costs	(443,102)
	Other Non Staff	0
BRANCH CONTRIBUTION (After All Other Branch Costs including Direct Product (		(507,716)
Less Infrastructure Costs :	Horizon	(25,011)
	Admin Overheads	(37,193)
	Other Infrastructure Costs	(62,337)
OPERATIONAL CONTRIBUTION		(632,257)
	Cash Holding Costs	4,990
Share of Associates	FRES	61,666
	POFS	0
EBIT - POL TARGETED PROFIT		(565,601)
<u>Allocations :</u>		
Other Central & Group Overheads		(35,833)
Allocations of Renewals & Retentions		70,386
Allocations for Non Transactional Income		168,927
FULLY ALLOCATED BRANCH P & L (Including Cash Holding Costs)		(362,120)

Staff Cost Income Ratio	105%

Total Controllable Costs per Income	111%

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POST OFFICE LTD BOARD

Project Maypole

1. Purpose

The purpose of this paper is to:

1.1 Update the Board on progress in relation to Project Maypole (future of Post Office card account)
1.2 Describe the preferred option
1.3 Highlight the key risks and issues associated with the preferred option
1.4 Ask the Board to note that we will vary from the Strategy Plan for future POca income
1.5 Ask that delegated authority is given to ExCo around future decisions and describe how these arrangements will work.

2. Background

2.1 Having been advised by the Department for Work & Pensions (DWP) that they wished to close POca in April 2015, the June ExCo supported the recommendation to take a collaborative approach with DWP.

2.2 A formal project (Maypole) was started, with its main focus being a review of the options open to Post Office with the objective of gaining a 2 year extension to the existing contract and securing a new contract post 2017, ideally without the need for DWP to run a public procurement.

2.3 Subsequently DWP has indicated that they will extend the existing agreement and have asked Post Office for a proposal for a new product to serve primarily the pensioner population.

2.4 Post Office has looked at a number of options for delivery of the new product and their impacts on our current Strategy Plan.

3. Proposed Approach

3.1 In terms of proposing a new card account service (which, for the purposes of this paper we will call **Government Card Account, GCA**), the following options were considered:

- **Option 1: Do Nothing.** No proactive action taken by Post Office. Assumes a 2 year extension of the existing POca contract and relies on DWP retendering the contract in 2017
- **Option 2: Post Office Prime.** Post Office as prime contractor to DWP with a newly appointed sub-contractor The new sub-contractor could either be procured via a public procurement (**Option 2a**) or by calling off service provision by National Savings & Investments (NS&I) (**Option 2b**)
- **Option 3. NS&I Prime.** NS&I as prime contractor to DWP with Post Office as channel for the card account services.

3.2 A **full analysis of these options** has been undertaken and this is summarised in the Annexes to this paper (Annex 1 includes the details of the financial appraisal and Annex 2 describes the assessment of options against non-financial criteria).

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3.3 **Option 2b** (Post Office Prime with NS&I as sub-contractor) has emerged as the preferred option as it offers the most favourable financial return to Post Office and, on balance, is most advantageous in terms of other key criteria (risk, strategic alignment and attractiveness to DWP). Option 2b is also attractive in that it could offer Her Majesty's Government (HMG) wider possibilities to leverage one government asset (Post Office's branch network), with another (the NS&I established banking platform). Annex 3 includes full details of Option 2b including **comparison to Strategy Plan** in terms of financial projections and supporting assumptions. Annex 4 provides details of sensitivity analysis undertaken on the preferred option to confirm that it is prudent and robust.

3.4 **Option 2b, overall, exceeds our Strategy Plan for POca**. All of the considered options are adverse to Strategy Plan in 2016-17 driven by projected customer volumes being significantly lower in this year. We anticipate DWP will migrate working age customers away from card account to bank accounts during 2015-16 to 2016-17. This leads to a marked reduction in customer volumes and therefore fee income. The result in 2016-17 is a £6.6m adverse income compared to the Strategy Plan but is positive in all future years.

3.5 As well as the financial impact there will also be a **footfall impact** when compared to the Strategy Plan. Based on the latest customer profiling, we estimate that there will be 6.15m fewer POca transactions in 2015/16, 28.8m fewer in 2016/17 and 11.6m fewer in 2017/18. After this, our proposal is broadly in line with, or slightly above, the Strategy Plan.

3.6 DWP has confirmed that the **Driver Vehicle Licensing Agency (DVLA) Front Office Counter Services framework** ('FOCS') can be used as the route via which they will procure any successor service. This obviates the need for a public procurement and offers the prospect of a subsequent contract to 2023 (the default duration of call-off under FOCS is 7 years). Note that one of the principles of DVLA FOCS is open book accounting and this will involve full transparency around how our prices are derived.

4. Key Milestones

4.1 Forward planning has identified the **major milestones** over the next three years and these include:

- By April 2014: Current POca contract extended by DWP
- By September 2014: Agreement in place for new service (FOCS call-off) in place with the DWP and a sub-contract is in place with NS&I
- By April 2015: Exit management commenced with Hewlett Packard (HP) and JPMorgan (JPM)
- By March 2016 current supplier exit completed
- By April 2016: Working age customers migrated by DWP to bank accounts
- By April 2016: New service goes live for non-working age (and any residual working age customers who do not respond to DWP migration).

5. Key Risks

5.1 A full summary of the major risks identified for Project Maypole are included in Annex 5.

5.2 The key risks are:

- Our **State Aid** provision specifically states that any future procurement of a replacement card account service must be in line with Public Procurement Regulations. The use of DVLA FOCS Framework as a route for DWP to procure the successor card account service has been reviewed by our own legal counsel as well as DWP's legal department. It has been confirmed that DVLA FOCS is indeed a viable contracting route that is in line with Public Procurement Regulations. This has also been confirmed by BIS. There is an outstanding review to understand the commercial impact of Post Office using DVLA FOCS (compared to the current contract with DWP) but this does not affect the risk position with respect to State Aid.
- The **preferred route to procure NS&I's services** is that Post Office calls off services under an existing public contract which has been competitively procured by NS&I. Following discussions with Post Office legal, there are risks associated with this approach including a risk of legal challenge by suppliers including HP and JPM (see Annex 6). In addition to the legal risk, any challenge is also likely to have a reputational impact on our brand
- The **alternative approach is to run a Public Procurement** which also poses a number of significant challenges. The end to end process, from production of the Business Case through Sourcing Council and final governance is a minimum of 9 months, which could impact Post Office's ability to provide a new service to the DWP by April 2016. With this approach we would be unable to sign a new contract with DWP until our procurement is completed and we are in a position to confirm that we can back off liabilities to our banking partner. This may take us beyond the election date (May 2015) and remove the imperative for DWP
- There is also a potential risk associated with the NFSP, CWU and other stakeholders perceiving our award to NS&I as a change in our banking partner strategy. See Annex 5 for further detail.

6. Business Interdependencies

6.1 The main business interdependency area for Maypole is **impact on the Network**. POca is vital to our sub-postmasters as it brings customers into their stores. As mentioned earlier, our preferred option will have a potential impact on Network via reduced customer volumes and footfall but it is worth noting that the trend towards declining volumes is a pre-existing risk which has already factored into our strategy planning and it is not driven by the decision to pursue our preferred option. The preferred option does not change the overall assumptions made in our Strategy Plan in relation to Network Transformation, i.e. we do not envisage that our proposed approach will have a specific impact on our roll-out of Locals and Mains models over the longer term. However, this will need to be reviewed to test the implications on the models, especially as the Locals model relies on the Post Office generating footfall that delivers retail spend. Any messages around the future of POca do also need to be carefully managed as part of engagement with sub-postmasters in relation to Network Transformation.

6.2 **DWP plan to migrate working age customers** away from POca. It is likely that some POca customers will apply for a Post Office current account and this will have implications for our proposed plans for launching this product. We will continue to work closely with Financial Services to ensure that we are managing any potential adverse impacts associated with migration.

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6.3 POca transactions have **an impact on cash across the Network** and, along with two or three other products, are the major reason for having to maintain a cash processing and distribution capability. We will work closely with the team reviewing the future of our Supply Chain business to ensure that any decisions made are aligned.

7. Recommendations

The Board is asked to:

7.1 Note progress made to date in developing options for the future of POca
7.2 Agree our proposed approach and note the key risks and business interdependencies associated with our preferred option
7.3 Note the income variation against Strategy Plan projections
7.4 Approve the proposed approach being developed at executive level via an ExCo sub-group (and updates to the Board by Noting Papers).

Martin George
24 October 2013

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Annex 1 – Financial appraisal of options

A detailed financial model was constructed and used to describe the options under consideration. This allowed the options to be compared on the basis of Net Income (Gross Income minus Cost of Sales), Contribution (Net Income minus Agents Pay) and Net Margin (Contribution minus Overheads, including a share of cash processing and distribution costs). Options were compared over 5 years and not 8 years because only Options 2a and 2b would be procured under the DVLA FOCS Framework and have contractual cover of 7 years. The other options are likely to be contracted under commercial arrangements of 4-5 years.

£m								
		15-16	16-17	17-18	18-19	19-20		TOTAL
Option 1 – Do Nothing	**Net Income**	**49.3**	**34.3**	**28.9**	**26.8**	**22.7**		**162**
	Contribution	29.2	18.2	16.6	15.4	13.1		92.5
	Net Margin	5.5	-0.6	1.8	1.8	1.8		10.3
Option 2 – Post Office Prime	**Net Income**	**49.3**	**34.3**	**30.7**	**28.4**	**24.1**		**166.8**
	Contribution	29.2	18.2	18.4	17	14.4		97.2
a) re-procure supplier	Net Margin	5.5	-0.6	3.5	3.5	3.2		15.1
Option 2 – Post Office Prime	**Net Income**	**49.3**	**41.4**	**36.1**	**29.5**	**23.8**		**180.1**
	Contribution	29.2	27.7	23.4	18.7	14.6		113.6
b) calling off service provision by NS&I	Net Margin	5.5	9.5	7.6	5.9	4		32.5
Option 3 – NS&I Prime	**Net Income**	**49.3**	**27.3**	**23.7**	**21.3**	**19.2**		**140.8**
	Contribution	29.2	3.4	1	0.9	0.8		35.3
	Net Margin	5.5	-0.6	1	0.9	0.8		7.6
Strategy Plan	**Net Income**	**51.3**	**47.9**	**31.4**	**24**	**21**		**175.6**
	Contribution	28.9	26.3	18.8	14.2	11.9		100.1
	Net Margin*	4.5	4.3	2.1	1.7	1.6		14.2

*Net Margin has been estimated because this was not included in Strategy Plan

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Annex 2 - Options assessment against non-financial criteria

Achieving the following goals was taken as our ideal target outcome:

- **Retain profitable business.** Achieve Government Services income commitments
- **Maintain branch footfall.** Support Network financial sustainability
- **Develop relationship with DWP**. Position ourselves as a strategic partner to support the department's welfare reform, e.g. Universal Credit
- **Support Financial Services strategy**. Ensure that any approach in relation to card account align with our wider plans to launch a current account.

With this in mind, the criteria listed below were used to assess the options alongside the financial appraisal:

- **Certainty of outcome.** How likely is it that the option will deliver the desired result in a predictable way?
- **Attractiveness to DWP/HMG.** How palatable is the option likely to be to the client? Does it support wider government strategy e.g. around efficiency?
- **Alignment to Post Office strategy.** Is the option compatible with Post Office's business strategy?

A simple assessment against these criteria confirms that Option 2b is the favoured option. Details of this assessment are provided below.

Options appraisal against non-financial criteria

Option	Certainty of Outcome	Attractiveness to DWP/HMG	Alignment to Post Office Strategy
Option 1 – Do Nothing	×× • DWP might not re-tender • Post Office might lose procurement	×× • Cost/Effort of tendering process • Award to Post Office open to challenge	×× • POca important to future of Network • Will not achieve strategic plan income projections
Option 2 – Post Office Prime **a) re-procure supplier**	✓ • Use of DVLA FOCS Framework avoids competition • Re-procuring supplier introduces uncertainty	✓✓ • Demonstrates use of balance income to reduce costs • Use of DVLA FOCS Framework has been confirmed by DWP	✓✓ • Achieves Strategy Plan • Compatible with FS Strategy
Option 2 – Post Office Prime **b) calling off service provision by NS&I**	✓ • Use of DVLA FOCS Framework avoids competition	✓✓✓ • Demonstrates use of balance income to reduce costs • Use of DVLA FOCS Framework has been confirmed by DWP • Potential wider opportunities for HMG to use funds	✓✓ • Achieves Strategy Plan • Compatible with FS Strategy
Option 3 – NS&I Prime	✓ • NS&I can contract directly with Departments	✓✓ • Demonstrates use of balance income to reduce account costs • NS&I can contract directly with Departments	×× • Reduced opportunity for Post Office to engage DWP as a strategic partner • A step away from developing closer relationship with end-customers.

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Annex 3 – Financial Projections for Proposed Approach (Option 2b)

Details of the projected financial position for the preferred option are presented below.

Preferred Option								
	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23
Volume of customers, m	2.32	1.59	1.47	1.25	1.06	0.90	0.77	0.65
Fee Income, £m	64.8	47.6	44.1	37.5	31.8	36.1	30.7	26.1
Total Income (inc interest), £m	72.3	52.9	48.9	41.6	35.3	39.0	33.2	28.2
Cost of Sales, £m	25.0	13.5	12.8	12.1	11.5	10.1	9.8	9.7
Net Income, £m	**49.3**	**41.4**	**36.1**	**29.5**	**23.8**	**28.9**	**23.4**	**18.5**
Strategy Plan, £m	**51.3**	**47.9**	**31.4**	**24.0**	**21.0**	-	-	-
Contribution, £m	28.2	27.7	23.4	18.7	14.6	21.1	16.8	12.8
Contribution, %	39%	50%	48%	45%	41%	54%	51%	46%
Net Margin, £m	5.6	9.5	7.6	5.9	4.0	8.3	6.7	5.2
Net Margin, %	**7%**	**17%**	**16%**	**14%**	**11%**	**21%**	**20%**	**18%**
Interest rate, %	0.37	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Post Office Share of interest	7.5	5.2	4.8	4.1	3.5	3.0	2.5	2.1
DWP Share of interest	-	5.2	4.8	4.1	3.5	3.0	2.5	2.1
Net Operating Cost to DWP	**71.1**	**47.2**	**43.0**	**37.7**	**32.7**	**34.8**	**30.6**	**27.2**

The **key 'base case' assumptions** in these projections are as follows:

- DWP sign an extension for the current service by April 2014. The current contract expires in March 2015. We assume the extension will be for up to 2 years i.e. up to March 2017, to give DWP certainty during transition to the new service
- DWP will sign the FOCS call-off contract for the new service by September 2014
- The new service will be a closed-scheme, i.e. DWP will not issue new card accounts from April 2015
- Post Office will not need to run a public procurement in order to appoint NS&I as a supplier
- NS&I costs in Cost of Sales are currently based on indicative proposals
- Customers of non-working i.e. pensionable age, will be transferred to the new card account by a court order process i.e. will not require customers to be written to individually
- DWP and Post Office agree to drop the concept of ring-fenced accounts and these accounts will transfer to the new service with the main population. Migration fees for the other customers i.e. working age, will not be charged
- 557k of working age customers migrate to bank accounts and 416k working age are left as a residual to transfer onto the new card account
- Overnight balances are £1.65Bn in 2016-17 then a slight decline due to customer attrition. Interest rates remain at 0.8%. Note: Financial Services have suggested that an interest rate rise to 2% before 2020 is realistic so we are being very prudent in this assumption
- NS&I is not authorised under Financial Conduct Authority regulations but it does have an exception. This means that the risk relating to balances i.e. in the event of having to pay out all balances, will not be carried by NS&I and Post Office will not pick up that risk. Post Office will make this clear to DWP when the proposition is presented to them.

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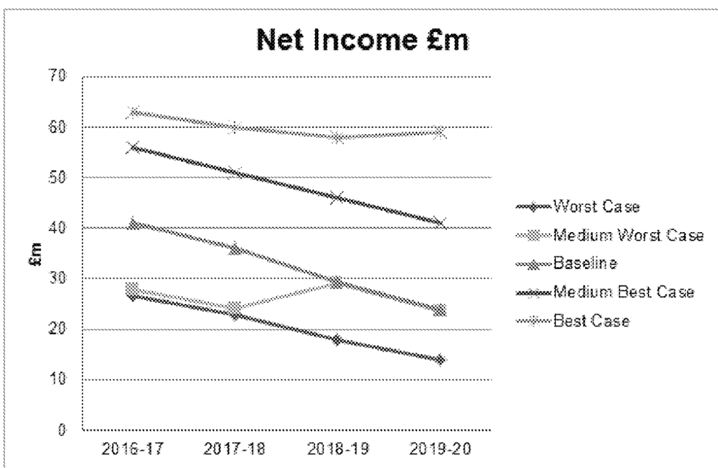
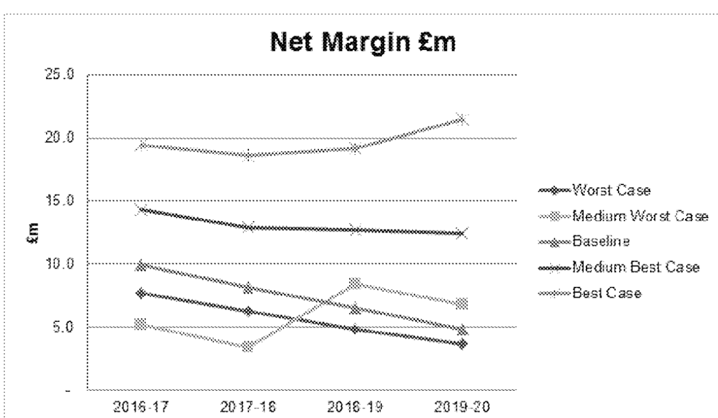
Annex 4 – Sensitivity analysis of preferred option

Worst case	From April 2016 there will be 700k customers moving on to GCA. Their overnight balance is £800m in total and is reducing. The attrition rate for these customers is 15%.
Medium worst case	From April 2016 there will be 1.2m customers moving on to GCA. Their overnight balance is £1bn in total and is reducing. These customers get an interest rate circa 0.5% as per current LIBOR rates. The attrition rate for these customers is 15%.
Base case (preferred option)	
Medium best case	From April 2016 there will be 2m customers moving on to GCA. Their overnight balance is £1.9bn in total and is reducing. These customers get an interest rate circa 0.8% moving up to 2% closer to the end of the contract. Overnight balances gradually increase as per current trend. The attrition rate for these customers is 15%.
Best case	From April 2016 there will be 2.4m customers moving on to GCA. Their overnight balance is £2.1bn in total and is reducing. These customers get an interest rate circa 0.8% moving up to 3.5% closer to the end of the contract. Overnight balances gradually increase as per current trend. The attrition rate for these customers is 10%.





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Annex 5 – Summary of Key Risks associated with Proposed Approach

A full project risk register is maintained for Project Maypole. In summary, the key risks identified to date are as follows:

- **DWP renege on commitments to extend and pursue replacement service.** There is still a risk that either at Secretary of State or senior official level that DWP's position reverts to expiry of POca in March 2015. It is for this reason that continued political pressure needs to be applied, e.g. by NFSP, BIS and others
- **Post Office's proposition is unacceptable to DWP.** Whilst our preferred option does offer DWP significant cost savings over the current service, our proposition may still not meet their requirements. In addition, DWP may not accept our position that any risk on balances resides with them. We will address this area by sharing our proposed approach with DWP Seniors as early as possible
- **Attractiveness of proposition to NFSP.** NFSP/Sub Postmaster dissatisfaction with falling volumes could create pressure on us to increase agents' rates. We will address this risk by passing this increase onto DWP at the outset and this will reduce the changes of our contribution being squeezed.
- **Contracting directly with NS&I is challenged.** We believe there are strong arguments for Post Office being able to award the sub-contracted service provision to NS&I. This position has been confirmed by HM Treasury's Legal Department. However, there is a risk that this decision will be challenged by our incumbent suppliers or, potentially, prospective sub-contractors
- **Migration becomes uncontrolled.** If customers moved more quickly and in larger volumes than expected, this could have significant impacts on the plan, e.g. reduce overnight balances and in turn impact interest income. This risk will be addressed by working closely with DWP to ensure a robust customer contact strategy is put in place
- **Returns on investment strategy are lower than expected.** There is a risk that the income from overnight balances is lower than projected and this could result in unbudgeted costs to DWP. NS&I have confirmed that any investment strategy would be fully transparent and therefore Post Office and potentially DWP will be involved in decisions around the vehicles invested in. In addition, we will continue to undertake thorough sensitivity analysis to ensure that we have a clear view of the extent to which costs can be off-set against investment income. Note: Post Office margin will always be protected as interest income will be paid to DWP as a rebate against account fees
- **Perceived banking strategy.** There is a potential risk associated with NFSP, CWU and other stakeholders perceiving our award to NS&I as a change in our banking partner strategy. This could result in a perceived view that we are moving away from Bank of Ireland to NS&I as our banking partner (potentially reigniting the debate around the creation of a "PostBank").

Annex 6 – Proposed arrangement between NS&I and Post Office for the provision of card account services (briefing note provided by Legal Services 23 October 2013)

Background

From April 2016, DWP wishes to call off services from Post Office under the FOCS framework agreement ("DWP Call Off). In order for Post Office to fulfil its obligations under the DWP Call Off, Post Office proposes to engage NS&I as its subcontractor for the provision of card account services. The estimated contract value of the subcontracting arrangement is £200m over 7 years. NS&I is aware that Post Office intends to use the services obtained from NS&I to service its obligations under the DWP Call Off.

1. Call Off under an NS&I Contract

In 2012, NS&I awarded a contract to Atos for the provision of banking services pursuant to the Public Contract Regulations 2006 ("NS&I Contract"). The NS&I Contract is not set up as a framework agreement though purports to allow "***central government departments (including their executive agencies and non-departmental public bodies) and local authorities"*** to call off services under it. This contracting route assumes that Post Office is considered a public body and therefore eligible to call off services under the NS&I Contract.

Risk to Post Office:

- NS&I's decision to allow Post Office to use the contract is challenged on the basis that Post Office is not considered a public body and thereby not entitled to call off services under the NS&I Contract. Post Office is then prevented from calling off services under the NS&I contract with the potential to impact upon its delivery of services under the DWP Call Off.
- Post Office is not expressly named as having a right to call off services under the NS&I contract, it is therefore useful to have the buy-in of NS&I on this point. NS&I is an executive agency of the Chancellor of the Exchequer and Treasury lawyers have advised that the position as to whether Post Office is considered a public body "is not completely clear cut". Treasury lawyers have taken the view that there is low risk of successful challenge on the point. Post Office Legal Service's view is that the risk is probably low but this is dependent to a large extent on the transparency of the proposed arrangement to the market and whether there is a competitive market with the appetite for legal challenge.
- Incumbent contractors HP/JPM or other another third party challenge Post Office for not conducting a competitive public procurement and effectively making a direct award under the NS&I contract.
- A finding of a direct award runs the risk that the contract could be deemed ineffective and or damages payable for any loss or damage suffered by an aggrieved party as a result of the breach of the Public Contract Regulations. Post Office could also be eligible to pay a fine which is effectively unlimited. Where there is a claim of contract ineffectiveness the limitation period for bringing a legal challenge is 6 months from the date that the aggrieved party knew or ought to have known of the breach.

2. Competitive Tender to source a Subcontractor

The alternative approach is to run a competitive public procurement. The end to end process, from production of the business case through to Sourcing Council and other governance is estimated by the business to take a minimum of 9 months with a further period of circa 12 months for implementation and build.

Risk to Post Office:

- A competitive process conducted in accordance with the Public Contracts Regulations 2006 would be of low procurement risk to Post Office.

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POST OFFICE LTD BOARD

Chief Executive's Report

1. Mails

- Following a successful month-long consultation, the new shoebox sized parcels format will be introduced into our branches on 28 October, in time for the critical pre-Christmas period. This will enable significantly more items to be classed as small rather than medium parcels, and is expected to enable us to recover around half of the volumes lost since April's price changes and generate additional income of around £3m over the remainder of this financial year. The launch will be supported by a specific online and in-branch marketing campaign to promote awareness of the new format.
- The Drop & Go customer base has continued to grow rapidly following the roll-out of the service to the entire network at the end of July and the launch of a 20% price discount on small and medium parcels at the start of September. Given the success of this promotion over the first month we decided to extend it by a further three weeks to run until 20 October, driving over 8,000 customer sign-ups during the campaign period alone. We now have over 14,000 customers, having set a target at the start of the year to reach 12,000 by the end of March. The service has generated income of around £0.8m over the year to date (111% of the target by this point), and this figure should grow to in excess of £4m pa in future years. The customer dataset is itself a valuable asset for the business, and we already taking opportunities to use it to deepen our relationship with these customers and to support our longer-term work to build an SME CVP.
- Following the successful joint pitch with Royal Mail at Kingston Post Office last month, Ebay has now indicated that they would like to work with us on developing a returns proposition to be rolled out across the network from April 2014. This could be a significant source of additional revenue and footfall, giving us access to a share of Ebay's projected returns volumes in excess of 20 million items per year.

2. Christmas campaign

- Christmas is a vital time for the Post Office brand with 37% of our annual mail volumes generated during the 8 weeks leading up to Christmas, 5 million extra branch visitors per week and a 15% increased penetration of 'once a year' high income individuals. Following the successful campaign last year, during the course of October and November we will be rolling out a number of specific initiatives to improve our Christmas service and drive higher value mail volumes. Specific measures include extended opening hours across 1,500 branches; the deployment of staff from central teams in 300 key branches during the busiest 8 days of Christmas, supported by the recruitment of 41 young people on paid work experience placements; the launch on 11 October of a specific 'Christmas help hub' on our website; a mobile 'pop-up' Post Office visiting eight key retail locations across the country; and a 'Christmas in a box' which provides a complete Christmas kit for branches. We are underpinning these measures with an integrated marketing, PR and internal engagement campaign to raise the profile amongst customers and staff.

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3. Financial services (FS)

- The new FS sales and supervisory structure is now operational. There are 274 Financial Specialists in the network, and by the end of October we will have 30 (out of 35) FS Area Managers in place and will have recruited 80-90 (out of 100) Mortgage Specialists. All Mortgage Specialists will complete Mortgage Market Review (MMR) training to ensure we are meeting our regulatory requirements when the new regime comes into full effect in late April 2014. We have begun the roll out of the new sales process, which focuses on understanding customers' needs and is supported by a new incentive scheme covering Mortgage Specialists, FS and Crown Area Managers and FS and Crown Regional Managers (these are all CMA grades). This is expected to drive significant behavioural change and has been approved by the Bank of Ireland to ensure that we meet regulatory requirements. The new incentive scheme for Financial Specialists is being developed and is targeted to be deployed in January 2014 (although this would normally be expected to be subject to successful engagement with the CWU).
- Our current account pilot is continuing, with 1,541 applications and 783 accounts opened up to the 23 October. We are ramping up our press and marketing activity following the launch of the new industry wide account switching service in September, including by offering a £50 Post Office gift card by way of incentive. In order to help address the higher than expected number of customers failing to meet the identity and anti-money laundering requirements, we have now deployed one of the most extensive ranges of permissible ID documents in the industry. However, we are continuing to experience a sizeable proportion of customers being unable to provide the necessary ID verification. We are therefore considering expanding the proof of concept into adjacent areas to target a wider segment of the population, particularly younger workers.
- To support the Bank of Ireland manage its balance sheet and meet its regulatory commitments, we have actively assisted in bringing the deposit book down from £18.5 billion in January 2013 to £16.0 billion. However, the Bank has acknowledged that we should not be overly exposed to the downside risk of these changes, and has therefore agreed to underpin our income until the end of 2014/15. We are also jointly developing plans to move into simple investment products, which will reduce our reliance on the Bank's balance sheet for savings growth.

4. Government services

- A paper on POCA is provided as part of the separate agenda item on 'Project Maypole'.
- Following the signing of the first call off under the Identity Assurance (IDA) framework contract at the end of August, the Cabinet Office has confirmed that we and our supplier Digidentity have passed their 'identity proofing gate', which is a mandatory requirement before being able to launch the live service. We understand that we are the first of the identity providers to have passed this gateway, despite the other three starting the process before us.
- Less positively, the Cabinet Office has informed us that they are delaying the launch of their procurement process for assisted digital services from this month until early next year, to give themselves more time to define their requirements. In the meantime we are continuing to target key Ministers both directly and through BIS to highlight our unique

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capabilities to support the Digital by Default agenda, as well as engaging officials in relevant departments such as DWP (in relation to Universal Credit).

- We demonstrated our proposed passport renewal service to Mark Harper, Minister for Immigration last month, who was very positive about the initiative. HM Passport Office (HMPO) has now formally started a Digital by Default programme, and we are now working closely with key officials in the agency to develop the services that we could provide as part of this. Separately, following a successful trial in London over the summer we have begun preparations for a new seven day check and send passport service to be launched across the country by March next year.

5. Home services

- Performance in the call centre for HomePhone and Broadband customers has improved, with the average waiting times reduced from a range of 10-15 minutes in mid to late September to the current range of 5-10 minutes. However, this is still well below the standards that we require (particularly for the technical support line), and the rate of improvement in performance levels is also below our expectations. We have therefore communicated our concerns to senior Fujitsu executives in the strongest possible terms, and are holding them to account in the delivery of their improvement plan on a daily basis. To date 60 additional agents have been recruited in the call centre front office and a dedicated team has been created to deal with billing queries. An additional 26 back office agents have been deployed to reduce pressure on call answering and to deal with customer complaints. Fujitsu has committed to deploy further significant additional resources over the next couple of weeks to drive further performance improvements, and we are challenging them to accelerate this process. We will provide an update on the latest situation at the Board.
- Our confidence in Fujitsu's ability to support the delivery of our mobile proposition has also deteriorated over the past month. Having given them an opportunity to address the shortcomings that we had identified in both their overall approach and the personnel leading the project, we have now decided to disengage with them for a four week period while we consider our alternative options. In particular this will give us an opportunity to engage directly with EE who are currently sub-contracted with Fujitsu to deliver the proposition. We are still working towards the current timeline of launching the service in summer 2014, and our market research to date has validated the revenue assumptions included in the strategic plan.
- A paper will be submitted to the November Board on our proposals to enter the energy market. This will provide an update on our current short-listing process to identify our preferred providers for the next stage of commercial dialogue, and will also include our latest assessment of the options and issues associated with entering the energy market, including those related to pricing, reputational/brand risk (particularly in light of the current political debate on the topic) and regulatory compliance.

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6. Network Transformation

- Including the 98 branches covered by the WHSmith agreement, we have now achieved 2,075 contracts signed (as of 23 October), and remain ahead of our target at this point in the year. However, it is clear that many agents are holding back from making commitments as rumours about an improved offer have spread widely, partly as a result of the NFSP needing to prepare the ground with members for a conference in the coming weeks. In practice signing a contract now would make no difference to most people, because the arrangements for Mains are not changing and for Locals the agents would still be eligible for the new terms if they sign now. However, the field teams are of course unable to talk about the details of the deal at this stage, and so are doing their best to keep agents warm with general reassurances. We had already factored in such an effect into our revised targets for the year, so we still believe that we can achieve 3,000 contracts signed by year end provided the new arrangements can be announced by December at the latest (a separate Board paper will be circulated providing an update on discussions with the NFSP). The improved offer for Locals in particular should help secure a significant number of multiple contracts in the fourth quarter.
- The beat rate for branch openings has increased from 20 in July and August to an average of the high 30s from through October and November. However, the programme remains behind target, with 1,218 open as of 23 October. Achievement of 1,950 branches open by year-end is at significant risk but is still possible, requiring 35-40 branch openings a week. Although this rate is being achieved at the moment, we anticipate a slow-down in December so a major effort is being made to achieve an even higher beat rate in Q4. Every branch with a good chance of opening this year is being closely managed by a fast-track team to resolve issues in the minimum time. Good progress is also being made with the trial to use our own suppliers for building works. We are expecting the first openings from this trial group of 80 branches shortly after Christmas. As well as helping with this year's target, the experience of using our contractors will establish how that approach can improve the opening rates in future years.

7. Crown Transformation Programme (CTP)

- An update on the latest full year P&L projections for the Crown network will be provided as part of the performance report, and there are also separate agenda items on the economics of the Crown network model and on the industrial relations situation.
- We remain on track to deliver 45 branch transformations by Christmas and 117 by the end of March, with the first branch in the current tranche, Dingle, completed last week. Public consultation has commenced on the 'two into one' merger of the Islington and Highbury Crown branches into a new site located between the two existing branches. We have now announced plans to franchise 18 branches, subject to the normal 6 week consultation period, including the 16 covered as part of the WHSmith deal and two further agreements with independent retailers in Ballymena and Littlehampton. We are currently working with interested parties for a further 17 branches which have the potential to franchise this financial year.

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8. Project Sparrow

- The Mediation Scheme has received 64 applications from sub-postmasters since it was opened at the end of August, with more expected before the deadline of 18 November. The Working Group overseeing the running of the scheme is now reviewing these applications to decide which should be accepted onto the scheme, which should be excluded and which require further information before a decision can be made. The aim is to get a few cases started on the mediation process before the end of 2013 with the majority happening between January and March next year. Sir Anthony Hooper has now been appointed as the Chair of the Working Group, and will lead his first meeting on 25 October.
- We are in the process of developing our internal settlement policy for the scheme, the purpose of which is to ensure that a consistent approach is taken to each case based on a clear understanding of the potential range of costs and outcomes from the process. A first draft will be discussed by the ExCo in November, although it will be subject to further refinement in light of the additional information that emerges about the caseload and our initial experiences of the full mediation process.
- Our external firm of criminal solicitors, Cartwright King (CK), has now completed a review of 301 cases subject to past prosecution to identify whether we have a duty to disclose the findings of the Second Sight report and associated issues. CK has concluded that disclosure is appropriate in 10 of these cases, and a short letter has therefore been sent to each of the defence teams to bring their attention to the report. It is now a matter for the defence in each case to determine what action, if any, they might take in light of this additional information. We are also awaiting an unknown number of further historical prosecution files from Royal Mail, although at this stage we have no reason to believe these will substantially increase the number of actual disclosures. In view of the potential interest from the Criminal Cases Review Commission, we have also asked our criminal barrister, Brian Altman QC, to conduct an independent review of the overall process we have taken to review past cases, reaching the conclusion that our approach is "fundamentally sound".
- We will submit a paper to the November ARC reviewing our overall policy for investigating and prosecuting future cases. This will be informed by a separate report that Brain Altman is preparing on the effectiveness of our current prosecutions approach from a criminal law perspective, but will also take into account wider business considerations such as value for money and reputational impacts.
- The first stage of the workstream looking at improvements to our sub-postmaster training and support processes will be completed in November, identifying the key gaps and shortcomings in our current approach, a detailed plan for delivering 'quick wins' and an overarching plan for taking forward the more fundamental reforms to our organisational structure and culture over the next 6-12 months. The process will be informed by the new Branch User Forum, the inaugural meeting of which will be convened in November once the recruitment process for sub-postmasters has been completed.

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POST OFFICE LIMITED BOARD

Interim Report and Condensed Financial Statements for 2013-14

1. Purpose

The purpose of this paper is to:

1.1 Invite the Post Office Limited Board to review and approve the Post Office Limited Interim Report and Condensed Financial Statements for the 2013-14 half year and to delegate authority for reviewing final amendments and completing the Interim Report on behalf of Post Office Limited to a Sub-Committee, the quorum for which to be comprised of any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch.

2. Background

2.1 The Post Office prepared a full Annual Report and Financial Statements for the 2012-13 year to the standard of a listed plc. The ARC agreed at its September meeting to continue to report to this standard for the half year but requested that the reporting be relatively succinct.

2.2 The following documents are attached to this paper:

- Draft Interim Report and Condensed Financial Statements;
- Ernst & Young representation letter;
- ARC briefing book to aid understanding.

2.3 The Post Office Limited Audit Risk and Compliance Sub-Committee will meet to hear Ernst & Young's report in November (date to be confirmed).

3. Interim Report and Condensed Financial Statements approach and plan

3.1 The Interim Report is currently anticipated for publication in the first week of December following Royal Mail's planned announcement at the end of November. The context remains a challenging macroeconomic environment which continues to put pressure on margins, and discussions with Government around future strategy and related post-2015 funding.

