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POST OFFICE LTD BOARD MEETING (Company Number 2154540)

Meeting to be held at 09.45am on 21 May 2013
at 148 Old Street, London, EC1V 9HQ in the Board Room

Meeting to be preceded by the ARC which is due to end at 9.30
Then Board will start with a group photograph at 9.45 for use in the report and accounts.

10.00	1	Government response to the funding and strategy plan. Government/stakeholder interaction plan 2013/14	Sue Barton/Chris Day Mark Davies
10.30	2	Network and Crown transformation: next steps and NFSP strategy Update on CWU and Industrial Action	Kevin Gilliland
11.25		**BREAK**	
11.35	3	Annual report and accounts/results of external audit	Alasdair Marnoch/ Chris Day
12.15	4	• Bonus payments for the year 2012/13 (recommendation from Remuneration Committee) • LTiP and STiP Bonus scorecard measures	Neil McCausland
12.30	5	Mark Russell CEO ShEx General Discussion and **LUNCH**	
14.00	6	Front Office of Government Programme	Martin Moran
14.20	7	Minutes of Previous Meeting and matters arising Committee Meeting minutes for noting Status Report	Alice Perkins
14.25	8	Chief Executive's Report	Paula Vennells
14.40	9	Financial performance update	Chris Day
14.50	10	<u>Items for Noting</u>	
		• Update on various Financial Services matters, including Bank of Ireland (UK) plc capital & liquidity • Health and Safety Report • Significant Litigation Report • Sealings	Alwen Lyons
		Any other business	Alice Perkins
15.00		**CLOSE**	

Present:
Alice Perkins (Chairman)
Neil McCausland (SID)
Tim Franklin (NED)
Virginia Holmes (NED)
Alasdair Marnoch (NED)
Susannah Storey (NED)
Paula Vennells (CEO)
Chris Day (CFO)
Alwen Lyons (Company Secretary)

In Attendance:
Mark Davies
Sue Barton
Kevin Gilliland
Martin Moran
Mark Russell

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POST OFFICE LTD BOARD

Strategy and Funding Update

1. Purpose

This paper provides the Board with an update on the strategy and funding discussions that are currently underway with BIS. It also highlights the need to establish appropriate governance arrangements and delegated authority limits for the period of the funding discussions. The stakeholder and communications plan to support the strategy is covered in a separate paper.

2. Current position and next steps

On 3 May 2013, the Board Strategy & Funding Sub-committee gave its approval and the 2013 to 2020 Strategic Plan was submitted to BIS. As highlighted, this was a draft document which over the course of the coming months will be subject to review, discussion and negotiation.

Our expectation is that the process of engagement with BIS on the strategy and funding plan will unfold over three broad phases:

- **May to early June**: a period of detailed discussions and due diligence with BIS officials and their advisers (KPMG) through a series of deep dive meetings on different aspects of the strategic plan. In parallel, we are preparing more detailed briefing notes to support the engagement with Jo Swinson on our proposed approach to network transformation, to provide her with reassurance that we have carefully assessed the full range of options and have a rigorous and credible plan to implement our recommended changes.

- **June/July:** the endgame negotiations, where we will be seeking to land our requested funding for 2015/16 and 2016/17 and secure the Minister's support for the key decisions contained in our strategy, particularly in relation to network transformation. BIS has provisionally indicated that this could be finalised by the week commencing 24 June, to coincide with the timing of the Treasury's spending review (when BIS's overall settlement for 2015/16 will be finalised); however in practice the discussions could continue through to summer Parliamentary recess on 18 July.

- **July to Spring 2014:** the focus of this period will be on three activities:

    - making any public announcements on the agreed outcome of the strategic plan, which is likely to come either just before summer recess or afterwards in September or October;

    - potentially commencing discussions with BIS on whether a longer-term funding deal (for the years beyond 2016/17) can be agreed this side of the 2015 election. This will be preceded by further work internally to assess the risks and opportunities, which we will discuss with the Board in June and July before a final decision is made on our position; and

    - starting the work with BIS officials to prepare our state aid submission, ahead of the engagement with the European Commission which would commence in spring 2014.

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This programme of work is being overseen by a small Steering Group, chaired by Chris Day with Alwen Lyons providing Company Secretariat.

3. Governance arrangements and delegated authorities

At the April Board meeting, the Board established a Strategy and Funding Sub-committee with the delegated authority to sign off the draft Strategic Plan for submission into ShEx. The Sub-committee has now fulfilled this role.

Over the coming weeks, it is likely that decisions of strategic importance to the Post Office will need to be taken. These could relate to specific elements of the strategy as well as the specific funding settlement. While the Board is due to meet in June, the agenda is already set and there will be limited time for discussion of these areas. It is proposed that the Strategy and Funding Sub-committee should continue to operate through the negotiation phase, and a proposed set of financial and non-financial authority limits are attached for discussion at the Board meeting.

4. Conclusion

This paper provides the Board with an update on the Strategy and Funding discussions along with a request for clarity around future governance arrangements. This will continue to be supplemented by weekly Chief Executive Strategy & Funding update emails.

Susan Barton
Chris Day
May 2013

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Funding - delegated authorities

	NSP	Investment	Working Capital	Non-Financial
Assumption in Plan	2014/15: £160m (approved) 2015/16: £130m 2016/17: £80m 2017/18: £70m 2018/19: £60m Assumed £50m thereafter	2014/15: £170m (approved) 2015/16: £80m 2016/17: £80m Assumed £0m thereafter	2014/15: £1,150m (approved) 2015/16: £950m 2016/17: £950m Assumed £950m thereafter	• Agreement to moving to mandated • Extension of POCA to contract maximum • A 2 year funding deal
Sub-Committee authority required	2014/15: £160m (approved) 2015/16: £130m 2016/17: £80m 2017/18: £70m 2018/19: £60m Assumed £50m thereafter	2014/15: £170m (approved) 2015/16: £40m 2016/17: £40m Assumed £0m thereafter	2014/15: £1,150m (approved) 2015/16: £850m 2016/17: £850m Assumed £850m thereafter	• Agreement to moving to mandated • Extension of POCA to contract maximum • A 2 year funding deal
Board authority required	Any changes	If investment is lower than 2015/16: £40m 2016/17: £40m	Any reduction below £850m	• No mandation • No extension of POCA contract • 1 year funding deal • Any material new conditions proposed by Government

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POST OFFICE LTD BOARD

Stakeholder/Communications Plan - Post Office Strategy Approach

1. Purpose

This paper sets out a proposed approach to engaging a wide range of stakeholders around Post Office Limited's strategy for 2013-2020. It does so in the context of a broader communications plan. The paper is supported by a detailed stakeholder mapping and planning document (which is available in the BoardPad reading room).

2. Background

2.1 The move to a planned approach in relation to network transformation is likely to be extremely challenging in relation to stakeholder responses. The likely dissent from the NFSP and some subpostmasters carries brand risk for the Post Office through media channels and political risk for the coalition, particularly if the approach is opposed by the Labour Party (which can be judged to be a significant risk considering the party's careful positioning around Royal Mail privatisation and less nuanced responses to Crown transformation at a local level) and bleeds into the campaign set up recently by the CWU and others to "Save the Royal Mail".

2.2 A strategy aimed at addressing the NFSP in particular is being worked up in tandem with this overall approach, and in particular in the run up to NFSP conference on May 20.

2.3 The approach set out in this paper, however, assumes that the NFSP will oppose the move to a planned approach to network transformation.

2.4 Moreover, even if the NFSP leadership could be persuaded to support the planned approach, this would be unlikely to prevent significant subpostmaster dissent which could lead to significant coverage in the media, and therefore impact on political concerns at ministerial and constituency level.

2.5 The focus of this strategy is, therefore, to develop approaches aimed at minimising the impact of dissent and at influencing the response of key stakeholders, identified as:

- ministers, whose support for the strategy is critical in the short term and on an ongoing basis: our stakeholder approach has to be alive to the prospect of ministers agreeing the approach but subsequently backtracking in the face of media/public/political dissent and seeking to pressure Post Office into a "U-turn"

- MPs, whose concern about perceived "risks" to local services and an increasing number of multiple/symbol operators running post offices could galvanise broader opposition

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- Royal Mail Group, which could perceive media/stakeholder dissent around our approach as a risk to privatisation and could see it fuelling the "Save the Royal Mail" campaign.

2.6 It is critical to also consider the potential role of the media in both amplifying stakeholder concerns and influencing their reactions. Adverse media coverage would be highly influential in terms of the response of ministers, while persistent media campaigns in regional media could become part of political campaigning in the run up to the general election in 2015.

2.7 A key concern will be the way in which the move to a planned approach could be portrayed as closures: it is therefore critical that we stress from the outset guarantees around the size of the network, its potential growth and protection for community post offices.

3. Proposal

3.1 Given the challenges set out above, the objective of the proposed strategy is to develop a programme of engagement which:

- secures public and stakeholder support for the overall strategy, emphasising customer voice
- builds a compelling national narrative around the strategy which outweighs dissent at a local level
- highlights the benefits of the Network Transformation programme to date and its potential for the future
- minimises opposition to the move to a planned approach in the programme.

3.2 The strategy, for which a timeline is set out at Annex A, is therefore to develop ways of countering opposition to the planned approach by highlighting the:

- benefits of conversion for customers and retailers
- safeguards in place for the network as a whole
- assurance that community post offices will be protected and receive investment
- support package for subpostmasters leaving or converting
- dangers of competitive challenge
- broader benefits of the new strategy, such as growth in financial services.

3.3 A core narrative is set out at Annex B. This provides a basis for further development and tailoring for specific audiences.

3.4 As noted above, a key tactic in seeking to minimise the impact of dissent is the proposal to enhance and amplify the voice of the customer in media strategy and stakeholder engagement. Satisfaction with the new models runs at 95%, while 20% of customers are using their post office within the new opening hours where they can.

3.5 It is proposed therefore that particular emphasis is placed on bringing the customer to the fore in relation to the changes we are proposing. Customer voice is not currently sufficiently heard in broader public debates about the future of the post office, at least not in relation to the positive benefits of conversion. This strategy proposes ways to change that position.

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3.6 Building on these points, this stakeholder and communications strategy will be underpinned by a range of tactics:

- A proactive media campaign around the announcement of the strategy, supported by one of our rostered PR agencies, to highlight the protection and potential growth of the network alongside support for subpostmasters and improved customer experience

- Strategic media-handling in advance of the announcement in order to prepare the ground (capitalising on forthcoming announcements such as current account launch, launch of new digital skills database)

- An intensive engagement approach with MPs, highlighting positive case study constituencies and briefings for all MPs before introduction of planned approach (set out in more detail at Annex C)

- Strategic engagement with key stakeholders in advance of announcement, with a particular focus on key ministers and advisers, Royal Mail Group and influential and engaged coalition MPs (detailed handling plans are being worked up)

- Developing messaging which highlights the benefits of the new strategy, the commercial case (including reduced reliance on the taxpayer) the protection of the network, assurance that the community post office network will be protected, the growth in the provision of post office services and support for subpostmasters in the face of increasing competitive threat

- A proposed marketing campaign to bridge the period before and after the launch of the strategy, aimed at highlighting customer benefits from network transformation

- Direct messaging/engagement with all subpostmasters around the announcement

- A campaign to heighten the impact of customer voice, to include polling on attitudes to network transformation and customer value propositions

- Securing the support (or silence) of key stakeholder groups (such as those representing rural or consumer interests) in advance of strategy announcement

- Reviewing implementation plans from a stakeholder perspective, with the involvement of a "control group" of interested parties including MPs and Consumer Focus.

4. Risks/mitigation

4.1 This paper seeks to mitigate the risks around the planned approach from a stakeholder perspective. The approach itself carries a degree of risk. It will be critically important to tailor messages for specific audiences, while there is a risk that the planned approach prompts comment which overshadows the broader strategy to the point where it causes brand damage and feeds into wider stakeholder issues, such as the CWU's "Save the Royal Mail"

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campaign. The capacity for the planned approach to lead to negative press coverage and stakeholder comment is significant.

4.2 There is the risk of leaks in relation to the proposal to offer "Chatham House" briefings to selected stakeholders. These will be managed through careful messaging and appropriate handling of stakeholders.