3.2 The Condensed Financial Statements have been prepared by Finance and the Ernst & Young audit work is largely complete. In 2012-13, for the first time, the Post Office prepared consolidated annual Financial Statements under International Financial Reporting Standards (IFRS) which is in line with a majority of listed public limited companies. The draft Interim Report and Condensed Financial Statements have therefore also been prepared in accordance with IFRS, consistent with the interim reporting of listed PLCs. An ARC briefing book is attached. This provides a more detailed analysis of the first half results to aid understanding of the financial statements.

3.3 The current timeline is:

- 16 October – initial draft of front half circulated to Board
- 24 October – Board papers include updated Interim Report incorporating Board comments
- 28 October – further comments from Board submitted

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- 31 October – Board meeting to approve the Interim Report and delegate responsibility for finalising it
- November (date to be confirmed) – ARC review
- Late November – Board subcommittee to approve Interim Report
- Early December – Announce results

4. Review process

4.1 The comments following the first review by Board members last week have been considered and addressed. In addition we have asked an investment bank – Rothschild – to review the report from a 'PLC/investor relations' perspective. The material outputs of both have been addressed as follows:

- A statement has been added that the half year results are in line with our expectations and that we remain optimistic for the remainder of the year. Rothschilds' view was that this was an appropriate level of forward-looking guidance;
- The content and tone of the paragraph referring to industrial relations has been amended;
- After careful consideration the segmental pillar commentary has been retained. It is likely that there would be more press questions arising if it is not included, particularly in relation to Mails revenue. Further, without it the front half would be lighter to a significant degree and the whole interim report would lose balance between the front half and the financial statements.
- It is our intention to share the relevant content with Royal Mail prior to publication and to publish after their own interim announcement. We will consider any concerns that they have with the content prior to finalising the report, though any changes will be limited to those deemed likely to be market/share price sensitive.

5. Format

5.1 We will produce an electronic copy of the Interim Report in-house and make this available via the website. It will be similarly styled to the Annual Report.

6. Going Concern

6.1 The ARC reviewed Going Concern at its 2013 March meeting and this work has been refreshed at the half year. A summary of the analysis is included in Section 12 of the ARC Briefing Book attached to this paper. Based on the analysis in this paper there is headroom remaining until March 2016, and until March 2017 assuming continuation of the working capital facility, and it is believed that Post Office Limited will be able to meet its liabilities as they fall due in the foreseeable future. It is therefore expected that the Post Office Limited directors will consider it appropriate to continue to prepare the financial statements on a Going Concern basis.

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7. Audit

7.1 The audit work on the Interim Report and Condensed Financial Statements is substantially complete. No significant issues have arisen to date.

7.2 The letter of representation which will be provided to Ernst & Young is attached.

8. Recommendation

8.1 The Post Office Limited Board is asked to:

- Review the Interim Report and Condensed Financial Statements and provide final individual comments to Chris Day and Mark R Davies by noon on Monday 29 October;
- Approve the approach to Going Concern and agree the Going Concern status for Post Office Limited at the half year;
- Approve the Interim Report;
- Delegate authority for reviewing final amendments and completing the Interim Report on behalf of Post Office Limited to a Sub-Committee, the quorum for which to be comprised of any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch;
- Approve the Letter of Representation to the auditor and authorise Paula Vennells or Chris Day to issue it on behalf of the Post Office Limited Board.

Chris Day
October 2013

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Appendix B

Ernst & Young Representation Letter

Angus Grant
Ernst & Young LLP
1 More London Place
London
SE1 2AF

xx November 2013

Dear Sirs

Post Office Limited

This representation letter is provided in connection with your review of the condensed balance sheet of Post Office Limited as of 29 September 2013 and the related condensed statements of income, changes in equity and cash flows for the six-month period then ended for the purposes of expressing a conclusion whether anything has come to your attention that causes you to believe that the interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

We acknowledge our responsibility for the preparation and presentation of the interim financial information in accordance with International Financial Reporting Standards as adopted by the EU.

We confirm, to the best of our knowledge and belief, the following representations:

a) The interim financial information referred to above has been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU.

b) We have made available to you all books of account and supporting documentation, and all minutes of meetings of shareholders and the board of directors.

c) There are no material transactions that have not been properly recorded in the accounting records underlying the interim financial information.

d) There has been no known actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information in the event of noncompliance.

e) We acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud and error.

f) We have disclosed to you all significant facts relating to any known frauds or suspected frauds that may have affected the entity.

g) We have disclosed to you the results of our assessment of the risk that the interim financial information may be materially misstated as the result of fraud.

h) We believe that the effects of any unadjusted review differences, summarised in the accompanying schedule, accumulated by you during the current review and pertaining to the latest period presented are immaterial, both individually and in the

POL00099806

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aggregate, to the financial statements taken as a whole.

i) We confirm the completeness of the information provided to you regarding the identification of related parties.

j) The following have been properly recorded and, when appropriate, adequately disclosed in the interim financial information:

- Related party transactions, including sales, purchases, loans, transfers, leasing arrangements and guarantees, and amounts receivable from or payable to related parties;
- Guarantees, whether written or oral, under which the entity is contingently liable; and
- Agreements and options to buy back assets previously sold.

k) The presentation and disclosure of the fair value measurements of assets and liabilities are in accordance with International Financial Reporting Standards as adopted by the EU. The assumptions used reflect our intent and ability to carry specific courses of action on behalf of the entity, where relevant to the fair value measurements or disclosure.

l) We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the interim financial information.

m) We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of realizable value.

n) The entity has satisfactory title to all assets and there are no liens or encumbrances on the entity's assets.

o) We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that may require adjustment to or disclosure in the aforementioned interim financial information.

Christopher Day

Chief Financial Officer

POL00099806

Post Office Limited

Audit, Risk and Compliance Board Sub-Committee

Briefing Book

Half Year ended 29 September 2013

POL00099806

POL00099806

1 Glossary review

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

Abbreviation	Meaning
AEI	Application Enrolment Identity
ATM	Automated teller machine
BIS	Department for Business Innovation & Skills
BOI	Bank of Ireland
CPI	Consumer Price Index
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
FOoG	Front Office of Government
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
LTIP	Long Term Incentive Programme
NBV	Net Book Value
NS&I	National Savings & Investments
NSP	Network Subsidy Payment
NTP	Network Transformation Programme
POCA	Post Office Card Account
PFS	Personal Finance Services
POFS	Post Office Financial Services
POOC	Project One Off Costs
RMPP	Royal Mail Pension Plan
RMSEPP	Royal Mail Senior Executive Pension Plan
RMDCP	Royal Mail Defined Contribution Plan
RBS	Royal Bank of Scotland
RPI	Retail Price Index
SGEI	Services of General Economic Interest
UKBA	United Kingdom Borders Agency

POL00099806

2. Introduction

This Briefing Book has been prepared to explain the Post Office Limited results for the half year ended 29 September 2013. It is a summary of the key data, trends and analyses to be read in conjunction with the Interim Condensed Consolidated Financial Statements, which readers may find useful to further their own understanding of the results for half year 2013-14.

Most of the analyses are based on the comparison of this 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

Post Office Limited has reported its results under International Financial Reporting Standards (IFRS).

POL00099806

4. Primary Statements

4.1 Post Office Limited Interim Consolidated Income Statement.

Post Office Limited Interim consolidated income statement for the six months to 29 September 2013 and 23 September 2012

	Notes	**Half year to 29 September 2013 Unaudited £m**	Half year to 23 September 2012 Unaudited £m
Continuing operations			
Turnover		**483**	501
Network Subsidy Payment	8.1	**100**	103
Revenue	6	**583**	604
People costs excluding restructuring costs	7.2	**(131)**	(128)
Other operating costs	7.3	**(422)**	(437)
Share of post tax profit from joint ventures and associates		**23**	22
Operating profit before exceptional items	5	**53**	61
Operating exceptional items	10.1	**132**	(10)
- government grant		**129**	35
- Royal Mail Pension Plan amendment		**102**	-
- restructuring costs		**(64)**	(24)
- other		**(35)**	(21)
Operating profit		**185**	51
Profit on disposal of property, plant and equipment	10.1	**2**	2
Loss on sale of associate		**-**	(30)
Profit before financing and taxation		**187**	23
Finance costs	11.1	**(1)**	(2)
Finance income		**-**	1
Net pensions interest		**2**	1
Profit before taxation		**188**	23
Taxation credit	18.1	**2**	18
Profit for the period from continuing operations		**190**	41

POL00099806

4.2 Post Office Limited Interim Consolidated Cashflow Statement

Post Office Limited Interim consolidated cashflow statement for the six months to 29 September 2013

	Notes	**29 September 2013 Unaudited £m**	23 September 2012 Unaudited £m
Cash flows from operating activities			
Operating profit before exceptional items		**53**	61
Adjustment for:			
Depreciation and amortisation		**-**	-
Share of profit from joint ventures and associates		**(23)**	(22)
Pension operating costs		**13**	13
Working capital movements:		**(6)**	131
Decrease/(increase) in trade and other receivables		**73**	(10)
(Decrease)/increase in trade and other payables		**(81)**	143
Decrease/(increase) in inventories		**1**	(3)
Increase in non-exceptional provisions		**1**	1
Pension operating costs paid		**(13)**	(13)
Cash receipts in respect of operating exceptional items:		**153**	178
Government grant		**215**	200
Restructuring costs		**(59)**	(17)
Other		**(3)**	(5)
Net cash inflow from operating activities		**177**	348
Income tax recovered		**10**	11
Cash flows from investing activities			
Investment in associate		**-**	(11)
Dividends received from joint ventures and associates		**-**	-
Finance income received		**-**	-
Proceeds from sale of property, plant and equipment		**3**	2
Proceeds from disposal of associate		**-**	2
Purchase of non-current assets		**(38)**	(20)
Net cash (outflow) from investing activities		**(35)**	(27)
Net cash inflow before financing activities		**152**	332
Cash flows from financing activities			
Finance costs paid		**(1)**	(2)
Payments to finance lease creditors		**(2)**	(2)
Repayment of bank borrowings		**(291)**	(250)
Net cash (outflow) from financing activities		**(294)**	(254)
Net (decrease)/increase in cash and cash equivalents		**(142)**	78
Effect of exchange rates on cash and cash equivalents		**-**	-
Cash and cash equivalents at the beginning of the period		**971**	820
Cash and cash equivalents at the end of the period	11.2	**829**	898

POL00099806

4.3 Post Office Limited Interim Consolidated Balance Sheet

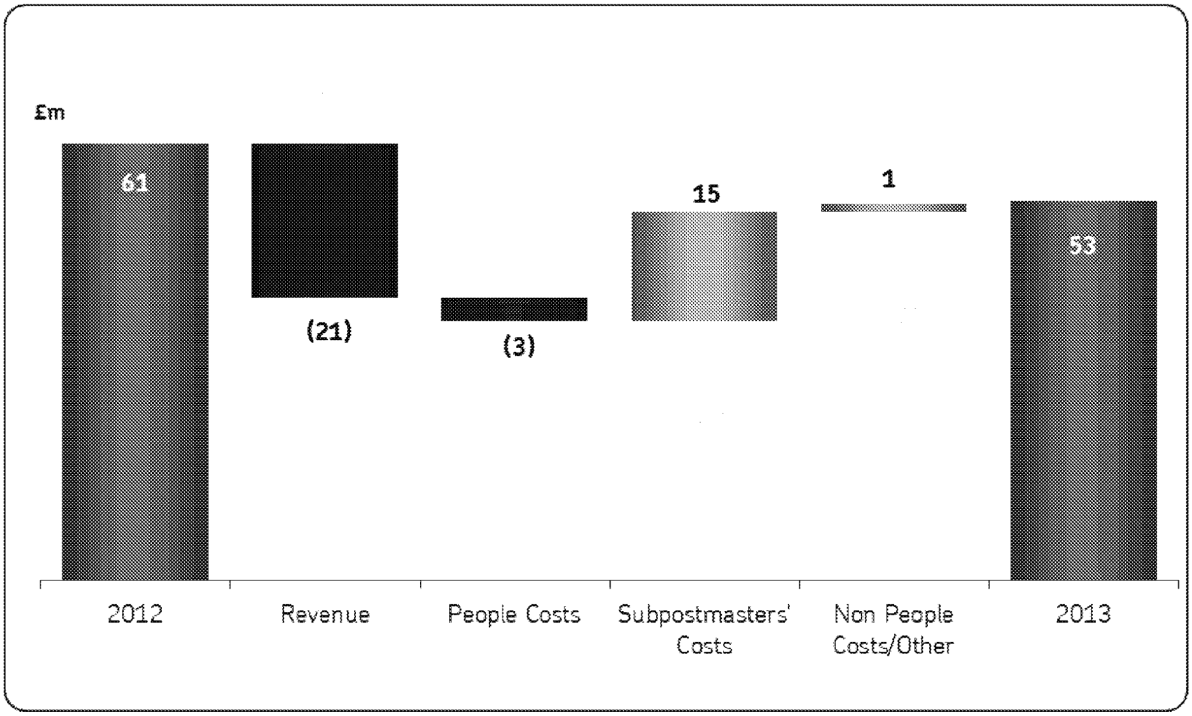
Post Office Limited Interim consolidated balance sheet as at:

	Notes	**29 September 2013 Unaudited £m**	31 March 2013 Audited £m
Non-current assets			
Intangible assets		**-**	-
Property, plant and equipment	13.1	**11**	11
Investments in joint ventures and associates	14.1	**83**	60
Retirement benefit surplus		**145**	97
Trade and other receivables		**10**	10
Total non-current assets		**249**	178
Current assets			
Inventories	15.1	**7**	8
Trade and other receivables	15.2	**269**	352
Cash and cash equivalents		**855**	971
Financial assets – derivatives		**-**	1
Total current assets		**1,131**	1,332
Total assets		**1,380**	1,510
Current liabilities			
Trade and other payables	15.3	**(899)**	(874)
Financial liabilities - interest bearing loans and borrowings	11.2	**-**	(291)
- obligations under finance leases	11.2	**(1)**	(3)
Provisions	16	**(25)**	(19)
Total current liabilities		**(925)**	(1,187)
Non-current liabilities			
Financial liabilities – obligations under finance leases	11.2	**(4)**	(4)
Other payables		**(24)**	(24)
Provisions	16	**(5)**	(7)
Total non- current liabilities		**(33)**	(35)
Net assets		**422**	288
Equity			
Share capital		**-**	-
Share premium		**465**	465
Retained earnings		**(45)**	(179)
Other Reserves		**2**	2
Total equity		**422**	288

POL00099806

5. Operating profit

5.1 Operating profit bridge analysis



5.2 Explanations for key movements are as follows:

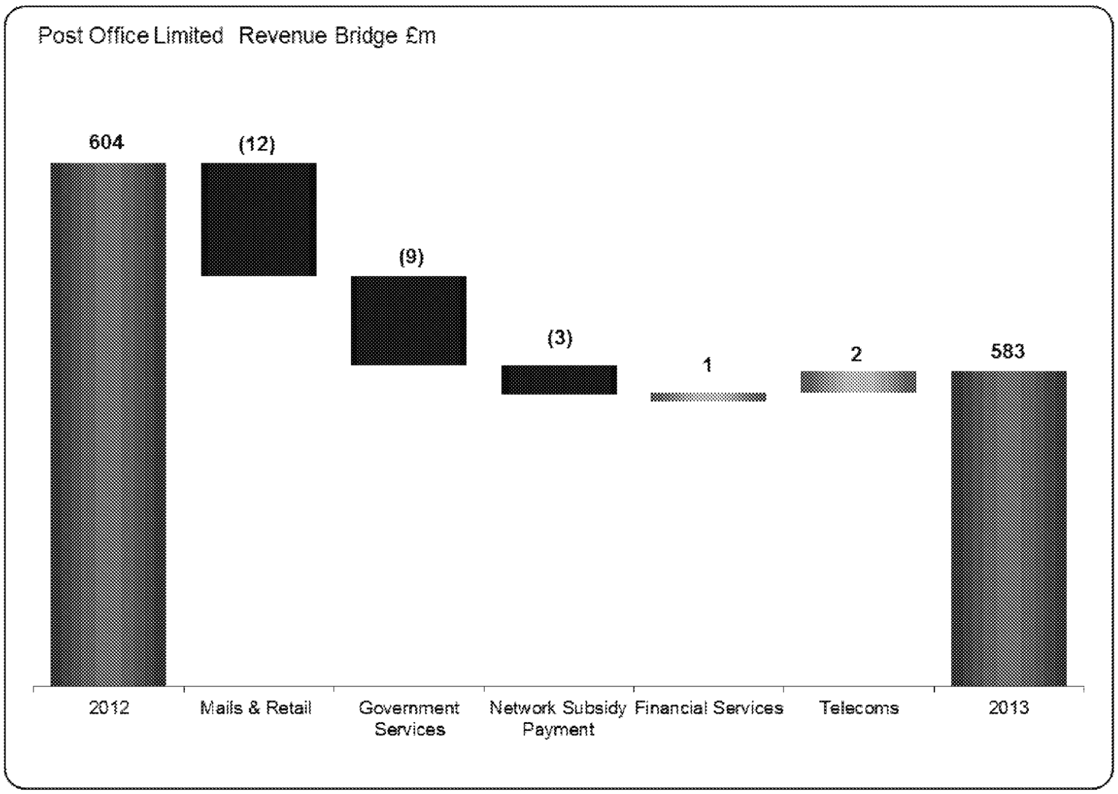
- Revenue - section 6.
- People costs – section 7.2
- Subpostmasters – section 7.3.1
- Non People Costs / Other – section 7.3.2 to section 7.3.11

POL00099806

6. Revenue

	29 September 2013 £m	23 September 2012 £m	Variance £m
Turnover	**483**	501	(18)
Network Subsidy Payment	**100**	103	(3)
Total Revenue	**583**	**604**	(21)

6.1 Post Office Limited – Revenue analysis



The decrease in year on year total revenue of £21m (3.6%) to £583m (2012 £604m) is driven by the £3m decrease in the Network Subsidy Payment, and a decrease of £18m in like for like income.

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

6.1.1 Mails

The £10.2m (6.0%) decrease in Mails Revenue is driven by volume reductions following the Royal Mail price changes implemented this year and the unusually high comparative prior year figure due to the buy forward of stamps before the May 2012 price increase.

- Approximately £9.6m was driven by volume decreases, (mainly stamps, labels and parcels) and the remainder by price increases.

POL00099806

- The new Mails Distribution Agreement resulted in an on-going reduction of the fixed fee with a £0.4m impact in the first half of this year.

Mails & Retail Income is analysed in the table below:

	2013-14 £m	2012-13 £m	Variance £m	Volume £m	Price £m
Special Delivery	25.2	25.7	(0.4)	(0.2)	(0.2)
Parcelforce 24/48	5.3	3.6	1.7	4.2	(2.5)
Labels	44.6	47.9	(3.3)	(5.5)	2.2
Stamps	12.1	17.1	(4.9)	(4.7)	(0.2)
Royal Mail Parcels	0.0	2.8	(2.8)	(2.8)	-
International Priority & Standard	15.5	15.9	(0.3)	(1.1)	0.7
Other Parcel Force	3.8	3.6	0.2	0.1	0.1
Other Royal Mail	18.5	17.8	0.6	0.3	0.3
Total Variable Income	125.0	134.2	(9.2)	(9.6)	0.4
Fixed Fee	36.2	36.6	(0.4)	-	(0.4)
Total Mails	**161.3**	**170.8**	**(9.6)**	**(9.6)**	**0.0**
Lottery	19.1	19.8	(0.7)	(0.7)	-
Retail	4.0	5.4	(1.4)	(1.4)	-
Total Mails & Retail	**184.3**	**196.0**	**(11.7)**	**(11.7)**	**0.0**

6.1.2 Retail & Lottery

Retail and Lottery revenues have decreased by £2.1m:

- Lottery is £0.7m lower than last year, driven by fewer rollovers.
- Retail is down by £1.4m due to lower sales than last half year as the prior year included revenue from collectibles from the Olympic and Paralympic games, as well as the Diamond Jubilee.

6.1.3 Government Services

The £9.2m (11%) decrease in Government Services revenue is principally due to:

- £6.8m lower DVLA revenues due to new contract related lower price and lower volumes.
- £3.6m adverse from falling numbers of POCA accounts, through natural attrition, migration of customers to bank accounts.

This was offset by

6.1.4 Telecoms

The Telecoms Services pillar includes the Post Office Homephone and Broadband services, as well as mobile top-up services and phonecards.

Telecoms Services revenue of £65m (2012: £63m) has increased by £2.3m. Income from the Post Office Homephone and Broadband product rose by £3.5m, primarily due to higher average revenue per user.

More attractive packages were introduced in May 2012 to attract and retain higher value customers. Income from mobile top-ups was £1m below prior year, as transaction volumes

POL00099806

declined due to the mobile networks actively migrating customers away from pre-pay, and also reducing their transaction fees. Despite this reduction in income, Post Office is still a significant player in the top-up market. Our share of the retail market has been maintained at around 5%.

6.1.5 Financial Services

Financial Services income has increased by £1.0m year on year. This continues the trend of increases in new products offsetting the decline of traditional products. Overall PFS (defined as Post Office savings, insurance, travel, mortgages and transaction services) is up by £11.0m (23%) year on year. By product the main variances are:

- a £8m increase in savings products mainly Growth Bonds £3.1m, Reward Saver £2.8m, ISA £2.1m. These increases follow the completion of the 'Eagle' deal in September 2012.
- a £1.3m increase in Mortgages as this a new product,
- a £1.1m increase in Insurance revenues driven by the new BOI contract and better rates,
- a £0.8m increase in MoneyGram driven by higher volumes, and
- a £0.7m increase in ATM revenue, driven by increased volumes as machines reach maturity.

This was offset by

- a £4.5m decline in NS&I revenues driven by the new contract. Revenue is from Premium Bonds only as NS&I look to provide most of their products through their own direct channel,
- a £4.5m net decrease in Banking revenue from:
  - a £2.7m decrease in business banking revenues due to rate reduction from renegotiated contract,
  - a £2.2m fall from the DWP exceptions (cash cheques and green giros). This work has now ceased, offset by
  - an increase of £0.5m in personal banking.
- A £1.8m decrease from Payment Services due to:
  - a £1.1m decrease in Postal Order income as the product is in decline, and
  - 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.

POL00099806

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 29 September 2013 compared to the half year ending 23 September 2012

Expenditure - (pre- exceptional)	Notes	**2013-14** **£m**	2012-13 £m	Variance £m	
Wages & Salaries		**88**	89	1	1%
Overtime		**5**	5	(0)	(3%)
Productivity/Bonus		**11**	7	(4)	(51%)
Employers NI		**10**	9	(1)	(7%)
Pensions		**14**	13	(1)	(9%)
Projects (temp people resource)		**1**	1	0	7%
Temporary Resource		**2**	4	2	45%
PEOPLE COSTS	7.2.1	131	128	(3)	(2%)
Subpostmasters' costs	7.3.1	**220**	235	15	7%
Collection, Delivery & Conveyance Charges	7.3.2	**0**	0	0	100%
Compensation	7.3.3	**1**	1	(0)	(9%)
Property Facilities	7.3.4	**3**	3	(0)	(11%)
Property Maintenance	7.3.5	**4**	3	(1)	(25%)
Vehicles	7.3.6	**1**	1	0	12%
Computers & Telephones	7.3.7	**38**	36	(2)	(5%)
Consultancy, Marketing & Legal Fees	7.3.8	**15**	12	(3)	(29%)
Staff & Agent Related Costs & Consumables	7.3.9	**0**	0	(0)	36%
Finance	7.3.10	**12**	9	(3)	(30%)
Cost of Sales	7.3.11	**57**	58	1	2%
Other Operating Costs	7.3.12	**9**	10	1	5%
Depreciation	7.3.13	**0**	0	0	60%
Interbusiness Expenditure	7.3.14	**40**	41	1	3%
Group Overheads	7.3.15	**7**	7	0	6%
Projects (excluding temp people resource & IB)	7.3.16	**13**	21	7	36%
Projects Interbusiness		**2**	0	(2)	-
Total Other Operating Costs	7.3	**422**	**437**	15	4%
TOTAL EXPENDITURE (Pre Exceptionals)		**553**	565	12	2%

POL00099806

7.2 People Costs (2013 £131m vs 2012 £128m)

7.2.1 People costs (2013 £131m vs 2012 £128m)

People costs have increased in total by £3.3m (2.6%) to £103.9m, representing 23.7% (2012 22.5%) of the cost base.
The number of people employed increased by 87 to 7,999 at 29 Sept 2013 (2012 7,912), primarily due to the Network Transformation Programme. NTP people costs are included within exceptional costs. The transfer to exceptional costs is done by a move of the 'fully loaded' staff cost (including NI and pensions) from the wages and salaries line. This maintains the integrity of pensions and NI for disclosure purposes but means that variances across the categories need to be viewed in aggregate.

The people cost movement comprises:

- Wages and Salaries have decreased by £1.1m (1.3%), but as noted above, must be viewed in conjunction with the increase in NI of £0.6m (6.8%) and an element of the pension costs increase as the movement of Network Transformation staff costs to exceptionals encapsulates all 3. When viewed in this way, the variance is broadly flat year on year.

- Pension costs have increased by £1.2m (9.1%), driven primarily by the increase in the IAS19 pension rate from 18.2% to 20.6%.

- Productivity costs have increased by £3.6m (51%), and are predominantly due to productivity costs under accrual of £1.5m in 2012-13 and a £1.1m increase in the LTIP accrual as none was booked in 2012-13 following an over provision in 2011-12.

- Overtime has increased by £0.1m (2.7%).

  Temporary resource costs have decreased by £0.8m (22%), as a result of reduced recruitment and lower agency labour in Network.

7.2.2 People Numbers

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

The People numbers were as follows:

	Period end employees		Average employees	
	29 Sept 2013	23 Sept 2012	**2013**	2012
Total employees	**7,999**	7,912	**7,946**	7,867

7.2.3 Average Cost Per Employee

The 2013 average number of employees for the half year ending 29 Sept 2013 was 7,946 (2012 7,867). The average annual cost per employee (excluding exceptional costs and exceptional heads) based on these averages has increased by £1,730 (5.2%) to £35,085 (2012 £33,355), but this is distorted by the increase in productivity costs. Excluding the

POL00099806

productivity impact, the averages has increased by only £632 (2.0%) to £32,217 (2012 £31,584) due to pay awards (Supply Chain) and the pension rate.

7.3 Other Operating Costs (2013 £422m vs 2012 £437m)

7.3.1 Subpostmasters costs (2013 £220m vs 2012 £235m). Total subpostmasters costs decreased by £15.0m (7%). £9.3m of this was due to lower sales, including the impact of Mails buy forward last year pre the May price increase. £2.2m due to lower fixed pay from unfreezing the Core Tier Payment and roll out of Locals and £2.7m relating to the DVLA rate reduction accrual impact.

The average annual cost per subpostmaster branch (excluding VAT and NI) is £40,549 (2012 £42,892). This is a 5.5% decrease on the prior year and reflects the higher income last year relating to stamps buy forward.

	2013-14 (P6)	2012-13 (P6)
Agency Branches (incl. Mains and Locals)	10,269	10,389
MAIN	610	33
LOCAL	463	233
Outreach	1,076	1,037
Crown	372	373
Total Branches	**11,717**	**11,799**

7.3.2 Collection, Delivery & Conveyance costs have decreased by £0.5m due to ATM replenishment costs, which were paid to an external company, now being fulfilled by internal Supply Chain staff.

7.3.3 Property Facilities costs have increased by £0.3m, due to an increase in the provision for the extension of business rates to ATM's.

7.3.4 Property Maintenance costs has increased by £0.7m, due to the Network Transformation Programme.

7.3.5 Computers and Telephones costs have increased by £1.9m, mainly due to Horizon Fujitsu Costs of £1.2m and software licences of £0.6m.

7.3.6 Consultancy, Marketing & Legal Fees have increased by £3.5m year on year. £1.1m of this is offset with the staff and agent related costs line below for Skills group off charges for project activity. £1.6m relates to increased marketing costs, prior year rebranding was within project one- off costs, £0.6m relates to increased consultancy costs for SPMO Operating model and mutualisation and £0.5m increased legal costs relating primarily to separation. The remainder relates to decrease in database management and Estate fees.

POL00099806

7.3.7 Finance costs have increased by £2.7m, driven by the ceasing of the Bureau rebate of £2.2m (ceased October 2012) and increased bank charges of £0.4m. The remainder is losses related.

7.3.8 Cost of Sales has decreased by £1.4m (2.4%), driven by lower Retail costs due to Olympic and Jubilee collectables. The main reasons are detailed below:

Cost of Sales

	29 September 2013 £m	23 September 2012-13 £m	Variance £m		Comments
Telecoms	**40**	40	0	-	
Government Services	**15**	15	0	-	
Mails & Retail	**2**	3	1	45%	Decreased Sales due to collectable products for Jubilee and the Olympics
Financial Services	**1**	1	0	-	
Total	**57**	58	1	2%	

Other Operating costs have decreased by £0.5m (5.4%) primarily due to reduced cheque processing costs.

7.3.9 Interbusiness expenditure have decreased by £0.8m due to reduced property costs and is detailed below:

Interbusiness	2013-14 £m	2012-13 £m	Variance £m
Offical Mail	8	8	0
Call Centres	2	2	0
Facilities Management	7	7	0
Vehicle Services	3	3	0
Romec	3	4	1
Property	16	16	0
Other	0	0	0
Total Interbusiness	40	41	1
Projects Interbusiness	2	0	(2)
Total Interbusiness including projects	42	41	(1)

7.3.10 Group overhead expenditure has decreased by £0.4m due to separation as work transfers over to the Post Office.

POL00099806

7.3.11 Project expenditure (excluding temporary people resource and IB) has decreased by £7.4m to £13m. The £13m spent on projects is analysed below:

2013-14 Project Expenditure	**£m**
Customer Engagement (Brand Campaign)	5
Financial Services (Portfolio)	0.5
FOoG (DVLA Enhancements & Home Office Development)	1.3
Telephony (Fixed Line Tender, Contract negotiations and Migration)	1.5
Mails (Collections & Returns, Small, Medium Business Proposition)	0.8
Finance (Road Map)	0.3
HR & Compliance (Recruitment, Training & Data Protection & Freedom of Information)	0.7
IT Delivery (Saleforce Licences & RMG Small App Migration (UEX Phase 2)	0.5
Property (Crown Network)	0.2
Supply Chain (North West Cash Centre & Swindon Barcode Scanners & Printer)	0.4
Security (Fraud Software Analysis)	0.8
Digital (Digital & Multi-Channel)	0.4
Network	0.1
Total Projects (excluding temp people resource & IB)	**13**
Projects (IB)	2
Projects (temporary resource)	1
Grand Total	**16**

POL00099806

8 Quality of Earnings

Post Office Limited (consolidated)	Notes	2013-14 £m	2012-13 £m	Growth £m	Growth %
Operating profit before other exceptional items		**53**	**61**	**(8)**	**(13%)**
Network Subsidy Payment		(100)	(103)	3	3%
Project one off costs	7.3.11	16	22	(6)	27%
Operating (loss) before project one off costs, exceptional items and NSP		**(31)**	**(20)**	**(11)**	**(55%)**

Each item in the table is explained further below:

8.1 Network Subsidy Payment

The Network Subsidy Payment decreased from £210m for 2012-13 to £200m for 2013-14. The Network Subsidy Payment has been accounted for as a government grant in both years and has been recognised evenly through the year.

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 continued but have decreased in 2013-14. These costs do not form part of the underlying business as usual performance of the company.

POL00099806

9. Pensions

9.1 Background

The Post Office participates in pensions schemes and detailed below:

Scheme	Eligibility	Type
Royal Mail Pension Plan (RMPP)	UK employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	UK senior executives (closed)	Defined benefit
Royal Mail Defined Contribution Plan (RMDCP)	UK employees	Defined contribution

On 1 April 2012 almost all of the assets and liabilities of the Royal Mail Pension Plan (RMPP) were transferred to HM Government. On this date the RMPP was also sectionalised with Royal Mail Group Limited and Post Office Limited responsible for their own sections. Royal Mail Group Limited is the principal employer in the Royal Mail Senior Executive Pension Plan (RMSEPP) and the Royal Mail Defined Contribution Plan (RMDCP). Post Office Limited became a participating employer in both with effect from 1 April 2012. Royal Mail Pensions Trustees Limited manages the main defined benefit scheme Royal Mail Pension Plan (RMPP) which has around 5,200 Post Office active members.

At the September 2013 half year the emphasis has been on the RMPP plan, as the movements in the 7% share of RMSEPP are considered not to be significant to the Interim Report. However, the RMSEPP has been reviewed and Post Office 7% share of the RMSEPP surplus has increased by £1m to £2m driven by an improvement in asset values. An actuarial gain of £1m has therefore been recognised in the period.

9.2 Assumptions

IAS 19 revised requires a number of assumptions. The choice of assumptions used for the calculations is the responsibility of the Directors, based upon advice given by an independent actuary. The key assumptions for the half year to 29 September 2013 are set out in the table below.

Towers Watson has confirmed that the assumptions have been determined in a manner consistent with those used for the disclosures at 31 March 2013, and any relevant adjustments to 29 September 2013 have been made. Conversations with Royal Mail management confirm that it is their intention to adopt the same assumptions. The rate of increase in pensionable salaries has been adjusted from RPI +1% to RPI to reflect the impact of the change to terms arising from Project Robin as explained in paragraph 9.3.

% pa Nominal	**September 2013**	*March 2013 (for comparison)*
Inflation (RPI)	**3.3**	*3.3*
Inflation (CPI)	**2.3**	*2.3*
Rate of increase in Pensionable salaries	**3.3**	*4.3*
Discount rate (i.e. bond rate)	**4.6**	*4.8*

Demographic assumptions, for example mortality, remain unchanged from those made in March 2013.

POL00099806

9.3 Movements in the defined benefit surplus

The movement in the RMPP defined benefit surplus during the six months to 29 September 2012 is detailed below. Scheme assets are assessed at fair value at the balance sheet date. For example, quoted equities are valued at the latest 'bid' price. Scheme liabilities are discounted using a high quality corporate bond rate. The IAS 19R surplus/deficit is usually therefore different to the cash funding surplus/deficit (the "actuarial" valuation) assessed by the Trustees, for which the scheme liabilities are discounted using the expected returns available on scheme assets.

Sectionalised RMPP	**Half year ended 29 September 2013 £m**	Year ended 31 March 2013 £m
Opening net retirement benefit surplus/(deficit)	**99**	(205)
Royal Mail Pension Plan amendment	**102**	-
Transfer of pension deficit to government	**-**	286
Current service cost	**(13)**	(24)
Curtailment costs	**-**	(2)
Net financing credit	**2**	2
Employers contributions	**11**	25
Actuarial (losses)/gains	**(37)**	17
Closing net retirement benefit surplus before IFRIC 14 adjustment	**164**	99

During the period there was a consultation exercise with members of the defined benefit Royal Mail Pension Plan on proposed changes to the terms (Project Robin). These changes were agreed and implemented on 15 October 2013. The key change was to the definition of pensionable pay which broadly will increase in line with RPI (capped at 5%) in future regardless of actual pay growth. The changes have resulted in a one-off exceptional gain of £102 million.

The current service cost is intended to represent the amount by which the liabilities will increase due to employing active members for one more year. The current service cost, expressed as a percentage of pensionable pay is 20.6% for RMPP (2012 18.2%). The charge in the income statement for the defined contribution scheme was £1m in the half year to 29 September 2013, and payments of £11m were made in respect of RMPP future service contributions at a rate of 17.1% (2012 17.1%).

The net financing credit of £2m, a non-cash item, is reported under finance income and reassessed annually.

Actuarial gains and losses are recorded directly in the statement of changes in equity (and not the income statement). The actuarial loss of £37m during the half year arose primarily due to a greater than expected decrease in assets as a result of changes in market conditions.