4.3 There is a specific risk around briefing opposition politicians in advance of any announcement and we would work with BIS on this particular element.

4.4 The strategy proposals could overshadow the business' Annual Report and Accounts, which is scheduled for publication on July 3. The intention would be to position the Annual Report and Accounts in relation to the strategy document in such a way that the former highlights the case for completing network transformation as part of the Post Office's strategy of modernisation, growth and customer excellence.

5. Recommendations

The Board is asked to endorse the approach set out in this paper.

Mark Davies
21 May 2013

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ANNEX A

TIMELINE

There are three initial stages to this approach. For the purposes of this paper an announcement in July is assumed.

- Negotiation/pre-announcement/preparation phase
- Announcement phase
- Pre-implementation phase

Further work to develop implementation plans is underway and will include stakeholder considerations (building on the processes agreed with Consumer Focus).

Activity in each of the initial phase is set out below.

1. Preannouncement phase (May-June 2013): before any announcement is made, Post Office will need to prepare the ground for the change to the planned approach. Key stakeholders will need to be briefed and messaging to the media will need a change of direction. It is therefore suggested that the following tactics are adopted:

    - stakeholder/communications workstream planning sessions with BIS communications team, to include parliamentary messaging/ministerial announcement
    - development of specific workstream in MP engagement strategy to focus on move to planned approach
    - review of stakeholder elements of implementation process (with a closer working relationship with Consumer Focus in their role verifying and overseeing the consultation process)
    - detailed internal constituency-by-constituency analysis of impact
    - planning and implementation of marketing campaign (for proposed launch in June)
    - NFSP conference handling strategy (which is subject of a separate paper)
    - message and PR campaign development and media handling strategy (to include detailed analysis of customer satisfaction/service provision in relation to post offices currently run by multiples/symbol group and potential polling activity to support this narrative)
    - Development of regional media campaign
    - Chatham House briefings for selected coalition MPs, consumer groups, rural interest groups
    - Chief Executive briefing with Royal Mail, with further planning sessions with RMG communications on media/stakeholder plans
    - Development of public-facing materials (including public version of strategy document) and internal engagement campaign
    - Launch of Post Office Annual Report and Accounts (scheduled for July 3).

2. Announcement phase: this phase is aimed at raising broader awareness of the merits of the 2020 strategy with a wider group of stakeholders and will include a full media campaign. The general approach will be proactive, UK wide and will focus on the vision for the remainder of the decade.

    - Parliamentary statement (to be discussed with BIS)
    - Letter to all subpostmasters setting out new strategy
    - Briefing/press conference with media
    - Letter (with tailored messaging) from CEO to all MPs

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- Launch of Post Office 2020 strategy document and internal engagement campaign (to include ExCo presentations/listening sessions).

3. Pre-implementation phase (July/August/September/October): this phase will be aimed at preparing for the implementation of the planned approach ahead of the implementation itself.

   - Launch of "public purpose" engagement process
   - Direct 1-2-1 engagement strategy with subpostmasters
   - Regional media campaign, including articles from CEO/others
   - Briefing sessions/engagement with all MPs to include regional events
   - Materials developed to outline the modernisation journey.

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ANNEX B

CORE NARRATIVE (TO BE ADAPTED/TAILORED) DURING PROCESS

This plan drives forward the work which began in 2010 to transform the Post Office. And it goes further: it would mean growth in the post office network through a proposal to increase the number of store formats and access points.

It completes the job of network transformation, with investment in the whole network by 2017.

It protects the Post Office for the nation and for local communities, supported by a long term financial plan to provide a more certain future.

It pledges again that the days of large scale Post Office closure programmes are over and provides more support for thousands of vital community post offices

But it goes further than that. It sets out:

- how we will **grow** to support and serve our customers as an ethical, multi-channel retailer: proposing to increase the number of post office outlets on top of the existing 11,800 network, leading the way in mails, but also growing fast in financial services

- how we will **play our part** in getting the economy moving – boosting small businesses and revitalising the high street while at the same time reducing our reliance on the taxpayer.

- how we will **change** to adapt to the challenges of the age and the prospect of becoming a mutual business.

This strategy is not without **challenge**, but the steps we describe are essential to the future success of the business. If we do not make these changes we risk falling behind in increasingly competitive markets, missing out on the chance to improve services for customers and hampering our ambitions of commercial sustainability.

We are determined not to let this business and this network fall back into decline.

Under our plans:

- We will **look to grow the number of outlets we offer** to ensure that customers are able to access the services they need when they need them. We will be truly universally accessible and inclusive across geography, social groupings and time.

- We will **grow our range of products** and services to ensure that customers have access to the essential services they want

- We will **grow our financial services business** to become an even bigger challenger in this crucial area.

We will play our part in revitalising the economy and society by:

- **reducing our reliance on the taxpayer** and working with Government to provide public services which offer value for money

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- **supporting small businesses** by developing bespoke services, providing them with the mails, banking and other services they need to grow their businesses and grasp the opportunities of e-commerce

- **protecting and investing in community post offices** with the creation of a new fund to offer them more support in delivering their essential services

- **supporting subpostmasters** to build their retail businesses with a new grant fund

- ensuring that our approach is founded on **transparency, value for money and ethical considerations**

- strengthening our relationship with Royal Mail by **modernising and boosting the capacity of our network**

And we will change too, ensuring we are:

- Ever more **focused on customers** through the introduction of new customer insight functions

- **Reducing our cost base** as a leaner, more agile retailer

- **Developing digital services** which complement our unique physical network and support the broader digital inclusion agenda.

Challenge

To bring forward benefits to customers and the taxpayer, we need to introduce a more planned approach to the way we are transforming our network. We must take every step possible to allow customers to access the benefits of network transformation.

This would require subpostmasters to go through the business case process which assesses their potential for conversion to one of the successful new models which are bringing benefits to our customers across the UK. The change removes the option as to when a subpostmaster enters the process, and means we can bring the benefits of network transformation to more customers.

The process will not apply to more than 3000 community post offices in rural areas.

The case for this change is compelling. If post offices do not adapt to the competitive pressures which demand longer opening hours, then they will not survive as commercially viable businesses.

And the evidence from the programme so far is that where offices have moved to the new models, there is **high customer satisfaction and increased revenues for subpostmasters.**

Customers have noticed that the Post Office is changing and they like what they see, with 95pc customer satisfaction and 20pc of customers using new extended opening hours.

This change in approach will not mean a reduction in Post Office branches. As we assess the best, customer oriented model for a location, we pledge that there will be **no outcome whereby the community loses its post office**: there will be no closures associated with this change.

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And we will support subpostmasters in growing their retail businesses through the introduction of a new grant fund.

It means that we can ensure that every community in the UK will start to reap the benefits of network transformation.

Any subpostmaster who leaves or switches to the new models will receive the same **generous compensation and investment package** as under the existing scheme. New entrepreneurial entrants to the business will be welcomed and supported.

In taking this approach, we will ensure we **protect Post Offices in areas where the new models would not work:** rural areas, for instance. Instead subpostmasters in those areas will be offered support to help build their businesses through the introduction of a new Community Post Office Fund.

Conclusion

Some of these changes will be difficult. The Post Office is at the heart of the nation, and inspires great affection and sometimes emotion.

But this plan does not threaten that legacy: indeed that is the starting point of the strategy.

The trust and reach of the Post Office are unique selling points.

This plan seeks to build on them by connecting more effectively with customers, all at the same time recognising that in these challenging times this critically important business must strive for commercial sustainability.

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ANNEX C

MP ENGAGEMENT STRATEGY

Seeking the support of MPs for the approach is important in relation to both their response to proposed changes in their constituencies (and the risk of political fallout) and ministers' confidence that Post Office has the right approach to MP engagement.

The proposed approach to MP engagement in advance of the announcement is therefore to:

- review the existing consultation and related stakeholder engagement approach to network transformation
- ensure engagement with all MPs and their offices before implementation of planned approach
- invite a selected group of MPs (and their offices) to comment on the approach to implementation from a stakeholder perspective
- engage Jo Swinson in the refinement of the implementation approach (including potential meeting with Consumer Focus, which oversees and verifies the existing consultation approach)
- map impact of planned approach against constituencies
- pre-brief selected coalition MPs on the plans to move to a planned approach
- target MPs and constituencies where there is clear evidence of support for the new models.

Responsibility for the work set out above lies with the network transformation team and the communications team.

Engagement with opposition politicians and devolved administrations, which could be beneficial in advance of public announcement, should only be considered in conjunction with BIS.

In terms of engagement on the day of the announcement and afterwards, the following steps are proposed:

- all MPs receive new strategy and letter on day of announcement, with invitation to regional briefing event
- key MPs invited to one-to-one meetings with CEO and/or network director
- supportive MPs provided with case study material and press packs to generate local coverage (including articles/quotes/campaign materials)
- Westminster and constituency meetings/briefings with stakeholder engagement team and public affairs team
- party conference activity
- implementation of specific strategies for devolved administrations and local government.

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POST OFFICE LTD BOARD

Crown Network – Transformation Programme and Industrial Relations

1. Purpose and summary

1.1 This paper updates the Post Office Ltd (POL) Board on: our progress towards eradicating the Crown network's operating loss by April 2015; the current situation, focusing on the current industrial dispute and how we can resolve it; the next steps; and the risks to meeting our objective. It also summarises the practical steps we are taking to realise benefits through franchising, income growth in branch; staff savings; and property savings.

2. Background

2.1 The Crown network needs to be breaking even by April 2015 and we remain committed to this target, as does Government[1]. Our vision of a commercially viable, sustainable Crown network is clear and all the action we are taking is designed to realise it.

2.2 Our progress to date has been encouraging. The Crown P&L is expected to out-turn at a c£37m loss for 2012/13,[2] exceeding our Year 1 target of reducing the loss to £40m.

2.3 Despite this encouraging result, the programme remains high risk and as reported to the Board in January we have embarked upon 'Plan B'. This shift was a necessary response to the significant reduction in projected income growth to 2014/15 from £18m to c£10m.

2.4 Plan B involves more cost cutting than the initial plan. We are targeting: £20m of staff savings (previously £12m); £8m of savings from franchising (previously £6m); and no change to property savings of £4m. These, collectively, will realise an additional £10m of savings, offsetting the £8m reduction in income growth and the £2m negative impact of other business-wide activity[3].

2.5 The Board approved 'Plan B' in January 2013. Since then the CTP has progressed with the implementation of the plans to demonstrate our commitment to transformation of the Crown network by 2015. This has caused the CWU and its members to strike.

3 Current Situation

3.1 We are continuing with our modernisation plans for the Crown network despite the current industrial relations dispute with the CWU. This is essential to hit our deadline, and to make clear to stakeholders that we will take the tough choices needed to transform the Post Office, not just on the issue of Crown Transformation but across the business eg. on modernising our supply chain. We continue to engage with our colleagues and stakeholders (including unions and the media) to state the case for transforming the Crown network.

3.2 Our 2013/14 target for the Crown P&L is to reduce the loss to c£23-24m. The CTP's £8m savings target for 2013/14, combined with income growth and the flow through from efficiency savings made in 2012/13, will help deliver the improvement to the P&L. We will achieve these savings through:

- Staff savings from the roll out of Self Service kiosks (c£2m);
- Divesting 26 branches (£1.5m). NB: This figure is the staff and property savings from franchising. The Crown P&L benefit is £0.6m in year with a flow-through of £2.4m. The

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[1] *"We have to face economic reality. There are substantial losses incurred by the 373 branches that make up the Crown segment of the network. In 2011-12, £46 million was lost just by those 373 branches. Eliminating those losses has to be key element of the Post Office strategy to make the network sustainable in the long term. That is something we all want to see, and the Government, of course, support Post Office Ltd in delivering that strategy."* Postal Affairs Minister, Rt Hon Jo Swinson MP, speaking in Parliament on 13 April 2013.

[2] This figure will be confirmed once our accounts are audited and signed off at the end of May 2013.

[3] As noted in CTP paper to POL Board 01.13 at paragraph 5.7. 'Other' includes reduction in Gamma income from original Bank of Ireland deal, offset by business wide efficiencies.

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£0.9m in-year difference is explained by the transfer of branch income from the Crown network P&L to the Agency Network P&L;
- Staff savings from other Plan B activities (c£3m); and
- Property savings from Hosting, Mergers and other initiatives (c£2m).