POL00099806

9.4 Assessment of recoverability of surplus under IFRIC 14

In order to recognise a surplus it is necessary to prove that the Post Office could recover the surplus either through lower future contributions or through a refund. Royal Mail took legal advice both before and after sectionalisation. This confirmed that Post Office Limited and Royal Mail Group Limited have absolute rights to the assets left over in their individual sections after benefits have been secured if the RMPP terminates. There is no trigger for termination in the Trust Deed but that does not mean that the RMPP cannot terminate. It would be wound up by the courts, or the Regulator, or when the last beneficiary dies. Towers Watson has calculated that Post Office Limited would be able to recover £103 million of the £164 million surplus in RMPP through lower contributions and the remaining £61 million could therefore be recovered through a refund. The element of surplus that is recoverable through a refund would be subject to a 35% withholding tax and therefore the overall surplus on the balance sheet has been reduced by £21 million to £143 million. The element that is recoverable through lower contributions has resulted in a deferred tax liability of £21m, which is consistent with the deferred tax credit recognised in the year to 31 March 2013 and therefore no further tax consequence has been recognised in the half year to 29 September 2013.

POL00099806

10. Exceptional Items and Provisions

This section discusses the exceptional items on the income statement together with movements in the related balance sheet provisions/payables.

10.1 Exceptional items summary

The following exceptional items were recognised in the consolidated income statement for the half years ended 29 September 2013 and 23 September 2012

10.2

Exceptional items	Notes	**2013-14 £m**	2012-13 £m
Operating Exceptionals:			
Royal Mail Pension Plan amendment		**102**	-
Government Grants	10.2	**129**	35
Restructuring costs including Subpostmasters compensation	10.3	**(64)**	(24)
Impairments		**(35)**	(21)
Total operating exceptionals		**132**	(10)
Non operating exceptionals:			
Profit on disposal of property		**2**	2
Net Exceptional gain/ (costs)		**134**	(8)

Government Grants – In April 2013 the Post Office received grants totalling £215m from the Government, (April 2012 £200m) to fund capital projects and transformation.
Amounts utilised in the respective half years are as shown with the 2013/14 utilisation including £31m relating to network and IT transformational costs incurred in 2012/13 for which there was insufficient grant in that year.

10.3 Restructuring costs - include the costs (£55m) of delivery of a major change in the network. Network Transformation introduces new style agency offices and seeks to improve fundamentally the profitability of the Crown network. The IT Transformation programme will create the IT infrastructure appropriate for an independent group with ambitious growth plans and incurred a further £5m. Other costs included are business separation of £2m and redundancy of £2m.

Network Transformation comprises costs of £15m for Subpostmasters' compensation and £40m programme costs. The £40m spent on Network Transformation is analysed below:

Network Transformation	**£m**
Branch Fit Out (Inc. Signage /Scales etc)	9
Horizon Implementation	3
Legal-New Operating Model Contracts	1
Management Consultancy	3
Marketing	1
Crown Transformation: pilot design/scoping	5
Professional Fees -Site Survey	5
Staff	10
Skills Group Internal Consultancy Resource	1
Project Management (Roll Out)	2
Total	**40**

POL00099806

11. Interest, Cash, Debt, Funding and Hedging

11.1 Net finance costs Sept 2013 £1m vs Sept 2012 £1m

Finance costs & investment income	**29 September 2013 £m**	23 September 2012 £m
Interest received on investments – UK	-	1
Total finance income	**-**	1
Interest charged on Government borrowings	-	-
Interest payable on finance leases	-	(1)
Other finance costs	(1)	(1)
Total finance costs	**(1)**	(2)
Net finance cost	**(1)**	(1)

Interest payable on the BIS Loan fell last year as the average borrowing volume significantly decreased due to funding receipts attributable to transformational programmes. This position continued with £200m received in 2012-13 and £215m in 2013-14.

Finance leases are nearing conclusion and both arrangements covering counter printers and the AEI equipment finish in 2014-15 – accordingly interest is reducing.

Other finance costs include commitment fees to BIS for the Post Office credit facility, and charges to RBS for their note sorting facility.

11.2 Cash, cash equivalents and debt within the balance sheet

Net cash/debt analysis	Section	**29 September 2013 £m**	31 March 2013 £m
Cash in the Post Office Limited network	11.3	**825**	870
Other cash at bank (overdraft)/deposits		**-**	9
Cash equivalent investments		**30**	92
Total cash and cash equivalents		**855**	971
Loans, repayable on demand or less than 1 year	11.4	**-**	(291)
Obligations under finance leases (current)	11.5	**(1)**	(3)
Total current financial liabilities		**(1)**	(294)
Obligations under finance leases (non-current)	11.5	**(4)**	(4)
Total		**824**	673

POL00099806

11.3 Cash within the Post Office Limited network (Sept 2013 £825m vs March 2013 £870m)

The reduction in Post Office network cash from March 2013 levels is due to the year-end coinciding with Easter necessitating increased branch and cash centre holdings.

11.4 Loans and borrowings (Sept 2013 £nil vs March 2013 £291m)

Daily borrowing requirements in the first half of 2013/14 are significantly lower than the year end loan position on account of advanced government funding of both the £215m transformational funding and £200m Network Subsidy.

11.5 Obligations under finance leases (current & non-current) (Sept 2013 £5m vs March 2013 £7m)

The obligations under finance leases have decreased by £2m in the half year attributable to lease repayments in 2013-14. Lease types are shown in section 13.2.

11.6 Loan facilities

At half year the Post Office had no external (non Government) borrowing facilities in place.

POL00099806

12. Going concern

Post Office Limited has net cash and cash equivalents of £855m (section 11.2) and a borrowing facility of £1,150m of which none (section 11.4) was drawn down at 29 September 2013.

12.1 Background

On 24 March 2010 a 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 through 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 (received 2 April 2013)
- Funding of £330m for 2014-15
- Extension of the existing working capital facility with BIS 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. It was also recognised that the working capital facility was no longer deemed State Aid. However, no drawing under the facility may extend past the Final Maturity Date (31 March 2016).
The going concern analysis is based on the latest draft 2020 strategic plan financials presented to the Post Office Board in April 2013 and forming part of Government funding discussions.

12.2 Assessment for the Post Office

Post Office 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 with the exception of 2012-13. The 2011-15 plan is intended to reverse the trend of an increasing Network Subsidy Payment (NSP) with the draft strategic plan beyond 2014-15 continuing that reducing trend.

The 2011-15 strategic plan updated for latest views has been shown in Table 1 of this section, and shows that Post Office 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. Downsides have been applied that the funding for NSP and transformation post March 2015 is not available and that the growth and savings plans are not fully delivered. Subject to ceasing spend on transformation post March 2015, there could still be sufficient headroom to trade. It should be noted that there is a dependency on the working capital loan being extended beyond its current end date of 31 March 2016.
The one year funding deal for 2011-12 added 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 shown if required.

POL00099806

12.3 Summary conclusion

Based on the analysis there is available borrowing headroom until March 2016 and until March 2017 if it is assumed that the working capital loan can be extended for another year. Royal Mail Group Limited is a key trading partner with Post Office Limited and, in arriving at the conclusion that Post Office Limited 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 Post Office Limited providing a similar level of income.

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

Post Office Limited Funding Analysis

Table 1 September 2013 **£m (cumulative apart from free cash flow)**	2012-13	2013-14	2014-15	2015-16	2016-17
Opening Funds	(336)	(204)	(220)	(316)	(559)
Borrowing facilities	1,150	1,150	1,150	1,150	1,150
Restriction due to level of network cash	(98)	(350)	(350)	(350)	(350)
Borrowing from other sources - finance leases, bank overdraft etc	14	9	4		
Latest plan free cashflow before assumed non NSP grant injection	(68)	(231)	(266)	(323)	(11)
Non NSP grant injection per October 2010 plan/ April 2013 plan	200	215	170	80	80
Closing Funds Headroom	**862**	**589**	**488**	**241**	**310**
Downside impact of no NSP beyond March 2015				(130)	(210)
Downside impact of no further grant injection beyond March 2015				(80)	(160)
Adjusted Headroom pre risk	**862**	**589**	**488**	**31**	**(60)**

POL00099806

Table 2: Risks,with management actions					
£m (cumulative)	2012-13	2013-14	2014-15	2015-16	2016-17
Headroom pre risk (as above)	**862**	**589**	**488**	**31**	**(60)**
Risks					
Financial Services growth slower than plan		(3)	(8)	(18)	(60)
Mails revenue decline halted but not reserved (net of agents' cost saving)		(10)	(20)	(30)	(40)
Network Transformation benefits are not fully delivered		(2)	(6)	(9)	(12)
Crown Transformation benefits are not fully delivered		(5)	(10)	(25)	(40)
Pension contribution rates increase		(4)	(8)	(12)	(16)
Increase in cost as a consequence of stopping transformation post March 2015				(50)	(150)
Headroom post risks pre management actions	**862**	**565**	**436**	**(113)**	**(378)**
Management actions				**309**	**524**
Stop transformation post March 2015				145	263
Reduce capex to replacement only (£30m pa) post March 2015				164	261
Headroom post risk and management actions	**862**	**565**	**436**	**196**	**146**

Notes:

2012-13 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 2020 strategic plan projections for 2014-15 and beyond. It demonstrates positive headroom throughout the plan period assuming funding post 2015 is agreed. If it is not there would be a need to take management action.

Table 2

This table sets out the impact of theoretical downside scenarios if the plan does not generate the income streams anticipated, the network programmes fail to deliver the benefits and if the pension scheme costs increase.

Management actions have been identified to manage the lack of future funding and downside risk within the headroom. There are further actions that could be taken but are not required. These include the sale of property and/ or tax losses.

However, it is required to assume that the loan is extended beyond March 2016.

POL00099806

13. Property, plant and equipment and non-current assets held for sale

13.1 Net Book Values

The net book value (NBV) of land and buildings, plant and fixtures and intangible fixed assets at September 2013 was £11m (March 2013 £11m). Movements in the six months were as follows:

Movement in NBV	Land and buildings £m	Vehicles, plant and fixtures £m	Intangible fixed assets £m	Total £m
NBV at 31 March 2013	11	-	-	11
Add capital expenditure	2	15	18	35
Less disposals	-	-	-	-
Less depreciation	-	-	-	-
Less impairment	(2)	(15)	(18)	(35)
NBV at 29 September 2013	**11**	**-**	**-**	**11**

13.2 Assets held under finance leases

The value of equipment held under finance leases is £nil (March 2013: £nil) having been impaired in the years in which it was acquired. The two finance leases held are:

- Counter printers, capitalised and impaired in 2006-7 with an asset value of £10m, expires 2014-15;
- Identity equipment in branches, capitalised and impaired in 2010-11, with an asset value of £8m, expires 2014-15.

13.3 Capital expenditure

The following table summarises capital expenditure to 29 September 2013:

Capital expenditure analysis	Land & buildings £m	Vehicles, plant & fixtures £m	Intangibles £m	Total £m
Technology Roadmap	-	-	10	10
Network Transformation	-	11	-	11
Separation (from RMG) project	-	-	2	2
Finance Roadmap	-	-	1	1
FOoG Front Office of Govt	-	-	2	2
Vehicles	-	2	-	2
Property	2	-	-	2
Other (items <£1m)	-	2	3	5
Total	**2**	**15**	**18**	**35**

POL00099806

14. Goodwill, investments and intangibles

14.1 Investments in joint ventures and associates

	29 September 2013 £m	31 March 2013 £m
Investment in joint ventures	**83**	60

Joint ventures

Post Office Limited's joint venture investment is a 50% interest in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change. The movement from the year end is £23m representing the share of post tax profit.

A dividend is anticipated from FRES during October 2013 – value not confirmed at time of writing – which will reduce the carrying value of the joint venture.

POL00099806

15 Working capital

15.1 Inventories (September 2013 vs March 2013 £8m)

	29 September 2013 £m	31 March 2013 £m
Scratchcards	**5**	5
Retail	**2**	3
Total	**7**	8

15.1.1 Inventory written off

The provision for stock write downs and discrepancies has decreased to £0.4m in September 2013 from £0.5m in March 2013. Shrinkage and obsolete stock written off in September 2013 was £0.3m (March 2013 £0.4m).

15.2 Trade receivables

Receivables are tabulated below, followed by a detailed explanation of the various balances.

Receivables

	29 September 2013	**31 March 2013**
Trade receivables	**56**	32
Client receivables	**156**	240
Prepayments and accrued income	**58**	71
Other receivables (taxation)	**(1)**	9
Total	**269**	352

15.2.1 Trade receivables: Current (due within one year)

Trade receivables

	29 September 2013	**31 March 2013**
Sales ledger	**27**	18
Doubtful debt provision	**(1)**	(1)
Homephone debtors	**22**	14
Homephone provision	**(6)**	(6)
Subpostmasters debt	**13**	14
Subpostmasters debtors provision	**(8)**	(9)
POFS, FRES cost recovery	**9**	2
Total	**56**	32

POL00099806

The increase in sales ledger is largely explained by the £5m debtor at September 2013 for DWP card account income (March 2013 DWP debtor: £nil). Mainly the DWP adhere to agreed terms and pay the month following invoice receipt though there are instances when the DWP settle in-month.

The increase in homephone debt is due to POL switching provider from BT to Fujitsu. Fujitsu are currently experiencing difficulties and have not invoiced customers for September 2013, increasing customer debt levels. Other variances largely net off,

Receivable balances in relation to former subpostmasters of £8m have been provided for in full in line with previous years. This is due to the difficulty in recovering these amounts. The remaining £5m of subpostmaster debt which is unprovided against relates to current subpostmasters debt which are usually settled through a deduction from remuneration. The balances are provided for when they reach 60 days old for single subpostmasters or 90 days for multiples.

A profile of the trade receivables is as follows:

Trade receivables

	29 September 2013	31 March 2013
DWP	5	-
Bank of Ireland (2012: POFS)	12	11
FRES	2	-
Partner banks	1	-
Bank of Ireland (ATM commission)	3	2
Bill payment partners	2	1
Subpostmasters	-	1
Others	2	3
Total	27	18

Ageing of trade receivables:

Debtors over 60 days overdue: September 2013 £4.6m (March 2013: £0.4m).

The Post Office does not have a general risk in relation to bad debts due to the agency nature of our client base. The main debt ageing at September 2013 is £4.5m Bank of Ireland.

15.2.2 Client receivables

Analysis of the significant client balances at year end is as follows:

Client receivables

	29 September 2013	31 March 2013
ATM (Bank of Ireland)	92	123
Card Account (JP Morgan)	30	76
Partner banks	22	29
Others	12	12
Total	156	240

POL00099806

The reason for the significant difference in Client levels between September 2013 and March 13 is due to the coinciding of the March 2013 year end with Easter, which increased transactional activity and also temporarily extended settlements into 2013-14 because of the bank holiday.

15.2.3 Prepayments and accrued income September 2013 £58m (March 2013 £71m)

Accrued income represents the majority of this amount (September 2013: £39m, March 2013: £34m), and year on year the product components are similar. The larger accruals at September 2013 are: DWP card account income for September £7m, Homephone £6m and Bank of Ireland commissions £7m.

Additionally there are prepayments of £20m at September 2013 (March 2013 £36m). There are two main elements: a £12m (March 2013 £28m) advance payment to Fujitsu in respect of the 2013-14 managed service, and £4m (March 2013 £12m) – also to Fujitsu – for 2013-14 set-up costs for their take-on of the Telephony contract.

15.3 Payables: **amounts due within one year**

A summary of payables categories is:

	Section	**29 September 2013**	31 March 2013
Trade payables	15.3.1	**25**	43
Accruals and deferred income	15.3.1	**99**	110
Client payables	15.3.2	**375**	528
Advance customer payments		**47**	50
Capital payables		**15**	18
Social security		**9**	10
Business transformation		**6**	7
Amounts due to group companies		**10**	6
Government grant deferred income	10.2	**188**	102
NSP		**100**	-
Bank Overdraft		**25**	-
Total		**899**	874

15.3.1 Trade payables and accruals

Trade payables and accruals

	29 September 2013	31 March 2013
Trade payables	**25**	43
Accruals, GRNI	**59**	55
Agent, employee pay balances	**10**	24
Productivity, bonus schemes	**10**	16
Deferred income (Gamma)	**12**	7
Others	**8**	8
Total	**124**	153

POL00099806

Manual accruals and GRNIs represent the material trade liabilities at any point and are consistent year on year, reflecting high levels of project activity commensurate with the Network Transformation programme.

Trade payables at March 2013 included a one-off entry for Clydesdale Bank of £7m. The remaining reduction in trade payables balances relates to the purchase ledger and Fujitsu and BT in particular where y/e invoice levels were high.

Within agent pay balances at March 2013 is a £3m one-off accrual for DVLA payments to agents and £7m product pay due on account of March being a five week period. (September 2013 equivalents: £nil)

15.3.2 Client payables

	29 September 2013	31 March 2013
Santander	**139**	183
NS&I	**21**	28
DVLA	**53**	107
Utility companies	**9**	24
Bank of Ireland	**13**	8
BACS	**43**	59
Others	**97**	119
Total	**375**	528

March balances were impacted by the Easter bank holiday coinciding with the Post Office's year end, having the effect of increasing the settlement timescale temporarily. The DVLA balance was most affected by the coinciding of year end with calendar month end.

During 2013/14 a new DVLA contract provides for changed settlement terms which has the effect of increasing the balance on hand and is cashflow positive for Post Office Ltd.

15.3.3 Client advances

This category also includes specific, non-client, creditors as follows:

Client advances

	29 September 2013	31 March 2013
Client advances, deferred income	**21**	23
Postal order liability	**16**	17
Homephone line rental advance payments	**10**	10
Total	**47**	50

POL00099806

15.4 Payables: **amounts due after one year**

Payables due after one year

	29 September 2013	31 March 2013
Amounts due under finance leases	**4**	4
Bank of Ireland deferred income (Gamma)	**24**	24
Total	**28**	28

Bank of Ireland deferred income concludes in financial year 2022-23 and is recognised in line with an amortisation schedule. In addition to the above sum, there is £12m in current year trade payables and a further £7m remains to be invoiced in future years.

POL00099806

16. Provisions

Provisions (September 2013 £30m vs March 2013 £26m)

	Crown Conversions Project £m	Network Transformation £m	Other £m	Total £m
At 31 March 2013	7	10	9	**26**
Charged/ (released) in operating exceptional items	(1)	15	3	**17**
Charged in operating costs		-	3	**3**
Utilisation	(1)	(11)	(4)	**(16)**
At 29 September 2013	5	14	11	**30**
Included within current liabilities				**25**
Included within non current liabilities				**5**

The Network Transformation provision relates to compensation payments due to subpostmasters who have signed up to the new contract terms or for a termination payment at September 2013.

Crown conversions relates to the contract with WH Smith for the original tranche of Crown outlets franchised. The new contract relating to these branches is not considered onerous and future income growth assumptions have been overlayed onto the existing provision, prompting the exceptional release of £1m. This provision effectively concludes in 2014/15.

Other provisions at September include onerous property lease obligations £3m, personal injury claims £1m, redundancy £2m, Bank of Ireland sales capability investment (Eagle provision) £3m and the ATM business rate provision £2m.

POL00099806

17. Litigation and Claims- Potential Claims regarding Horizon

17.1 Post Office Limited has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and Post Office Limited's internal processes.

These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made through:

- SPMs' MPs;
- the "Justice for Subpostmasters Alliance" (JFSA);
- defences to court proceedings brought by Post Office Limited to recover debts from SPMs; and
- direct contact with Post Office Limited.

17.2 On 8 July 2013, Second Sight published an Interim Report finding shortcomings in Post Office Limited's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself.

17.3 Following the Second Sight Interim Report, on 27 August 2013 Post Office Limited launched a Mediation Scheme aimed at finally resolving individual complaints made about Horizon.

17.4 Sir Anthony Hooper has been appointed as Chair of the Working Group overseeing the Mediation Scheme. He will chair his first meeting on 25 October 2013.

17.5 The Mediation Scheme has received 64 applications from sub-postmasters since it was opened at the end of August, of which 44 have been formally accepted onto the scheme to date. Only 1 case has been excluded at this stage, on the grounds that it is subject to an ongoing legal process: all the other cases are either still being reviewed, are awaiting further information or need to go through Post Office Limited's normal investigation processes before they would be referred to mediation. The application closure date is the 18 November 2013. SPMs will then have a month to complete their full applications before Post Office Limited review the cases in detail. The aim is to get some cases into the mediation process before the end of 2013 with the majority happening between January and March.

17.6 Post Office Limited is also reviewing past and present criminal prosecutions brought against SPMs to ensure they continue to satisfy the evidential, public interest, and disclosure standards required for prosecutions. This review should be completed by the end of October 2013.

17.7 Post Office Limited's external firm of criminal solicitors, Cartwright King (CK), has now completed a review of 301 cases subject to past prosecution to identify whether Post Office Limited has a duty to disclose the findings of the Second Sight report and associated issues. CK has concluded that disclosure is appropriate in 10 of these cases, and a short letter has therefore been sent to each of the defence teams to bring their attention to the report. It is now a matter for the defence in each case to determine what action, if any, they might take in light of this additional information. Post Office Limited is also awaiting an unknown number of further historical prosecution files from Royal Mail, although at this stage Post Office Limited has no reason to believe these will substantially increase the number of actual disclosures. In view of the potential interest from the Criminal Cases Review Commission, Post Office Limited commissioned a review by Brian Altman QC of the prosecution

POL00099806

procedures it has followed. He concluded that Post Office Limited is complying with its duties and that the approach adopted by the prosecution team was "fundamentally sound".

17.8 Post Office Limited is not issuing any new criminal summons pending the instruction of a new, independent expert who can give evidence to support the Horizon system. The process of identifying this expert is under way.

17.9 To date, no claim has been made against Post Office Limited in the civil courts, and no appeal has been made to the Court of Appeal against any conviction obtained in the criminal courts.

17.10 Post Office Limited has instructed Brian Altman QC to undertake a second review, which will look at Post Office Limited's prosecutions approach in the context of its wider business needs.

POL00099806

18. Taxation

18.1 Income statement

A breakdown of the tax credit is shown in the table below:

	Half year to 29 September 2013 £m	Half year to 23 September 2012 £m
Corporation tax credit for period	**-**	7
Tax under provided in previous periods	**-**	-
Current tax	**-**	7
Deferred tax credit relating to the origin and reversal of temporary differences	**2**	11
Income tax credit reported in the condensed consolidated income statement	**2**	18

18.2 Factors affecting tax credits

An additional deferred tax credit has been recognised in relation to the retirement benefit surplus on the balance sheet as the proportion of this surplus which is considered to be recoverable through future contributions moved in the half year to 29 September 2013. An equal and opposite entry has been recognised through equity.

The Group (POL and subsidiaries) has significant tax losses that are available for offset against future taxable profits. It also has unrecognised deferred tax assets relating to fixed asset timing differences. These tax losses/deferred tax assets could be recognised in the future should suitable taxable profits arise. The tax losses/unrecognised deferred tax assets means that the Group should not incur any tax charges for the foreseeable future.

POL00099806

Our year so far...

Interim report 2013

29 September 2013

Post Office Limited : Registered number 2154540

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Building a thriving business for the years ahead

Alice Perkins
Chairman

Paula Vennells
Chief Executive

There is no more powerful demonstration of the transformation of the Post Office than the sight of a freshly refurbished branch. The first six months of the 2013/14 financial year have seen another 588 of these branches open, with longer opening hours and more modern environments. It means that since the start of the programme more than 1100 post offices have been transformed, at a time when our network is at its most stable for decades.

This achievement highlights the determination we have to continue to be at the heart of modern communities as the largest retail network in the UK. Longer opening hours, faster service and increased retail sales for subpostmasters will ensure that we have a modern, sustainable Post Office network fit for the 21st century.

That is the backdrop to what has undoubtedly been a challenging period. Our operating profit, which includes £100 million (2012 £103 million) of the Network Subsidy Payment received from Government to support our branch network, before exceptional items decreased by £8 million (13%) to £53 million, against a comparable performance of £61 million in the first 6 months of the prior year. This is in line with our expectations and is explained further in the Business Review and we remain optimistic about the remainder of the year.

Our strategy of modernisation, growth and customer excellence is key to achieving this goal. Alongside the dramatic changes in our agency network, we are investing in the Crown network and remain on target to turnaround the losses in this part of the business and bring it to break even by 2015. Despite a challenging industrial relations backdrop, the Board is committed to building a commercially sustainable and modern business able to deliver its social purpose whilst competing against other entrants into the market.

The first half of the financial year has highlighted challenges in our mails business, with income down £10 million compared to the same period last year. We have taken steps to address this, expanding the Drop & Go service which provides an efficient prepaid service for small businesses, online sellers and anyone sending mail regularly.

Working with Royal Mail we have also announced the launch of the UK's largest Click & Collect network to allow us to support online shopping growth by providing a greater choice of convenient parcel delivery options for online retailers and their customers.

Both of these initiatives underline our desire to ensure that we continue to offer our customers a Post Office that is in tune with modern lifestyles and shopping habits.

We are able to report further progress in building our financial services business, up £1 million year on year, with Personal Financial Services up 23% over the comparative period. This area of the business is critical to our ambition to grow and further develop as a credible alternative to the high street banks, ambition underlined through our pilot of a current account in East Anglia.

In Government Services, we face challenges but remain optimistic for the future, particularly in relation to the role the Post Office can play in supporting the Digital by Default agenda – our unrivalled physical network can be the perfect partner to this work, providing the vital face to face services which will still be required in a digital age.

As we set out in our Annual Report and Financial Statements in August, the Post Office is a unique business, combining a commercial business with a powerful public purpose. We have served the nation for centuries and for many people we provide access to services which are vital to their lives.

Our network also provides a crucial connection point for thousands of communities and we are absolutely committed to maintaining these critical links. We have made great progress in the last six months to continue to define our public purpose into a single statement. This work, part of a programme which could see the Post Office become a mutual business in the future, has seen us engage the public through a major research programme, the results of which we expect to announce in the second half of the year. A further element is our determination to develop ways of working which meet the test of a mutual business – ensuring that we listen and learn from all stakeholders involved with the business. Significant progress is being made in this area.

It is now 18 months since we began operating as an independent business. We continue to enjoy a strong relationship with Royal Mail, underpinned by a contractual agreement, which provides a solid foundation for many years to come. We are combining this with an ambitious strategy in other areas, notably financial services, which we are confident will ensure a thriving Post Office business in the years ahead.

Key performance figures

six months ended 29 September 2013

Summary Group Profit and Loss Account

	2013 £m	2012 £m	Variance £m	Variance %
Turnover	**483**	501	(18)	(3.6)
Network Subsidy Payment	**100**	103	(3)	(2.9)
Revenue	**583**	604	(21)	(3.5)
People costs	**(131)**	(128)	(3)	(2.3)
Other operating costs	**(422)**	(437)	15	3.4
Share of post tax profit from joint ventures and associates	**23**	22	1	4.5
Operating profit before exceptional items	**53**	61	(8)	(13.1)
Operating exceptional items	**132**	(10)		
Profit on disposal of property, plant and equipment	**2**	2		
Loss of sale of associate	**-**	(30)		
Profit before financing and taxation	**187**	23		

Revenue by pillar

	2013	2012 £m	Variance £m	Variance %
Mails and Retail	**184**	196	(12)	(6.1)
Financial Services	**139**	138	1	0.7
Government Services	**75**	84	(9)	(10.7)
Telecoms	**65**	63	2	3.2
Other	**20**	20	0	0
Turnover	**483**	501	(18)	(3.6)
Network Subsidy Payment	**100**	103	(3)	(2.9)
Revenue	**583**	604	(21)	(3.5)

Key Financial Performance Indicators

Turnover (£m)	Operating profit before exceptional items (£m)	Operating loss before exceptional items and Network Subsidy Payment (£m)	Operating cash flow (£m)
483	**53**	**(47)**	**142 outflow**
2012: 501	2012: 61	2012: (42)	2012: 78 inflow

Revenue

The Post Office's revenue has declined by £21 million, including a £3 million reduction in the Network Subsidy Payment. Turnover decreased from £501 million in the first 6 months of the prior year, to £483 million this year with encouraging growth in the Financial Services and Telecoms businesses more than offset by decline in the Mails and Retail and Government Services businesses. The Network Subsidy Payment is government grant revenue towards the costs of maintaining the Post Office network. This payment decreased by £3 million from the previous year to £100 million consistent with the Government Funding Agreement. This will reduce further in 2014-15 as set out in the current funding agreement with the government.

Financial Services

The Financial Services offering continues to grow, using our position at the heart of communities to offer products that are simple, fair, accessible and transparent, and value for money.

Financial Services revenue in the first half of the year increased by £1 million to £139 million (2012–£138 million). Personal Financial Services revenue rose by 23%, driven by strong growth in savings products (particularly Growth Bonds and Reward Saver) and the growth of the new mortgage products. Revenue from traditional financial services products, including bill payment services and Postal Orders, continued to decline. This was due to the increasing provision of electronic alternatives to paper-based products and the increasing use of alternative payment methods.

The Department for Work and Pensions contract for cash cheques and green giros has ceased, and National Savings and Investments' (NS&I) decision to provide most of their products through their own direct channel has resulted in a further reduction in revenue.

POL00099806

Mails and Retail

Mails and Retail revenue of £184 million decreased by £12 million (2012-£196 million). Of this, turnover in relation to Royal Mail products decreased by £10 million, driven primarily by lower parcel volumes through the Post Office and lower stamps revenue due to the sales peak ahead of the price rise at the end of April 2012. In addition, retail turnover decreased by £1 million, as the comparative figure last year included revenue from the collectibles relating to the Diamond Jubilee and Olympics memorabilia. Revenue derived from sales of lottery tickets declined by £1 million.

Telecoms

Telecoms revenue of £65 million represented an increase of £2 million (2012-£63 million). Revenue from HomePhone and Broadband rose driven by an uplift in our average revenue per user following the introduction of more attractive packages last year. Revenue from our Mobile top-up business was lower than the previous half year, as more customers continue to migrate away from pre-pay services onto contracts. Despite this reduction in income, the Post Office is still a significant provider in the top-up market, and its share of the retail market has been maintained at around 5%.

Government Services

Government Services revenue of £75 million declined by £9 million (2012-£84 million) due to a lower volume and rate per transaction for DVLA motoring work and a reduction in the number of active Post Office Card Account (POCA) accounts. Revenue from the Passport Check & Send service increased by £1 million due to an increased share of a growing market.

Operating costs

People costs of £131 million have increased compared to the first 6 months of the prior year by £3 million mainly due to higher pension costs and historical pay agreements.

Other operating costs have decreased by £15 million to £422 million mainly due to lower sales volumes.

Joint venture

The share of profit from the joint venture, First Rate Exchange Services Holdings Limited, increased by £1 million to £23 million.

Exceptional items

Operating exceptional items include the costs of delivery of major change and the impairment of non-current assets. These are offset by Government grant funding, received towards the transformation programme and recognised to match the associated costs. In addition a gain of £102 million arose on the change to the terms of the Royal Mail Pension Plan. In the half year Network Transformation resulted in costs of £55 million. Costs of £5 million relate to the IT transformation programme which will create the appropriate IT infrastructure for the future. Government grant funding of £129 million has been recognised to offset the costs as appropriate including £31 million to cover costs incurred in 2012-13 but not covered by the 2012-13 grant.

POL00099806

Interim condensed consolidated income statement

	Notes	Half year to 29 September 2013 Unaudited £m	Half year to 23 September 2012 Unaudited £m
Continuing operations			
Turnover		**483**	501
Network Subsidy Payment		**100**	103
Revenue	2	**583**	604
People costs excluding restructuring costs		**(131)**	(128)
Other operating costs		**(422)**	(437)
Share of post tax profit from joint ventures and associates		**23**	22
Operating profit before exceptional items		**53**	61
Operating exceptional items	3	**132**	(10)
- government grant		**129**	35
- Royal Mail Pension Plan amendment		**102**	-
- restructuring costs		**(64)**	(24)
- other		**(35)**	(21)
Operating profit		**185**	51
Profit on disposal of property, plant and equipment		**2**	2
Loss on sale of associate		**-**	(30)
Profit before financing and taxation		**187**	23
Finance costs		**(1)**	(2)
Finance income		**-**	1
Net pensions interest		**2**	1
Profit before taxation		**188**	23
Taxation credit	4	**2**	18
Profit for the period from continuing operations		**190**	41

POL00099806

Interim condensed consolidated statement of comprehensive income

	Notes	Half year to 29 September 2013 Unaudited £m	Half year to 23 September 2012 Unaudited £m
Profit for the period from continuing operations		**190**	41
Other comprehensive income:			
Remeasurements on defined benefit surplus	5	**(54)**	(32)
Income tax effect	4	**(2)**	(11)
Total comprehensive income/(expenditure) for the period		**134**	(2)

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

POL00099806

Interim condensed consolidated statement of cash flows

	Notes	Half year to 29 September 2013 Unaudited £m	Half year to 23 September 2012 Unaudited £m
Cash flows from operating activities			
Operating profit before exceptional items		**53**	61
Adjustment for:			
Depreciation and amortisation		-	-
Share of profit from joint ventures and associates		**(23)**	(22)
Pension operating costs		**13**	13
Working capital movements:		**(6)**	131
Decrease/(increase) in trade and other receivables		**73**	(10)
(Decrease)/increase in trade and other payables		**(81)**	143
Decrease/(increase) in inventories		**1**	(3)
Increase in non-exceptional provisions		**1**	1
Pension operating costs paid		**(13)**	(13)
Cash receipts in respect of operating exceptional items:		**153**	178
Government grant		**215**	200
Restructuring costs		**(59)**	(17)
Other		**(3)**	(5)
Net cash inflow from operating activities		**177**	348
Income tax recovered		**10**	11
Cash flows from investing activities			
Investment in associate		-	(11)
Proceeds from sale of property, plant and equipment		**3**	2
Proceeds from disposal of associate		-	2
Purchase of non-current assets		**(38)**	(20)
Net cash (outflow) from investing activities		**(35)**	(27)
Net cash inflow before financing activities	6	**152**	332
Cash flows from financing activities			
Finance costs paid		**(1)**	(2)
Payments to finance lease creditors		**(2)**	(2)
Repayment of bank borrowings		**(291)**	(250)
Net cash (outflow) from financing activities		**(294)**	(254)
Net (decrease)/increase in cash and cash equivalents		**(142)**	78
Effect of exchange rates on cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the period		**971**	820
Cash and cash equivalents at the end of the period		**829**	898

POL00099806

Interim condensed consolidated balance sheet as at

	Notes	29 September 2013 Unaudited £m	31 March 2013 Audited £m
Non-current assets			
Intangible assets		-	-
Property, plant and equipment		**11**	11
Investments in joint ventures and associates		**83**	60
Retirement benefit surplus	5	**145**	97
Trade and other receivables		**10**	10
Total non-current assets		**249**	178
Current assets			
Inventories		**7**	8
Trade and other receivables		**269**	352
Cash and cash equivalents		**855**	971
Financial assets - derivatives		-	1
Total current assets		**1,131**	1,332
Total assets		**1,380**	1,510
Current liabilities			
Trade and other payables		**(899)**	(874)
Financial liabilities - interest bearing loans and borrowings		-	(291)
- obligations under finance leases		**(1)**	(3)
Provisions		**(25)**	(19)
Total current liabilities		**(925)**	(1,187)
Non-current liabilities			
Financial liabilities - obligations under finance leases		**(4)**	(4)
Other payables		**(24)**	(24)
Provisions		**(5)**	(7)
Total non-current liabilities		**(33)**	(35)
Net assets		**422**	288
Equity			
Share capital		-	-
Share premium		**465**	465
Retained earnings		**(45)**	(179)
Other Reserves		**2**	2
Total equity		**422**	288

POL00099806

Interim condensed consolidated statement of changes in equity

For the half year ended 29 September 2013

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 1 April 2013 (unaudited)		**465**	**(179)**	**2**	**288**
Profit for the period		-	**190**	-	**190**
Remeasurements on defined benefit surplus	5	-	**(54)**	-	**(54)**
Income tax effect	4	-	**(2)**	-	**(2)**
At 29 September 2013 (unaudited)		**465**	**(45)**	**2**	**422**

For the half year ended 23 September 2012

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 26 March 2012 (unaudited)		465	(552)	47	(40)
Profit for the period		-	41	-	41
Remeasurements on defined benefit surplus		-	(32)	-	(32)
Transfer of pension deficit to government		-	286	-	286
Sale of interest in associate		-	45	(45)	-
Income tax effect	4	-	(11)	-	(11)
At 23 September 2012 (unaudited)		465	(223)	2	244

POL00099806

Notes to the interim condensed consolidated financial statements

1. Accounting policies

The interim condensed consolidated financial statements of Post Office Limited and its subsidiaries (collectively, the Group) for the half year ended 29 September 2013 were authorised for issue in accordance with a resolution of the directors on XX November 2013.

The information for the year ended 31 March 2013 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Basis of preparation

These interim condensed consolidated financial statements for the half year ended 29 September 2013 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. This report should be read in conjunction with the Group's Annual Report and Accounts 2013, which have been prepared in accordance with IFRSs as adopted by the European Union.

Fundamental accounting concept – going concern

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

The Group has net assets at 29 September 2013 and is reporting a profit before exceptional items. A funding agreement with Government was announced on 27 October 2010 which provided for:

- Funding of £410 million for 2012-13
- Funding of £415 million for 2013-14
- Funding of £330 million for 2014-15
- Extension of the existing working capital facility with the Department for Business, Innovation & Skills (BIS) of £1.15 billion up to 31 March 2016

State Aid approval for the funding for 2012-13 to 2014-15 was received on 28 March 2012 and it was also recognised that the working capital facility was no longer deemed State Aid. £410 million was received on 2 April 2012 and £415 million was received on 2 April 2013.

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

The Directors are satisfied with the continued progress made towards modernisation during the half year ended 29 September 2013 and that the plans in place and the substantial investment secured will enable the Group to continue to modernise and to secure its future. However, they note that the scale of change required remains significant so not without risk.

New standards, interpretations and amnendments adopted by the Group

The interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in the Group's Annual Report and Accounts 2013, except for the adoption of new standards and interpretations effective as of 1 April 2013.

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 recognised 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.

Notes to the interim condensed consolidated financial statements

2. Segmental reporting

The Group's operating segments have been identified as Mails & Retail, Financial Services, Government Services, Telecoms and Other. The performance of these segments in the half year ended 29 September 2013 has been discussed further in the Business Review on page XX. Performance is assessed based on net revenue. This is calculated using segmental revenue less the directly attributable costs of delivering the service or product. Assets and liabilities as recognised on the Group balance sheet are not considered to be segmental assets or liabilities but rather are managed by the Group's central functions.

	Half year to 29 September 2013		
	Revenue £m	**Directly attributable costs £m**	**Net revenue £m**
Mails & Retail	**184**	**(2)**	**182**
Financial Services	**139**	**-**	**139**
Government Services	**75**	**(15)**	**60**
Telecoms	**65**	**(40)**	**25**
Other	**20**	**-**	**20**
Sub-total	**483**	**(57)**	**426**
Network Subsidy Payment	**100**	**-**	**100**
Total	**583**	**(57)**	**526**

	Half year to 23 September 2012		
	Revenue £m	Directly attributable costs £m	Net revenue £m
Mails & Retail	196	(3)	193
Financial Services	138	-	138
Government Services	84	(15)	69
Telecoms	63	(40)	23
Other	20	-	20
Sub-total	501	(58)	443
Network Subsidy Payment	103	-	103
Total	604	(58)	546

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

	Half year to 29 September 2013 £m	Half year to 23 September 2012 £m
Underlying segment net revenue	**526**	546
Indirect costs	**(496)**	(507)
Share of post-tax profit from joint ventures and associates	**23**	22
Operating profit before exceptional items	**53**	61
Operating exceptional items	**132**	(10)
Operating profit	**185**	51
Profit on disposal of property, plant and equipment	**2**	2
Loss on sale of associate	**-**	(30)
Profit before financing and taxation	**187**	23
Finance costs	**(1)**	(2)
Finance income	**-**	1
Net pensions interest	**2**	1
Profit before taxation	**188**	23

POL00099806

Seasonality of operations

The Group's operating segments have been identified as Mails & Retail, Financial Services, Government Services, Telecoms and Other. The performance of these segments in the half year ended 29 September 2013 has been discussed further in the Business Review on pages 4 and 5. Performance is assessed based on net revenue. This is calculated using segmental revenue less the directly attributable costs of delivering the service or product. Assets and liabilities as recognised on the Group balance sheet are not considered to be segmental assets or liabilities but rather are managed by the Group's central functions.

3. Operating exceptional items

These are items of income and expenditure arising from the operations of the business which, due to the nature of the events giving rise to them, require separate presentation on the face of the income statement to allow a better understanding of financial performance.

	Half year to 29 September 2013 £m	Half year to 23 September 2012 £m
Government grant	**129**	35
Royal Mail Pension Plan amendment	**102**	-
Business transformation	**-**	-
Network transformation including subpostmasters' compensation	**(56)**	(14)
Restructuring – severance	**(2)**	(6)
– other	**(6)**	(4)
Impairment of intangible assets	**(18)**	(10)
Impairment of property, plant and equipment	**(17)**	(11)
Total operating exceptional items	**132**	(10)

For further information in relation to the Royal Mail Pension Plan amendment refer to note 5. 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.

4. Taxation

The overall taxation credit in the income statement is calculated by applying the tax rate that would be applicable to the expected total annual earnings to the reported interim profit.

The major components of income tax in the interim condensed income statement are:

	Half year to 29 September 2013 £m	Half year to 23 September 2012 £m
Corporation tax credit for period	**-**	7
Tax under provided in previous periods	**-**	-
Current tax	**-**	7
Deferred tax credit relating to the origin and reversal of temporary differences	**2**	11
Income tax credit reported in the condensed consolidated income statement	**2**	18

5. Pensions

The Group participates in pension schemes as detailed below.

Name	**Eligibility**	
Royal Mail Pension Plan (RMPP)	UK employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	UK senior executives	Defined benefit
Royal Mail Defined Contribution Plan (RMDCP)	UK employees	Defined contribution

POL00099806

Notes to the interim condensed consolidated financial statements

5. Pensions continued

The charge in the interim condensed consolidated income statement for the defined contribution scheme and the Group contributions to this scheme was £1m in the half year to 29 September 2013, and payments of £11m were made in respect of future service contributions, nearly all relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1%.

The following disclosures reflect the Post Office Limited sectionalised RMPP scheme which is independently operated by the Group. Disclosures in relation to Post Office Limited's approximately 7% share of RMSEPP (which is operated by Royal Mail Group Limited) have been excluded as they are not considered to be significant to the interim condensed consolidated financial statements.

During the period there was a consultation exercise with members of the defined benefit Royal Mail Pension Plan on proposed changes to the terms. These changes were agreed and implemented on 15 October 2013. The key change was to the definition of pensionable pay which broadly will increase in line with RPI (capped at 5%) in future regardless of actual pay growth. The changes have resulted in a one-off 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.

a) Major long-term assumptions

	At 29 September 2013 % pa	At 31 March 2013 % pa
Rate of increase in salaries	**3.3**	4.3
Discount rate	**4.6**	4.8
Inflation assumption (RPI)	**3.3**	3.3
Inflation assumption (CPI)	**2.3**	2.3

Demographic assumptions, for example mortality, remain unchanged from those made in March 2013.

b) Plans' assets and liabilities

The plan assets and liabilites were:

Sectionalised RMPP	**Market value at 29 September 2013 £m**	Market value at 31 March 2013 £m
Fair value of assets	**235**	243
Present value of liabilities	**(71)**	(144)
Surplus in plan before IFRIC 14 adjustment	**164**	99
Less IFRIC 14 adjustment	**(21)**	(3)
Surplus in RMPP plan after IFRIC 14 adjustment	**143**	96
Surplus in plan for the Post Office Limited share (at approximately 7%) of RMSEPP	**2**	1
Total retirement benefit surplus	**145**	97

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c) Movement in plans' assets and liabilities

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

Sectionalised RMPP	Half year ended 29 September 2013 £m	Year ended 31 March 2013 £m
Opening net retirement benefit surplus/(deficit)	**99**	(205)
Royal Mail Pension Plan amendment	**102**	-
Transfer of pension deficit to government	-	286
Current service cost	**(13)**	(24)
Curtailment costs	-	(2)
Net financing credit	**2**	2
Employers contributions	**11**	25
Actuarial (losses)/gains	**(37)**	17
Closing net retirement benefit surplus before IFRIC 14 adjustment	**164**	99

6. Net debt

A summary of the Group's net debt position (excluding network cash) is shown below:

	At 29 September 2013 £m	At 31 March 2013 £m
Cash equivalents:		
Short term bank deposits	**4**	6
Money market fund investments	-	86
Financial liabilities:		
Obligations under finance leases (current)	**(1)**	(3)
Interest bearing loans and borrowings (current)	-	(291)
Obligations under finance leases (non current)	**(4)**	(4)
Net debt	**(1)**	(206)

Net debt has decreased overall by £205m during the half year ended 29 September 2013 as shown in the table below.

	£m
Net debt brought forward at 1 April 2013	**(206)**
Net cash inflow before financing activities	**152**
Add decrease in cash in the network included within net cash inflow	**54**
Finance costs paid	**(1)**
Net debt carried forward at 29 September 2013	**(1)**

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Notes to the interim condensed consolidated financial statements

7. Related party disclosures

There have been no material changes to the related parties listed in the Group's Annual Report and Accounts 2013. All related party transactions were in the ordinary course of business. The transactions entered into and the balances outstanding as at 29 September 2013 were as follows:

	Sales/recharges to related party		Purchases/recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
Half year to September	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Royal Mail Plc	**169**	172	**18**	18	**-**	-	**11**	9
Midasgrange Limited	**-**	35	**-**	1	**-**	28	**-**	1
First Rate Exchange Services Holdings Limited	**16**	15	**80**	81	**8**	6	**5**	4

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

The Group trades with numerous government bodies at an arm's length basis. Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted. Separately, the Group has certain loan facilities with government, and receives a government grant and the Network Subsidy Payment from government. There were no material transactions or balance between the Group and its key management personnel during the half year ended 29 September 2013.

POL00099806

Report on review of interim condensed financial statements

The Board of Directors to Post Office Limited

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 29 September 2013, which comprises the interim condensed consolidated balance sheet of Post Office Limited and its subsidiaries (the Group) and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cashflow statement for the six month period then ended and the explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the accounting policies set out in note 1

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with those policies.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 29 September 2013 is not prepared, in all material respects, in accordance with the accounting policies set out in note 1, which comply with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP

London

[Date]

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Our pictures

Front cover

Jonathan and Sarah Armstrong, of Windmill Drive main branch in Bexhill on Sea won the Independent Community Retailer of the Year trophy at the National Federation of Retail Newsagents awards. The duo were recognised for their tireless efforts to make their Post Office branch the heart of their community.

Page 2

Our brand new Crown Office in Milton Keynes which opened in July this year.

Corporate information

Post Office Limited
Interim Report for the half year ended 29 September 2013

Registered Office and Group Head Office
Post Office Limited
148 Old Street
London EC1V 9HQ

Registered No: 2154540

Corporate website
Additional corporate and other information can be accessed on the following website (www.postoffice.co.uk). Information made available on the website is not intended to be, and should not be regarded as being, part of the accounts.

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POST OFFICE

2013-14 Q2 Full Year Forecast and 2014-15 Budget look ahead

October 2013

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Q2 FYF – bottom up forecast meets full year target assuming sales recovery plan successful. The FYF cost profile differs quite considerably to budget partly due to sales shortfall.

£m	2012-13 Outturn	2013-14 FYF	2013-14 Budget	Variance	2013-14 YTD Variance
TOTAL NET INCOME	**902.4**	**887.6**	**900.0**	**(12.4)**	**(18.0)**
Staff Costs	(257.4)	(259.2)	(256.1)	(3.1)	(0.8)
Agents Costs	(478.1)	(468.9)	(480.0)	11.1	18.9
Non-Staff Costs	(162.3)	(164.7)	(160.0)	(4.7)	(1.1)
Interbusiness Expenditure	(83.6)	(82.7)	(83.9)	1.2	2.2
Depreciation	(0.4)	(0.8)	(0.8)	0.0	0.3
Total Expenditure	**(981.8)**	**(976.3)**	**(980.7)**	**4.4**	**19.4**
FRES - Share Of Operating Profits	31.9	33.0	31.5	1.5	1.2
EBIT Pre Overhead Allocations	**(47.5)**	**(55.7)**	**(49.2)**	**(6.5)**	**2.7**
Group Overhead allocations	(14.9)	(13.8)	(13.8)	0.0	0.0
EBIT - BAU	**(62.4)**	**(69.5)**	**(63.0)**	**(6.5)**	**2.7**
One off Project costs (POOC)	(53.4)	(28.5)	(35.0)	6.5	2.4
EBIT - Post Project Costs	**(115.8)**	**(98.0)**	**(98.0)**	**0.0**	**5.1**
Network Payment	210.0	200.0	200.0	0.0	0.0
EBIT pre exceptionals items	**94.2**	**102.0**	**102.0**	**0.0**	**5.1**

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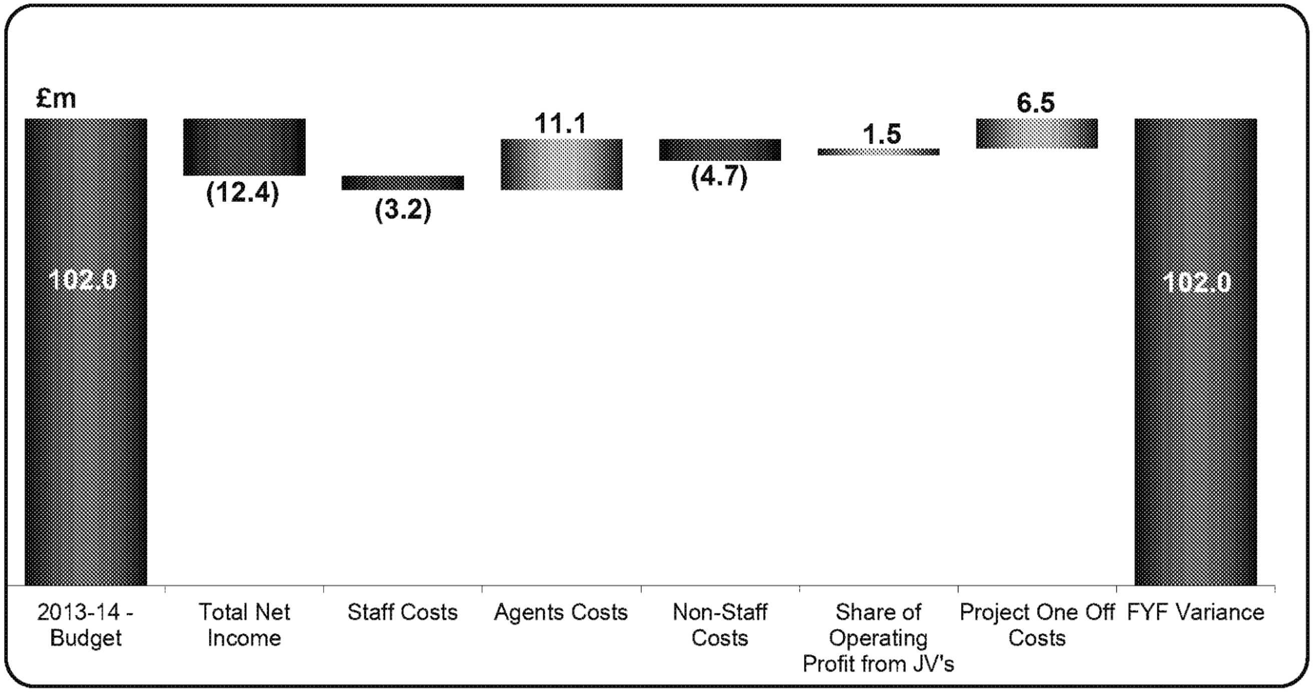
Forecast achieves profit target as income shortfalls are mitigated by cost savings – primarily agents' costs



- FYF assumes income shortfalls are halted and partial sales recovery in line with plan.
- Cost reductions, mainly in agents' costs and POOC, return profit result to target.
- The staff cost saving challenge has not been fully underpinned (eg Supply Chain).

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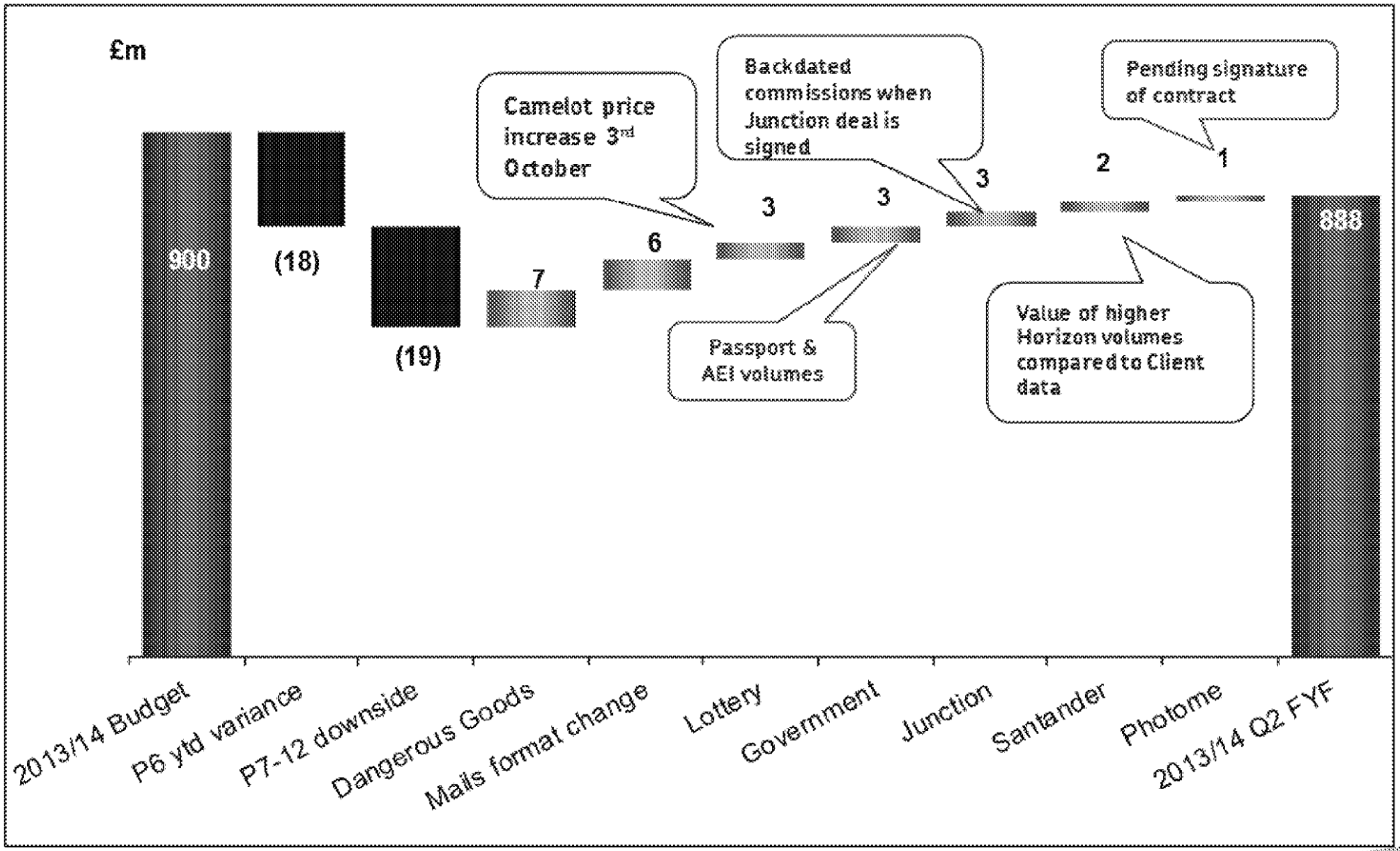
Net income – year on year growth story is at risk: forecast to be £12m below budget assumes recovery plan fully delivered in H2



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Q2 FYF Staff Costs adverse to budget– shortfalls against Supply Chain efficiencies and ExCo central savings task not fully underpinned

Directorate	Budget FY	Q2 FYF	Q2 FYF vs. Budget	Q2 FYF vs. Q2 Target	Comments
Central	(9.6)	(12.7)	(3.1)	1.1	Allocation of central saving task to directorates
Commercial	(7.4)	(7.1)	0.2	0.0	Absorbed saving task
Communications	(2.3)	(2.2)	0.1	0.1	Absorbed saving task
Finance	(11.8)	(10.9)	0.8	0.7	Absorbed saving task and delivered FRP efficiencies earlier than planned
Financial Services	(4.5)	(4.6)	(0.1)	(0.3)	Unable to absorb saving task (no vacancies YTD and contractor costs higher than budgeted)
Human Resources	(22.8)	(24.2)	(1.3)	(1.4)	
HR	(4.8)	(4.7)	0.2	0.1	Absorbed saving task and £0.3m transfer from Crown for Christmas casuals
Bonus	(18.0)	(19.5)	(1.5)	(1.5)	
Legal & Security	(5.2)	(4.9)	0.3	0.2	Absorbed saving task and further savings result of not filling vacancies
Network	(178.5)	(178.1)	0.3	(1.7)	
Crown	(102.1)	(102.1)	0.0	0.0	£1.1m saving related to industrial action and £0.3m transferred to HR for Christmas casuals offset by £1.4m risk against CTP saving task
Supply Chain	(55.1)	(56.0)	(0.9)	(2.3)	Unable to absorb £0.9m of £2.3m original task and additional £1.5m task.
Network Admin	(21.3)	(20.0)	1.2	0.7	Absorbed saving task and further savings result of not filling vacancies.
Strategy	(14.1)	(14.5)	(0.4)	(0.6)	Unable to absorb saving task (no vacancies YTD and contractor costs higher than budgeted and cannot recruit perm staff as roles transfer to SI).
Total	**(256.1)**	**(259.2)**	**(3.1)**	**(1.9)**	

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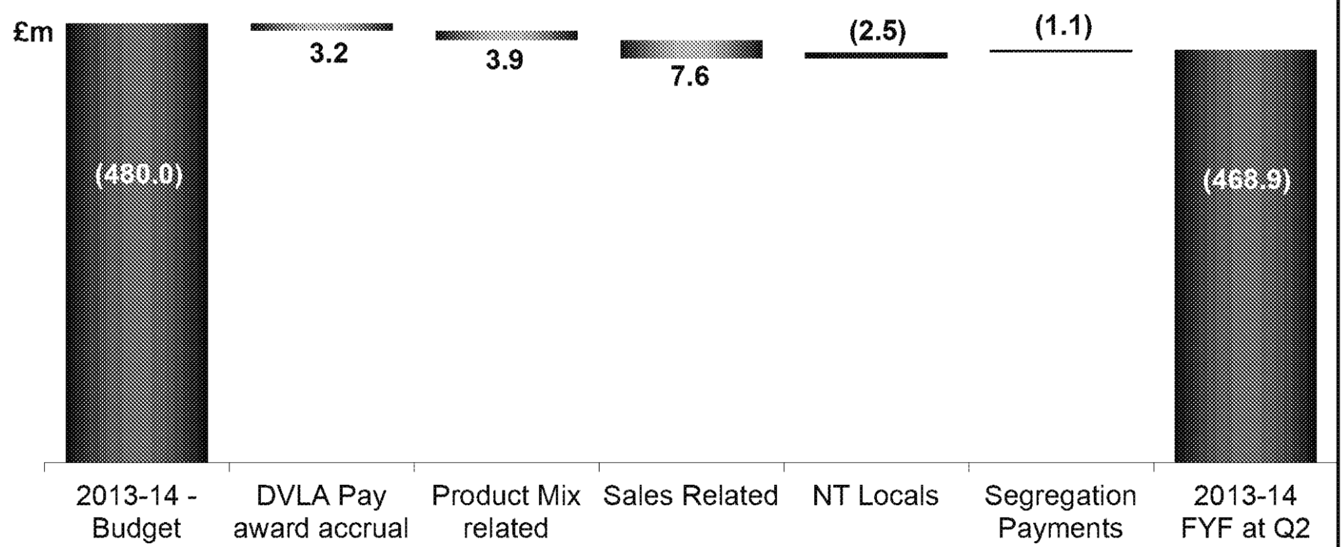
Agents' costs savings largely offset sales shortfalls



Favourable movements relate to:

- The year end accrual made in 2012-13 for a lump sum payment to cover half of DVLA rate change
- The product mix is different to assumed in budget, primarily standard parcels moving to PF 24/48 and 2nd class labels
- The alignment to the sales elements of the income forecast, including £5m above budget for dangerous goods.

Offset by

- NT Locals forecast to be significantly lower than plan
- From October payments to Agents for Mails Segregation will resume. Cost £2.2m vs budget £1.1m

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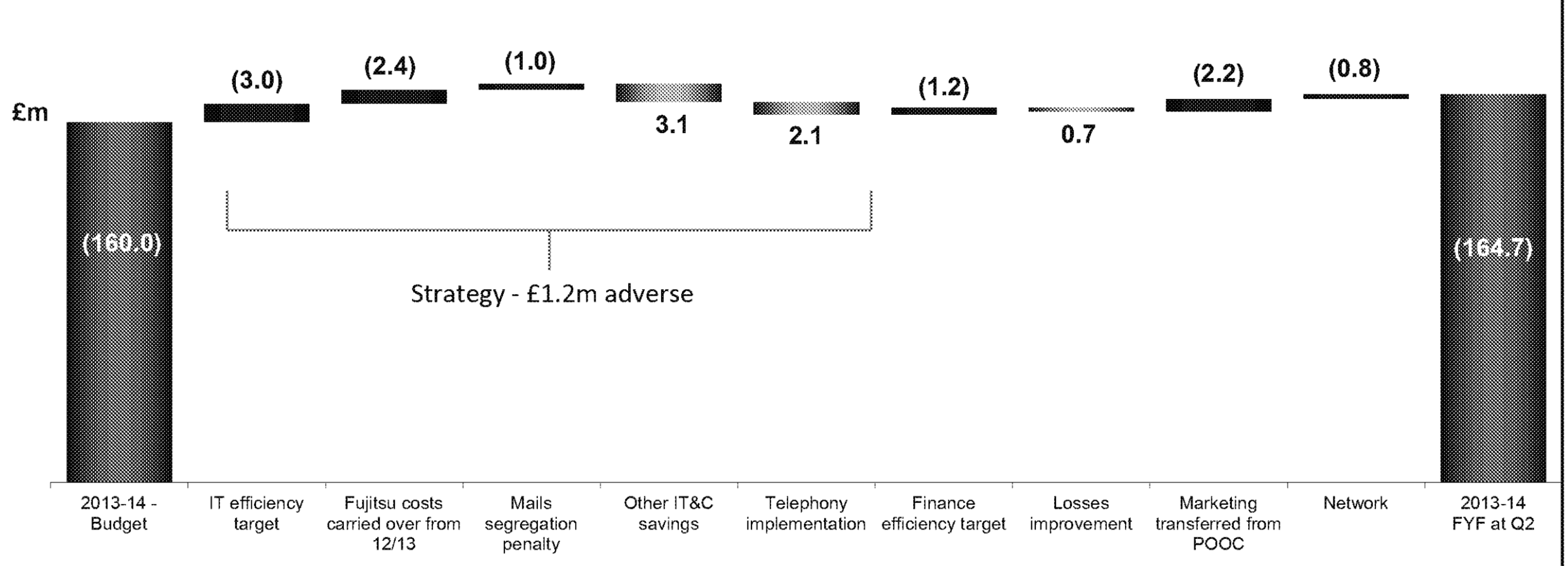
Q2 FYF shortfall driven by move of marketing costs from POOC and savings task within the budget not fully underpinned. However, Strategy had a significant budget challenge and has made some progress in identifying savings against it



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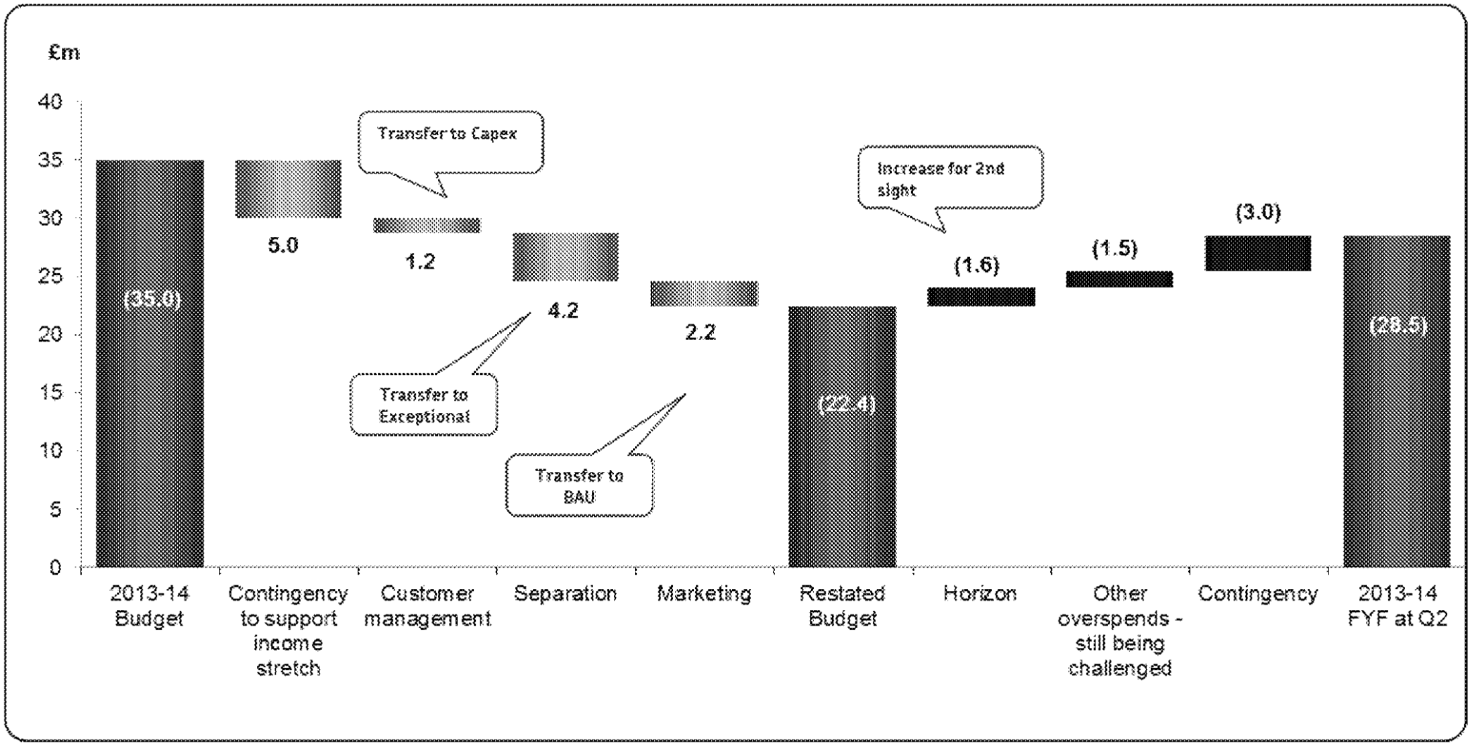
Q2 FYF project opex is favourable by £6.5m – mainly due to a transfer to BAU and accounting changes (underlying variance £3.1m adverse)



- Budget included £5m contingency to match income challenge but over-programming of £3.8m.
- Accounting treatment of Separation and Customer Management results in favourable movement of £5.4m
- Transfer of marketing costs to non staff gives favourable of £2.2m
- Adjusting for these would give budget of £22.4m and therefore variance is £6.1m adverse – £3m is contingency leaving an underlying adverse mainly due to Horizon litigation and other smaller overspends (still being challenged).

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Risks and Opportunities to FY profit forecast

Risks	£m	Opportunities	£m
Sales recovery plan fails to deliver fully	-5 to -10	VAT - amendment to historic recovery rate	+5 to +8
Associated agents' cost saving	+3 to +6		
Mails segregation penalty (£1m in FYF)	0 to -2	WHS onerous contract utilisation	+3
IT savings from RM still to crystallise	0 to -3		
Telephony bad debt increase	?		
Total	**-2 to -8**		**+8 to +11**

Risks and opportunities to the Q2 FYF are broadly balanced but opportunities are from non performance upsides and will not repeat in future years (but, NB quality of earnings!)

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FYF Performance Summary – £102m should be delivered and potentially exceeded but the challenge for 2014-15 is significant

P&L

- Operating profit before exceptional items target now appears achievable but sales story for the second half is ambitious
- Risks and opportunities are reasonably balanced but potential non performance upsides mitigate performance downsides
- The challenge increases in the coming years both for sales growth and cost reduction.

Cashflow

- Cash flow to exceed budget due mainly slower capex and exceptional spend.

Crown P&L

- Forecast loss of £24.9m prepared in line with Post Office wide forecast. Crown does not have the equivalent of agents' costs savings to offset the income shortfalls

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2014-15 Budget look ahead

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2014-15 budget – requires year on year improvement of c£38m prior to NSP

- 2013-14 FYF of £102m equates to £98m loss pre NSP (2012-13 £116m loss)
- Strategic plan operating loss for 2014-15 of £60m pre NSP
- Task is to improve on 2013-14 FYF by £38m to cover the £40m reduction in the NSP

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2014-15 budget targets – income pillar targets refined based on latest view and cost targets incorporate cost reduction programme actions

£m	2012-13 Outturn	2013-14 Budget	2013-14 FYF	2014-15 Target	2014-15 Strat Plan	2015-16 Strat Plan
PILLARS						
Mails & Retail	404.0	414.6	406.9	430.0	413.0	425.0
Financial Services	279.6	277.4	277.4	295.0	292.0	319.0
Government Services	133.2	115.9	115.5	117.0	131.0	158.0
Telephony	45.0	50.4	50.7	60.0	69.0	94.0
Other	40.7	36.7	37.1	38.0	40.0	42.0
Income Contingency	0.0	5.0	0.0	(15.0)	(20.0)	(40.0)
TOTAL NET INCOME	**902.5**	**900.0**	**887.6**	**925.0**	**925.0**	**998.0**
Staff Costs	(257.4)	(256.1)	(259.2)	(235.6)	(242.0)	(228.0)
Agents Costs	(478.1)	(480.0)	(468.9)	(488.8)	(492.0)	(505.0)
Non-Staff Costs	(261.3)	(258.4)	(262.0)	(252.0)	(238.0)	(238.0)
Costs to Support Income Growth	0.0	0.0	0.0	(20.6)	(20.0)	(35.0)
Total Expenditure	**(996.8)**	**(994.5)**	**(990.1)**	**(997.0)**	**(992.0)**	**(1,006.0)**
FRES - Share Of Operating Profits	31.9	31.5	33.0	34.0	32.0	33.0
EBIT Pre Overhead Allocations	**(62.4)**	**(63.0)**	**(69.5)**	**(38.0)**	**(35.0)**	**25.0**
EBIT - BAU	**(62.4)**	**(63.0)**	**(69.5)**	**(38.0)**	**(35.0)**	**25.0**
One off Project costs (POOC)	(53.4)	(35.0)	(28.5)	(22.0)	(25.0)	(25.0)
EBIT - Post Project Costs	**(115.8)**	**(98.0)**	**(98.0)**	**(60.0)**	**(60.0)**	**0.0**
Network Payment	210.0	200.0	200.0	160.0	160.0	130.0
EBIT pre exceptionals items	**94.2**	**102.0**	**102.0**	**100.0**	**100.0**	**130.0**

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2014-15 Budget Timetable and next steps

Guidelines and templates	23rd October
Detailed budgeting	Mid October - end November
Income submissions (focus products)	15th November
POOC pre-plan submissions	18th November
Network/Channel reviews (focus products)	21st – 25th November
1st pass submissions	27th November
Director reviews	Early December
Transformation Board	3rd December
ExCo check step meeting	18th December
2nd submission	14th January
ExCo sub Group review	28th January
ExCo final sign off	13th February
Network sales targets	Feb and March
Board half day budget review	19th March (TBC)
Board final approval	26th March

- Targets issued
- Submissions to meet target – highlight risks rather than fail to deliver
- First check step of progress in early December

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POST OFFICE LIMITED

Performance Report

September 2013

Produced By : Financial Control and Compliance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Contents

POL00099806

Headlines

September 2013

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POST OFFICE

Profit & Loss - YTD

- Profit at half year was £53.1m, which was £5.1m favourable to budget of £48.0m, and £7.9m adverse to prior year of £61.1m. The improvement against budget in the month of £6.6m was largely driven by two accounting points - the transfer of the Separation programme costs of £2.8m to exceptional costs and the unbudgeted half year utilisation of the (original) WHS onerous contract provision of £1.6m. The prior year variance is explained on page 4 and in more detail in the Half Year ARC Briefing Book.
- Net income of £426.2m increased the adverse variance to £18.0m compared to budget (mainly Mails £12.5m and Lottery £3.6m). The Sales Recovery plan is beginning to take effect with Dangerous Goods income now coming through but it continues to have risk. A risk of £5-10m has been highlighted through the Q2 FYF review. The Commercial teams are working with urgency to identify other potential income streams to drive revenue back to the budget target of £900m.
- Staff costs were a net £0.8m adverse due to PY bonus accrual adjustment offset by unused pay award budget. The Cost Reduction Programme is implementing a series of savings activities to drive the cost down - most will impact on 2014-15 with minor savings coming through in 2013-14.
- Agents' costs were £18.9m favourable to budget, mainly due to lower sales income £9.9m, sales mix (parcels) £2.0m and £1.6m due to WHS provision utilisation (relating to the original contract). The favourable agents' costs are projected to be largely maintained but with anticipated mails segregation payments (£2.2m) and delays to locals conversions reducing the full year upside.
- Non people costs were £1.1m adverse to budget. The adverse budget position is driven by Horizon costs originally budgeted for in the prior year. The budget included a number of efficiency and savings tasks and much is now underpinned to contain costs to only around £2m higher than last year.
- Interbusiness expenditure was £2.2m lower to budget, driven by lower Official Mail costs and property costs.
- Project costs were £2.4m favourable YTD with the underspend is driven by the movement of separation costs to exceptional items. The current year customer engagement budget continues to cover the spend delayed from 2012-13 into this year.