Achieving the savings from roll-out of self-service kiosks, divestment and other Plan B activities will be difficult without co-operation from branch colleagues and unions.

3.3 The CWU has rejected our pay offer and staged a series of strikes (four to date), backed by an aggressive public campaign focused on franchising. It has also withdrawn from the regular meetings to discuss Crown Transformation (the CMA is continuing to engage). Furthermore, the CWU has 'broken cover', publicly and in meetings with government and the Post Office, on its opposition in principle to eradicating the loss in the Crown network.[4]

3.4 We are holding our course, continuing to communicate openly with our Crown colleagues, government stakeholders and Royal Mail to bolster support for our position. On colleague engagement our focus is on re-engaging with our front line staff, helping them to understand our Crown vision, in-branch investment and the case for change.

4 Options to resolve the dispute

4.1 We must be resolute on our longer-term vision for a profitable, transformed Crown network while remaining responsive and flexible in our approach to resolving the dispute. Using this commitment to a clear end goal as our basis, we have worked through the consequences of each potential approach, taking account of how the dispute could develop; how colleagues' attitudes may change; and the impact on the CTP plan and benefits.

4.2 We have set out the potential options, with likely pros and cons, below for discussion. We have a clear preferred option for the present time of maintaining our resolve and continue as we are (Option 4 below). This underpins our current approach which we will review again at the start of Q2. This milestone is significant as our analysis shows that Q2 is the point at which our benefits could potentially be affected (see Appendix B). We have therefore put in place a review point for the start of Q2 and set out medium term options and longer-term actions to increase pressure on the unions to reach agreement and achieve our vision (see Section 5).

4.3 *Option 1: Impose the pay offer. Possible but could result in payment without co-operation:*
- We would need to demonstrate we had exhausted the collective bargaining process;
- It would only work if the majority of our staff want to accept the deal (not currently the case given results of strike ballot and numbers of staff striking); and
- It would be, by definition, without union agreement, so does not guarantee an end to the strike. The first payment requires buy-in to the plan as a whole, which the CWU would not give at present. We would therefore derive no benefit from making the payments.

4.4 *Option 2: Force the hand of colleagues. Possible but not recommended at present given likely negative impact on staff engagement and limited current impact on CTP benefits:*
- We can give notification of, and legally implement, greater penalties for striking (if communicated in advance). These could include:
  - Deducting a full days pay for half/part days strike action;
  - Reducing or removing some of the non-consolidated payments we have offered in return for support for Crown Transformation on the basis that ongoing industrial action reduces these benefits; and/or
  - Franchising more branches (NB: the financial benefit from this would be limited).
- This could play in to union hands – but colleagues must realise POL will take all necessary actions to get the Crown network to profitability; and

[4] *"These are services and as taxpayers we value them and want our taxes to bring us services we value. It's not a simple 'profit and loss' calculation."* Billy Hayes, CWU General Secretary, 18 April 2013

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- Our analysis of the threat to benefits (see Appendix B) shows the current dispute would have to continue in to Q2 to start having a potential impact on CTP staff savings. In this instance, we would take unilateral action (eg. introducing the lower starting salary and starting duty reviews to realise staff savings from automation) to stick to the plan without union co-operation.

4.5 *Option 3: Compromise and negotiate a deal. Not possible at present without undermining CTP and wider Post Office position due to CWU's in principle opposition to our approach:*

- The dispute would end but at a strategic cost to Post Office (reinforcing widely held view that Post Office will capitulate in the face of union opposition to change);
- There is no common ground at present due to CWU refusal to accept key tenets of CTP, notably franchising and no consolidated pay rise;
- It could be achieved through Acas – at present we are continuing informal talks with Acas directly so its team better understand our wider Crown strategy and vision; and
- Any consolidated pay deal would be anathema to the NFSP (which sees our current position as overly generous and would likely call for a read across to agents' pay), contrary to our public statements and at odds with public reaction to the CWU to date.

4.6 *Option 4: Maintain our resolve and continue as we are. Recommended as the only way to change Post Office culture on this issue and achieve our Crown Transformation objective:*

- It is imperative if we are to persuade colleagues and unions of the unavoidable market realities and our resolve to achieving our vision of a commercially viable Crown network;
- It must be linked to intensive engagement and a communications plan for our staff so they see and come to support the rationale for our actions; and
- Our communications efforts must emphasise that we are not deterred by continued industrial action and will continue to execute that plan.

4.7 We will continue to gather and analyse information to monitor the situation across the network. This includes: the number of branches open on strike days; the number of staff taking action; structured feedback from contingency managers and super briefers; union communications; press and media coverage; branch by branch sales and service performance; staff co-operation; and regular feedback from the line.

4.8 While we remain in dispute with the CWU we propose only to share information as deemed necessary for collective bargaining purposes. This is necessary as the CWU is actively using existing information to try and undermine our position (eg. in local public meetings on franchising) and will seek to do the same with any additional information.

5 Next Steps

5.1 We will combine our firm stance on Crown Transformation with practical action to achieve our vision in the future. Our current actions and next steps focus on:

- Engaging with staff and other stakeholders;
- Maintaining a constructive approach with the CWU and CMA;
- Reviewing and seeking to amend our myriad existing union agreements, many of which are obsolete and commercially not fit for purpose; and
- Progressing with the CTP and related transformation in the Crowns (see Appendix A).

5.2 We are redeploying our super briefers to meet colleagues in branch, listen to their feedback and understand and influence the mood and views of our people. We will hold regional events to inform and discuss the current situation with staff from each branch.

5.3 We will continue to focus on our media and stakeholder engagement to ensure the public understand the context of our actions and to maintain shareholder and Government support. In addition, we are working closely with Royal Mail to understand the inter-dependencies and potential implications of any strike action connected to privatisation.

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5.4 We have offered the CWU further talks to discuss the options to amend the pay offer without compromising on the essence of the deal, eg. awarding a consolidated pay rise as soon we can fund it from profits, and potential additional funding to the sales incentive scheme to encourage faster sales growth.

5.5 We are exploring the option of serving notice on the agreements that we have with the unions (COSA, IR Framework[5], Conduct Code et al) on the basis they are not commercially viable (eg., the COSA restricts our ability to move to more part-time working and to redeploy staff). This is consistent with our original pay offer, which included re-negotiating the COSA as one of the conditions attached to the payments.

5.6 Giving notice on the existing agreements would be predicated on developing a new, single agreement that would give the Post Office the flexibility to make reasonable changes for business reasons. The estimated time to achieve this would be circa 9 months including the required 3 month collective staff consultation. If the IR situation fails to improve the case for taking this comparatively radical step would become stronger.

6 Risks

6.1 The CTP remains inherently high risk, particularly given the continuing industrial action. There are a number of risks to the delivery of the overall programme and the £8m savings target in 2013/14, mainly relating to IR, which we list below *(with mitigation in italics):*

- Implementation of the plan delayed as a result of industrial action – *our assessment (see Appendix B) suggests a minimal risk at present (under £0.1m of in-year savings) and we are continuing with the CTP. Further delay being mitigated through the actions below;*
- Plan B savings of c£3m (c£12m for Years 2 and 3 of the programme) such as those from automation could not be realised without union co-operation – *we continue* to *engage with CWU, CMA and colleagues directly in branch to explain our case, staff are co-operating day-to-day and we are using our detailed branch-by-branch resource plan to maximise possible benefits and implement savings without needing union support;*
- A prolonged dispute could prove damaging to the public perception of POL – *the industrial action continues to generate limited media coverage, largely well down the news agenda. We have used coverage to deliver clear messages about Crowns, been proactive in delivering our messages through traditional and social media and plan to increase the use of this approach in the coming weeks. There has been coverage of franchising in some specific regions although this is outweighed by positive coverage around network transformation, which continues to generate positive coverage (240 NTP examples in March alone, 93% of which were positive or balanced); and*
- Using central managers to cover strikes could divert effort away from essential business work across the business – *managers are being deployed only when necessary (2/4 strikes to date). More branches remained open on 6 May although 70% of counter colleagues participated in strike action. We will continue to monitor the situation and deploy staff as and when necessary.*

7 Recommendations

7.1 The Board is asked to endorse the proposed approach of:

- Maintaining a firm, consistent position with the CWU on our key points regarding consolidated pay, franchising and the need to make any deal conditional on co-operation in delivering transformation (Option 4 in section 4 of this paper);
- While we remain in dispute, only sharing information with the CWU where it is deemed necessary for collective bargaining purposes; and
- Pushing ahead with the practical next steps outlined in Section 5 and Appendix A, despite the continued lack of union engagement.

Crown Transformation Programme
May 2013

[5] The COSA is the Crown Office Staffing Agreement and the IR Framework is the Industrial Relations Framework.

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APPENDIX A: Summary of progress on Crown Transformation

The Crown Transformation Programme is continuing to push forward with our plans to deliver income growth and cost savings across the network. Key activities are summarised below for reference.

Staff savings

- The majority of staff savings (£12m) will be realised from the move to automation. We have contracted with NCR, market leaders in retail self-service, to provide a next generation of automation (aka 'Post & Go') for the Crown estate.
- The move from 253 machines to c700 will mean over 90% of Crowns will have at least 2 machines, all selling priority services.
- We have agreed principles for our Crown Colleague resource planning which will be the basis for duty reviews and realising staff savings across all branches.

Investment in branch to deliver income growth

- We are investing £70m in our branches to deliver our growth agenda. All 292 retained branches now have a timeline for their transformation. The first branches will go-live in September 2014, with 45 complete before Christmas and 117 complete by the end of 2013/14.
- The roll-out will implement the Crown operating model, which is currently being piloted in Nottingham, Peterborough, Chester and New Malden. Our pilots have evidenced that the operating model works and also identified some specific points, such as the lay-out of the Mails zone and the signage in branch, which we need to amend before roll-out. We are working with all areas of the business on our review of the Operating Model and branch blueprint and will have an agreed operating model 2.0 in June 2013.

Property savings

- We are making a number of branch changes to deliver property savings. This includes:
    - Opening a new, flagship branch as a 2-in-to-1 in Derby branch in mid-May and vacating 2 existing branches;
    - Re-locating our branch in Milton Keynes in mid-June;
    - Hosting our Sheffield branch in Wilkinsons at the end of May;
    - Merging Broadgate branch in London with neighbouring Houndsditch at the end of May; and
    - Merging Brazennose branch in Manchester with neighbouring Spring Gardens in September.
- Collectively, these changes will realise £754k of recurring savings for the Crown P&L.
- We have also started the procurement process for securing a new contact for Facilities Management for the Crown Network which will start in February 2014 and are actively re-negotiating rents as they expire.

Franchising

- All 70 branches which we intend to franchise are currently being advertised on the Post Office website. We confirmed this list of 70 to colleagues and stakeholders in February (one month ahead of schedule).We aim to implement at least 26 franchises by March 2014 as a milestone to achieving the £8m savings target for this workstream.
- We will continue with the formal follow-up of the 150 expressions of interest in the branches we have offered for franchising. Within this activity is the conclusion of our negotiations with WHS in the next few weeks. If successful these negotiations will result in WHS taking more than 20 of the franchises. This is an important message to send out as it demonstrates that we have momentum and reduces the number of campaigning hot spots.

Integration with related Crown activity

- The Crown Transformation Programme has continued to work with the Crown General Manager and his team, and with Financial Services, to integrate our change management.
- Our integrated roadmap includes significant investments in our branches, notably the Crown Leadership Development Programme for Branch Managers, and the major changes to our FS products and the support and supervisory structure which will deliver them.

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APPENDIX B: ASSESSMENT OF INDUSTRIAL DISPUTE IMPACT ON CTP BENEFITS

Summary

- The table below summarises the £8m of savings targeted by the CTP for 2013/14.
- Slippage of 3 months (assuming limited opportunity to catch up) could have a c£3m impact on 13/14 (in-year) benefits. This would not necessarily impact on our ability to deliver them by March 2015.
- Impact at present is minimal (less than £0.1m) at present. This is largely because activities:
  - Do not require union support at present, although could be jeopardised at a later date by sustained opposition (eg. franchising);
  - Do not require union support (eg. property savings); or
  - Are in the planning stage at present (eg. Crown colleague resource planning).
- Continued lack of cooperation from unions in to Q2 would begin to impact on in-year savings unless we took firm action to continue with our plan without union support.

Table B1: Assessment of Industrial Dispute of CTP Benefits

Description	Full Year Savings Target	Impact of 3 Month Delay	Currently Impacted?	Current Impact
	(£)			
Introducing automation and removing staff	1.7	(0.9)	N	0.0
Divesting 26 branches and removing all staff*	1.5	(1.2)	N	0.0
Churn and introducing a new Starting Salary	1.0	0.0	Y	0.0
Merging 3 branches and removing a proportion of staff	0.7	(0.1)	N	0.0
Review of Leave Reserves requirements	0.6	(0.1)	N	0.0
Branch Manager savings from holding vacancies and Post and Go staff reduction	0.4	0.0	N	0.0
Additional Churn since Budget set (already done)	0.4	0.0	N	0.0
RM rent negotiations	0.4	0.0	N	0.0
Closing 2 branches and opening 1 in a new location	0.3	(0.1)	N	0.0
Removing staff and introducing the Branch Support Role	0.2	0.0	Y	0.0
Relocation of 2 branches	0.2	0.0	N	0.0
Removing temporary promotions for Branch Managers	0.1	0.0	N	0.0
Closing and hosting 2 branches	0.1	0.0	N	0.0
Renegotiations of leases	0.1	0.0	N	0.0
To be identified through the implementation of the manpower model	0.3	(0.3)	N	0.0
TOTAL	8.0	(2.8)	N/A	0.0

* This figure is the staff and property savings from franchising. The Crown P&L benefit is £0.6m in year with a flow-through of £2.4m. The £0.9m in-year difference is explained by the transfer of branch income from the Crown network P&L to the Agency Network P&L.

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APPENDIX C: INDUSTRIAL ACTION SUMMARY FOR PERIOD 30TH MARCH – 7TH MAY 2013

Summary

- There have been 4 instances of strike action in a 5-week period, concentrated around the weekends. On Easter Saturday (30th March) and Friday afternoon on the 19th April the business decided not to deploy any support managers to branches as both occasions had limited impact on customers. On Monday 29th April and 7th May support managers were deployed to 78 priority Crown branches due to the high volume of customers on these two days and the potential impact on the surrounding post office network.
- There is no clear pattern of strike activity and staff taking strike action is dependent on the duty rotas. As a percentage of staff scheduled to work, those taking strike action has increased from 57% on the first strike day to 77% on the third strike day with a slight decline to 70% on the 4th day which was the first full day of activity.
- There are 29 branches with no striking staff members to date – 5 of these are franchise proposal branches. On the 7th May there were 51 branches (8 franchise proposals) with no striking members.
- The tables below detail: the number of branches open on strike days; the number of colleagues taking strike action; and the actual staff on strike as a percentage of the total Crown colleague population.

Table C1: Number of Crown branches open

Crowns	30th March Saturday Half/Full day	19th April Friday from 2.30pm	29th April Monday from 1.00pm	7th May Tuesday Full Day
Offices Open	136	152	221	244
Offices Closed	218	218	149	126
Other	16	n/a	n/a	n/a
% Open	39%	41%	60%	66%

Table C1: Staff on strike as a percentage of those rostered to work

Payroll Deduction (BM Info)	30th March Saturday Half/Full day	19th April Friday from 2.30pm	29th April Monday from 1.00pm	7th May Tuesday Full Day
Staff on Strike	1173	1339	1834	1711
Staff Scheduled	2056	2053	2395	2459
Staff Hours	5907	3782	6530	12602
% Staff on strike (from pay deduction data)	57%	65%	77%	70%

Table C1: Staff on strike as a percentage of the total Crown colleague population

% Staff on Strike against total staff in Post	30th March Saturday Half/Full day	19th April Friday from 2.30pm	29th April Monday from 1.00pm	7th May Tuesday Full Day
Staff on Strike (BM Info)	1173	1339	1834	1711
Staff in Post (HRSAP)	3905	3913	3904	3900
% Staff on strike against total staff in Post	30%	34%	47%	44%

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APPENDIX D: IMPACT OF INDUSTRIAL ACTION ON CROWN PERFORMANCE

- This appendix sets out the performance on Crown branches in the period since strike action commenced. It focuses on income and customer experience.

Industrial action – Income

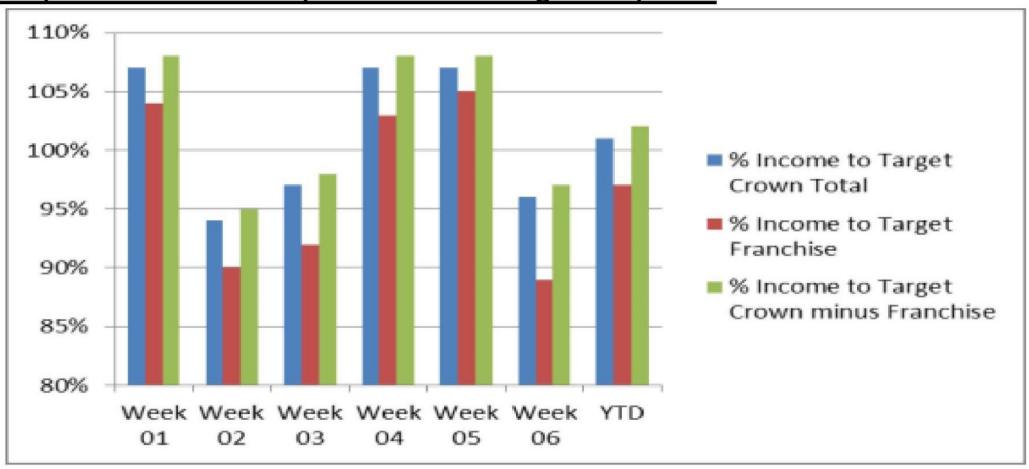
- We have used comparable days from previous years to calculate the loss of gross income from industrial action in the Crown branches. These income figures do not take into account additional T&S costs for cover or savings from business migrating to Agency branches.
- Our initial calculations suggest that this loss of income will also be more than offset by the non-payment of wages to those staff who have taken industrial action.

Table D1: Loss of gross income from strike action

Date of strike	Duration	Cost (£k)
Saturday 30th March	(full day)	105,000
Friday 19th April	(2½ hours)	62,000
Monday 29th April	(4 hours)	81,000
Tuesday 7th May	(full day)	198,000
Total	**n/a**	**446,000**

- The chart below show the total Focus and Standard income performance versus target for this financial year. Performance has been mixed across the weeks but generally the 70 potential franchise branches' performance is lower than the rest of the Crown network. However, circa one third of these 70 are performing ahead of income target.

Graph D1: Total income performance during strike period



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Industrial Action – Customer Experience

- The table below shows the impact on customer waiting times during the industrial action on Monday 29th April. Average queue times increased to between 2.54 minutes and 8.50 minutes.

Table D2: Impact of strike on Monday April 29th on CMS waiting times

Time period during day	Average waiting time		Difference 29.04/All
	Monday 29th April	All Mondays 2013	
09:00-09:59	00:02:45	00:01:42	00:01:03
10:00-10:59	00:04:07	00:02:47	00:01:20
11:00-12:59	00:06:33	00:03:55	00:02:38
12:00-12:59	00:06:30	00:04:17	00:02:13
13:00-13:59	00:08:09	00:04:15	00:03:54
14:00-14:59	00:14:29	00:05:43	00:08:46
15:00-15:59	00:13:33	00:04:43	00:08:50
16:00-16:59	00:10:32	00:04:31	00:06:01
17:00-17:59	00:08	00:04:20	00:04:35
Total	**00:08:29**	**00:04:29**	**00:04:00**

NB: Strike period shown in amber (13:00-18:00)

- The table below shows the Mystery Shopper results for April. 2013 Targets have not yet been set but, at 69.3 for waiting time %, the Crown network has fallen behind the 75% target set in 2012.
- However, given Bank Holidays and the impact of strikes, this is a good performance.

Table D3: Crown branch Mystery Shopper results April 2013

Crown Branch Mystery Shopper Results	April
Combined mystery shopping total	82.7%
The waiting experience - overall	85.9%
The waiting experience - queue management	69.6%
Sales conversation	79.5%
Queue Focus	**April**
Average Queue time	3.54m
<05.00m	69.3%
05.01 - 10.00m	21.4%
10.01m>	9.2%

---END---

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POST OFFICE LIMITED BOARD

Annual Report and Financial Statements for 2012-13

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 Annual Report and Financial Statements for the 2012-13 financial year and to delegate authority for reviewing final amendments and completing the Annual Report and Financial Statements on behalf of Post Office Limited to a Sub-Committee, the quorum for which to comprise any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch.

2. Background

2.1 The ARC agreed a number of changes to the process for the production of the Post Office Limited Annual Report and Financial Statements at its meeting in November 2012. For the first time the Post Office has opted not take advantage of exemptions available to it as a wholly owned subsidiary of Royal Mail Holdings plc. The Annual Report and Financial Statements have been produced as if Post Office Limited was a standalone group and follow the content and style of a listed plc where that approach can be taken.

2.2 The following documents are attached to this paper:

- Plan of the Annual Report contents;
- Draft Annual Report;
- Draft Financial Statements;
- Initial design concepts;
- Ernst & Young representation letter;
- Background paper to support directors' undertakings and statements included within the Annual Report and Financial Statements;
- ARC briefing book to aid understanding of the financial statements.

2.3 A verbal update on the views of the Post Office Limited Audit Risk and Compliance Sub-Committee will be given at the meeting following their meeting at 8.30am on 21 May 2013.

3. Annual Report and Financial Statements approach and plan

3.1 The Annual Report and Financial Statements are planned for publication in the first week of July against the backdrop of tight budgetary control within the company, a difficult external economic environment which is putting pressure on margins and discussions with Government around future strategy and post-2015 funding positions.

3.2 We have developed the messages and content by working very closely with a comprehensive range of stakeholders and contributors from across the business to ensure it accurately reflects the progress we have made. ExCo directors and their teams have been closely involved in the process. Please note that the report will be copy edited for style and consistency.

3.3 The approach follows the overall positioning set out to the ARC in February:

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- solid progress on fundamentals creating confidence for the journey ahead (with a sense that in key areas, such as Network and Crown Transformation, *the turnaround has started*, albeit in difficult circumstances);

- excitement at the innovation and change capabilities of this newly independent company to deliver commercial and social value: *the spirit of a start-up;*

- realism as to the task ahead, and empathy with subpostmasters and colleagues as we *work together* in challenging circumstances.

3.4 The Financial Statements have been prepared by Finance and the Ernst & Young audit work is largely complete. The Annual Report is still subject to audit review. For the first time the Post Office has prepared consolidated Financial Statements under International Financial Reporting Standards (IFRS), which is in line with a majority of listed plcs. Post Office Limited still has a statutory obligation to produce company accounts and these have been prepared in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Practice (UK GAAP), consistent with prior years. A full ARC briefing book it attached. This provides a more detailed analysis of the results to aid understanding of the financial statements.

3.5 We have a project plan which is being led by the Communications team working closely with Finance. The current timeline is:

- 15 May – ARC and Board receive report in Word format
- 20 May – Initial feedback from Board
- 21 May – ARC meeting reviews Annual Report together with the Financial Statements and will be asked to recommend that the Board approves the Annual Report and Financial Statements.
- 21 May – Board reviews the Annual Report together with the Financial Statements and will be asked to approve it and delegate authority to a Sub-Committee to approve final changes and sign on a later date
- 22 May – Further amendments made following Board feedback
- 21-29 May – share draft of Annual Report and Financial Statements with Royal Mail and Shareholder Executive for review and comment
- 6 June – PDFs of designed pages for proofing and sign off
- June – date to be confirmed – Board Sub-Committee approves final version and signs. Ernst & Young sign the audit report.
- 7 June to beginning of July – building online version and printing hard copy
- w/c 1 July – launch

4. Proposal

4.1 We have appointed Merchant Cantos, an agency which specialises in producing annual reports for leading public and private organisations. They have been working closely with the Communications team to produce the report.