Cashflow

The YTD cashflow was an inflow of £193m which was £21m favourable to the £172m inflow budget (Period 5 was £99m favourable), mostly driven by delays to NTP expenditure.

Crown P&L - YTD

The Crown loss is £1.4m adverse to budget. Income was £2.0m adverse driven primarily by Mails, partially offset by Government Services. Costs are £0.2m favourable and share of JV is £0.4m favourable.

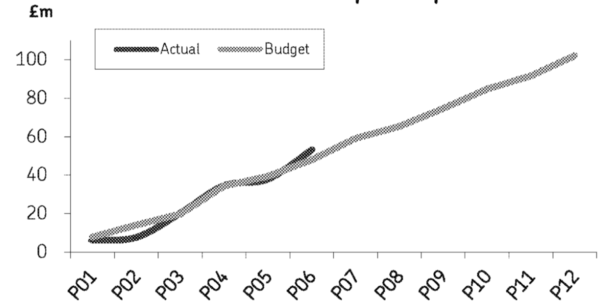
Non financials - YTD

- Queue times in branches (less than 5 minutes) were 83.5%.
- YTD Network conversion signatures were 17 ahead of the 1853 target, (P5 was 9 ahead of target).

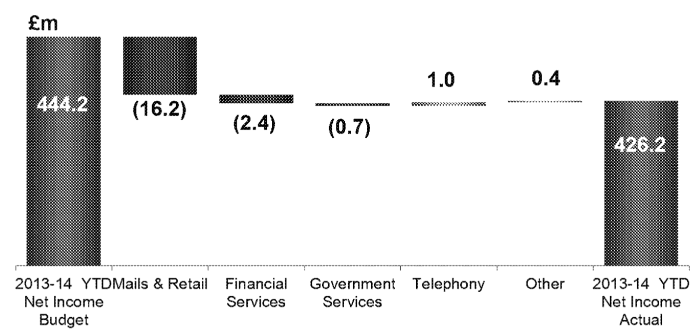
FYF

This pack shows the Q2 FYF and is subject to Board approval.

Cumulative EBIT pre exceptionals



Total Net Income - Budget to Actual Bridge



Financials	Act	Target	Var
	Year to Date		
Total Net Income (excl NSP) £m (Bonus)	426.2	444.2	(18.0)
Operating profit £m (Bonus)	53.1	48.0	5.1
Free cashflow £m	192.9	172.0	20.8
Crown Profit (Loss) £m (Bonus)	(11.9)	(10.5)	(1.4)
Non Financials			
Queue time % < 5 minutes - Top 1k branches	83.5%	78.9%	4.6%
Network Conversions (Mains & Locals) (Bonus)	1870	1853	17

Profit & Loss Statement

Strictly Confidential

September 2013

£m	Current Month Actual	Current Month Budget	Current Month Variance	Prior Year Period Actual	Prior Year Period Variance	Year to Date Actual	Year to Date Budget	Year to Date Variance	Prior Year YTD Actual	Prior Year YTD Variance	Full Year Q2 Forecast	Full Year Budget	Full Year Variance	Prior Year Outturn	Prior Year Variance
TOTAL GROSS INCOME	**77.9**	**79.9**	**(2.1)**	**77.8**	**0.1**	**482.7**	**501.2**	**(18.6)**	**501.1**	**(18.5)**	**997.8**	**1,012.2**	**(643.3)**	**1,023.6**	**(25.8)**
Cost of Sales	(10.2)	(9.1)	(1.1)	(8.7)	(1.5)	(56.5)	(57.1)	0.6	(58.2)	1.7	(110.2)	(112.2)	(0.0)	(121.2)	11.0
TOTAL NET INCOME	**67.7**	**70.8**	**(3.1)**	**69.1**	**(1.4)**	**426.2**	**444.1**	**(18.0)**	**442.9**	**(16.8)**	**887.6**	**900.0**	**(12.4)**	**902.4**	**(14.3)**
Staff Costs	(19.8)	(20.6)	0.8	(20.2)	0.4	(130.4)	(129.6)	(0.8)	(126.7)	(3.7)	(259.2)	(256.1)	(3.1)	(257.4)	(1.9)
Agents Costs	(30.0)	(37.1)	7.1	(35.2)	5.2	(219.8)	(238.7)	18.9	(235.1)	15.4	(468.9)	(480.0)	11.1	(478.1)	9.2
Non-Staff Costs	(13.9)	(13.9)	(0.1)	(12.0)	(2.0)	(83.0)	(81.9)	(1.1)	(74.8)	(8.2)	(164.7)	(160.0)	(4.7)	(162.3)	(2.4)
Interbusiness Expenditure	(5.5)	(6.5)	0.9	(5.9)	0.4	(39.7)	(41.8)	2.2	(40.7)	1.1	(82.7)	(83.9)	1.2	(83.6)	0.9
Depreciation	(0.0)	0.0	(0.0)	(0.1)	0.0	(0.2)	(0.5)	0.3	(0.5)	0.3	(0.8)	(0.9)	0.0	(0.4)	(0.4)
Total Expenditure (pre POOC)	**(69.3)**	**(78.0)**	**8.7**	**(73.4)**	**4.1**	**(473.0)**	**(492.5)**	**19.4**	**(477.8)**	**4.8**	**(976.3)**	**(980.8)**	**4.5**	**(981.8)**	**5.5**
FRES - Share Of Operating Profits	3.8	3.4	0.3	3.7	0.1	22.6	21.4	1.2	21.8	0.8	33.0	31.5	0.0	31.9	1.1
EBIT Pre Overhead Allocations	2.2	(3.7)	5.9	(0.5)	2.7	(24.2)	(26.9)	2.7	(13.1)	(11.2)	(55.7)	(49.2)	(6.5)	(47.5)	(8.2)
Group Overhead allocations	(1.1)	(1.1)	0.0	(1.0)	(0.1)	(6.9)	(6.9)	0.0	(7.3)	0.4	(13.8)	(13.8)	0.0	(14.9)	1.1
EBIT - BAU	**1.1**	**(4.9)**	**6.0**	**(1.6)**	**2.6**	**(31.1)**	**(33.8)**	**2.7**	**(20.3)**	**(10.8)**	**(69.5)**	**(63.0)**	**(6.5)**	**(62.4)**	**(7.1)**
One off Project costs (POOC)	(1.3)	(2.0)	0.7	1.5	(2.8)	(15.8)	(18.2)	2.5	(21.6)	5.9	(28.5)	(35.0)	6.5	(53.4)	24.9
EBIT - Post Project Costs	**(0.2)**	**(6.8)**	**6.6**	**(0.0)**	**(0.2)**	**(46.9)**	**(52.0)**	**5.1**	**(42.0)**	**(4.9)**	**(98.0)**	**(98.0)**	**0.0**	**(115.8)**	**17.8**
Network Payment	15.4	15.4	0.0	15.8	(0.5)	100.0	100.0	0.0	103.0	(3.0)	200.0	200.0	0.0	210.0	(10.0)
EBIT pre exceptionals items	**15.2**	**8.5**	**6.6**	**15.8**	**(0.6)**	**53.1**	**48.0**	**5.1**	**61.0**	**(7.9)**	**102.0**	**102.0**	**0.0**	**94.2**	**7.8**
Interest	0.1	(0.5)	0.6	(0.1)	0.2	1.5	(2.0)	3.5	(0.5)	2.0	(2.0)	(5.0)	3.0	(0.8)	(1.2)
Impairment	(6.9)	(15.6)	8.7	(3.5)	(3.3)	(35.1)	(63.9)	28.8	(32.3)	(2.8)	(140.0)	(167.5)	27.5	(65.6)	(74.4)
Exceptionals & Redundancy & Severance Costs	79.1	(12.3)	91.4	(13.0)	92.1	37.5	(72.6)	110.1	(23.9)	61.4	(37.9)	(184.4)	146.5	(77.0)	39.1
Government Grant Utilisation	30.2	32.5	(2.3)	6.7	23.5	129.2	165.9	(36.7)	35.2	94.0	253.1	316.9	(63.8)	98.2	154.9
Profit/(Loss) On Asset Sale	0.0	0.0	0.0	(27.9)	27.9	2.5	0.0	2.5	(27.9)	30.4	2.5	0.0	2.5	(27.7)	30.2
Colleague Share/ Business Transformation Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(3.3)	3.3
Total Profit/(Loss) Before Tax	**117.6**	**12.6**	**105.0**	**(22.1)**	**139.7**	**188.7**	**75.4**	**113.3**	**11.6**	**177.1**	**177.7**	**62.0**	**115.7**	**18.0**	**159.7**

Period vs. Budget
Operating profit (EBIT) of £15.2m was £6.6m favourable to budget.

BAU was £6.0m favourable:
- Lower staff costs of £0.8m
- Lower Agents costs of £7.1m mainly due to reduced income, but also the WHS provision utilisation of £1.6m and DVLA timing of £1.8m, and
- Lower interbusiness costs due to lower Property charges from RM.

Offset by:
- Lower income of £3.1m due primarily to the continuation of the trend in Mails and Retail.

One-off variance of £0.7m favourable relates to the moving of Separation costs to exceptionals.

Below EBIT
Impairments were favourable due to slower progress than plan on NTP. In P6 there was a one off exceptional credit of £102m (budget nil) that relates to the recently changed pension terms.

YTD vs. Budget
Operating profit (EBIT) of £53.1m was £5.1m favourable to budget.

BAU variance of £2.7m favourable was mainly due to:
- Lower agents costs of £18.9m due to; £9.9m relates to lower sales income, £2.0m sales mix (parcels), £1.6m WHS provision utilisation and the remainder comprises smaller variances including timing and favourable VAT recovery.
- Lower IB of £2.2m driven by lower Official Mail and Property costs, and
- Higher FRES JV income of £1.2m.

Offset by
- Lower income of £18.0m, mainly Mails £12.5m and Lottery £3.5m,Mails performance continues to be impacted by lower parcel volumes following the RM price changes in April. New parcel formats are being introduced at the end of October which should reverse this trend. Lottery continues to underperform, though the Camelot price increase was effective from October and the Health Lottery was introduced during September.
- Higher staff cost of £0.8m, due to bonus adjustments and some savings task shortfalls both partly offset by unused pay award budget, and
- Higher non staff costs of £1.1m due to Horizon costs originally budgeted for in prior year, but incurred this year.

Project One-off variance of £2.4m favourable. The underspend is driven by timing of Brand spend and the movement of Separation costs to exceptionals.

Below EBIT
Exceptional costs are favourable mainly due to a £102m credit relating to the change in pensions terms. The underlying variance is due to slower pace of capital spend and operating exceptionals, including agents compensation, compared to budget. Government grant utilisation follows this trend, but also included utilisation against the remaining 2012/13 exceptional costs. The profit on sale related to the lease surrender of Midway House.

YTD vs. Prior Year
Operating profit (EBIT) of £53.1m was £7.9m adverse to prior year.

Like for like adverse variance of £10.8m was mainly due to:
- Lower net income of £16.8m. The variance versus prior year is driven primarily by the stamps buy forward last year and parcel price changes. Government Services also decreased as a result of lower rates from the new DVLA contract and falling Card Account customers. NS&I income fell as more customers have moved away from POL, partially offset by growth in FS commissions reflecting Eagle impacts flowthrough.
- Higher staff cost of £3.7m adverse to prior year due to higher pension costs, pay awards and increased headcount, and
- Higher non staff costs of £8.2m due to increased IT costs mainly Horizon, timing of marketing spend, and the removal of the FX bureau rebate received in H1 last

Offset by:
- Agents costs £15.4m favourable variance to POL; £9.3m due to lower sales, predominantly Mails buy forward pre price increase, £2.2m lower fixed pay from unfreezing the Core Tier Payment and roll out of Locals and £2.7m accrual release relating to the DVLA rate changes.
- Lower IB of £1.1m favourable to prior year, due to services switching into POL from RM. and
- Higher JV income of £0.8m.

Non like for like favourable variance of £2.8m was due to:
- Lower project costs of £5.8m, and
- Lower Network payment of £3.0m.

Below EBIT
2012/13 capital expenditure included £11m property transfers from Group. NT exceptionals including compensation were ahead of the equivalent pace in 2012/13. 2013/14 grant utilisation includes £30m against 2012/13 exceptional costs not covered by the 2012/13 grant.

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CFO High Level Profit Forecast At Period 6

September 2013

£'m	Income	JV Income	Costs	NSP	EBIT
Budget	**900**	**32**	**(1,030)**	**200**	**102**
Downsides					
Mails income	(24)				(24)
Gov't Services income	(3)				(3)
Telephony income	0				0
FS income	(5)				(5)
Other income/ POOC contingency	(5)		5		0
Staff efficiency			(2)		(2)
Fujitsu costs			(2)		(2)
IT&C efficiency task			(3)		(3)
Mails segregation penalty			(1)		(1)
Bonuses			(1)		(1)
Agents pay - sales impact			16		16
NT Locals delays			(2)		(2)
Agents segregation payments			(1)		(1)
POOC overspend			(3)		(3)
Non staff savings task			(1)		(1)
	(37)	0	5	0	(32)
Mitigating actions					
Mails income - dangerous goods	7				7
Mails income - format changes/campaigns	6				6
Lottery price rise	3				3
Gov't - UKBA Cost of Sales correction	1				1
Gov't - volume trends	2				2
FS income - Santander volumes	2				2
FS income - Junction deal	3				3
FRES upside (higher ATV's)		1			1
PhotoMe income	1				1
IT&C savings			3		3
Telephony implementation			2		2
Agents mix and DVLA timing			7		7
POOC (including £3m contingency)			2		2
Agents pay - sales recovery			(8)		(8)
	25	1	6	0	32
Latest View at Q2	**888**	**33**	**(1,019)**	**200**	**102**
Variance to budget	*(12)*	*1*	*11*	*0*	*0*
Risks and Opportunities	(10)		10		
Latest View at Q2	**878**	**33**	**(1,009)**	**200**	**102**

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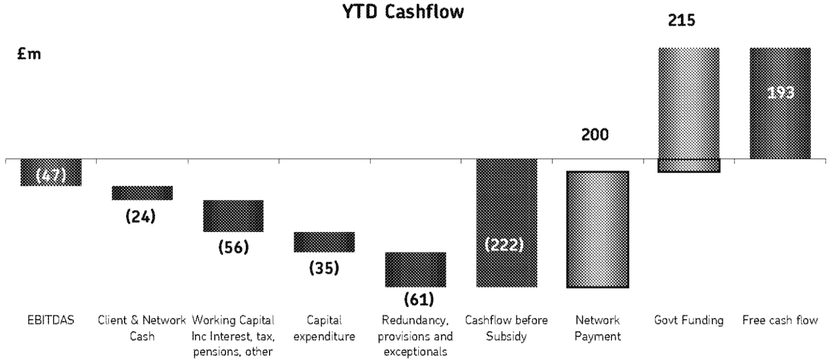
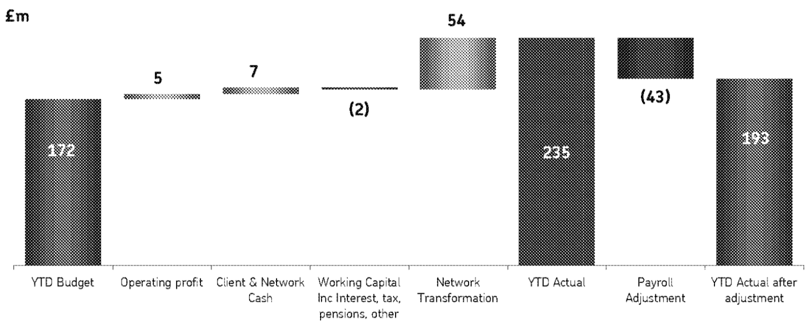
Cashflow Analysis

September 2013

YTD Cashflow



YTD Cashflow Variances



Cashflow

The YTD cashflow was an inflow of £193m which was £21m favourable to the £172m budgeted. The main variances are:

- Capital expenditure and exceptionals were a combined £54m favourable due to lower than planned NTP and CTP expenditure.
- Working capital is £2m adverse to budget.
- Client and Network Cash balances are £7m favourable to budget, and profit is £5m favourable.
- There is a payroll variance which reflects to the timing of the BACs payment for staff and agents pay at P6 and will reverse for next months reporting.

£m	Full Year Budget
Operating Profit	**102.0**
Depreciation	0.9
Working Capital	(41.2)
Client Balances	(44.4)
Network Cash	114.6
Dividends	(4.5)
Capital Expenditure	(167.5)
Government funding	215.0
NSP in advance	0.0
Exceptional Items	(198.8)
Pensions	2.3
Proceeds from asset sales	0.0
Free cashflow before interest, tax	**(21.6)**
Interest	(5.0)
Tax	10.3
Free Cashflow	**(16.3)**

Network Cash

£m	Prior Year	Mar-13	P6		
	P6	Opening	Actual	Budget	var
Retail, Cash Centres	557	650	609	606	(3)
Bureau	85	59	82	86	4
Cheques, debit cards	136	161	134	135	1
Network Cash	**778**	**870**	**825**	**827**	**2**

	Opening	P6
Headroom (£m)	**838**	**883**

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Crown Profit & Loss Statement

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September 2013

	Period			Prior Year Period		Year To Date			Prior Year YTD		Full Year			Prior Year
£m	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Q2 Forecast**	**Budget**	**Variance**	**Outturn**
Income and Distributions														
Variable income														
- Mails	3.0	3.4	(0.4)	3.8	(0.8)	18.7	20.6	(1.9)	18.7	0.0	41.2	43.2	(2.1)	44.8
- Financial Services	2.3	2.5	(0.2)	2.5	(0.2)	14.9	15.5	(0.7)	13.4	1.4	28.9	29.6	(0.7)	30.4
- Government Services	1.6	1.4	0.2	1.8	(0.2)	10.9	10.2	0.7	10.7	0.2	20.8	19.9	0.9	26.4
- Telephony	0.0	0.1	(0.0)	0.1	(0.0)	0.4	0.5	(0.1)	0.6	(0.2)	1.0	1.3	(0.3)	1.3
Fixed income	1.9	2.3	(0.3)	2.8	(0.8)	12.0	12.4	(0.4)	12.3	(0.3)	25.5	24.8	0.7	28.2
Gamma/ Other	0.9	1.1	(0.2)	0.5	0.4	6.0	7.3	(1.3)	4.0	2.0	11.3	14.8	(3.5)	10.9
Renewals and Retentions	1.5	1.2	0.3	0.9	0.6	10.1	8.4	1.7	2.9	7.1	18.7	16.5	2.2	11.1
Total Income including Gamma/other	**11.2**	**11.9**	**(0.6)**	**12.3**	**(1.1)**	**73.0**	**74.9**	**(2.0)**	**62.6**	**10.3**	**147.4**	**150.1**	**(2.7)**	**153.2**
Direct Product Costs	(0.4)	(0.5)	0.1	(0.8)	0.4	(3.1)	(3.2)	0.2	(3.2)	0.1	(4.8)	(5.0)	0.1	(8.3)
Branch costs											0.0			
- Staff	(8.2)	(8.2)	0.0	(8.8)	0.6	(54.1)	(54.0)	(0.0)	(58.3)	4.2	(105.8)	(106.0)	0.2	(117.9)
- Property	(2.6)	(2.7)	0.1	(2.6)	0.0	(17.4)	(17.5)	0.1	(17.1)	(0.3)	(35.2)	(35.4)	0.1	(36.9)
- Other branch costs	(0.3)	(0.3)	0.0	(0.4)	0.1	(2.1)	(1.9)	(0.2)	(3.0)	0.9	(4.3)	(4.7)	0.4	(6.3)
Infrastructure costs	(1.7)	(1.8)	0.1	(1.7)	0.1	(10.4)	(10.6)	0.1	(10.9)	0.4	(22.7)	(22.9)	0.1	(22.5)
Allocated central costs	(0.5)	(0.6)	0.1	(0.7)	0.3	(4.4)	(4.4)	0.0	(3.3)	(1.1)	(9.0)	(8.4)	(0.6)	(7.7)
Total Expenditure	**(13.7)**	**(14.1)**	**0.4**	**(15.1)**	**1.5**	**(91.4)**	**(91.6)**	**0.2**	**(95.8)**	**4.4**	**(181.9)**	**(182.2)**	**0.3**	**(199.7)**
JV Share of Profits	1.1	1.0	0.1	1.0	0.1	6.6	6.2	0.4	5.7	0.9	9.6	9.1	0.5	9.6
Statutory PBIT	**(1.3)**	**(1.2)**	**(0.1)**	**(1.9)**	**0.5**	**(11.9)**	**(10.5)**	**(1.4)**	**(27.5)**	**15.6**	**(24.9)**	**(23.0)**	**(1.9)**	**(37.0)**

Summary

- Income £2.0m less than plan.
  - The impact of size based pricing has adversely impacted Mails as follows: Priority Mails £0.2m, 1st class and 2nd class £0.8m, International Standard £0.5m are products most impacted by PIP. Retail sales are also underperforming against target by £0.1m. The expectation is that the gap will reduce with the roll out of remedial actions, including the delivery of the 'shoebox'.
  - Main drivers of favourable Government income are UKBVI (due to backlog in applications) £0.7m, ID Services £0.4m and Passports £0.2m, offset by Motorist services (DVLA Licences and AEI) which are £0.3m behind target.
  - Savings £0.6m and Life Insurance £0.1m are the main drivers in the shortfall against Financial Services netted off against the Travel portfolio delivering a £0.2 upside.

- Costs are £0.2m less than plan:
  - Staff savings from industrial action continue to offset delays in CTP savings.
  - Mainly driven by favourable variance in POOC as a result of separation costs moving to exceptional spend.

- FYF is £1.9m adverse to budget reflecting the lower Mails income.

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Business Scorecard

September 2013

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Key Performance Indicators	Current Month			Year to Date			Prior	Full Year			2012-13
	Act	Target	Var	Act	Target	Var	Year	Q2 F'cast	Target	Var	Outturn
Growth											
Total Net Income (excl NSP) £m (Bonus)	67.7	70.8	(3.1)	426.2	444.2	(18.0)	442.9	887.6	900.0	(12.4)	902.4
Operating profit £m (Bonus)	15.2	8.5	6.6	53.1	48.0	5.1	61.0	102.0	102.0	0.0	94.2
Earnings before ITDA and Subsidy £m*	(0.2)	(6.8)	6.7	(46.7)	(51.5)	4.8	(41.5)	(97.2)	(97.2)	0.0	(115.4)
Free cashflow £m	(40.3)	37.5	(77.7)	192.9	172.0	20.8	311.6	103.7	(16.3)	120.0	132.2
Customer											
Customer Satisfaction**	87%	88%	(1)%	88%	88%	0%	86%	88%	88%	0%	87%
Easy to do business with (Bonus)**	35%	44%	(9)%	45%	44%	1%	N/A	44%	44%	0%	N/A
Net Promoter score**	(2)	5	(7)	(1)	5	(6)	N/A	0	5	(5)	N/A
Queue time % < 5 minutes - Top 1k branches	88.7%	83.7%	5.0%	83.5%	78.9%	4.6%	78.9%	81.0%	81.0%	0.0%	80.7%
Horizon availability	99.9%	99.7%	0.2%	99.9%	99.7%	0.2%	99.8%	99.7%	99.7%	0.0%	99.8%
Branch - Compliance (new basket)	95.4%	98.0%	(2.6)%	98.0%	98.0%	0.0%	98.1%	97.9%	98.0%	(0.1)%	97.8%
People											
Engagement Index % (Once a year) (Bonus)	55%	56%	(1)%	55%	56%	(1)%	55%	56%	56%	0%	55%
(No.) % of BME appointments over total recruits at senior leadership and senior manager	20%	4%	16%	11%	4%	7%	N/A	4%	4%	0%	N/A
(No.) % of Female appointments over total recruits at senior leadership and senior manager	60%	40%	20%	53%	40%	13%	N/A	40%	40%	0%	N/A
Modernisation											
Crown Profit (Loss) £m (Bonus)	(1.3)	(1.2)	(0.1)	(11.9)	(10.5)	(1.4)	(16.6)	(24.9)	(23.0)	(1.9)	(37.0)
Network Conversions (Mains & Locals) (Bonus)	111	103	8	1,870	1,853	17	269	3,000	3,000	0	1,450

Bonus worthy metrics
* ITDA Interest, Tax, Depreciation, Amortisation
** Monthly = 3 month average.   YTD = 12 month average

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Income Report

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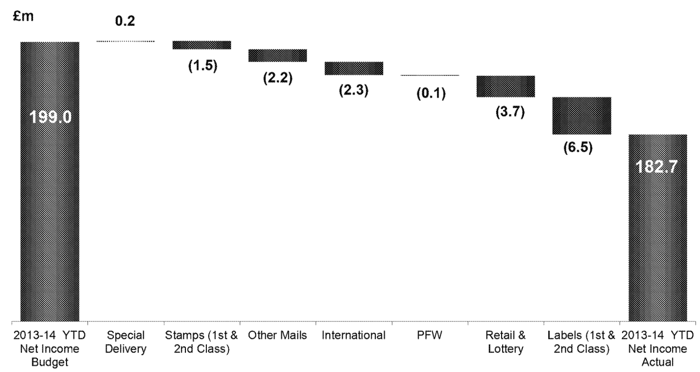
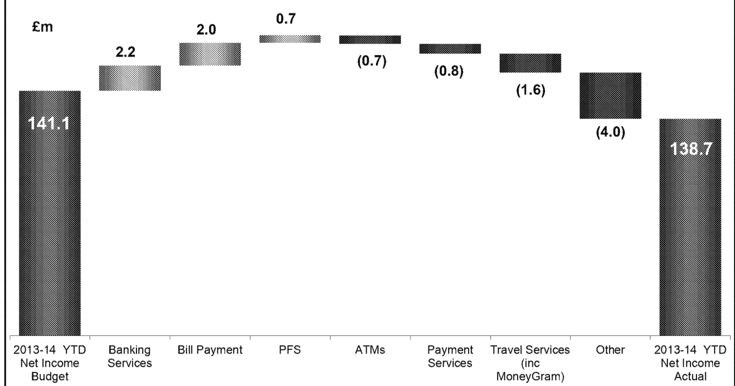
Net Income By Pillar vs Budget
September 2013

Net Income (£m)	Period Actual	Period Budget	Period Variance	Prior Year Period Actual	Prior Year Period Variance	Year to Date Actual	Year to Date Budget	Year to Date Variance	Prior Year YTD Actual	Prior Year YTD Variance	Full Year Q2 Forecast	Full Year Budget	Full Year Variance	Prior Year Outturn	Prior Year Variance
Mails & Retail	28.8	31.7	(2.8)	28.4	0.5	182.7	199.0	(16.2)	193.2	(10.5)	406.9	414.6	(7.8)	404.0	2.9
Financial Services	22.9	22.6	0.3	23.5	(0.6)	138.7	141.1	(2.4)	137.7	1.0	277.4	277.4	(0.0)	279.6	(2.1)
Government Services	9.6	10.0	(0.4)	10.0	(0.4)	59.7	60.4	(0.7)	68.9	(9.3)	115.5	115.9	(0.4)	133.2	(17.7)
Telephony	2.6	3.5	(0.9)	3.8	(1.3)	25.1	24.1	1.0	22.8	2.3	50.7	50.4	0.3	45.0	5.7
Other	3.8	3.1	0.7	3.4	0.4	19.9	19.6	0.4	20.3	(0.4)	37.1	41.7	(4.6)	40.7	(3.6)
TOTAL NET INCOME	**67.7**	**70.8**	**(3.1)**	**69.1**	**(1.4)**	**426.2**	**444.2**	**(18.0)**	**442.9**	**(16.8)**	**887.6**	**900.0**	**(12.4)**	**902.4**	**(14.8)**
FRES - Share Of Operating Profits	3.8	3.4	0.3	3.7	0.1	22.6	21.4	1.2	21.8	0.8	33.0	31.5	0	31.9	1.1

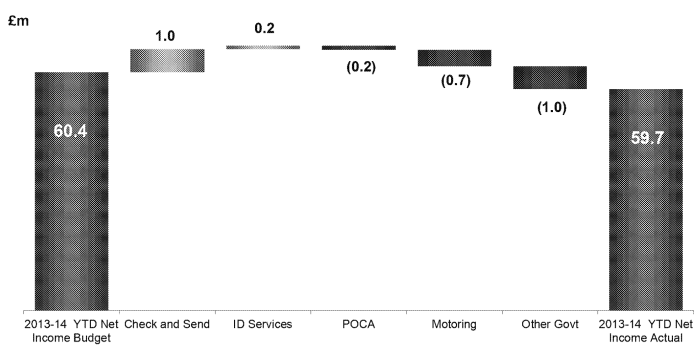
Mails & Retail Services



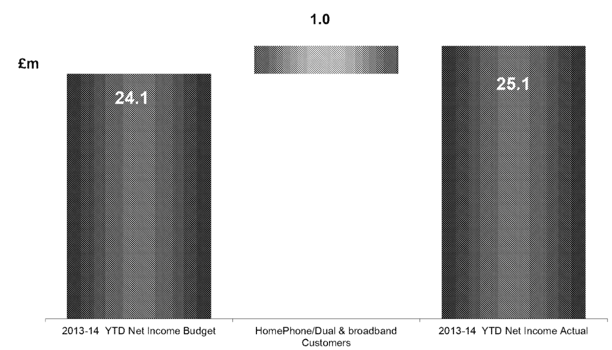
Financial Services



Government Services



Telephony Services



Pillar Performance vs YTD Budget

Mails & Retail Services - (£16.2m) Adv
Labels - (£4.0m) adv driven by lower parcel volumes since the RM price changes in April.
Lottery - (£3.6m) adv due primarily to lower than planned volumes. Camelot price increase from October is expected to reverse this trend.
PFW - (£2.7m) adv - due to lower volumes vs. budget.
International - (£2.3m) adv due to lower volumes.
Other Mails - (£3.6m) adv due to unallocated stretch and lower than planned volumes across the Mails product range.

Financial Services - (£2.4m) Adv
Other - (£4.0m) adv due to unassigned income targets including Sales Effectiveness stretch target still to be allocated to products.
Travel Services - (£1.6m) adv driven by phasing of bureau income.
Payment Services - (£0.8m) adv driven by lower gift voucher volumes.
ATMs - (£0.7m) adv driven by lower volumes than planned and delayed roll out of new ATM's.
Offset by:
Bill Payment - £2.0m fav driven by lower decline than expected, specifically in Housing.
Banking Services - £2.2m fav driven by higher personal withdrawal volumes and higher business banking volumes.
PFS - £0.7m fav driven by mortgages trail fees, partially offset by adjustment on credit cards.

Government Services - (£0.7m) Adv
Gov. Services Other - (£1.0m) adv driven by delayed implementation of new ID Services.
Motoring - (£0.7m) adv due to lower than planned volumes in line with latest DVLA forecasts.
Offset by:
Passport Check & Send -£1.0m fav due to higher volumes.

Telephony Services - £1.0m Fav
Homephone - £1.0m fav due to higher than planned customer numbers and higher revenue per user.

Other - £0.4m Fav
Higher Supply Chain income for services provided to RM.

FRES Profit Share - £1.2m Fav.
In line with latest profit forecast from FRES.

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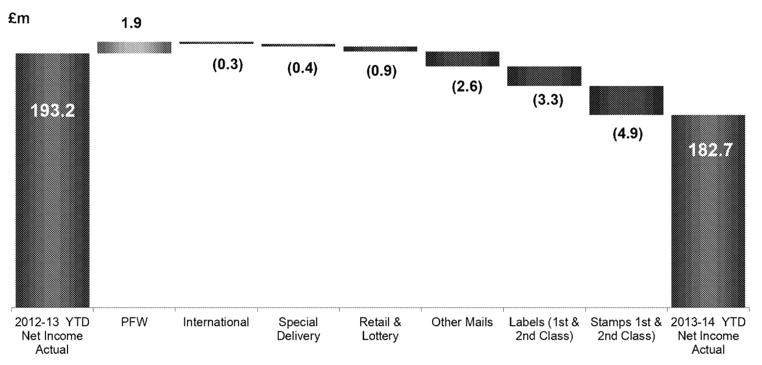
Net Income By Pillar vs Prior Year

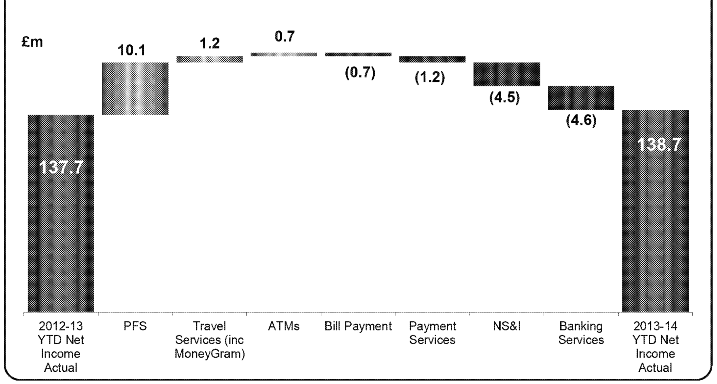
September 2013

Net Income (£m)	Period Actual	Period Budget	Period Variance	Prior Year Period Actual	Prior Year Period Variance	Year to Date Actual	Year to Date Budget	Year to Date Variance	Prior Year YTD Actual	Prior Year YTD Variance	Full Year Q2 Forecast	Full Year Budget	Full Year Variance	Prior Year Outturn	Prior Year Variance
Mails & Retail	28.8	31.7	(2.8)	28.4	0.5	182.7	199.0	(16.2)	193.2	(10.5)	406.9	414.6	(7.8)	404.0	2.9
Financial Services	22.9	22.6	0.3	23.5	(0.6)	138.7	141.1	(2.4)	137.7	1.0	277.4	277.4	(0.0)	279.6	(2.1)
Government Services	9.6	10.0	(0.4)	10.0	(0.4)	59.7	60.4	(0.7)	68.9	(9.3)	115.5	115.9	(0.4)	133.2	(17.7)
Telephony	2.6	3.5	(0.9)	3.8	(1.3)	25.1	24.1	1.0	22.8	2.3	50.7	50.4	0.3	45.0	5.7
Other	3.8	3.1	0.7	3.4	0.4	19.9	19.6	0.4	20.3	(0.4)	37.1	41.7	(4.6)	40.7	(3.6)
TOTAL NET INCOME	**67.7**	**70.8**	**(3.1)**	**69.1**	**(1.4)**	**426.2**	**444.2**	**(18.0)**	**442.9**	**(16.8)**	**887.6**	**900.0**	**(12.4)**	**902.4**	**(14.8)**
FRES - Share Of Operating Profits	3.8	3.4	0.3	3.7	0.1	22.6	21.4	1.2	21.8	0.8	33.0	31.5	0	31.9	1.1

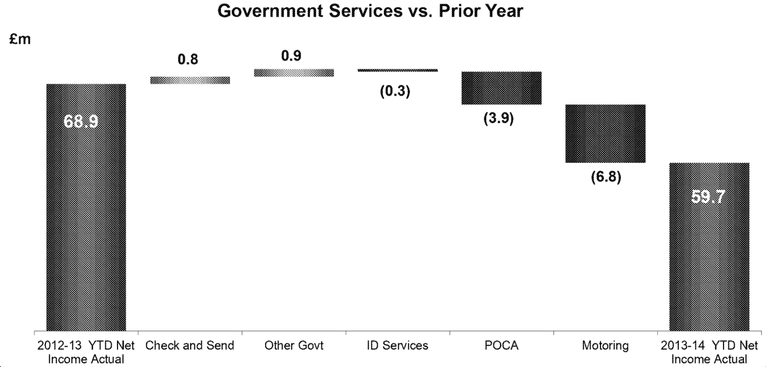
Mails & Retail Services vs. Prior Year



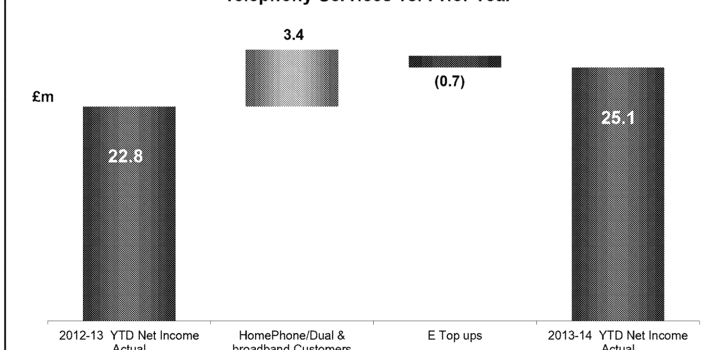
Financial Services vs. Prior Year



Government Services vs. Prior Year



Telephony Services vs. Prior Year



Pillar Performance - Year on Year Variances

Mails & Retail Services - (£10.5m) Adv
Overall volumes are lower than prior year.
This is largely due to the price increase last year and the resultant buy forward experienced in period 1.
1st and 2nd Class (£8.2m) adv - driven by price increase last year. First class labels are lower by £2.9m.
Other Mails (£2.6m) adv - driven by standard parcel volumes.
PFW £1.9m fav - driven by increased PF 24 & 48 volumes.