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4.2 Traditional paper copies of the report will be produced alongside an interactive digital version which will be accessible via postoffice.co.uk. This will feature a fresh and modern look and feel, including video interviews from the Chairman, Chief Executive, members of staff, customers and subpostmasters.

4.3 The content includes an introduction from the Chairman and an executive summary from the Chief Executive. In order to ensure that the Post Office surprises with its approach, space had also been set aside for comments and reflections from members of staff, customers and subpostmasters. A full Corporate Governance section, Financial Review and Directors' Remuneration Report are all included for the first time.

4.4 We are commissioning new photography and video content for the report and have engaged an agency to support this. The project is funded from the communications budget.

4.5 A full PR, stakeholder and colleague engagement plan, including defensive Q&A is being developed around the report, including a launch event which includes key stakeholders, suppliers, journalists and colleagues/ subpostmasters.

4.6 A number of options are being considered for using the Annual Report as a platform for positive PR. These include our commitments to support digital inclusion, our role in High Street renewal and the "public purpose" engagement campaign, which is due to start in July. We propose taking a tactical approach to this element of the report, making a final decision closer to publication.

4.7 The structure of the report is designed to flow from the headline statements from the Chairman and CEO through operational reviews and on to the financial report, led by the CFO's review.

4.8 The design of the report will be such that the operational section will be introduced with a "business at a glance" section which gives an overview of each business area before going into more detail. This is important to consider when reading the document. There may be elements which feel repetitive but this will be considered in the layout and designs.

4.9 The design process will also allow opportunities for use of graphics such as pie charts.

5. Going Concern

5.1 The ARC reviewed Going Concern at its March meeting. 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 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 prepare the financial statements on a Going Concern basis.

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6. Audit

6.1 The audit work on the Financial Statements is substantially complete. The Annual Report is still subject to audit review. No significant issues have arisen to date.

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

6.3 Each director is now required to make a public statement in the Directors' Report as to the completeness of information provided to the external auditors. The directors are asked to make the declaration at this stage.

7. Undertakings and statements

7.1 The financial statements contain certain undertakings and statements made by the directors. These are summarised in an attachment to this paper.

8. Recommendation

8.1 The Post Office Limited Board is asked to:

- Review the Annual Report and Financial Statements and provide individual comments to Chris Day and Mark R Davies by 9am on Monday 20 May;
- Approve the approach to Going Concern and agree the Going Concern status for Post Office Limited at the full year;
- Agree that it is appropriate for the Directors of Post Office Limited to make the undertakings and statements in the financial statements;
- Confirm that, as individual directors, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information;
- Approve the financial statements;
- Delegate authority for reviewing final amendments and completing the Annual Report and Financial Statements on behalf of Post Office Limited to a Sub-Committee, the quorum for which to comprise any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch;
- Authorise Alwen Lyons to sign the Directors' Report and Chris Day and Paula Vennells (or, in either's absence, Alice Perkins) to sign the balance sheet, each acting on behalf of the Board; and
- 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
May 2013

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Post Office Limited

Registered Number 2154540

Post Office Limited

Financial Statements

2012-2013

DRAFT 12

Note: Disclosures highlighted are to be confirmed.

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Post Office Limited

Statement of directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

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

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

The Directors confirm that to the best of their knowledge:

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

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Post Office Limited

Independent auditor's report to the members of Post Office Limited

We have audited the consolidated financial statements of Post Office Limited for the 53-week period ended 31 March 2013 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of cash flows, the Consolidated balance sheet, the Consolidated statement of changes in equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2013 and of its profit for the 53-week period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the parent company financial statements of Post Office Limited for the 53 week period ended 31 March 2013.

Ernst & Young LLP
Angus Grant (Senior statutory auditor)
for and on behalf of Ernst &Young LLP, Statutory Auditor
London
[Date]

Notes:

1. The maintenance and integrity of the Post Office Limited's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Post Office Limited

Consolidated income statement
for the 53 weeks ended 31 March 2013 and the 52 weeks ended 25 March 2012

	Notes	2013 £m	2012 £m
Continuing operations			
Turnover		**1,024**	980
Network Subsidy Payment		**210**	180
Revenue		**1,234**	1,160
People costs excluding restructuring costs	3	**(259)**	(254)
Subpostmasters costs		**(478)**	(483)
Other operating costs		**(435)**	(393)
Share of post tax profit from joint ventures and associates	11	**32**	31
Operating profit before exceptional items	4	**94**	61
Operating exceptional items	5	**(47)**	(38)
- government grant		**98**	-
- restructuring costs		**(79)**	(2)
- other		**(66)**	(36)
Operating profit		**47**	23
Profit on disposal of property, plant and equipment		**2**	1
Loss on sale of associate		**(30)**	-
Profit before financing and taxation		**19**	24
Finance costs	7	**(4)**	(7)
Finance income	7	**1**	1
Net pensions interest	19	**2**	2
Profit before taxation		**18**	20
Taxation credit	8	**31**	10
Profit for the financial year from continuing operations		**49**	30

Note that the Royal Mail Holdings plc financial statements for the year ended 25 March 2012 reported operating profit after modernisation costs but before other exceptional items of £59m for Post Office Limited. In the income statement above the prior year result has been presented to exclude modernisation costs consistent with 2013 where results are reported before all exceptional items.

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Consolidated statement of comprehensive income
for the 53 weeks ended 31 March 2013 and the 52 weeks ended 25 March 2012

	Notes	2013 £m	2012 £m
Profit for the financial year from continuing operations		**49**	30
Other comprehensive income:			
Actuarial gains on defined benefit pension schemes	19	**14**	108
Taxation on items taken directly to equity	8	**(21)**	-
Total comprehensive income for the year		**42**	138

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Consolidated statement of cash flows
for the 53 weeks ended 31 March 2013 and the 52 weeks ended 25 March 2012

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Operating profit before exceptional items		**94**	61
Adjustment for:			
Depreciation and amortisation	4	**-**	1
Share of profit from joint ventures and associates	11	**(32)**	(31)
Pension operating costs		**25**	24
Working capital movements:		**71**	24
(Increase)/Decrease in trade and other receivables		**(138)**	11
Increase in trade and other payables		**207**	15
(Increase) in inventories		**(2)**	-
Increase/(Decrease) in non-exceptional provisions		**4**	(2)
Pension operating costs paid		**(26)**	(27)
Cash payments in respect of operating exceptional items:		**133**	(27)
Business transformation		**(41)**	(12)
Government grant		**200**	-
Restructuring costs		**(11)**	(15)
Other		**(15)**	-
Net cash inflow from operating activities		**265**	25
Income tax recovered		**11**	12
Cash flows from investing activities			
Investment in associate		**(11)**	-
Dividends received from joint ventures and associates	11	**40**	38
Finance income received		**1**	-
Proceeds from sale of property, plant and equipment		**2**	2
Proceeds from disposal of associate		**2**	-
Purchase of property, plant and equipment		**(66)**	(33)
Net cash (outflow)/inflow from investing activities		**(32)**	7
Net cash inflow before financing activities		**244**	44
Cash flows from financing activities			
Finance costs paid		**(3)**	(4)
Payments to finance lease creditors		**(3)**	(3)
(Repayment)/proceeds from bank borrowings		**(86)**	2
Net cash (outflow) from financing activities		**(92)**	(5)
Net increase in cash and cash equivalents		**152**	39
Effect of exchange rates on cash and cash equivalents		**(1)**	(1)
Cash and cash equivalents at the beginning of the year	13	**820**	782
Cash and cash equivalents at the end of the year	13	**971**	820

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Consolidated balance sheet
at 31 March 2013, 25 March 2012 and 28 March 2011

	Notes	**2013 £m**	2012 £m	2011 £m
Non-current assets				
Intangible assets	9	**-**	-	-
Property, plant and equipment	10	**11**	11	12
Investments in joint ventures and associates	11	**60**	89	96
Retirement benefit surplus	19	**97**	-	-
Total non-current assets		**168**	100	108
Current assets				
Inventories		**8**	6	5
Trade and other receivables	12	**362**	226	241
Cash and cash equivalents	13	**971**	820	782
Financial assets – derivatives	17/18	**1**	-	-
Total current assets		**1,342**	1,052	1,028
Total assets		**1,510**	1,152	1,136
Current liabilities				
Trade and other payables	14	**(898)**	(583)	(579)
Financial liabilities - interest bearing loans and borrowings	15	**(291)**	(377)	(375)
- obligations under finance leases	22	**(3)**	(4)	(4)
Provisions	16	**(19)**	-	-
Total current liabilities		**(1,211)**	(964)	(958)
Non-current liabilities				
Financial liabilities – obligations under finance leases	22	**(4)**	(6)	(9)
Other payables	14	**-**	(2)	(5)
Provisions	16	**(7)**	(14)	(26)
Retirement benefit obligation	19	**-**	(206)	(316)
Total non- current liabilities		**(11)**	(228)	(356)
Net assets/(liabilities)		**288**	(40)	(178)
Equity				
Share capital	20	**-**	-	-
Share premium		**465**	465	465
Retained earnings		**(179)**	(552)	(690)
Other Reserves		**2**	47	47
Total equity/(deficit)		**288**	(40)	(178)

The financial statements on pages XX to XX were approved by the Board of Directors on XXX 2013 and signed on its behalf by:

P A Vennells
Chief Executive

C M Day
Chief Financial Officer

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Consolidated statement of changes in equity
for the 53 weeks ended 31 March 2013 and the 52 weeks ended 25 March 2012

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 26 March 2012		465	(552)	47	(40)
Profit for the year		-	49	-	49
Actuarial gain on defined benefit schemes	19	-	14	-	14
Transfer of pension deficit to government	19	-	286	-	286
Sale of interest in associate		-	45	(45)	-
Taxation of items taken directly to equity	8	-	(21)	-	(21)
At 31 March 2013		**465**	**(179)**	**2**	**288**

Opening other reserves of £47m comprised £2m relating to First Rate Exchange Services Holding Limited, the joint venture entity, and £45m that was recognised on the formation of Midasgrange Limited, the associate entity. In September 2012 the Group disposed of its interest in the associate and therefore £45m included in other reserves relating to Midasgrange Limited was transferred to retained earnings.

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 28 March 2011		465	(690)	47	(178)
Profit for the year		-	30	-	30
Actuarial gain on defined benefit pension schemes	19	-	108	-	108
At 25 March 2012		465	(552)	47	(40)

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Notes to the financial statements

1. Accounting Policies

Financial year

The financial year ends on the last Sunday in March and for this reason these financial statements are made up to the 53 weeks ended 31 March 2013 (2012 - 52 weeks ended 25 March 2012).

Basis of preparation

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

For all periods up to and including the year ended 25 March 2012, the Group (comprising the Company and its subsidiary undertaking) prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice. These financial statements for the year ended 31 March 2013 are the first the Group has prepared in accordance with IFRS as adopted by the European Union.

Accordingly the Group has prepared financial statements which comply with IFRS as adopted by the European Union applicable for periods ending on or after 31 March 2013, together with comparative period data as at and for the year ended 25 March 2012. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 28 March 2011, the Group's date of transition to IFRS as adopted by the European Union.

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

Basis of consolidation

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

Changes in accounting policy and disclosures

The changes to accounting policies and disclosures which have been necessary as part of the transition to reporting under IFRS as adopted by the European Union have had no effect on the income statement or net asset position.

Accounting standards issued but not yet applied

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

- Annual improvements to IFRS 2009-2011 Cycle
- IFRS 9 Financial Instruments: Classification and Measurement
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 13 Fair Value Measurement [impact on derivative assets]
- IAS 1 (amended) Presentation of Items of Other Comprehensive Income
- IAS 12 ~(amended) Deferred Taxation: Recovery of Underlying Assets [impact being assessed by Group Tax]
- IAS 19 (revised) Employee Benefits
- IAS 27 (revised) Separate Financial Statements
- IAS 28 (revised) Investments in Associates and Joint Ventures
- IAS 32 (amended) Offsetting Financial Assets and Liabilities [impact being assessed by Group Treasury]

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

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Fundamental accounting concept – going concern

The Group has net assets at 31 March 2013 and has operated at a profit before exceptional items during 2012-13 for the fifth year running.

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

- Funding of £410m for 2012-13
- Funding of £415m for 2013-14
- Funding of £330m for 2014-15
- Extension of the existing working capital facility with the Department for Business, Innovation & Skills (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 and it was also recognised that the working capital facility was no longer deemed State Aid. £410m was received on 2 April 2012.

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 dependant on direct subsidy. This programme will not involve branch closures.

The Directors are satisfied with the progress made towards modernisation during 2012-13 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.

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 in the foreseeable future. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Critical accounting estimates and judgements in applying accounting policies

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

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Group are determined using methods relying on actuarial estimates and assumptions. These pension figures are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. Details of the key assumptions are set out in Note 19.

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

Provisions

The Group has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are detailed in Note 16. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

Revenue

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

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

Net revenue

Net revenue is calculated using revenue less cost of sales, which consists of directly attributable costs of delivering the service or product.

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

Intangible assets
Intangible assets acquired separately or generated internally are initially recognised at cost and are reviewed for impairment. An impairment loss is recognised in the income statement for the amount by which the carrying value of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

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

Software	1 to 6 years

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

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

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

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

Leases
Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Group are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

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

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

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Taxation
The charge for current income tax is based on the results for the year as adjusted for items which are not taxed or are disallowed. It is calculated using tax rates in legislation that has been enacted or substantively enacted by the balance sheet date.

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

- initial recognition of goodwill

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

- taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future and

- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

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

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

The pension assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed.

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

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

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

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

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

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

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

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

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

Financial assets

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

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

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

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

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition the Group uses Money Market funds as a readily available source of cash, and these funds are also categorised as cash equivalents.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. Cash equivalents are classified as loans and receivables financial instruments.

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2. Segmental reporting

In accordance with IFRS 8 'Operating segments,' an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision maker ('CODM') and for which discrete information is available. The Group's CODM is the Executive Committee as defined in the [Directors' Report] on Page XX.

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

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

Assets and liabilities as recognised on the Group balance sheet are not considered to be segmental assets or liabilities but rather are managed by the Group's central functions. The information reviewed by the CODM does not include assets or liabilities split by segment. A description of the activities of the business segments is included on Page XX within the financial commentary to the financial statements.

Revenue from a major customer represents approximately 27% of the Group's total revenue in 2013. This revenue was reported within the Mails & Retail segment.

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

	2012		
	Revenue £m	Cost of Sales £m	Net Revenue £m
Mails & Retail	392	(4)	388
Financial Services	264	(3)	261
Government Services	164	(28)	136
Telephony	120	(79)	41
Other	40	-	40
Sub- total	980	(114)	866
Network Subsidy Payment	180	-	180
Total	**1,160**	**(114)**	**1,046**

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

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	2013 £m	2012 £m
Underlying segment net revenue	**1,113**	1,046
Indirect costs	**(1,051)**	(1,016)
Share of post tax profit from joint ventures and associates	**32**	31
Operating profit before exceptional items	**94**	**61**
Operating exceptional items	**(58)**	(38)
Operating profit	**36**	**23**
Profit on disposal of property, plant and equipment	**2**	1
Loss on sale of associate	**(30)**	-
Profit before financing and taxation	**8**	**24**
Finance costs	**(4)**	(7)
Finance income	**1**	1
Net pensions interest	**2**	2
Profit before taxation	**7**	**20**

3. Staff costs and numbers

Employment and related costs were as follows:

People costs excluding restructuring costs:	2013 £m	2012 £m
Wages and salaries	**215**	213
Social security costs	**19**	17
Pension costs (note 19)	**25**	24
Total	**259**	254

	Period end employees		Average employees	
	2013	2012	2013	2012
Total employees	**7,886**	7,798	**7,842**	7,734

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4. Operating profit from continuing operations before exceptional items

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

	2013 £m	2012 £m
Bureau de Change foreign currency exchange losses	**1**	1
Depreciation	**-**	1
Operating lease charges – Land and buildings	**20**	25
- Vehicles and equipment	**62**	62
Fees payable to the group's auditors for audit and other services:	**£000**	£000
- parent company and group audit	**331**	195
-taxation services	**-**	-
-other non-audit services	**105**	108

5. Operating exceptional items

	2013 £m	2012 £m
Government grant	**98**	-
Business transformation	**(4)**	(3)
Network transformation including subpostmasters compensation	**(52)**	-
Restructuring – severance	**(11)**	1
- other	**(12)**	-
Impairment of intangible assets (note 9)	**(25)**	(17)
Impairment of property, plant and equipment (note 10)	**(41)**	(19)
Total operating exceptional items	**(47)**	(38)

The £4m charge in respect of business transformation represents a provision for staff payments linked to changed working practices (2012 £3m).

Due to ongoing operational losses (excluding Network Subsidy Payment) the carrying value of all property plant and equipment other than freehold and long leasehold property has been impaired to the recoverable amount.

6. Directors' emoluments

The Directors received the following emoluments:

	2013 £000	2012 £000
Emoluments, excluding pension contributions and LTIP*	**1,129**	904
Contributions to pension schemes	**1**	58
Amounts receivable under Long-Term Incentive Plans	**218**	-

*Figures include any cash supplements received in lieu of pension.

Directors accruing pension entitlements during the period under:	**2013 Number**	2012 Number
Defined benefit schemes	**0**	2
Defined contribution schemes	**-**	-

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The highest paid Director received the following emoluments:

	2013 £000	2012 £000
Emoluments and LTIP, excluding pension contributions*	**698**	463
Company contributions to pension schemes	**1**	47
Transfer value of accrued pension benefits	**315**	284

* Figures include any cash supplements received in lieu of pensions.

7. Net finance costs

	2013 £m	2012 £m
Interest receivable	**1**	1
Interest charge, unwinding discount on provisions.	**(1)**	(1)
Interest payable on loans	**(3)**	(6)
Total	**(3)**	(6)

8. Taxation

(a) Taxation gains recognised in the year

	2013 £m	2012 £m
Corporation tax credit for year	**(10)**	(11)
Tax under provided in previous years	**-**	1
Current tax	**(10)**	(10)
Deferred tax relating to pension surplus taken to equity	**(21)**	-
Income tax credit reported in the consolidated income statement	**(31)**	(10)

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 24% (2012 26%). The differences are explained below:

	2013 £m	2012 £m
Profit on ordinary activities before tax	**18**	20
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24% (2012 26%)	**4**	5
Net decrease in tax charge resulting from recognition of deferred tax assets	**(35)**	(15)
Expenditure disallowable for tax	**1**	2
Adjustment in respect of prior period	**-**	1
Losses from disposals ineligible for relief	**7**	-
Effect of group relief surrenders to other companies	**-**	5
Associates/joint venture profit after tax included in Group pre-tax profit	**(8)**	(8)
Total current tax (see above)	**(31)**	(10)

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(c) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £190m (2012 £337m), comprising £0m (2012 £52m) relating to the retirement benefit obligation, £133m (2012 £157m) relating mainly to fixed asset timing differences, and £57m (2012 £128m) relating to tax losses that are available to offset against future taxable profits. The Group has rolled over capital gains of £3m (2012 £3m); no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

Finance Act 2012 reduced the main rate of corporation tax to 23% with effect from 1 April 2013. The effect of this change on deferred tax balances is included in these financial statements and is detailed above. In the 2012 Autumn Statement, the Chancellor of the Exchequer announced that the main rate of corporation tax will be 21% for the year commencing 1 April 2014 and in the March 2013 Budget he announced that the rate will be further reduced to 20% with effect from 1 April 2015. In accordance with accounting standards the effect of these rate reductions on deferred tax balances has not been reflected in these accounts due to the relevant legislation not having been substantively enacted at the balance sheet date. A reduction to 20% would, based on losses and temporary differences at 31 March 2013, reduce the Group's unrecognised deferred tax assets by £25m.

Under the Postal Services Act 2011, trading losses which arose due to pension contributions and which are unused at 31 March 2013 will be extinguished. The estimated gross value of the losses extinguished is £175m. The unrecognised losses carried forward disclosed above are stated net of this amount.

(d) Tax effect of exceptional items

There is a tax credit on exceptional items of £nil (2012 £nil). This is calculated on a "with and without" basis assuming that losses are surrendered firstly to joint ventures and secondarily to companies in the Royal Mail Group.

9. Intangible assets

Cost	**2013 £m**	2012 £m	2011 £m
At 26 March 2012, 28 March 2011, 29 March 2010	**183**	166	155
Additions	**25**	17	12
Disposals	**-**	-	(1)
At 31 March 2013, 25 March 2012, 27 March 2011	**208**	183	166
Amortisation and impairment			
At 26 March 2012, 28 March 2011, 29 March 2010	**183**	166	155
Impairment (see note 5)	**25**	17	11
At 31 March 2013, 25 March 2012, 27 March 2011	**208**	183	166
Net book value			
At 31 March 2013, 25 March 2012, 27 March 2011	**-**	-	-

The above intangible assets relate to software.

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10. Property, plant and equipment

	Land and Buildings						
	Freehold	Long leasehold	Short leasehold	Motor vehicles	Plant and machinery	Fixtures and equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 28 March 2011	78	17	113	34	1	696	939
Additions	4	-	-	1	-	13	18
Disposals – external	(4)	-	-	(1)	-	-	(5)
Transfers from Royal Mail Group Ltd	1	-	1	-	-	-	2
At 25 March 2012	79	17	114	34	1	709	954
Reclassification	-	1	(1)	-	-	-	-
Additions	9	-	1	9	-	22	41
Disposals - external	(1)	-	-	(1)	-	(12)	(14)
At 31 March 2013	**87**	**18**	**114**	**42**	**1**	**719**	**981**
Depreciation							
At 28 March 2011	67	16	113	34	1	696	927
Depreciation	1	-	-	-	-	-	1
Impairment (see note 5)	4	-	1	1	-	13	19
Disposals - external	(3)	-	-	(1)	-	-	(4)
At 25 March 2012	**69**	**16**	**114**	**34**	**1**	**709**	**943**
Depreciation	-	-	-	-	-	-	-
Impairment (see note 5)	9	1	-	9	-	22	41
Disposals - external	(1)	-	-	(1)	-	(12)	(14)
At 31 March 2013	**77**	**17**	**114**	**42**	**1**	**719**	**970**
Net book value							
At 31 March 2013	**10**	**1**	**-**	**-**	**-**	**-**	**11**
At 25 March 2012	10	1	-	-	-	-	11
At 28 March 2011	11	1	-	-	-	-	12

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £3m (2012 £3m) of the total cost of properties.

During the year the legal ownership of a number of properties were transferred from Royal Mail Group Limited to Post Office Limited for no consideration.

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11. Investments in joint ventures and associates

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

Joint ventures

During 2012-13 and 2011-12, the Group's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom.

Associates

During 2011-12, the Group's only associate investment was a 49.99% interest (4,999 £0.01 ordinary A shares) in Midasgrange Limited, whose principal activity is the provision of personal financial products. This investment was disposed of during the year ended 31 March 2013. At the date of disposal the carrying value of the Group's investment was £32m. Proceeds of £2m were received giving a loss on disposal of £30m which has been recognised in the consolidated income statement.

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

	Joint venture £m	Associate £m	Total £m
Share of net assets			
Total net investment at 28 March 2011	73	23	96
Share of post tax pre dividend profit/ (loss)	32	(1)	31
Dividend	(38)	-	(38)
Total net investment at 25 March 2012	67	22	89

	2013		2012			2011		
	Joint venture	**Total**	Joint venture	Associate	Total	Joint venture	Associate	Total
Share of assets and liabilities:	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Current assets	184	**184**	180	38	218	151	25	176
Non-current assets	3	**3**	3	18	21	2	17	19
Share of gross assets	187	**187**	183	56	239	153	42	195
Current liabilities	(127)	**(127)**	(116)	(34)	(150)	(80)	(19)	(99)
Share of net assets	60	**60**	67	22	89	73	23	96
Share of revenue and profit:								
Revenue	75	**75**	75	49	124	74	39	113
Profit after tax	32	**32**	32	(1)	31	29	(4)	25

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12. Trade and other receivables

Current:	**2013 £m**	2012 £m	2011 £m
Trade receivables	**32**	39	45
Prepayments and accrued income	**81**	39	27
Client receivables	**240**	138	158
Other receivables	**9**	10	11
Total	**362**	226	241

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

As at 31 March 2013 trade and other receivables of £1m (2012 £1m) were impaired and fully provided for. All movements on the provision during the year have been less than £1m. Trade and other receivables of £8m (2012 £7m) were past due but not impaired. The aging analysis of the past due amounts are as follows:

	2013 £m	2012 £m
Provided for or not yet overdue	**24**	32
Past due not more than one month	**7**	3
Past due more than one month and not more than two months	**1**	3
Past due more than two months	**-**	1
Total	**32**	39

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

13. Cash and cash equivalents

	2013 £m	2012 £m	2011 £m
Cash in the Post Office Limited network	**879**	758	704
Short-term bank deposits	**6**	19	34
Money market fund investments	**86**	43	44
Total cash and cash equivalents	**971**	820	782

Cash and cash equivalents comprise amounts held physically in cash, cash deposits available on demand or for three months or less. Where interest is earned it is at a floating or short term fixed rate. The fair value of cash and cash equivalents is not materially different from the carrying value.