Financial Services - £1.0m Fav
PFS £10.1m fav - driven by savings products and Eagle impact.
Travel Services £1.2m fav - due to Moneygram.
Offset by:
Banking (£4.6m) adv - £2.2m driven by lower DWP Exceptions and the remainder driven by new Santander contract.
NS&I (£4.5m) adv - driven by NS&I withdrawing products from POL to sell directly and a fixed fee contract.

Government Services - (£9.3m) Adv
Motoring (£6.8m) adv - due to lower priced new contract and continued volume falls as migration to online continues (c.8% Yr on Yr).
POCA (£3.9m) adv - due to fall in number of accounts and greater ATM usage.
Passports £0.8 fav - due to higher volumes.

Telephony Services - £2.3m Fav
Homephone £3.4m fav - higher 'average revenue per user.'
E-Top ups (£0.7m) adv - general volume decrease and lower pricing.

Other - (£0.4m) Adv
Supply Chain - mainly related to warehousing on behalf of Royal Mail.

FRES Profit Share - £0.8m Fav.

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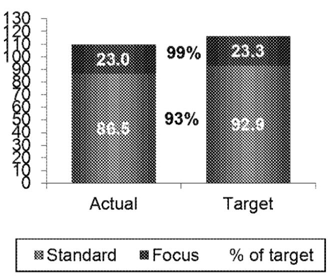
Net Income By Channel
September 2013

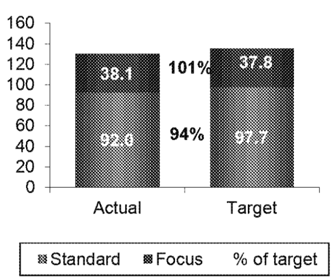
Period 6 YTD - Focus products were £0.6m adverse to target and Standard products were £13.2m adverse (mainly Mails and Lottery), with the Agency network driving the variance. The favourable Direct channel performance is driven by mortgage phasing as targets started to ramp up from period 4.

£m	Month			Year to date			Full Year
Targeted Income	**Actual**	**Budget**	**Variance**	**Actual**	**Budget**	**Variance**	**Budget**
Focus Products							
Crown Offices	2.7	2.9	(0.2)	18.9	20.0	(1.0)	39.0
WHS	0.5	0.5	(0.0)	3.6	3.6	0.1	6.7
Agents - Managed	5.6	5.8	(0.2)	38.1	37.8	0.3	74.0
Centrally Supported	3.4	3.5	(0.1)	23.0	23.3	(0.3)	49.6
Direct Sales	0.7	0.7	(0.0)	5.5	5.1	0.4	9.0
Central	(0.0)	0.01	(0.1)	0.1	0.1	(0.0)	0.5
Focus Products Total	**12.9**	**13.5**	**(0.6)**	**89.3**	**89.9**	**(0.6)**	**178.8**
Standard Products							
Crown Offices	4.1	4.3	(0.2)	26.2	26.9	(0.7)	58.1
WHS	0.8	0.8	(0.0)	5.1	5.2	(0.1)	10.6
Agents - Managed	15.0	16.3	(1.3)	92.0	97.7	(5.7)	191.2
Centrally Supported	12.9	14.3	(1.3)	86.5	92.9	(6.5)	198.1
Direct Sales	0.5	0.6	(0.0)	2.9	3.1	(0.1)	6.5
Central	(0.4)	(0.4)	(0.0)	0.1	0.3	(0.2)	0.6
Standard Product Total	**33.0**	**35.9**	**(2.9)**	**212.9**	**226.1**	**(13.2)**	**465.3**
TOTAL TARGETED INCOME	**46.0**	**49.4**	**(3.4)**	**302.2**	**316.0**	**(13.8)**	**644.0**
Other Income							
Cash Services	2.1	1.7	0.4	11.1	10.8	0.3	22.0
Gamma	0.6	0.6	0.0	3.8	3.8	0.0	7.5
Fixed Income & Other	16.1	16.3	(0.2)	87.0	93.9	(6.9)	185.9
Retentions	2.9	2.8	0.1	22.2	19.7	2.4	40.6
TOTAL POL NET INCOME	**67.7**	**70.8**	**(3.1)**	**426.2**	**444.1**	**(18.0)**	**900.0**
Network Payment	15.4	15.4	0.0	100.0	100.0	0.0	200.0
TOTAL POL NET INCOME	**83.1**	**86.2**	**(3.1)**	**526.2**	**544.1**	**(18.0)**	**1,100.0**

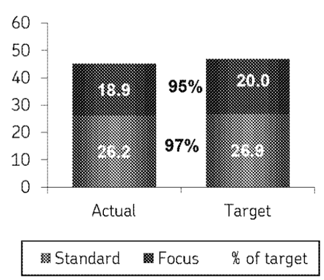
Centrally Supported Net Income YTD (£m)



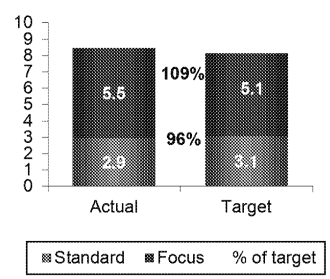
Account Mgd Net Income YTD (£m)



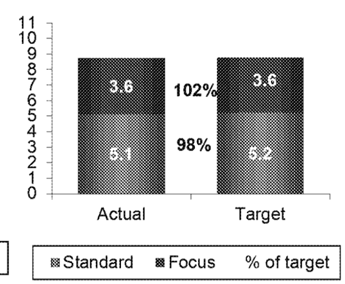
Crown Offices Net Income YTD (£m)



Direct Sales Net Income YTD (£m) *



WHS Net Income YTD (£m)



* Both target and actual exclude lead generation income

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Cost Report

Staff Cost By Directorate

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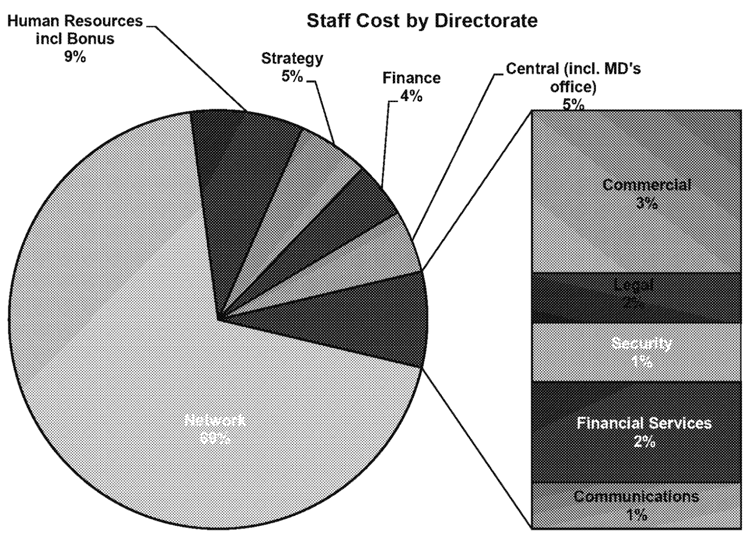
September 2013

£m	Year to Date			Prior Year YTD		Full Year			YTD Headcount			
Staff Cost by Directorate	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Q2 Forecast**	**Budget**	**Variance**	**%**	**Actual**	**Budget**	**Variance**
Central (incl. MD's office)	(6.5)	(4.8)	(1.7)	(2.1)	(4.3)	(12.7)	(9.6)	(3.1)	0%	14	15	1
Commercial	(3.7)	(3.7)	(0.1)	(3.1)	(0.6)	(7.1)	(7.4)	0.3	1%	118	111	(7)
Communications	(1.1)	(1.1)	0.1	(0.9)	(0.2)	(2.2)	(2.3)	0.1	1%	47	35	(12)
Human Resources	(2.3)	(2.4)	0.1	(2.4)	0.2	(4.7)	(4.8)	0.1	1%	114	110	(4)
HR - Centrally Held Bonus Payments	(9.0)	(9.0)	(0.0)	(9.0)	(0.1)	(19.5)	(18.0)	(1.5)		-	-	-
Financial Services	(2.3)	(2.2)	(0.1)	(1.0)	(1.3)	(4.6)	(4.5)	(0.1)	3%	261	70	(191)
Finance	(5.6)	(5.9)	0.3	(4.9)	(0.7)	(10.9)	(11.8)	0.9	3%	244	264	20
Network	(90.2)	(90.8)	0.6	(94.4)	4.2	(178.1)	(178.5)	0.4	86%	6,874	7,176	302
Supply Chain	*(28.1)*	*(27.9)*	*(0.3)*	*(27.7)*	*(0.5)*	*(56.0)*	*(55.1)*	*(0.9)*	*20%*	*1,594*	*1,574*	*(20)*
Crowns	*(52.2)*	*(52.3)*	*0.1*	*(57.1)*	*5.0*	*(102.1)*	*(102.1)*	*(0.0)*	*54%*	*4,314*	*4,462*	*148*
Other Network	*(9.9)*	*(10.6)*	*0.8*	*(9.6)*	*(0.3)*	*(20.0)*	*(21.3)*	*1.3*	*5%*	*413*	*501*	*88*
CTP and NTP Heads (Costs in exceptionals)									*7%*	*553*	*639*	*86*
Legal	(1.1)	(1.2)	0.1	(1.1)	(0.0)	(2.3)	(2.4)	0.1	1%	45	30	(15)
Security	(1.4)	(1.3)	(0.0)	(1.4)	0.0	(2.6)	(2.7)	0.1	1%	54	57	3
Strategy	(7.2)	(7.0)	(0.2)	(6.4)	(0.9)	(14.5)	(14.2)	(0.3)	3%	228	239	11
Total Staff Costs	**(130.4)**	**(129.6)**	**(0.8)**	**(126.7)**	**(3.7)**	**(259.2)**	**(256.1)**	**(3.1)**	**100%**	**7,999**	**8,107**	**108**
PY Actual										**7,912**		
PY Variance										**(87)**		



YTD Staff Costs are £0.8m adverse to budget.
This variance to budget includes higher bonus payments relating to the prior year and a shortfall against savings risks in Supply Chain and held centrally. this is partly offset by the pay award budget as no pay award for 2013-14 has been offered at this stage.

Vs. Prior Year
The staff costs are £3.7m adverse to prior year including the impact of the higher IAS19 pension rate reflecting market conditions at March 2013, pay increases and higher bonus incentives costs.

Headcount of 7,999 is 108 below plan and is due to vacancies within the Network directorate, both Crowns and transformation projects. The adverse variance in Financial Services (FS) is offset by a favourable variance in Network. This is due to some of the Financial Specialists transferring from Network to FS. The remainder are due to transfer over the coming months and once complete the headcount budget will also be transferred.

Vs. prior year headcount has increased by 87 primarily due to NTP and separation strengthening.

Note: The budget is flat for all directorates, with only the Crown savings being the difference between each month.

Non Staff Cost by Directorate & Type

September 2013

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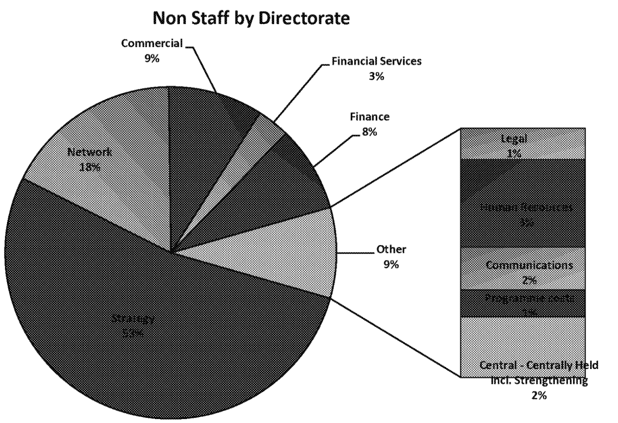
£m	Year to Date			Prior Year YTD		Full Year		
Non- Staff Cost by Directorate	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Q2 Forecast**	**Budget**	**Variance**
Central - Centrally Held incl. Strengthening	(1.8)	(2.9)	1.2	(0.8)	(1.0)	2.2	1.3	0.8
Commercial	(7.6)	(7.6)	0.1	(8.2)	0.7	(17.9)	(15.5)	(2.43)
Communications	(1.3)	(1.2)	(0.1)	(0.7)	(0.5)	(1.9)	(2.1)	0.25
Finance	(6.8)	(6.4)	(0.4)	(3.2)	(3.6)	(13.9)	(12.6)	(1.31)
Financial Services	(2.6)	(3.3)	0.7	(2.7)	0.1	(4.9)	(5.3)	0.45
Human Resources	(2.5)	(3.1)	0.5	(1.9)	(0.6)	(6.2)	(6.1)	(0.04)
Network	(14.2)	(13.3)	(0.9)	(14.3)	0.1	(28.7)	(27.9)	(0.87)
Supply Chain	*(7.2)*	*(7.4)*	*0.2*	*(7.6)*	*0.4*	*(15.3)*	*(15.4)*	*0.10*
Crowns	*(1.7)*	*(1.4)*	*(0.3)*	*(1.8)*	*0.1*	*(2.6)*	*(2.1)*	*(0.47)*
Other Network	*(5.4)*	*(4.6)*	*(0.8)*	*(5.0)*	*(0.4)*	*(10.9)*	*(10.4)*	*(0.49)*
Legal	(0.9)	(0.91)	0.0	(0.6)	(0.3)	(2.0)	(1.9)	(0.08)
Security	(1.2)	(1.05)	(0.1)	(1.3)	0.1	(2.7)	(2.5)	(0.21)
Programme costs	(0.8)	0.0	(0.8)	(0.0)	(0.8)	0	0	0.0
Strategy	(43.4)	(42.1)	(1.3)	(40.9)	(2.5)	(88.7)	(87.4)	(1.3)
Total Non Staff Costs	**(83.0)**	**(81.9)**	**(1.1)**	**(74.8)**	**(8.2)**	**(164.7)**	**(160.0)**	**(4.7)**

£m	Year to Date			Prior Year YTD		Full Year		
Non- Staff Cost by Type	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Q2 Forecast**	**Budget**	**Variance**
Computers & Telephones	(37.9)	(36.4)	(1.5)	(36.0)	(1.9)	(75.6)	(75.9)	0.3
Other Operating Costs	(9.3)	(8.9)	(0.5)	(9.9)	0.5	(18.3)	(15.6)	(2.7)
Consultancy, Marketing & Legal Fees	(15.5)	(14.7)	(0.8)	(12.0)	(3.5)	(32.8)	(29.5)	(3.3)
** Skills Group external contractors*	*(6.8)*	*(6.0)*	*(0.9)*	*(5.8)*	*(1.0)*		*(11.9)*	*11.92*
Remainder	*(8.6)*	*(8.7)*	*0.1*	*(6.2)*	*(2.4)*		*(17.6)*	*17.6*
Finance	(11.8)	(11.7)	(0.1)	(9.1)	(2.7)	(16.4)	(17.2)	0.8
Property Facilities	(3.3)	(2.6)	(0.7)	(3.0)	(0.2)	(6.8)	(6.2)	(0.6)
Property Maintenance	(3.6)	(3.4)	(0.1)	(2.8)	(0.7)	(6.2)	(6.9)	0.6
Vehicles	(1.1)	(1.2)	0.1	(1.2)	0.1	(2.4)	(2.4)	0.0
Compensation	(0.7)	(1.2)	0.6	(0.6)	(0.1)	(3.6)	(2.6)	(1.0)
Collection, Delivery & Conveyance Charges	(0.1)	(0.2)	0.0	(0.6)	0.5	(0.4)	(0.3)	(0.1)
Staff & Agent Related Costs & Consumables	0.3	(1.7)	1.9	0.4	(0.1)	(2.1)	(3.4)	1.3
** Skills Group off-charges to projects*	*8.6*	*7.5*	*1.0*	*8.1*	*0.5*	*0.0*	*0.0*	*0.0*
Remainder	*(8.3)*	*(9.2)*	*0.9*	*(7.7)*	*(0.7)*	*(2.1)*	*(3.4)*	*1.3*
Total Non Staff Costs	**(83.0)**	**(81.9)**	**(1.1)**	**(74.8)**	**(8.2)**	**(164.7)**	**(160.0)**	**28.0**



Variance

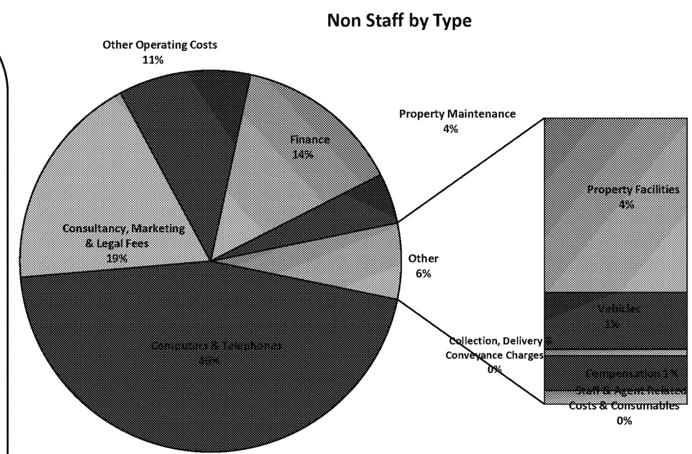
YTD non people costs were £1.1m adverse to budget and £8.2m adverse to prior year.

Vs. Budget

Costs were £1.1m adverse to budget and this is driven by Horizon/ Fujitsu costs, which were budgeted for the prior year, but have been incurred this financial year.

Vs. Prior Year

Cost were £8.2m adverse to prior year. This increase is driven by the FX bureau rebate received in previous years, but which ceased from period 6 last year. The remainder is due to higher Fujitsu costs this year as outlined in the explanation vs. budget above, increased marketing costs as there was more POOC one off Brand marketing last year, which reduced the normal marketing and increased legal costs driven by Separation.



* Skills group is the internal 'consultancy' providing project resource made up of a mixture of employees topped up with contractors. If demand is high the contractor spend increases but this is offset by higher recharges to projects.

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Cost Management update

September 2013

Strictly Confidential

Progress since September 2013 Board Paper

Value and confidence

- Work to firm-up values and implementation plans has resulted in some changes at an individual initiative level.
- The net impact of these on Value and Confidence is an upward movement in FY13/14 (£0.4m) and in FY14/15 (£0.4m). Confidence has increased for both years.

Delivery and governance

- Milestone plans are now in place for the FY13/14 deliverables and progress is on track.
- FY14/15 initiatives fall into two categories – those that have a defined value attached to them and those that are currently at too early a stage:
  - i. Milestone plans are in place for those initiatives that have a value attached to them.
  - ii. To allow the teams to focus on delivery of those more advanced propositions, the other initiatives are being held centrally for work at a later date.
- FY13/14 benefits have been built into the latest Q2 Forecast and delivery will be tracked through normal Business performance Management. FY14/15 initiatives have been build into the Directorate level budget planning targets.

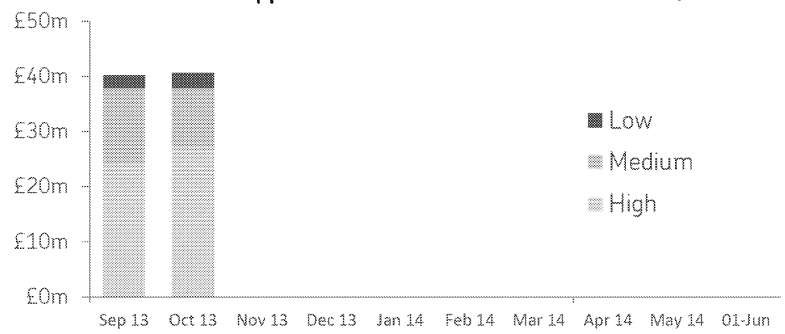
Enablers

A key decision to be made is how we propose to manage the people implications of the Cost Management. In the current list of cost reductions for FY14/15, £9m is delivered through staff reductions. A recommendation will be presented to the 12 November ExCo.

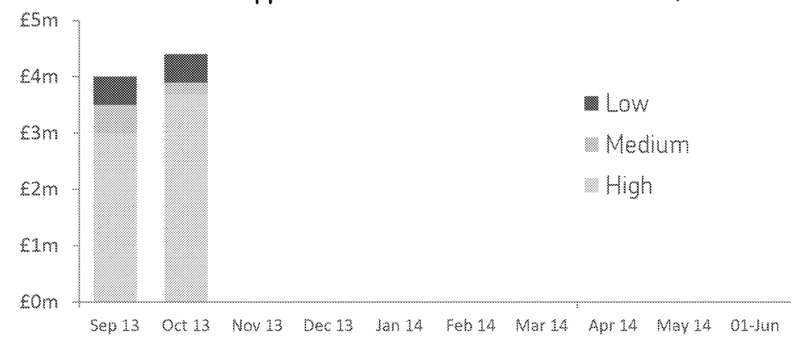
Strategic initiatives for FY15/16 and beyond

Work is underway within the Directorate teams and Finance to develop the strategic cost management initiatives that will deliver the goals for FY15/16 and beyond, particularly in the context of the emerging new Operating model. Potential opportunities are to be submitted by end November.

Cost reduction opportunities: Confidence and value FY14/15



Cost reduction opportunities: Confidence and value FY13/14



Overview of high impact initiatives (excluding CTP)	Directorate	FTE impact	FY14/15 (£m) Confidence L	M	H	Total
- Procurement savings in Network and Supply Chain (£2.6m Facilities Management; £2.0m Fleet Maintenance; £0.5m Official Mails)	Network & Supply Chain			3.5		3.5
- Reduce cash delivery frequency and move to single person operation	Supply Chain	50		1.8		1.8
- Marketing spend efficiencies	Commercial			1.6		1.6
- Reduce cost and volume of Official Mail	Finance		1.0	0.5		1.5
- Restructure product and marketing to reduce duplication and increase customer focus	Commercial	8		0.7		0.7
- Manchester Cash Centre Closure	Supply Chain	20			0.7	0.7
- Restructure Audit and Training team in the Agency network	Network	20		0.7		0.7
- Deliver remainder of Finance Roadmap Programme savings	Finance	15			0.7	0.7
- Restructure call centres transferring from Royal Mail and improve efficiency	Network	20			0.6	0.6

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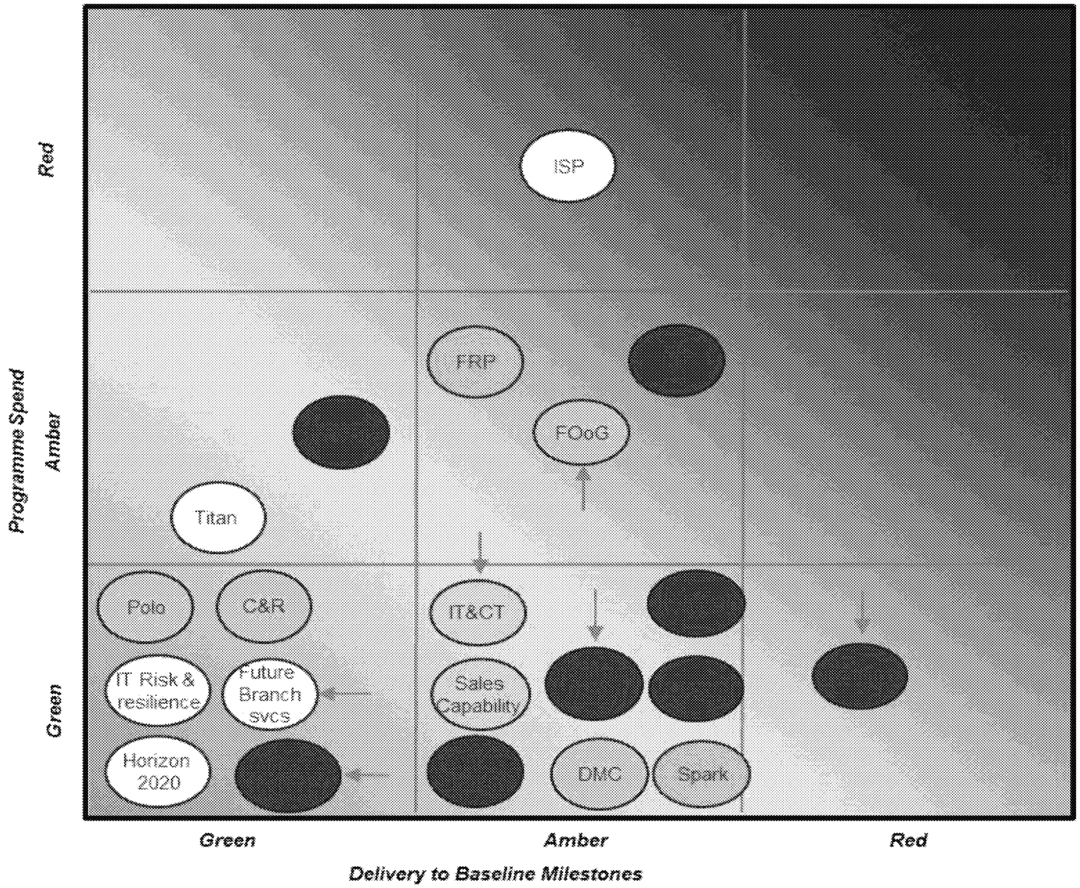
Transformation Delivery Heat-map

September 2013

Highlights heatmap status of key transformation programmes, and points of escalation to Transformation Board on selected projects including resulting Transformation Board action / guidance. Also highlights wider points of discussion / action.



Colour of Circle reflects 13-14 financial benefits

Shows movement from last period

Transformation Board (TB)- Key Points of Focus

Crown Transformation - Branch transformation is underway with 5 transformed and 13 in progress. 16 W H Smiths franchises have been announced and are in public consultation. The automation pilot is on track for November with the printer issue now resolved, but leaving no contingency for further delays. In-year cost savings expected to be £0.7m below the £8m target, but income shortfall is the most significant risk to achieving the crown benefit targets. Analysis of the half-year performance and forecast will now inform the programme board consideration of next steps.

Network Transformation - Planning for implementation of revised approach under new strategy is underway, pending agreement with NFSP and BIS, in order achieve the scale of conversions required. Contracts signed so far are slightly ahead of current year target, but at risk for Q3 while the strategy negotiations remain ongoing.

Wave - Transformation Board discussed the implications of the development of the mobile solution with Fujitsu stalling (following their commercial position changing and their unwillingness to provide a genuine managed service). It was agreed that moving away from Fujitsu would not have a detrimental impact on other negotiations with them. Alternative delivery options will be presented in November to meet commercial objectives.

Separation - Analysis is underway to confirm the approaches and target dates for HR, Finance and tower related projects (EUC, IT Networks) in the context of latest agreements on approach with Royal Mail. Findings will be presented back senior management of both organisations end of October to agree next steps and any resulting change in plans.

Finance Roadmap – A revised go-live date of 1st July 2014 is now agreed with RMG. The FMI project is now integrated with the core system replacement into a single programme, now moving from Blueprint to Build. The decision to move to build was made with the recognition that an element of the spend may be non recoverable if subsequently a strategic decision to BPO Finance is taken.

HP&BB - Data migration is complete, network migration is on track and billing has commenced in small volumes, but there are continuing call centre performance problems, although no significant increase in customer churn has been detected. A programmatic approach to resolving the call centre issues is now in place and Fujitsu has restructured its service management team to give better focus on the key areas. 130 additional call centre heads are being deployed and 50 additional back office heads are being deployed. Fujitsu is also looking at other opportunities to bring in more resource in the short-term. This has seen performance improve but it is still poor. The plan provided by Fujitsu should see the customer experience getting to acceptable levels by the end of October.

Network Transformation Scorecard

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September 2013 Reporting prior months data (i.e. one month in arrears)

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Sample size is still small but provides a starting point to build on. All branches in the financial section have been operating for greater than 12 months to allow for steady state, and branches that had previously received overscale / one off payments have been removed to provide a clean baseline.

	Key Performance Indicators	Actual	Target	Var	Actual Sample Size
	MAINS				
	Converted > 12 months	7			
POL	Finance Approved Investment per Mains £000	(39)	(39)	0	7
POL	**Total Income: Post vs Pre Conversion**				
POL	Branches live 12-24 months	34%	(5)%	39%	2
POL	Branches live 24-36 months	3%	(5)%	9%	5
POL	**Focus Income: Post vs Pre Conversion**				
POL	Branches live 12-24 months	38%	2%	36%	2
POL	Branches live 24-36 months	1%	2%	(1)%	5
Agent	Agents Remuneration: Post vs Pre Conversion	38%	(7)%	44%	2
Agent	Operator Feedback on Retail Sales Performance	13%	9%	4%	85
Customer	Average Increase in Opening Hours	35%	20%	15%	510
Customer	Customer Satisfaction	98%	90%	8%	1,723
	LOCALS				
	Converted > 12 Months	54			
POL	Finance Approved Investment per Local £000	(11)	(11)	0	0
POL	**Total Income: Post vs Pre Conversion**			0	
POL	Branches live 12-24 months	(8)%	(4)%	(4)%	49
POL	Branches live 24-36 months	(11)%	(5)%	(6)%	5
POL	Annualised Agents Fixed Pay savings per conversion £000	10	10	0	0
Agent	Customer Sessions 12- 24 months	2%	(3)%	5%	47
Agent	Customer Sessions 24- 36 months	2%	(5)%	7%	5
Agent	Operator Feedback on Retail Sales Performance	12%	9%	3%	81
Customer	Average Increase in Opening Hours	115%	80%	35%	445
Customer	Customer Satisfaction	93%	90%	3%	1,453

Commentary

Mains

Financial performance

Total Income - Overall income for the branches live 12-24 mths have increased when compared with the control group, 3 of the branches live between 24-36 are also performing better than the control group. 1 is performing better than the others c. +41% and if this were to be removed the overall impact would by (-7%) vs (-5%).

Focus income - Product mix has a significant impact on such a small sample. Cash Wiithdrawals, Parcelforce 24/48 and and International Standard are performing well in most of the branches whilst Growth Bonds and E Top ups are weaker. 1 branch in the 12-24 group is performing stronger than the control group on travel money and special delivery. Some of the branches in the 24-36 group appear to be perfoming weaker in products such as insurance, credit cards and international priority products. The demographics of the branch will have an impact on the result

Agents pay - Higher than in the control group, with 1 branche performing well in travel money and special delivery. Branches in sample receive new Mains pay rates that are favourable to previous rates.

Non financial performance

Customer satisfaction consistently above 90% for both Mains and Locals.

Locals

Financial performance

Income - Branch performance ranges from -40% to +100% so there isn not a consistent pattern in this population. The Local model assumption was that income would reduce by c.5% due to the removal or certain products. 17 branches are performing better than this against products such as lottery.

Agents pay fixed savings - Savings in line with strategic plan target.

Non financial performance

Customer sessions - Strong performance compared to income. Implies greater footfall but lower value transactions. Further analysis underway.

Cutsomer Satisfaction - Jun - Aug 13 Data (Lower average monthly score caused by 2 local branches. Under investigation with field visits taking place).

Financial targets reflect the equivalent performance of the control group (2899 Mains and 5015 Locals)

988 live branches within the 1759 contracts signed - August 2013

0-12 Months (Sept 12 - Aug 13) - 754
12-24 Months (Sept 11- Aug 12) - 131
> 24 Months (prior to Sept 2011) - 103

Note: The scorecard includes 31 branches of the 119 (12-24 months) and 10 branches of the 94 (24-36 months).
Branches with a break in customer session or branches that had previously received overscale payments have been excluded.

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Project Costs (OpEx)

September 2013

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The overall YTD expenditure is lower than budget, but with variances between projects.

£m		Current Month			Year To date			Full Year		
Directorate	**Programme**	**Actual**	**Budget**	**Var**	**Actual**	**Budget**	**Var**	**Forecast**	**Budget**	**POLIC Approved to Date**
Commercial	Brand Marketing	(0.1)	0.0	(0.1)	(0.5)	0.0	(0.5)	(0.4)	0.0	0.0
	Customer Engagement	(0.1)	0.0	(0.1)	(4.5)	(5.8)	1.3	(5.8)	(5.8)	0.0
	Digital & Multi Channel	(0.1)	(0.1)	0.0	(0.5)	(0.3)	(0.2)	(0.6)	(0.6)	(0.5)
	FOoG	(0.2)	(0.2)	(0.0)	(1.4)	(1.0)	(0.4)	(2.0)	(2.3)	(1.6)
	Mails	(0.1)	(0.1)	(0.0)	(0.8)	(0.6)	(0.2)	(0.4)	(2.0)	(0.7)
	Telephony	(0.1)	(0.2)	0.1	(1.8)	(2.2)	0.4	(3.3)	(3.6)	(0.9)
Financial Services	Financial Services	(0.7)	(0.7)	(0.0)	(2.7)	(3.4)	0.7	(6.5)	(7.5)	(7.9)
Communications	Communications	(0.0)	(0.0)	(0.0)	(0.0)	(0.5)	0.5	(0.7)	(1.0)	(0.6)
Network & Sales	Network Other	(0.0)	0.0	(0.0)	(0.1)	0.0	(0.1)	(0.1)	0.0	0.0
	Network Transformation	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0
	Property	0.2	(0.1)	0.3	(0.3)	(0.3)	0.1	(0.5)	(0.5)	(0.3)
	Supply Chain	(0.1)	0.0	(0.1)	(0.4)	0.0	(0.4)	(0.7)	0.0	(0.6)
IT & Change	Branch POS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	IT Delivery	(0.4)	(0.1)	(0.3)	(0.5)	(0.6)	0.0	(0.6)	(1.1)	(0.7)
Corporate Services	Corporate Services	(0.3)	(0.2)	(0.2)	(1.6)	(0.2)	(1.3)	(3.2)	(1.1)	(0.9)
	Independence & Separation	0.0	0.0	0.0	0.0	0.0	0.0	(0.2)	(0.2)	0.0
Finance	Finance	(0.0)	0.0	(0.0)	(0.3)	0.0	(0.3)	(0.3)	0.0	(0.1)
Strategy	Independence & Separation	(0.0)	(0.1)	0.1	(0.2)	(0.3)	0.1	(0.7)	(0.5)	0.0
Centrally Held		0.8	(0.3)	1.1	(0.2)	(3.0)	2.9		(8.8)	0.0
POOC Total		**(1.3)**	**(2.0)**	**0.7**	**(15.8)**	**(18.2)**	**2.5**	**(25.9)**	**(35.0)**	**(14.9)**
Contingency								(2.6)		
POOC Total		**(1.3)**	**(2.0)**	**0.7**	**(15.8)**	**(18.2)**	**2.5**	**(28.5)**	**(35.0)**	**(14.9)**

OpEx £2.5m under investment

Current month £0.7m and YTD £2.5m favourable.