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14. Trade and other payables

	2013 £m	2012 £m	2011 £m
Current:			
Trade payables	**43**	32	36
Accruals and deferred income	**134**	140	121
Advance customer payments	**50**	48	67
Social security	**10**	9	10
Client payables	**528**	332	314
Amounts due to pension schemes relating to redundancies	**-**	-	3
Amount due to other companies within the Royal Mail Holdings Group	**6**	9	12
Capital payables	**18**	10	6
Business transformation	**7**	3	10
Government Grant deferred income	**102**	-	-
Total	**898**	583	579
Non-current:			
Other payables	**-**	2	5
Total	**898**	585	584

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

15. Borrowings

	2013 £m	2012 £m	2011 £m
BIS loans drawn down	**291**	377	375

The loans under the facility are short dated on a programme of liquidity management and mature on average 1 day after the year end (2012 1 day). The fair value of borrowings is not materially different from the carrying value. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2016. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date is £859m (2012 £773m.) The average interest rate on the drawn down loans is 1.0% (2012 0.8%).

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

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

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16. Provisions

	Crown Conversions Project £m	Network Transformation £m	Other £m	Total £m
At 26 March 2012	9	-	5	**14**
Charged in operating exceptional items	-	10	12	**22**
Charged in operating costs		-	6	**6**
Charged in financing costs	1	-	-	**1**
Utilisation	(3)	-	(14)	**(17)**
At 31 March 2013	7	10	9	**26**
Disclosed as:				
Current	4	8	7	**19**
Non - current	3	2	2	**7**
	7	10	9	**26**

Other provisions of £9m (2012 £5m) include property contracts, comprising amounts from onerous lease obligations and personal injury claims.

Amounts charged in financing costs relate to the unwinding of discounted long-term provisions.

The Crown Conversions project relates to past franchising of Crown offices and onerous property lease provisions are expected to be utilised within 5 years.

17. Financial assets and liabilities

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

	2013			2012			2011		
	Current	**Non current**	**Total**	Current	Non current	Total	Current	Non current	Total
	£m	**£m**	**£m**		£m	£m	£m		£m
Cash and cash equivalents	**971**	**-**	**971**	820	-	820	782	-	782
Derivative assets	**1**	**-**	**1**	-	-	-	-	-	-
BIS loan	**(291)**	**-**	**(291)**	(377)	-	(377)	(375)	-	(375)
Finance leases obligations	**(3)**	**(4)**	**(7)**	(4)	(6)	(10)	(4)	(9)	(13)
Total financial assets/ (liabilities)	**678**	**(4)**	**674**	439	(6)	433	403	(9)	394

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

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

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

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Interest rate risk

The Group's exposure to market risk for changes in interest rates relates to the Group's debt obligations and interest bearing financial assets. The BIS loans to Post Office Limited of £291m (2012 £377m) are at short-dated fixed interest rates – average maturity 1 day (2012 average 1 day). On maturity it is expected that further loans will be drawn down under this facility which expires in 2 016. The total interest bearing financial assets of the Group of £92m (2012 £62m) are at short-dated fixed or variable interest rates.

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

Financial year ended 31 March 2013

	Average Effective interest rate	Within one year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Short-term bank deposits	**0.5**	**6**	**-**	**-**	**-**	**6**
BIS loan	**1.0**	**(291)**	**-**	**-**	**-**	**(291)**
Obligations under finance leases	**9.0**	**(3)**	**(4)**	**-**	**-**	**(7)**
Total		**(288)**	**(4)**	**-**	**-**	**(292)**
Floating rate						
Money market fund investments	**0.5**	**86**	**-**	**-**	**-**	**86**
Non-interest bearing						
Cash in Post Office network	**-**	**879**	**-**	**-**	**-**	**879**
Derivative assets	**-**	**1**	**-**	**-**	**-**	**1**
Total		**880**	**-**	**-**	**-**	**880**
Net total financial assets/(liabilities)		**678**	**(4)**	**-**	**-**	**674**

Financial year ended 25 March 2012

	Average Effective interest rate	Within one year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Short-term bank deposits	0.7	19	-	-	-	19
BIS loan	0.8	(377)	-	-	-	(377)
Obligations under finance leases	9.0	(4)	(3)	(3)	-	(10)
Floating rate						
Money market fund investments	0.8	43	-	-	-	43
Non-interest bearing						
Cash in Post Office network	-	758	-	-	-	758
Net total financial assets/(liabilities)		439	(3)	(3)	-	433

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Foreign currency risk

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

Credit risk

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

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

Business credit risk is monitored centrally. The individual relationships and the contracts attached to them are managed by dedicated teams and procedures are place to monitor any concentrations of credit risk. The level of bad debt incurred for the Group is less than 1% (2012 less than 1%) of turnover.

Capital management

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

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include money market funds and short term bank deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding. The unused facility for the Group of £859m (2012 £773m) expires in 2016.

Sensitivity

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

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

	BIS Loan	2013 Finance Lease	Total
Amounts falling due in:	**£m**	**£m**	**£m**
One year or less	**291**	**3**	**294**
More than 1 year but not more than 2 years	**-**	**4**	**4**
More than 2 years but not more than 5 years	**-**	**-**	**-**
More than 5 years	**-**	**-**	**-**
Total	**291**	**7**	**298**

	BIS Loan	2012 Finance Lease	Total
Amounts falling due in:	£m	£m	£m
One year or less	377	4	381
More than 1 year but not more than 2 years	-	4	4
More than 2 years but not more than 5 years	-	4	4
More than 5 years	-	-	-
Total	377	12	389

	BIS Loan	2011 Finance Lease	Total
Amounts falling due in:	£m	£m	£m
One year or less	375	4	379
More than 1 year but not more than 2 years	-	4	4
More than 2 years but not more than 5 years	-	8	8
More than 5 years	-	-	-
Total	375	16	391

18. Hedging programmes

Details of the Group's derivative financial instruments, used to manage the risks identified above are as follows:

	2013 Assets	2012 Assets
Fair value of derivative financial instruments:	**£m**	£m
Currency hedges	1	-
Total	**1**	-

Currency hedges

The Group mitigates its foreign currency risk exposure principally through external foreign currency forward contracts with First Rate Exchange Services Holdings Limited. At the year end the gain on unmatured currency hedges was £1m and taken to the income statement as hedge accounting is not claimed. The hedges mature in April 2013.

Derivative values

At any point in time, the derivative in programmes above are either 'in the money' which means the hedged rates are better than the current market rates or 'out of the money' which means that the hedged rates are worse than the current market rates. The resulting gains and losses as at the balance sheet date are recognised in the income statement. An associated financial asset or liability is created in the balance sheet (as detailed above.) The financial asset or liability is released when the derivative matures. The Groups hedging transactions are settled net.

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19. Pensions

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

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

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

The disclosures in this note relating to the year ended 31 March 2013 reflect the Post Office Limited sectionalised RMPP scheme which is independently operated by the Group and the approximate 7% share of the RMSEPP scheme. The comparative figures for the year ended 25 March 2012 and the opening position at 28 March 2011 represent approximately 7% of the previous combined RMPP and RMSEPP plans.

The disclosures in this note relate to the year ending 31 March 2013 and show how the value of the assets and liabilities have been calculated at the balance sheet date.

The Group participates in pension schemes as detailed below.

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

Defined Contribution

The charge in the profit and loss account for the defined contribution schemes and the Group contributions to these schemes was £1m (2012 £1m) during the year. A new defined contribution plan (RMDCP) was launched in April 2009. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Group for a year.

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds. The latest full actuarial funding valuation of both schemes was carried out as at 31 March 2009 using the projected unit method. For RMPP, this valuation was concluded at £10.3bn deficit. For RMSEPP, the valuation was concluded at £100m deficit. RMPP includes sections A, B and C each with different terms and conditions:

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

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

The changes encompass:

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

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Payment of £24m (2012 £23m) was made by the Group during the year in respect of regular future service contributions, nearly all relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1% (2012 17.1%), effective from April 2010. This rate is not expected to change materially during 2013-14. For RMSEPP, these contributions have remained at 35.9% (2012 35.9%) until its closure.

The Group pays 7% of the total deficit payment required to fund the deficit in RMSEPP and a payment of £2m (2012 less than £1m) was made by the Group during the year. Following the State Aid clearance granted on 21 March 2012 and the subsequent transfer of the historical pension deficit to HM Government on 1 April 2012 no RMPP deficit payment was made during 2011-12 or 2012-13. For RMSEPP, deficit recovery payments will be £1m per annum, from 1 April 2010 to 31 January 2024.

A current liability of £nil (2012 £nil) has been recognised for payments to the pension schemes relating to redundancy. During the year, payments of £2m (2012 £3m) relating to redundancy were made.

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

a) Major long-term assumptions

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

	At 31 March 2013 % pa	At 25 March 2012 % pa	At 28 March 2011 % pa
Rate of increase in salaries	**4.3**	4.3	4.5
Rate of pension increases – RMPP sections A/B	**2.3**	2.3	2.8
Rate of pension increases – RMPP section C	**3.2**	3.3	3.5
Rate of pension increases – RMSEPP all members	**3.3**	3.3	3.5
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**3.3**	3.3	3.5
Rate of increase for deferred pensions	**2.3**	2.3	2.8
Discount rate	**4.8**	5.1	5.5
Inflation assumption (RPI)	**3.3**	3.3	3.5
Inflation assumption (CPI)	**2.3**	2.3	2.8
Expected average rate of return on assets	**n/a**	5.9	6.5

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

The above assumptions relate to both defined benefit plans with the exception of the expected average rate of return on assets which was computed for the combined assets of the plans. The expected average rate of return on assets was a weighted average of the long-term expected rate of return of each principal asset class (see section b). The expected average rate of return was computed at each balance sheet date based on the market values and long-term rate of return of each principal asset class as at that date. The change in IAS 19 that will be implemented with effect from 1 April 2013 means that the expected average rate of return on assets is no longer required.

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

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

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Mortality

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

Average expected life expectancy from age 60:	**2013**	2012	2011
For a current 60 year old male RMPP member	26 years	26 years	26 years
For a current 60 year old female RMPP member	29 years	29 years	29 years
For a current 40 year old male RMPP member	29 years	29 years	29 years
For a current 40 year old female RMPP member	32 years	32 years	32 years

b) Plans' assets and expected rates of return

The assets in the plans and the expected rates of return for the Group were:

Sectionalised RMPP	**Market value 2013 £m**	**Long-term expected rate of return 2013 % pa**
Equities	**29**	**n/a**
Bonds	**205**	**n/a**
Property	**-**	**n/a**
Other assets	**9**	**n/a**
Fair value of RMPP assets	**243**	
Present value of RMPP liabilities	**(144)**	
Surplus in plan	**99**	

Share of RMSEPP	**Market value 2013 £m**	**Long term expected rate of return 2013 % pa**
Equities	**146**	**n/a**
Bonds	**193**	**n/a**
Property	**19**	**n/a**
Other assets	**3**	**n/a**
Fair value of plan assets for RMSEPP	**361**	
Present value of plan liabilities for RMSEPP	**(347)**	
Surplus in plan for RMSEPP	**14**	
Surplus in plan for the POL share (at approximately 7%) of RMSEPP	**1**	

A retirement benefit surplus of £97m is disclosed on the balance sheet, representing the surplus in plans of £99m and £1m for RMPP and RMSEPP respectively, and net of tax of £3m at a rate of 35% on the element of the surplus which is recoverable through a refund from the plans.