Brand Marketing
£0.5m adverse is offset against the underspend in Customer Engagement net position £0.8m favourable.

Customer Engagement
£1.3m favourable, £0.5m to offset Brand Marketing.
Budget was for 2013-14 activity which has not commenced, but has been used to cover the 2012-13 costs that were delayed into this year.

FOoG
£0.4m adverse relating to unbudgeted projects.

Supply Chain
£0.4m adverse relates to the North West Cash centre move, where the spend was budgeted as CapEx.

Corporate Services
£1.3m adverse due to the £0.5m Fraud Software analysis project which had approval spend in 2012-13, but was delivered in 2013-14, and £0.8m other unbudgeted activities.

Independence & Separation : Now mostly Exceptional .

Finance
£0.3m adverse relates to FRP to be transfered to CapEx in P7.

Under Programmed £4.1m.
This is to mainly due to £2.8m Independence & Separation cost transferred to Exceptional.

Project Costs (CapEx and Exceptionals)

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September 2013

Both CapEx and Exceptional costs are underspent against budget, driven by NT and CTP.

CapEx

Directorate	Programme (£m)	Current Month Actual	Current Month Budget	Current Month Var	Year To date Actual	Year To date Budget	Year To date Var	Full Year Forecast	Full Year Budget	Full Year POLIC Approved to Date
Commercial	Brand Marketing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Customer Engagement	0.0	(0.1)	0.1	0.0	(0.4)	0.4	(1.1)	0.0	0.0
	Digital & Multi Channel	(0.0)	0.0	(0.0)	(0.4)	0.0	(0.4)	(1.3)	(1.6)	(0.1)
	FOoG	(1.0)	(0.3)	(0.7)	(1.7)	(2.0)	0.3	(2.8)	(4.1)	(1.2)
	Mails	(0.1)	(0.0)	(0.1)	(0.5)	(0.1)	(0.4)	(2.2)	(0.8)	(2.7)
	Telephony	0.0	(0.1)	0.1	(0.5)	(0.1)	(0.4)	(0.7)	(0.2)	0.0
Financial Services	Financial Services	(0.0)	(0.5)	0.5	(0.0)	(1.9)	1.9	(5.4)	(6.7)	(1.5)
Communications	Communications	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Network & Sales	Crown Transformation	(0.3)	(2.5)	2.3	(1.8)	(7.5)	5.7	(30.5)	(36.1)	(36.1)
	Network Other	0.0	0.0	0.0	0.0	0.0	0.0	(1.3)	(1.8)	(1.3)
	Network Transformation	(2.6)	(4.8)	2.1	(10.6)	(27.5)	17.0	(57.4)	(50.6)	0.0
	Property	(0.4)	(0.6)	0.2	(1.2)	(2.9)	1.7	(6.8)	(5.4)	(1.6)
	Supply Chain	(0.9)	(1.7)	0.8	(3.0)	(4.4)	1.3	(11.1)	(12.0)	(8.2)
IT & Change	Branch POS	0.0	(1.1)	1.1	0.0	(3.1)	3.1	(4.6)	(8.8)	0.0
	IT Delivery	(0.7)	(2.0)	1.4	(9.8)	(6.8)	(3.1)	(25.7)	(17.2)	(8.4)
	IT Transformation	(0.0)	0.0	(0.0)	(0.2)	0.0	(0.2)	(0.2)	0.0	0.0
Corporate Services	Corporate Services	(0.1)	0.0	(0.1)	(0.4)	0.0	(0.4)	(1.5)	0.0	(1.5)
	Independence & Separation	(0.4)	(1.5)	1.1	(2.3)	(5.4)	3.2	(18.4)	(19.3)	(8.9)
Finance	Finance	(0.4)	(0.3)	(0.1)	(2.0)	(1.7)	(0.3)	(3.8)	(3.5)	(3.4)
Old Projects		(0.0)	0.0	(0.0)	(0.5)	0.0	(0.5)	(0.4)	0.5	0.0
Central Assessment								35.1		
Capex Total		**(6.9)**	**(15.6)**	**8.7**	**(35.1)**	**(63.9)**	**28.8**	**(140.0)**	**(167.5)**	**(75.1)**

CapEx - £28.8m under investment

Current month £8.7m and YTD £28.8m favourable.

The favourable variance is mainly driven by Crown (£5.7m) and Network Transformation (£17m) Programmes tracking behind planned activities.

IT Delivery
£3.1m adverse mainly due to phasing of Risk & Resilience.

Property
£1.7m favourable due to £1.2m of costs transferred to Crown Transformation.

Corporate Services
£0.4m adverse relating to unbudgeted projects.

Independence & Separation
YTD is £3.2m favourable, this mainly due to a combination of projects (E-Business, HR Systems and IT Towers) behind schedule.

Exceptional

Directorate	Programme	Current Month Actual	Current Month Budget	Current Month Var	Year To Date Actual	Year To Date Budget	Year To Date Var	Full Year Forecast	Full Year Budget	Full Year POLIC Approved to Date
Network & Sales	Crown Transformation	(4.0)	(0.8)	(3.2)	(7.6)	(7.3)	(0.3)	(37.5)	(29.4)	(29.4)
	Network Transformation	(15.4)	(9.1)	(6.3)	(48.6)	(54.5)	5.9	(68.5)	(128.7)	(128.7)
	Supply Chain	0.0	(1.1)	1.1	0.0	(2.8)	2.8	(4.6)	(6.1)	(1.1)
IT & Change	IT Transformation	(1.0)	(1.3)	0.2	(4.6)	(5.5)	0.9	(19.1)	(15.0)	(18.0)
Corporate Services	Independence & Separation	(2.8)	(0.3)	(2.5)	(2.8)	(1.1)	(1.7)	(6.1)	(0.2)	(3.9)
Other	Cost reduction	(0.9)	(0.4)	(0.5)	(2.5)	(1.4)	(1.1)	(4.0)	(5.0)	0.0
Exceptional Total		**(24.2)**	**(13.0)**	**(11.2)**	**(66.1)**	**(72.6)**	**6.6**	**(139.9)**	**(184.4)**	**(181.1)**

Exceptional - £8.9m under investment

Current month £11.2 adverse and Year to Date £6.6m favourable.

The period variance is a catch up of Transformation programmes.
The favourable YTD variance is mainly driven by Network Transformation programme and Supply Chain (North West Cash Centre and Supply Chain Strategy) tracking behind planned activities.

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Appendices

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Network Transformation Scorecard Metric Definitions/ Rationale

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September 2013 Reporting Prior Months data (one month in arrears)

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	Key Performance Indicators	Metric	Rationale
	MAINS		
	Converted > 12 months	Source: NTP database	Source: NTP database
POL	Finance Approved Investment per Mains £000	Average investment spend approved for number of branches	Recognise investment spend
	Total Income: Post vs Pre Conversion		
	Branches live 12-24 months	Total Variable Income - Source: Credence*	Review impact on POL income as a result of converting to new models
	Branches live 24-36 months	Current month vs same period pre conversion	
	Focus Income: Post vs Pre Conversion		
	Branches live 12-24 months	Total Focus Income - Source: Credence*	Review impact on POL focus income to assess the sales model post conversion
	Branches live 24-36 months	Current month vs same period pre conversion	
Agent	Agents Remuneration: Post vs Pre Conversion	Total agents remuneration excluding overscale and NI/VAT. Current month vs same period pre conversion	Assess the impact on income for our agents as a result of POL business
	Operator Feedback on Retail Sales Performance	Source: Operator survey issued to branches 2 months after opening starting in Aug 12	Indicative retail performance for Agents
Customer	Average Increase in Opening Hours	Based on systems data of open hours	Assess the impact of extended hours for our customers
	Customer Satisfaction	Exit interviews conducted by research company Brass at recently transformed branches	Indication of customer experience
	LOCALS		
	Converted > 12 Months	Branches converted greater than 12 months	Branches converted greater than 12 months
POL	Finance Approved Investment per Local £000	Average investment spend approved for number of branches	Assessment of investment spend
	Total Income: Post vs Pre Conversion		
	Branches live 12-24 months	Total Variable Income - Source: Credence*	Review impact on POL income as a result of converting to new models
	Branches live 24-36 months	Current month vs same period pre conversion	
	Annualised Agents Fixed Pay savings per conversion £000	Fixed pay saving per branch vs the strategic plan assumptions	Assess the savings to POL
Agent	Customer Sessions 12- 24 months	Source: MI Database	Measurement of footfall for an Agent
	Customer Sessions 24- 36 months		
	Operator Feedback on Retail Sales Performance	Source: Operator survey issued to branches 2 months after opening starting in Aug 12	Assess impact of increased revenue from retail
Customer	Average Increase in Opening Hours	Based on systems data of open hours	Assess the impact of extended hours for our customers
	Customer Satisfaction	Exit interviews conducted by research company Brass at recently transformed branches	Indication of customer experience

* Same income factor used for each year. Performance is impacted by sales and product mix.

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Cashflow Statement & Balance Sheet Summary

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September 2013

Balance Sheet

£m	Mar-13	P6 Actual	P6 Budget	P6 Variance
Fixed Assets	71	94	92	2
Debtors	122	123	107	16
Cash	870	825	827	(2)
Client Balances	(288)	(219)	(214)	(5)
Trade Creditors	(362)	(512)	(517)	5
Pension (deficit)/surplus	97	145	71	74
Provisions	(26)	(30)	(14)	(16)
Investments, Funding	95	(5)	87	(92)
Loan	(291)	0	(110)	110
Net Assets	**288**	**421**	**329**	**92**

Reserves	Mar-13	Actual	Budget	Variance
Capital and Reserves	(288)	(421)	(329)	(92)
	(288)	**(421)**	**(329)**	**(92)**

Cashflow Statement

£m	YTD Actual	YTD Budget	YTD Variance	Full Year Forecast	Full Year Budget	Full Year Variance
Operating Profit	**53.1**	**48.0**	**5.1**	**102.0**	**102.0**	**0.0**
Depreciation	0.2	0.5	(0.3)	0.9	0.9	0.0
Working Capital	(46.8)	0.6	(47.4)	(41.2)	(41.2)	0.0
Client Balances	(68.5)	(73.4)	4.9	(11.4)	(44.4)	33.0
Network Cash	44.6	42.6	2.0	114.6	114.6	0.0
Dividends	(22.6)	(21.4)	(1.2)	(4.5)	(4.5)	0.0
Capital Expenditure	(35.0)	(63.9)	28.9	(140.0)	(167.5)	27.5
Government funding	215.0	215.0	0.0	215.0	215.0	0.0
NSP in advance	100.0	100.0	0.0	0.0	0.0	0.0
Exceptional Items	(60.7)	(85.4)	24.7	(144.8)	(198.8)	54.0
Pensions	1.9	1.1	0.8	2.3	2.3	0.0
Proceeds from asset sales	2.4	0.0	2.4	2.5	0.0	2.5
				0.0	0.0	0.0
Free cashflow before interest, tax	**183.6**	**163.7**	**19.9**	**95.4**	**(21.6)**	**117.0**
Interest	(0.9)	(2.0)	1.1	(2.0)	(5.0)	3.0
Tax	10.2	10.2	0.0	10.3	10.3	0.0
Free Cashflow	**192.9**	**172.1**	**20.8**	**103.7**	**(16.3)**	**120.0**

Cash Management Table

£m	Prior Year P6	Mar-13 Opening	P6 Actual	P6 Budget	P6 var
Retail, Cash Centres	557	650	609	606	(3)
Bureau	85	59	82	86	4
Cheques, debit cards	136	161	134	135	1
Network Cash	**778**	**870**	**825**	**827**	**2**

	Opening	P6
Headroom (£m)	**838**	**883**

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Income By Product Groups & Pillar

September 2013

Adverse; Mails is £16.2m, Financial Services is £2.4m, other income is £0.1m and Government Services is £0.7m adverse. Favourable; Telephony is £1.0m and Supply Chain £0.5m favourable.

Net Income £m	Current Month			Prior Year		Year to date			Prior Year		Full Year			Prior Year
	Actuals	Budget	Variance	Period Actual	Month (Yr On Yr)	Actuals	Budget	Variance	YTD Actual	YTD (Yr On Yr)	Q2 Forecast	Budget	Variance	2012/13 Outturn
Parcelforce	1.7	1.9	(0.2)	1.4	0.3	10.8	10.9	(0.1)	8.9	1.9	23.1	24.5	(1.40)	19.9
Special Delivery	3.8	3.9	(0.1)	3.8	0.0	25.2	25.1	0.2	25.7	(0.4)	50.0	50.0	0.00	53.2
International Priority & Standard	2.4	2.8	(0.4)	2.3	0.0	15.5	17.9	(2.3)	15.9	(0.3)	32.7	37.3	(4.60)	34.9
Stamps (1st & 2nd Class plus other stamps)	1.9	2.3	(0.4)	1.7	0.2	12.1	13.6	(1.5)	17.1	(4.9)	33.8	33.8	0.0	35.2
Labels (1st & 2nd Class)	6.9	8.3	(1.4)	7.1	(0.2)	44.6	51.1	(6.5)	47.9	(3.3)	94.8	106.2	(11.40)	100.2
RM Mail Fixed	4.3	4.3	0.0	4.4	(0.1)	28.0	28.0	0.0	28.4	(0.4)	56.0	56.0	0.0	57.9
Retail & Lottery	3.2	4.0	(0.8)	3.3	(0.1)	21.5	25.2	(3.7)	22.3	(0.9)	51.9	51.6	0.30	45.7
Mails Other	4.7	4.3	0.5	4.4	0.3	25.0	27.2	(2.2)	27.1	(2.2)	64.7	55.3	9.34	57.0
Total Mail Services	**28.8**	**31.7**	**(2.8)**	**28.4**	**0.5**	**182.7**	**199.0**	**(16.2)**	**193.2**	**(10.5)**	**406.9**	**414.6**	**(7.76)**	**404.0**
Total Telephony Services	**2.6**	**3.5**	**(0.9)**	**3.8**	**(1.3)**	**25.1**	**24.1**	**1.0**	**22.8**	**2.3**	**50.7**	**50.4**	**0.3**	**45.0**
Motoring Services	2.5	2.7	(0.3)	2.5	(0.0)	10.0	10.7	(0.7)	16.8	(6.8)	20.7	21.4	(0.73)	31.8
Card Account	4.8	4.9	(0.1)	5.8	(0.9)	30.3	30.5	(0.2)	34.2	(3.9)	59.1	59.4	(0.3)	65.8
Check and Send	1.2	1.2	0.0	1.2	(0.0)	12.6	11.6	1.0	11.8	0.8	22.2	20.4	1.84	21.4
AEI (DVLA & UKBA)	0.6	0.6	0.0	0.8	(0.1)	3.9	3.7	0.2	4.2	(0.3)	9.4	7.9	1.5	10.1
Other Government Services	0.4	0.5	(0.1)	(0.2)	0.6	2.9	3.8	(1.0)	1.9	0.9	4.1	6.7	(2.6)	4.2
Total Government Services	**9.6**	**10.0**	**(0.4)**	**10.0**	**(0.4)**	**59.7**	**60.4**	**(0.7)**	**68.9**	**(9.3)**	**115.5**	**115.9**	**(0.4)**	**133.2**
Bill Payment Services Direct	0.7	0.8	(0.1)	0.8	(0.0)	5.1	5.1	(0.0)	5.4	(0.3)	10.9	11.1	(0.22)	11.8
Bill Payment Services Reseller	2.2	1.9	0.3	2.2	0.1	14.0	12.06	2.0	14.5	(0.4)	26.2	24.9	1.26	27.6
Postal Orders	1.6	1.6	0.0	1.9	(0.3)	10.4	10.3	0.1	11.5	(1.1)	20.2	20.2	0.04	23.1
Payment Services	0.4	0.7	(0.3)	0.36	(0.0)	2.5	3.5	(0.9)	2.6	(0.1)	7.1	8.9	(1.7)	6.3
Personal Banking Clients	2.0	2.0	(0.0)	1.6	0.4	13.4	12.6	0.8	13.0	0.3	27.5	25.4	2.1	26.4
DWP Exceptions	0.0	0	0.0	0.4	(0.4)	0.0	0.1	(0.1)	2.2	(2.2)	0.0	0.1	(0.07)	3.9
Business Banking	2.9	2.0	0.9	2.7	0.3	14.5	13.2	1.4	17.3	(2.7)	28.8	26.6	2.27	34.8
ATM	2.8	2.6	0.2	2.3	0.5	15.5	16.3	(0.7)	14.9	0.7	32.0	33.2	(1.20)	30.2
PFS-Savings	4.7	4.2	0.5	4.9	(0.2)	25.0	24.7	0.3	17.0	8.0	50.0	50.5	(0.54)	40.6
PFS-Insurance	0.6	0.6	0.0	0.4	0.2	3.2	3.4	(0.1)	2.1	1.1	9.2	6.7	2.41	5.3
PFS-Lending	0.1	0.5	(0.3)	0.4	(0.3)	2.6	2.1	0.5	1.6	1.0	6.6	4.9	1.70	4.7
Bureau (excl profit share) (incl Travel Money Card)	2.3	2.5	(0.2)	2.3	(0.0)	14.4	16.2	(1.8)	14.2	0.2	24.4	25.0	(0.60)	24.4
Travel Insurance	0.6	0.9	(0.3)	0.9	(0.3)	6.5	6.3	0.2	6.3	0.2	9.0	9.0	0.0	9.1
MoneyGram	1.3	1.3	0.0	1.2	0.1	8.1	8.1	(0.0)	7.3	0.8	16.6	16.6	(0.02)	15.4
NS&I	0.3	0.3	0.0	1.0	(0.7)	2.1	2.1	0.0	6.6	(4.5)	3.9	3.9	0.0	13.3
Other	0.2	0.8	(0.6)	0.2	0.0	1.2	5.2	(3.9)	1.2	0.0	5.0	10.4	(5.36)	2.5
Total Financial Services	**22.9**	**22.6**	**0.3**	**23.5**	**(0.6)**	**138.7**	**141.1**	**(2.4)**	**137.7**	**1.0**	**277.4**	**277.4**	**(0.0)**	**279.6**
Other Income	1.1	0.8	0.3	0.9	0.20	5.1	5.2	(0.1)	5.1	(0.0)	8.4	12.5	(4.1)	10.7
Supply Chain	2.7	2.2	0.4	2.5	0.22	14.8	14.3	0.5	15.1	(0.3)	28.7	29.2	(0.50)	30.0
Net Income	**67.7**	**70.8**	**(3.1)**	**69.1**	**(1.4)**	**426.2**	**444.2**	**(18.0)**	**442.9**	**(16.8)**	**887.6**	**900.0**	**(12.4)**	**902.4**

POL00099806

Post Office Limited – Strictly Confidential

POLB 13(12th)
POLB 13/80-13/96

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held on 25 September 2013
at 148 Old Street, London EC1V 9HQ

Present:

Neil McCausland	In the Chair
Tim Franklin	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director (items 13/80 - 13/89)
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Sue Barton	Strategy Director (items 13/80 - 13/86)
Kevin Gilliland	Network & Sales Director (items 13/80 - 13/84)
Lesley Sewell	Chief Information Officer (items 13/82 - 13/86)

Apologies for Absence:

Alice Perkins	Chairman
Virginia Holmes	Non-Executive Director

POLB 13/80 **INTRODUCTION**

(a) A quorum being present, the Chairman opened the meeting and welcomed Sue Barton, Strategy Director and Kevin Gilliland, Network & Sales Director.

POLB 13/81 **PROGRESS REPORT ON GOVERNMENT FUNDING AND STRATEGIC PLAN**

(a) The Board noted the progress report on the Government Funding and Strategic Plan.

(b) Sue Barton reminded the Board of the device of an explicit cliff in the original strategy and its importance in driving branches to convert in the Network Transformation (NT) programme. She explained that it was now clear that a new approach of a mandated exit with enhanced compensation alongside an implicit cliff, post 2015, should gain NFSP support and enable the Business to deliver the NT.

(c) The Board discussed the new approach and their concern that post

POL00099806

the 2015 election a new government may reconsider the introduction of the cliff. Sue Barton explained that the Business and the Shareholder Executive were discussing the possibility of a three year funding deal which would help reduce any political changes post-election and allow the cliff to come into force if required. The Board supported this but suggested an exchange of letters with the Secretary of State to explain the Board's position.

ACTION: Sue Barton/ Susannah Storey

(d) The Board discussed the relationship with the NFSP and their support for the new proposal. Sue Barton explained the Memorandum of Understanding (MoU) being proposed which would require the NFSP not to mobilise a campaign against NT or ask for more money for compensation. However, in return, the NFSP would be looking for financial support from the Business. She described the NFSP's request for a 15 year sponsorship arrangement and explained what services the Business would expect in return.

(e) The Board were very uncomfortable with the longevity of what was being proposed and the level of financial support but recognised the need to be pragmatic and the part the NFSP plays in delivering the NT and funding.

(f) The Board supported the approached outlined in the paper as a mandate for Sue Barton to continue negotiating the MoU, taking into account the Board discussions and their desire to reduce the longevity of the deal or tie it to the timescales for funding with exit clauses if the services provided by the NFSP did not reach desired standards.

ACTION: Sue Barton

(g) The Board discussed the plans for delivering the new NT programme and the speed with which they could be deployed. Kevin Gilliland explained that the time constraints were both internal and external and that finding the right new sub-postmasters was critical to the programme. He assured the Board that he understood and shared their desire to deliver the NT programme as quickly as possible. Sue Barton stressed that the Business was focussing both on delivery of the existing programme whilst planning the new approach, supporting the sub-postmaster by centralising as much of the process as possible.

ACTION: Alasdair Marnoch/ Sue Barton/ Kevin Gilliland

(h) The CEO asked Alasdair Marnoch if he would work with Sue Barton and Kevin Gilliland to critique the delivery plans, on behalf of the Board, to ensure they were robust and had taken into account any unintended consequences for the wider strategy. The detailed plan would be brought back to the Board in October.

(i) The Board asked for an update to the schedule in 4.3 of the paper, showing the number of sub-postmasters in each category of the table.

ACTION: Sue Barton

(j) The Board asked for confirmation that legal advice supported not paying retrospective enhanced compensation to sub-postmasters who had already exited on the existing scheme. The CEO confirmed that this was the advice the Business had been given, although this did not preclude a judicial review of the decision.

(k) The Board noted the progress report on the Government Funding and Strategic plan, endorsed the work plan that was underway and thanked Sue Barton and Kevin Gilliland for their work to date.

POLB 13/82 **COST FOCUS/VALUE FOR MONEY**

(a) Lesley Sewell, Chief Information Officer, joined the meeting.

(b) The CFO and Sue Barton gave the Board an overview of the approach the Business was taking to reduce central costs. The CFO recognised that the Business needed to build a bridge between the tactical day to day cost reduction which continues in the business and the future operating model. He pointed out that there were already substantial savings built into this year's plan and that an estimated additional 200 people would be exiting before the end of the next financial year.

ACTION: Fay Healey

(c) The Board recognised that a lot was being done to address the profit gap left by the income decline and asked for assurance that the Business was exiting the right people. The CEO suggested that the Chief HR Officer be invited to the Board to present the approach to performance management below SLT level and the statistics on exiting poor performers.

ACTION: CFO/ Alasdair Marnoch

(d) The Board asked for a note setting out the underlying cost base in the strategic plan and the additional savings which have now been identified to compensate for the income decline. This should show the changed trajectory for costs with additional papers filed in the reading room.

(e) Sue Barton explained that our 25% cost reduction challenge had been shared with six suppliers and that they had been asked for their unconstrained ideas. The CEO also reported that a fact finding trip to India to look at outsourcing possibilities was taking place in a week's time.

ACTION: CFO

(f) The CFO was asked to report back at the next Board as part of his Financial report. The Board would then decide if it needed a 'deep dive' on cost focus and value for money.

POLB 13/83 **SUPPLY CHAIN STRATEGY**

(a) The Board received a report on the Supply Chain net cost management programme and future Roadmap.

(b) Sue Barton explained the findings of the independent consultancy Elix-IRR. The Board supported the view that the Supply Chain is not a core income pillar for the Business and were aligned with the strategy to outsource. However, there were different views on the timing of any outsourcing and the management bandwidth to manage this alongside the other transformation programmes.

POL00099806

ACTION: Kevin Gilliland

(c) The Board asked the Business to continue its focus on outsourcing. The CEO reported that she had already decided to bring in a new hire as General Manager for Supply Chain and would want this person to lead the strategic review, possibly to result in a management buyout or outsourcing.

(d) The Board supported: recruitment of the new General Manager; pushing ahead with controlling the levers which drive the Supply Chain costs; and getting the Supply Chain to a position where it could be outsourced.

ACTION: CFO

(e) The Board asked the CFO to check if the Supply Chain costs for ATMs were allocated to an ATM provision and charged to the Bank of Ireland.

POLB 13/84 **REPORT ON INDUSTRIAL ACTION**

(a) Kevin Gilliland gave a verbal update on the current position regarding Industrial Action. He explained the Business' response to both strike days and 'action short of a strike'. He explained that he had just notified the unions about the franchising agreement and TUPE and the Voluntary Redundancy exercise the Business is about to undertake.

(b) He also explained that the CWU had written to the CEO threatening a strike ballot if they did not get agreement for an 'inflation busting' pay rise for the Supply Chain. The CEO explained that a response had been sent to say we would not be opening these negotiations until January. The Board were assured that contingency plans were already in place for any Supply Chain industrial action.

(c) Kevin Gilliland reported that progress had been made with CMA/Unite and the principle of no consolidated pay until 2015 has been established.

(d) The Directors noted the Industrial Action update.

(e) Kevin Gilliland left the meeting.

POLB 13/85 **SERVICE INTEGRATOR/SERVICE DESK CONTRACT AWARD**

(a) The Board received an update on the procurement for a Service Integrator/Service Desk (SISD) provider. It was noted that the Executive Committee had approved the award of the SISD contract to ATOS IT Services Limited.

(b) Lesley Sewell explained that a full governance structure had been agreed as part of the procurement, that she had personally taken references for ATOS, and that they were already engaged on similar work for HMRC and the Ministry of Defence.

(c) She reported that Dave Hulbert would be accountable for the contract management and that he had been through a selection

POL00099806

process as well as an external assessment before being given the role.

(d) It was agreed that the SISD contract be awarded to ATOS IT Services Limited, and that the CFO be authorised to sign on behalf of the Company.

POLB 13/86 **IT STRATEGY UPDATE SEPTEMBER 2013**

(a) Lesley Sewell updated the Board on progress made against the Business' key initiatives within the 2020 IT Strategy, demonstrating why it represented value for money and achieved the run-cost reduction targets.

(b) The Board discussed the Fujitsu costs and the IP risks identified at the July Board meeting. The CFO reported that the Business had discussed the issue with Fujitsu on several occasions but had not reached a satisfactory outcome, although the price had reduced from the original £60m to £25m and was likely to end at between £10 and £20 million pounds, depending on the outcome of a possible offset of non-contractual change spend versus an agreed IPR valuation.

(c) Lesley Sewell stressed that the Business would go to market in October and that she and the CFO would continue to negotiate to reduce the exposure.

(d) The Board noted the update and actions as set out in the paper.

(e) Sue Barton and Lesley Sewell left the meeting.

POLB 13/87 **CHIEF EXECUTIVE'S REPORT**

(a) The Board noted the Chief Executive's report and discussed the following specific items:

(b) The CEO reported that Mails 'Drop & Go' had just signed up it 10,000th customer account. This is the first time the Business has discounted its mails products to tie in customer loyalty. It has also got agreement with RMG to introduce a new price format which will save the customer 40% against market prices. The CEO recognised Paul Brown for delivering these important strategic changes. The Board recognised the good progress and encouraged the Business to continue to focus effort on their 'click and collect' offer. The CEO told the Board that Amazon and ASOS were likely to be using the service by the new year.

(c) The CEO informed the Board that the contract for POCA was likely to be extended to 2017 and work was underway with NS&I for a possible solution beyond that date, although both issues were highly confidential. She was hopeful that opportunities for Front Office of Government work were becoming more positive.

(d) The Board were disappointed with the take up of the Current

POL00099806

Account. The CEO explained that she was meeting the Bank of Ireland on Friday to discuss, amongst other things, the account opening process and further roll-out. The CFO also had agreed two deep dives organised with the Bank, the first of which would focus on savings. It was suggested that these issues be reviewed by the Board FS Sub Committee.

ACTION: Company Secretary

(e) The Board asked for a noting paper for the next meeting covering the opportunities in the Energy market.

ACTION: Martin George

(f) The CFO explained that the Royal Mail Pension Trustee Board was meeting on the 26 September to consider the Business' proposal for the future of the scheme. The Board agreed that the Business should take forward the proposal as previously discussed (Project Robin). They also agreed that they were comfortable with the CFO giving notice to the Trustee of the Company's intention to consult immediately on closure of the Defined Benefit scheme, in the event that the Business' proposal was rejected.

POLB 13/88 **HORIZON UPDATE**

(a) The CEO updated the Board on the progress made against the list of actions included in the Horizon update paper sent to the Board on 27 July 2013.

(b) The CEO reported that she and Alasdair Marnoch had had a meeting with Anthony Hooper, a former QC and candidate for the role of Independent Chair of the Horizon Working Group. Subject to agreeing fees they both agreed he would be an excellent choice.

(c) The Board asked how the Business intended to manage the project after Susan Crichton, General Counsel, has left the Business. The CEO explained that an interim GC would be in place for a hand over but that she also intended to put Belinda Crowe into the role of Project Director to lead on coordinating the programme, with the ExCo accountability sitting with the new GC. She also explained that she had asked Alwen Lyons, Company Secretary, to keep an oversight of the handover as the interim GC joined the Business.

(d) The Board noted the Horizon progress report.

POLB 13/89 **FINANCIAL PERFORMANCE UPDATE**

(a) The Board received a financial performance update for August 2013 from the CFO.

(b) The Board discussed the effect of the revenue shortfall on EBITDA and the mitigating actions to support the underlying profit. The CFO explained that the position should be clearer at the next Board meeting with the Quarter 2 full year forecast but stressed that he was expecting the full year to be broadly flat in revenue but with reduced costs leading to an improvement in profit.

(c) Susannah Storey left the meeting.

POL00099806

(d) The Board recognised that the Business was getting back on track after a difficult first quarter period but stressed the need to hit the required exit rate at year end and to keep the underlying costs under control and within budget.

ACTION: CFO

(e) The Board asked the CFO to consider how he could improve the cashflow forecasting as the volatility is nowhere near best practice. It was recognised that this was not a current priority but could become so as the Business moves toward financial sustainability.

(f) The CFO reported that he had reached agreement for the sale of tax losses to RMG for 50 pence in the pound. This was well received by the Board who recognised the work of Charles Colquhoun in this area.

POLB 13/90 **RISK**

(a) Alasdair Marnoch gave a verbal update on the discussions held at the Audit & Risk Committee (ARC) on the issue of Risk and explained that the Business was now distilling their risk register after input from the ARC.

(b) The risks identified by individual Board members had been circulated to the ARC and the Board and further work on risk would be included in the November Board meeting.

POLB 13/91 **MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING**

(a) The minutes of the Board meetings held on 24 June, 1 July, 9 July, 16 July, 26 July and 31 July 2013 were approved for signature by the Chairman.

POLB 13/92 **COMMITTEE MEETING MINUTES FOR NOTING**

(a) The Board noted the minutes of the Audit Risk & Compliance Committee meetings held on 20 March, 21 May and 6 June; and the Pensions Committee meetings held on 1 May, 6 June and 1 August.

POLB 13/93 **STATUS REPORT**

(a) The Status Report, showing matters outstanding from previous Board meetings, was noted.

ACTON: CFO/ Alasdair Marnoch

(b) The Board asked for a noting paper to clarify whether any claims on the Business from the Horizon work would be covered by Professional Indemnity or Directors & Officers insurance and whether we had alerted our underwriters. The CFO, with input from Alasdair Marnoch, would ensure the appropriate notifications were made.

POLB 13/94 **ITEMS FOR NOTING**

POL00099806

ACTION: CEO

(a) The Board noted the Health and Safety report and the Board asked the CEO to thank Simon Eldridge, National Safety Environment and Wellbeing Manager, for the good progress being made.

(b) The Board noted the Significant Litigation report.

(c) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1059 to 1074 inclusive in the seal register was hereby confirmed.

(d) The Board noted the update on the Post Office Payment Services proposition to SMEs and confirmed the launch strategy as outlined in the paper.

POLB 13/95 **ANY OTHER BUSINESS**

ACTION: CFO/ Hugh Flemington

(a) Following his note to the Board on the tax consequences and impact on the RMG IPO the Board asked the Business to consider the wider effect of the RMG transaction on the Post Office and our lines of defence for any dispute, and specifically any direct obligations contained in the MSA/MDA.

ACTION: Belinda Crowe

(b) The CEO explained that an internal 'lessons learned' review, led by Belinda Crowe, would be undertaken for Project Sparrow over the next few weeks.

ACTION: CFO

(c) The Board discussed the interim statement of accounts and asked the Business to formalise the process and circulate to the Board in advance of the October Board meeting. The CFO recognised that the Board favoured a lighter trading statement.

(d) The Company Secretary circulated the agenda for the next meeting which would be held at Camden Crown Office and have input from the Branch Manager, as well as include a visit to the Branch.

POLB 13/96 **CLOSE**

(a) There being no further business, the meeting was then closed.

POL00099806

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POST OFFICE LIMITED 16 JULY 2013 BOARD ACTION LOG

REFERENCE	**ACTION**	**BY WHOM**
	Network Transformation and Crown Offices	
September 2013 POLB 13/81(c)	Exchange letters with the Secretary of State to explain the Board's position in relation to Government funding, the strategic plan and the cliff in response to the Board's concern that in 2015 any new Government will reconsider the cliff's introduction.	**Sue Barton/ Susannah Storey**
September 2013 POLB 13/81(h)	Work with Alasdair Marnoch, who would critique the delivery plans for the NT programme on behalf of the Board, to ensure they were robust and had taken into account any unintended consequences for the wider strategy. The detailed plan should be brought back to the Board in October.	**Alasdair Marnoch/ Sue Barton/ Kevin Gilliland**
September 2013 POLB 13/81(i)	Provide an update to the schedule in 4.3 of the paper, showing the number of sub-postmasters in each category of the table.	**Sue Barton**
	Finance	
September 2013 POLB 13/82(d)	Circulate a note setting out the underlying cost base in the strategic plan and the additional savings which have now been identified to compensate for the income decline. This should show the changed trajectory for costs with additional papers filed in the reading room.	**CFO/Alasdair Marnoch**
September 2013 POLB 13/82(f)	The CFO was asked to report back on cost focus and value for money at the next Board as part of his Financial report.	**CFO**
September 2013 POLB 13/89(e)	Consider how the cashflow forecasting could be improved.	**CFO**
September 2013 POLB 13/95(b)	Formalise the process for the interim statement of accounts and circulate to the Board in advance of the October Board meeting.	**CFO**
	Strategy	
September 2013 POLB 13/83(c)	The new General Manager for Supply Chain to lead a strategic review post-appointment.	**Kevin Gilliland**
September 2013	Check if the Supply Chain costs for ATMs were allocated to a specific provision and charged to the	**CFO**

POL00099806

POLB 13/83(f)	Bank of Ireland.	
September 2013 POLB 13/87(e)	Provide a noting paper for the next meeting covering the opportunities in the Energy market.	**Martin George**
	NFSP & Trade Association	
September 2013 POLB 13/81(f)	Continue negotiating the MoU between Post Office and the NFSP, taking into account the Board discussions and their desire to reduce the longevity of the deal or tie it to the timescales for funding with exit clauses if the services provided by the NFSP did not reach desired standards.	**Sue Barton**
	Information Security	
September 2013 POLB 13/93(b)	Produce a noting paper to clarify whether any claims on the Business from the Horizon work would be covered by Professional Indemnity or Directors & Officers insurance and whether we had alerted our underwriters. Ensure that the appropriate notifications are made.	**CFO/Alasdair Marnoch**
September 2013 POLB 13/95(b)	Undertake an internal 'lessons learned' review for Project Sparrow.	**Belinda Crow**
	Other Actions	
September 2013 POLB 13/82(c)	Present to the Board on the approach to performance management below SLT level and the statistics on exiting poor performers.	**Fay Healey**
September 2013 POLB 13/87(d)	The Board FS Sub-Committee should review the two deep dives organised with the Bank of Ireland, the first of which would focus on savings.	**Company Secretary**
September 2013 POLB 13/94(a)	Thank Simon Eldridge, National Safety Environment and Wellbeing Manager, for the good progress being made on Health and Safety.	**CEO**
September 2013 POLB 13/95(a)	Consider the wider effect of the RMG transaction on the Post Office and our lines of defence for any dispute, and specifically any direct obligations contained in the MSA/MDA.	**CFO/Hugh Flemington**

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POST OFFICE LIMITED BOARD
Status Report

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Network Transformation and Crown Offices		
1a	January 2013 POLB 13/03(h)	Idea of high profile event suggested for early adopters being planned.	**Mark Davies**	Discussions have been held with No10 and BIS but this remains ongoing. BIS keen to reach Strategy conclusion before taking further and have suggested a Parliamentary event.
1b	September 2013 POLB 13/81(c)	Exchange letters with the Secretary of State to explain the Board's position in relation to Government funding, the strategic plan and the cliff in response to the Board's concern that in 2015 any new Government will reconsider the cliff's introduction.	**Sue Barton/ Susannah Storey**	
1c	September 2013 POLB 13/81(h)	Work with Alasdair Marnoch, who would critique the delivery plans for the NT programme on behalf of the Board, to ensure they were robust and had taken into account any unintended consequences for the wider strategy. The detailed plan should be brought back to the Board in October.	**Alasdair Marnoch/ Sue Barton/ Kevin Gilliland**	Given Alasdair's other commitments, Paula conducted an initial challenge session with Kevin and the team.
1d	September 2013 POLB 13/81(i)	Provide an update to the schedule in 4.3 of the paper, showing the number of sub-postmasters in each category of the table.	**Sue Barton**	
		2. Finance		
2a	July 2013 POLB 13/48(g)	Produce analysis to explain economics of the Crown and agents network models and set up a workshop for those NEDs who would find it helpful.	**Chris Day**	October Board for Crown; January Board for Agents.
2b	July 2013 POLB 13/56(b)	Check with corporate insurers to ensure that the planned changes to structure of the wider Group to facilitate an IPO of RMG had no detrimental effect on the cover or cost.	**Chris Day**	Complete. The RMG transaction will have no significant impact on any of the insurance policies. This includes D&O as discussions on this with ShEx and RMG have now concluded with no material

				changes.
2c	September 2013 POLB 13/82(d)	Circulate a note setting out the underlying cost base in the strategic plan and the additional savings which have now been identified to compensate for the income decline. This should show the changed trajectory for costs with additional papers filed in the reading room.	**CFO/Alasdair Marnoch**	This has been addressed in the 2014/15 budget target setting process and will be updated in the Q2 FYF and subsequent Budget presentation.
2d	September 2013 POLB 13/82(f)	The CFO was asked to report back on cost focus and value for money at the next Board as part of his Financial report.	**CFO**	In the October Performance Report.
2e	September 2013 POLB 13/89(e)	Consider how the cashflow forecasting could be improved.	**CFO**	On-going, Initial actions have resulted in a £5m reduction in overnight liquidity investments. Cashflow reporting is also being considered and preliminary changes have been made in the October Performance Report.
2f	September 2013 POLB 13/95(b)	Formalise the process for the interim statement of accounts and circulate to the Board in advance of the October Board meeting.	**CFO**	Complete, circulated 16 October.
		3. Strategy		
3a	November 2012 Strategy Evening	"Point person" to be identified for SME's, across pillars	**Nick Kennett**	Three candidates have been interviewed. Awaiting feedback from Hays on two candidates that have been passed for assessment. The leading candidates will meet Martin George for final review. Handed over to Martin.
3b	May 2013 POLB 13/32	Prepare simple crib sheet of 4-5 communication points to be used for engaging with stakeholders around Post Office's strategy for 2013-2020. To ensure that any statements used left room for manoeuvre in case circumstances changed in the future.	**Mark Davies**	A key issues briefing pack has been developed for senior management and was introduced in w/c 16 September. It incorporated an elevated pitch crib sheet which will be updated

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				regularly and circulated to the Board.
3c	May 2013 POLB 13/38	Update Stakeholder Plan to make better use of DVLA framework contract. To be shared with CEO and CFO to agree how the Board can support the Stakeholder engagement.	**Kevin Seller**	
3f	July 2013 POLB 13/52(b)	Noting paper to the Board setting out the Mercer Recommendation for the new Financial Services Strategy update paper.	**Nick Kennett**	Noting paper to November Board.
3g	July 2013 POLB 13/52(d)	Draw up Terms of Reference for FS Board Sub-Committee with input from Tim Franklin and Virginia Holmes	**Nick Kennett/Alwen Lyons**	The draft ToR will be presented at the October Board for ratification.
3h	September 2013 POLB 13/83(c)	The new General Manager for Supply Chain to lead a strategic review post-appointment.	**Kevin Gilliland**	Noted. Recruitment process underway.
3i	September 2013 POLB 13/83(f)	Check if the Supply Chain costs for ATMs were allocated to a specific provision and charged to the Bank of Ireland.	**CFO**	The Bank of Ireland pay commissions to Post Office for ATMs. Supply Chain costs are not charged back to them but would have been included in the investment appraisal when agreeing the contract and corresponding commission structure with the bank.
3j	September 2013 POLB 13/87(e)	Provide a noting paper for the next meeting covering the opportunities in the Energy market.	**Martin George**	November Board
		4. Personal Injury Referral Fees		
4a		Post Office Insurance will work with BGL to evaluate the impact on the business model (including income and incentives) and management proposes to update the board later in 2013 of any changes.	**Nick Kennett**	The position has been evaluated and aligned with the regulatory changes. Paper to return to the November Board.
		5. NFSP & Trade Association		
5a	May 2013 POLB 13/33	Present the detail of the subpostmaster engagement satisfaction measure when available.	**Kevin Gilliland**	January
5b	September 2013 POLB 13/81(f)	Continue negotiating the MoU between Post Office and the NFSP, taking into account the Board discussions and their desire to reduce the longevity of the deal or tie it to the timescales for funding with exit clauses if the services	**Sue Barton**	

POL00099806

		provided by the NFSP did not reach desired standards.		
		6. Information Security		
6a	July 2013 POLB 13/51(g) September 2013 POLB 13/95(b)	Review of Second Sight report to be provided to ARC explaining how we awarded and managed the contract and include an internal 'lessons learned' review for Project Sparrow.	**Belinda Crow/Alwen Lyons**	Lessons learned review to take place October/November. Interim report to November ARC.
6b	July 2013 POLB 13/51(i)	Ensure both RMG and the Business' Insurers were given notice of the Second Sight review findings.	**Chris Day**	Post Office's insurers have been notified of the Second Sight report. Complete.
6c	September 2013 POLB 13/93(b)	Produce a noting paper to clarify whether any claims on the Business from the Horizon work would be covered by Professional Indemnity or Directors & Officers insurance and whether we had alerted our underwriters. Ensure that the appropriate notifications are made.	**CFO/Alasdair Marnoch**	Appropriate notification to underwriters has been made. Work assessing claims is on-going, with an update due end November after claims for mediation received.
		7. Board Effectiveness		
7a	July 2013 POLB 13/48(f)	A future Board to be held at Camden Branch	**Alwen Lyons**	October Board to be held at the Camden office.
7b	July 2013 POLB 13/48(i)	Advise Board members of dates of SLT Quarterly Business Updates	**Alwen Lyons**	SLT and Quarterly Business Update dates to be confirmed. Dates will be circulated once finalised.
7c	July 2013 POLB 13/48(j)	Addition of an index for the Reading Room	**Alwen Lyons**	Index by Board date to be produced by the end of October. Index alphabetically by topic by end of November.
7d	July 2013 POLB 13/48(h)	Provide a paper highlighting the processes in place for monitoring the use of advisors, procuring advisors and negotiating their terms.	**Chris Day**	Paper to be brought to November Board.
		8. Other		
8a	September 2013 POLB 13/82(c)	Produce a paper for Nomco on the approach to performance management below SLT level and the statistics on exiting poor performers as part of the half year performance review. Noting paper for the Board after the Nomco meeting.	**Fay Healey**	November Nomco.
8b	September 2013 POLB 13/87(d)	The Board FS Sub-Committee should review the two deep dives organised with the Bank of Ireland, the first of which would focus on savings.	**Company Secretary**	

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8c	September 2013 POLB 13/94(a)	Thank Simon Eldridge, National Safety Environment and Wellbeing Manager, for the good progress being made on Health and Safety.	**CEO**	Completed
8d	September 2013 POLB 13/95(a)	Consider the wider effect of the RMG transaction on the Post Office and our lines of defence for any dispute, and specifically any direct obligations contained in the MSA/MDA.	**CFO/Hugh Flemington**	On-going, no material new obligations identified to date.

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Post Office Ltd Board
Financial Services Sub Committee
[Draft] Terms of Reference

Summary

The Post Office Board Sub Committee on Financial Services is a group, established by the Post Office Ltd Board, to provide guidance on, oversight of and authorisation to the development of the Post Office's financial services programmes and activities within the strategic framework as agreed by the Post Office Ltd Board.

The Sub Committee has the delegated authority of the Post Office Ltd Board for Financial Services matters.

1. Meeting Frequency:

- At least quarterly but can meet more frequently as required to facilitate effective and timely actions and decisions

2. Chair:

- The Chair should be a non-executive director of Post Office Ltd.
- Tenure should be for an initial term of 2 years
- The chair is responsible for reporting to the Post Office Ltd Board, including any escalation of issues that require full Board approval
- The chair will not have a casting vote

3. Members:

- Members of the Sub Committee should be non-executive and executive members of the Post Office Ltd Board
- It is proposed that the Sub Committee consists of three members:
  - Virginia Holmes non-executive Director (Chair)
  - Tim Franklin non-executive Director
  - Chris Day executive Director (CFO of the Post Office)
- It is expected that the Director – Financial Services and the General Counsel will both attend but will not be members.
- Operational and finance management representatives may be invited to attend as required
- Secretary

4. Secretariat:

- The secretary will be provided by the Company Secretariat.

5. Quorum:

- A minimum of 2 members
- Decisions need to be made by a majority of the members although it is not anticipated that matters will be taken to a vote.

6. Core Responsibilities:

- Review key activities of the Financial Services strategic programme as presented and agreed at Post Office Ltd Board
- Oversee the Bank of Ireland (UK) plc capital and liquidity for Eagle Contract requirements
- Provide guidance to the Financial Services management team

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- Provide authorisation to proceed with contractual agreements for new products, services and suppliers and changes to existing agreements in accordance with the existing mandate and delegated authority limits of the Post Office Ltd Board
- Receive a quarterly report on Financial Services, including a copy of the Risk Register – this will be noted at the Post Office Ltd Board along with minutes and actions

7. Inputs:

- Business performance reports
- Focused papers from Financial Services management on key activities requiring approval to proceed

8. Outputs:

- Key decisions and actions from the meeting
- Report to the Post Office Ltd Board on decisions/actions taken
- Quarterly report on Financial Services performance to the Post Office Ltd Board
- Issues/decisions to be referred to the Post Office Board.

September 2013

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POST OFFICE LTD BOARD

Mutualisation Update October 2013

1. Purpose

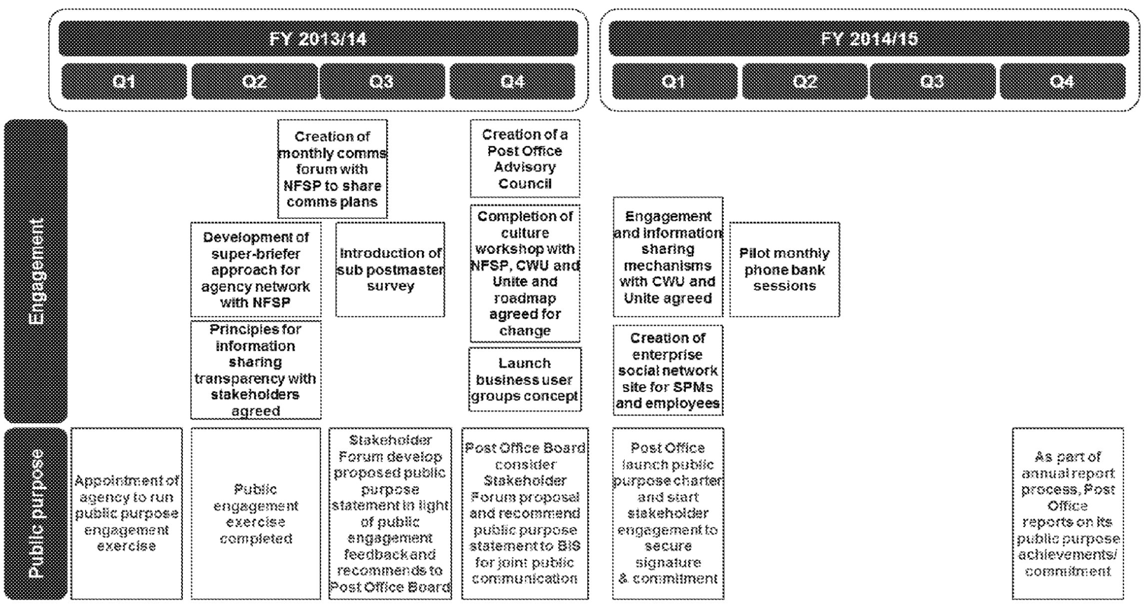
The purpose of this paper is to

1.1. update the Board on progress against the mutualisation timeline

1.2. request approval from the Board to share the update with BIS, and update them on a monthly basis in line with update them on a monthly basis.

2. Background

2.1. At its away day in June the Board agreed a mutualisation timeline which set out a programme of initiatives aimed at increasing and improving our engagement with Stakeholders. The timeline (reproduced below) was shared with BIS colleagues in July and although they are broadly content, they have pressed for more detail so they can understand more of the activity that sits behind the high level milestones.



3. Current Situation

3.1. Since June we have made significant progress against the plan as set out below.

Stakeholder Forum

3.2. The aim of the Stakeholder Forum is to bring stakeholders and experts together to work with Post Office to define its public benefit purpose.

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Established in October 2012, the Stakeholder Forum has met six times. Meetings included presentations from experts, and discussions about the public purpose, and two working groups were established to produce the content of the public purpose with the outputs from the groups to be tested with the public and wider stakeholders

3.3. The public engagement exercise started with a 'qualitative' engagement exercise which ran through September. Over 1,000 questionnaires were completed and 150 people attended the focus groups. The responses will be analysed through October and a qualitative survey of a statistically representative group of people will be conducted in November based on the responses.

3.4. Stakeholder Forum to consider the findings from the engagement project in December and agree a public purpose definition to recommend to the Post Office Board. The intention is that the Board will consider the Stakeholder Forum's recommendation in January and make a recommendation to government with a view to publishing an agreed public purpose before the end of the financial year.

Post Office Advisory Council

3.5. A detailed proposal for the Post Office Advisory Council is dealt with in a separate paper for consideration by the Board.

Business User Forums

3.6. We aim to create a number of business specific forums comprising stakeholders with an interest or expertise in particular subjects to input into developing thinking or implementation plans. A detailed proposal has been submitted to ExCo for approval.

3.7. We are already in the process of establishing a Branch User Forum, created specifically in response to the findings of the Second Sight report to provide a mechanism for subpostmasters and others to raise issues and insights about business processes, training and support. Using this as a model, the intention is to create other similar groups focussed on specific business areas. Directors have been invited to make proposals, to be agreed by ExCo, for subject specific user forums where stakeholder and other input could add business benefits. It will be important to begin with a small number of groups and use the learning from those to inform how and where other such groups could add value. We anticipate having two or three groups up and running by the end of the financial year.

Subpostmaster engagement survey

3.8. The survey, developed through workshops and 1-2-1s with stakeholders across the business and interviews with a selection of sub-postmasters, was launched at the end of September and runs until mid October. The findings will be presented to ExCo in November.

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Information sharing

3.9. An information sharing agreement has been in place with the NFSP since June. Principally this was to enable confidential discussions about the strategy. The learning from this process will form the basis for routine information sharing going forward and similar arrangements will be developed with CWU and CMA when the industrial relations position allows.

Superbriefers

3.10. The regular programme of superbriefers continues with Senior Managers visiting Crown branches on a monthly basis to update staff on network transformation and other business issues.

WOW staff magazine

3.11. A new monthly staff magazine about transformation was launched in September, written for staff and developed with their contribution.

Regional sales events

3.12. Regional sales events, running from September to November, have been extended to all agents, incorporating training and two way communications on business issues.

4. Future engagement activities

4.1. There are also a number of engagement activities planned to start over the coming months. The detail is set out below.

Social network

4.2. 'Yammer' an enterprise social network will be introduced in November to allow real time, interactive collaboration and engagement across the network.

NFSP/Post Office communications forum

4.3. A bi-monthly communications forum was established in September with the NFSP to share communications plans.

Subpostmaster events

4.4. Six-monthly events for subpostmasters, covering business wide issues, will begin in December.

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Phone bank sessions

4.5. Monthly phone-in evenings for staff, hosted by senior leaders, will begin in December.

Quarterly business updates

4.6. A rolling programme of half day sessions, led by ExCo members, for staff in different locations will start in November. Social media will be used to maximise coverage.

Culture workshops

4.7. The culture workshops to work through the recommendations in Patrick Burn's culture gap analysis did not take place because of the industrial dispute with CWU and CMA. Plans to reorganise the workshop will be revisited when industrial relations allow.

5. Conclusion

5.1. We have made good progress against our timeline and continue to do so. If we were able to share the information about our progress and plans with BIS colleagues this should satisfy their desire to understand more about the activities underway and planned. Regularly and proactively sharing our plans with BIS will help put us on the front foot and help remove their concerns about whether or not we are serious about adopting mutual ways of working.

6. Recommendations

The Board is asked to:

6.1. note the update and actions set out above;

6.2. agree that an update detailing the progress and activity set out above is sent to BIS for information, and on a monthly basis.

Susan Barton

15 October 2013

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POST OFFICE LTD BOARD

Post Office Advisory Council

1. Purpose

The purpose of this paper is to:

1.1. request approval for the arrangements and Terms of Reference for establishing a Post Office Advisory Council;

2. Background

2.1. At its June away day, the Board agreed a mutualisation timeline. A key initiative agreed in the mutualisation timeline was the creation of a Post Office Advisory Council in early 2014.

2.2. The Terms of Reference and proposed arrangements for the Advisory Council are drawn from Tim Franklin's experience of working with a Members' Council in a mutual organisation. They are also consistent with examples of organisations which are broadly comparable with Post office in terms of stakeholder characteristics.

2.3. The proposals are based on the assumption that the Council will:

- not form part of the governance arrangements of the Post Office
- not be a representative body
- have no decision-making authority.

3. Current Situation

3.1. The Stakeholder Forum was created specifically to work with the Post Office to develop its public purpose. There are no plans for the Stakeholder Forum to continue beyond recommending a public purpose to the Board.

3.2. Apart from the Stakeholder Forum, we have no arrangements in place for cross stakeholder engagement. Our engagement at a senior level, where it happens, tends to be bi-lateral. The experience of the Stakeholder Forum has shown that bringing together a range of stakeholders and experts can provide wide and valuable perspective on matters of interest to Post Office and its stakeholders.

4. Proposal

4.1. The proposal is to create a Post Office Advisory Council in line with the Terms of Reference attached at **Annex 1**. The aim of the Council is to provide a formal mechanism for the Post Office to engage stakeholders on matters of mutual interest and to improve stakeholder understanding of, and engagement in, Post Office business. As with the Stakeholder Forum, the

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Council would benefit from members who are not stakeholders but who have expertise which could add value to Council discussions. .

4.2. Within its remit the Council could provide both strategic and tactical advice; it might act as a sounding board and provide feedback on matters such as business policies, new products, and branch design, as well as provide a broader perspective on strategic issues such as market opportunities. It will be important to ensure that the context in which subjects are presented is clearly defined so that members are clear at the outset about why a specific subject has been brought to the Council.

4.3. The creation of an Advisory Council will not, of itself, improve stakeholder engagement. It will require a change of culture and processes if it is to work well and produce business benefits. The experience from other organisations suggests that stakeholder involvement on important issues at an early stage can, if properly managed, improve the quality of business decisions.

4.4. The key benefits of this type of Council are:

- involving stakeholders prior to taking final business decisions, where appropriate, might highlight new opportunities and result in those decisions being better informed because of the richness and variety of insights that may not be available within the business

- identifying challenges or points of contention before a course of action has been decided enables those issues to be dealt with and accommodated, if possible, before matters are finalised

- co-creating ideas is more likely to achieve stakeholder buy-in, and reduce the more traditional type of stakeholder discussions where the business presents a solution or decision leaving stakeholders free to critique, criticise or present alternatives after the event

- bringing a range of stakeholders together to discuss subjects of common interest allows all stakeholders to hear each other's position – a challenge against a partisan view from another stakeholder is more powerful than a challenge from the business

- Council members can become advocates and communicators of Post Office messages within their own communities.

4.5. The benefits listed above are unlikely to be realised immediately. It will take time and commitment from the business to allow the Council to develop and mature into a forum which can add real value to the business.

4.6. As the Council will only meet three times a year, it is proposed that relationships and understanding of different perspectives will be enhanced if Council members are invited to meet over dinner on the evening before a Council meeting. This will help build relationships and smooth the way for a more relaxed and better informed meeting.

4.7. Two factors which will be key to the success of the Council in terms of improving stakeholder engagement and delivering business benefits are:

POL00099806

- **The Chair** - the appointment of a Chair who is independent of the executive management, who has the skills and experience necessary to chair a Council of this size and diversity, and who has the confidence of the Board and the business as a whole. The Chair will need to ensure engagement with Council is meaningful whilst respecting the decision-making and accountabilities of the Board and ExCo, as well as ensuring that the Council operates in line with its agreed terms of reference

- **The membership** - the appointment of a diverse and balanced membership with the skills and experience necessary to make a positive contribution to the Council. We would, properly, invite some stakeholders to join the Council as of right, such as NFSP and union officials. However, we should also advertise and recruit to ensure a diverse membership which balances commercial and social expertise and that our customers and the general public are represented. A framework for selection and appointment is at **Annex 2**.

5. Costs

5.1. It is recommended that a budget of £40k is allocated for the Council. The costs would cover three off-site meetings per year including dinner and overnight stay (£10k per meeting) and out of pocket expenses for Council members to attend the meetings.

5.2. There will be a resource cost for the Council secretariat. The average resource requirements should amount to no more than 0.5 person over the year, but the activity will not be spread evenly with the initial establishment of the Council and recruitment of members, and the secretariat support at meeting times requiring dedicated resource with little or no resource required between meetings and recruitment exercises.

6. Key Risks/Mitigation

6.1. There are some limited risks related to confidential information with Council members. However, it is unlikely that the Council would be involved in matters which are commercially confidential. It would be made a pre-requisite to membership that confidentiality, where required, would be respected and the Chair would agree ways of working at the initial meeting.

7. Long term considerations

7.1. None

8. Communications

8.1. The intention to establish the Council should be announced publicly as a positive step, following separation, towards the Post Office working more closely with its many stakeholders as it delivers its 2020 strategy and continues its transformation journey. The announcement would be

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accompanied by advertisements inviting people to express their interest in becoming members.

9. Conclusion

9.1. The creation of a Post Office Advisory Council will allow Post Office to demonstrate that it is progressing its mutualisation timeline and is serious about increasing stakeholder involvement in the business. Experience from organisations with similar bodies have found that, over time, and if properly managed, a mechanism for senior stakeholder engagement can bring business benefits which outweigh the time and cost involved in establishing and running them.

10. Recommendations

The Board is asked to:

10.1. approve ToRs and arrangements for the establishment of a Post Office Advisory Council

10.2. approve a budget allocation of £40k per year to establish and run the Council

10.3. agree that the Chair works with the secretariat to establish the Council, in line with the proposals in this paper, with the aim of holding a first meeting of the Council in early 2014.

Susan Barton
15 October 2013

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Annex 1

POST OFFICE ADVISORY COUNCIL – DRAFT TERMS OF REFERENCE

TERMS OF REFERENCE	
PURPOSE	The Post Office Advisory Council exists to provide a forum for Post Office stakeholders and other experts to discuss issues of interest and importance that impact on customers and stakeholders and their communities.
ROLE	The role of the Post Office Advisory Council is to: • provide a two-way channel of communications between the Post Office and its stakeholders • provide a mechanism for stakeholders and experts to offer views and advice to Post Office Board and ExCo on subjects brought to it • increase understanding and strengthen relationships between Post Office, its stakeholders and wider interest groups • provide a community for advocacy and communication of Post Office issues

CONSTITUTION		
ROLE	JOB TITLE	CURRENT INCUMBENT
CHAIR	Post Office Board NED	TBC
MEMBERS	A Post Office Board NED Between 35 and 50 members would be consistent with other organisations.	TBC To be determined through agreed selection process
OTHER ATTENDEES	ExCo members (as required by agenda) Guests invited at the discretion of the Chair	
SECRETARIAT	Company Secretary (or Assistant Company Secretary)	Alwen Lyons (Gill Catcheside)

MEETINGS	
FREQUENCY/ FORMAT	3 meetings per year, full morning duration Each meeting to be preceded by dinner the evening before with an overnight stay where necessary
QUORUM	N/A

AREAS OF CONTROL
N/A
SPECIFIC POWERS & AUTHORITIES
The Post Office Advisory Council: • is not part of the formal governance arrangements of the Post Office • is not a representative body • has no decision-making authority • may provide advice and views on matters brought before it but neither the Board nor ExCo is required to act on that advice or those views
REPORTING ARRANGEMENTS
The Chair will provide feedback from Council meetings to the Board and ExCo as appropriate Agendas and a summary of minutes of Council meetings will be published, redacted where appropriate to protect confidential information.

SELECTION AND APPOINTMENTS	
SELECTION	Members will be selected to provide a diverse and balanced mix of skills, experience and stakeholder representation. Selection will be through a mix of invitations for nominations from key stakeholder groups and advertised competition, with interviews to ensure the membership has a strong skills mix and fully reflects the geographical, stakeholder, social, community and commercial interests.
TERMS	Members will be appointed for a term of four years, non-renewable, with the first appointments a mix of 2, 3 and 4 years to maintain continuity of membership.
MEMBERSHIP RULES	Members cannot send deputies Members cannot bring guests without the express permission of the Chair Membership terminated if a member misses two meetings within the term of appointment Confidentiality must be maintained where requested
REMUNERATION	Unpaid except for out of pocket expenses

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Annex 2

Membership Selection and Appointment

Numbers – between 35 and 50 would be consistent with other organisations, allow a broad mix of people, and be manageable in terms of numbers.

Recommend: aim for around 40 members, to a maximum of 50, allowing flexibility for the Chair and secretariat to make appointments which achieve an optimal balance of skills, experience and diversity.

Recruitment, selection and appointment – a selection process would be required to ensure the right mix/balance of membership as well as the right skills.

Recommend:
a) ***invite*** *key organisations (e.g. NFSP, CWU, CMA) to nominate a member*

b) ***advertise*** *through Post Office channels and inviting stakeholder and other groups to advertise within their communities*

c) ***select*** *against the following broad criteria based on written application and interview:*
- *excellent communications skills – able to speak/challenge effectively and constructively*
- *strategic thinking*
- *demonstrable interest/experience in Post Office issues*
- *experience in either community, social, commercial, financial services, retail, marketing or SMEs*
- *able to devote time necessary to attend 3 meetings a year*

d) ***appoint*** *using the matrix below to achieve a broad and diverse mix of membership*

Geography	**Diversity**	**Experience**
England	Young	Commercial
Scotland	Later life	Financial Services/Banking
Wales	Carers	Marketing
Northern Ireland	Ethnic groups	Retail
Rural		SME
Urban		Social
Deprived		Community
Affluent		Government
		Mails

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OCTOBER 2013

POST OFFICE LIMITED MATTERS – DISPUTE RESOLUTION
PRIVILEGED AND CONFIDENTIAL – CLAIMS OVER £500K OR THOSE OF A SENSITIVE NATURE

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims	POL/HF/RW	Angela van den Bogerd	This will also be addressed as part of the CEO's report. POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes. These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made through: - SPMs' MPs; - the "Justice for Subpostmasters Alliance" (JFSA); - defences to court proceedings brought by POL to recover debts from SPMs; and - direct contact with POL. An independent investigator Second Sight Support Services Ltd (Second Sight) has been reviewing these allegations in consultation with James Arbuthnot MP and JFSA. On 08.07.13, Second Sight published an Interim Report finding shortcomings in POL's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself.	Following the Second Sight Interim Report, on 27.08.13 POL launched a Mediation Scheme aimed at finally resolving individual complaints made about Horizon. To date, more than 50 applications have been made to the Scheme, with applications closing on 18.11.13. Second Sight is continuing to investigate the SPMs' concerns. POL is cooperating with those investigations. POL is also reviewing past and present criminal prosecutions brought against SPMs to ensure they continue to satisfy the evidential, public interest, and disclosure standards required for prosecutions. This review should be completed by the end of October 2013. POL is not issuing any new criminal summons pending the instruction of a new, independent expert who can give evidence to support the Horizon system. The process of identifying this expert is underway. To date, no claim has been made against	Bond Dickinson

POL00099806

				POL in the civil courts, and no appeal has been made to the Court of Appeal against any conviction obtained in the criminal courts, following the Interim Report.	
Claim for Judicial Review	POL/HF/RW	Angela Van-Den-Bogerd	A former subpostmaster (SPM) has sought "judicial review" of POL's decision to terminate his SPM contract. The SPM claimed that POL's termination process was flawed and infringed his Human Rights. He has asked the court to review POL's decision and find that it was unlawful and/or an abuse of power. POL is asking the Court to dismiss the claim on the grounds that it is a commercial matter which the Court cannot review, and in any event POL did not breach the SPM's rights.	POL and the SPM attended mediation on 11 October 2013 to try to settle the dispute. Although the parties did not settle the claim at mediation, negotiations are continuing. The matter has been listed for hearing in the High Court, Birmingham on 12 and 13 December 2013. POL will continue to explore settlement opportunities up to the date of hearing.	DAC Beachcrofts
Employment	POL/HF/RW	Colin Stretch	Three claims against POL are currently proceeding before the Employment Tribunals. Claims allege constructive dismissal, unfair dismissal for conduct, and unfair dismissal for disability and race discrimination. Potential exposure to POL over one claim is c.£20,000, with two cases yet to be valued. Claims could require policy changes if upheld (e.g. with respect to race or disability discrimination).	Significant claims continue to be monitored (both internally and with external counsel) and risk assessed as they progress.	Weightmans

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PART (B) – PRINCIPAL CRIMINAL CASES BROUGHT BY POST OFFICE LIMITED

DESCRIPTION	STATUS
Sub postmaster accused of theft of £78,660.63.	Defendant pleaded guilty on 05/02/13 and was sentenced to 2 years' imprisonment. On 12/07/13 a Confiscation Order was made in the sum of £59,500. The Defendant has 6 months to pay that sum or receive a further 19 months' imprisonment.
Subpostmaster accused of two offences of theft of £175,260 and £9,999.43, and two offences of false accounting regarding the same sums.	On 11/10/13 the Defendant was convicted of theft of £175k and sentenced to 2 years' imprisonment. As a consequence of this conviction, no evidence was offered with respect to the theft or false accounting of the £10k. Confiscation proceeding have been initiated by POL and are proceeding to a timetable set by the Crown Court.
Subpostmaster accused of fraud of £115,172.11.	Defendant pleaded guilty and on 03/05/13 was sentenced to 16 months' imprisonment. POL has recovered £61,000 to date, with the outstanding sum being dealt with under a Consent Order. Confiscation proceedings will be withdrawn by POL once the Consent Order has been signed.
Subpostmaster accused of theft of £197,107.36.	Defendant pleaded guilty on 01/08/13 and was sentenced to 16 months' imprisonment. POL has made full recovery of the £197,107.36.

POL00099806

POST OFFICE LIMITED BOARD

Sealings 25 September – 23 October 2013 inclusive

Register of Sealings

The Directors are invited to consider the seal register and approve the affixing of the Common Seal of the Company to the documents set out against items numbered 1075 to 1085 inclusive in the seal register.

“The Directors resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1075 to 1085 inclusive in the seal register is hereby confirmed.”

Alwen Lyons
Company Secretary
23 October 2013

POL00099806

POST OFFICE LIMITED

Date
23/10/2013

Register of Sealings

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1075	25/09/2013	25/09/2013	Licence to alter demised premises of lease dated 9 January 2003 re Ground Floor and part First Floor, 47 Upper Parliament Street, Nottingham between Sandman Limited and POL	Alwen Lyons	Jean Reynolds
1076	26/09/2013	26/09/2013	Deed of variation relating to a lease dated 28 March 2006 made between (1) W (no.4) GP (Nominee A) Limited and W (no.4) GP (Nominee B) Limited and (2) POL in respect of premises at 173 High Street, Guildford, Surrey	Gill Catcheside	Jean Reynolds
1077	27/09/2013	26/09/2013	Lease by reference to an existing lease of Part Ground Floor, Brazennose House, Manchester between POL and the Prudential Assurance Company Limited.	Alwen Lyons	Jean Reynolds
1078	07/10/2013	04/10/2013	Licence to occupy on a short term basis relating to Unit 40 Vicarage Field Shopping Centre, Ripple Road, Barking between Lagmar (Barking) Limited and POL	Alwen Lyons	Jean Reynolds
1079	07/10/2013	02/10/2013	Lease between Redevco UK 2 B.V. and POL re Ground Floor (part), The Guildhall, 45 - 67 Queen Street, Glasgow	Alwen Lyons	Jean Reynolds
1080	07/10/2013	02/10/2013	Memorandum of Understanding between Redevco UK 2 B.V. and POL re Ground floor (part), The Guildhall, 45 - 67 Queen Street, Glasgow	Alwen Lyons	Jean Reynolds
1081	08/10/2013	07/10/2013	Licence to alter relating to premises known as part of the Ground Floor, part of the Basement and the whole of the External Yard area adjoining Halifax Telephone Exchange, Commercial Street, Halifax between Autumnwindow Limited and POL	Gill Catcheside	Jean Reynolds
1082	15/10/2013	15/10/2013	Deed of amendment in relation to the POL Fund in respect of the Royal Mail Pension Plan between POL and Royal Mail Pensions Trustees Limited.	Alwen Lyons	Ken Potter

POL00099806

POST OFFICE LIMITED

Date
23/10/2013

Register of Sealings

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1083	15/10/2013	14/10/2013	Underlease of Ground Floor and Basement at 22/24 South Street, Romford, Essex, RM1 1RA between POL and Home World Limited	Gill Catcheside	Jean Reynolds
1084	15/10/2013	14/10/2013	Rent deposit deed relating to premises at Ground Floor and Basement at 22/24 South Street, Romford, Essex RM1 1RA	Gill Catcheside	Jean Reynolds
1085	23/10/2013	22/10/2013	Licence to assign premises at 399 High Road, Wembley, HA9 6AA between Primeleaf Properties Limited, POL, Nilkanth Enterprises Limited, Wembley Enterprises Limited and Ajay Kukadia	Gill Catcheside	Jean Reynolds