Combined plans	Market value 2012 £m	Market value 2011 £m	Long term expected rate of return 2012 % pa	Long term expected rate of return 2011 % pa
Equities	3,385	4,268	7.7	8.2
Bonds	25,610	21,409	5.7	6.2
Property	1,417	1,590	6.8	6.5
Other assets	333	418	3.4	4.2
Fair value of plans' assets for the combined plans	30,745	27,685		
Present value of plans' liabilities for the combined plans	(33,667)	(32,186)		
Deficit in schemes for the combined plans	(2,922)	(4,501)		
Deficit in schemes for share (at approximately 7%) of combined plans	(206)	(316)		

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

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c) Movement in plans' assets and liabilities

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

Assets	**Sectionalised RMPP 2013 £m**
Assets in sectionalised RMPP at beginning of period	**2,108**
Transfer of pension assets to government	**(1,953)**
Contributions paid	**25**
Employee contributions paid	**8**
Finance income (expected rate of return)	**11**
Actuarial gains (additional increases in market values)	**43**
Benefits paid to members	**(2)**
Assets in sectionalised RMPP at end of period	**240**

Assets	**Share of RMSEPP 2013 £m**
Share of assets in RMSEPP at beginning of period	**21**
Contributions paid	**2**
Movement in contributions accrued	**-**
Employee contributions paid	**-**
Finance income (expected rate of return)	**1**
Actuarial gains (additional increases in market values)	**1**
Benefits paid to members	**-**
Share of assets in RMSEPP at end of period	**25**

Assets combined plans	2012 £m	2011 £m
Share of assets in combined plans at beginning of period	1,923	1,797
Contributions paid	26	46
Movement in contributions accrued	(3)	2
Employee contributions paid	10	11
Finance income (expected rate of return)	124	120
Actuarial gains (additional increases in market values)	131	33
Benefits paid to members	(82)	(86)
Share of assets in combined plans at end of period	2,129	1,923

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

Liabilities	**Sectionalised RMPP 2013 £m**
Liabilities in sectionalised RMPP at beginning of period	**(2,313)**
Transfer of pension liabilities to government	**2,239**
Current service cost	**(24)**
Curtailment costs*	**(2)**
Finance cost	**(9)**
Employee contributions	**(8)**
Actuarial loss (recognised in statement of comprehensive income)	**(29)**
Benefits paid	**2**
Liabilities in sectionalised RMPP at end of period	**(144)**

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

Liabilities combined plans	2012 £m	2011 £m
Share of liabilities in combined plans at beginning of period	(2,239)	(2,361)
Current service cost	(23)	(25)
Curtailment costs*	-	(3)
Finance cost	(122)	(132)
Employee contributions	(10)	(11)
Actuarial gain/(loss) (recognised in statement of comprehensive income)	(23)	207
Benefits paid	82	86
Share of liabilities in combined plans at end of period	(2,335)	(2,239)

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

d) History of experience gains and losses

The cumulative amount of actuarial gains and losses recognised since transition to IFRS as adopted by the European Union at 26 March 2012 in the consolidated statement of comprehensive income is a gain of £14m.

	Sectionalised RMPP	Share of RMSEPP	7% share of combined plans			
	2013 £m	**2013 £m**	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of assets	**243**	**25**	2,168	1,944	1,811	1,407
Present value of liabilities	**(144)**	**(24)**	(2,374)	(2,260)	(2,375)	(1,882)
Surplus/(Deficit) in schemes	**99**	**1**	(206)	(316)	(564)	(475)
Experience adjustment on assets	**46**	**1**	131	33	313	(384)
Experience adjustment on liabilities	**(20)**	**-**	-	(1)	47	(1)

	2013 %	**2013 %**	2012 %	2011 %	2010 %	2009 %
Experience adjustment on assets as a % of scheme assets	**18.9**	**5.5**	6.1	1.7	17.4	(27.3)
Experience adjustment on liabilities as a % of scheme liabilities	**(13.9)**	**1.4**	0.0	0.0	(2.0)	0.1
Deficit in the scheme as a % of scheme liabilities	**-**	-	8.8	14.1	23.9	25.3

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e) Recognised charges

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

	2013 sectionalised RMPP £m
Analysis of amounts recognised in the income statement	
Analysis of amounts charged to operating profit before exceptional items:	
Current service cost	**24**
Total charge to operating profit before exceptional items	
Analysis of amounts charged to operating exceptional items:	
Loss due to curtailments (within provision – note 16)	**2**
Total charge to operating profit	**26**
Analysis of amounts charged/(credited) to net pensions interest:	
Interest on plan liabilities	**9**
Expected return on plan assets	**(11)**
Net pensions credit to financing	**(2)**
Net charge to the income statement before deduction for tax	**24**
Analysis of amounts recognised in the statement of comprehensive income	
Transfer of pension liabilities to government	**2,239**
Transfer of pension assets to government	**(1,953)**
Gain on transfer to government	**286**
Actual return on plan assets	**57**
Less: expected return on plan assets	**(11)**
Less: taxation on surplus recoverable through plan refunds	**(3)**
Actuarial gains on assets (all experience adjustments)	**43**
Experience adjustments on liabilities	**(20)**
Effects of changes in actuarial assumptions on liabilities	**(9)**
Actuarial losses on liabilities	**(29)**
Total actuarial gains recognised in the statement of comprehensive income	**300**

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	2013 share of RMSEPP £m
Analysis of amounts recognised in the income statement	
Analysis of amounts charged to operating profit before exceptional items:	
Current service cost	**1**
Total charge to operating profit before exceptional items	
Analysis of amounts charged to operating exceptional items:	
Loss due to curtailments (within provision for organisational review – note 16)	**-**
Total charge to operating profit	**1**
Analysis of amounts charged/(credited) to net pensions interest:	
Interest on plan liabilities	**16**
Expected return on plan assets	**(18)**
Net pensions interest	**(2)**
Share of net pensions interest (at approximately 7%)	**-**
Net charge to the income statement before deduction for tax	**-**
Analysis of amounts recognised in the statement of comprehensive income in the Royal Mail Holdings Group financial statements	
Actual return on plan	**38**
Less: expected return on plan	**(18)**
Actuarial gains on assets (all experience adjustments)	**20**
Experience adjustments on liabilities	**5**
Effects of changes in actuarial assumptions on liabilities	**(23)**
Actuarial losses on liabilities	**(18)**
Total actuarial gains recognised in statement of comprehensive income in the Royal Mail Holdings Group financial statements	**2**
Share of actuarial gains/(losses) recognised in statement of comprehensive income (at approximately 7%)	**-**

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Combined plans	2012 £m	2011 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptional items:		
Current service cost	23	25
Total charge to operating profit before exceptional items	23	25
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments (within provision for organisational review – note 16)	-	2
Total charge to operating profit	23	27
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plans' liabilities for the combined plans	1,749	1,881
Expected return on plans' assets for the combined plans	(1,775)	(1,714)
Net pensions interest for the combined plans	(26)	167
Share of net pensions interest (at approximately 7%)	(2)	12
Net charge to the income statement before deduction for tax	21	39
Analysis of amounts recognised in the statement of comprehensive income in the Royal Mail Holdings Group financial statements		
Actual return on plans' assets for the combined plans	3,644	2.184
Less: expected return on plans' assets for the combined plans	(1,775)	(1,714)
Actuarial gains on assets for the combined plans (all experience adjustments)	1,869	470
Experience adjustments on liabilities for the combined plans	(5)	(8)
Effects of changes in actuarial assumptions on liabilities for the combined plans	(320)	2,962
Actuarial (losses)/ gains on liabilities for the combined plans	(325)	2,954
Total actuarial gains recognised in statement of comprehensive income in the Royal Mail Holdings Group financial statements	1,544	3,424
Share of actuarial gains/(losses) recognised in statement of comprehensive income (at approximately 7%)	108	240

20. Called up share capital

	2013 £	2012 £	2011 £
Authorised			
Ordinary shares of £1 each	**51,000**	51,000	51,000
Total	**51,000**	51,000	51,000
Allotted and issued			
Ordinary shares of £1 each	**50,003**	50,003	50,003
Total	**50,003**	50,003	50,003

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21. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £48m (2012 £15m).

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

	Land and buildings			IT equipment		
	2013 £m	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m
Within one year	**16**	16	16	**15**	16	16
Between one and five years	**42**	44	43	**-**	-	-
Beyond five years	**38**	43	45	**-**	-	-
Total	**96**	103	104	**15**	16	16

22. Finance lease liabilities

	2013		2012		2011	
	Minimum payments	**Present value of minimum lease payments**	Minimum payments	Present value of minimum lease payments	Minimum payments	Present value of minimum lease payments
	£m	**£m**	£m	£m	£m	£m
Within one year	**4**	**3**	4	4	4	4
Between one and five years	**4**	**4**	8	6	12	9
Beyond five years	**-**	**-**	-	-	-	-
Total minimum lease payments	**8**	**7**	12	10	16	13
Less amounts representing finance charges	**(1)**	**-**	(2)	-	(3)	-
Present value of minimum lease payments	**7**	**7**	10	10	13	13
Of which:						
Current	**3**	**3**	4	4	4	4
Non-current	**4**	**4**	6	6	9	9

The aggregate finance charges allocated for the period in respect of finance leases was £738,859 (2012 £1,011,232). The fair value of finance lease liabilities is not materially different from the carrying value.

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

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23. Related party disclosures

Joint venture

The following company is a joint venture of the Group:

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

Associates

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

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

All shareholdings are equity shares.

Related party transactions

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

	Sales/recharges to related party			**Purchases/ recharges from related party**			**Amounts owed from related party including outstanding loans**			**Amounts owed to related party including outstanding loans**		
	2013 £m	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m	**2013 £m**	2012 £m	2011 £m
Royal Mail Group Limited	**371**	359	346	**37**	33	35	**-**	-	-	**4**	8	11
Camelot Group plc	**-**	-	10	**-**	-	-	**-**	-	-	**-**	-	-
Romec Limited	**-**	-	-	**8**	8	8	**-**	-	-	**2**	1	1
Midasgrange Limited	**35**	41	30	**1**	1	3	**-**	14	10	**-**	1	-
First Rate Exchange Services Holdings Limited	**27**	31	30	**125**	128	132	**7**	3	9	**11**	8	1

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the year end are unsecured, interest free and settlement is made by cash. Royal Mail Group Limited is a subsidiary company of the Group's parent company, Royal Mail Holdings plc. Camelot Group plc was an associate within the Royal Mail Holdings Group but was disposed of in 2010-11. Romec Limited is a subsidiary of Royal Mail Group Limited. Midasgrange Limited was an associate of the Group until September 2012 and First Rate Exchange Services Holdings Limited is a joint venture of the Group.

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

Separately:

- the Group has certain loan facilities with Government (note 15);
- almost all of the pension assets and liabilities of the Royal Mail Pension Plan to Government (note 19);
- the Group has received a Government Grant of £200m, £98m of which was recognised through the income statement (note 5) and £102m of which is deferred income within trade and other payables (note 14); and
- the Group has received the Network Subsidy Payment from Government (note 1).

Key management comprises Executive and Non-Executive Directors of the Post Office Limited Board and the members of the Executive Committee at 31 March 2013. The aggregate remuneration of the key management personnel of the Post Office Group is set out below:

	2013 £000	2012 £000
Short-term employee benefits	**3,568**	3,077
Post-employment benefits	**119**	232
Other long-term benefits	**651**	-
Termination benefits	**-**	-
Total	**4,338**	3,309

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24. Post balance sheet events

In accordance with the funding agreement with Government announced on 27 October 2010, for which State Aid approval was received on 28 March 2012, Post Office Limited received £415m of funding on 2 April 2013.

25. Immediate and ultimate parent company

At 31 March 2013, the Directors regarded Royal Mail Holdings plc as the immediate and ultimate parent company. The largest group to consolidate the results of the company is Royal Mail Group Holdings plc, a company registered in the United Kingdom. Royal Mail Group Holdings plc financial statements can be obtained from the company website, www.royalmailgroup.com

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Post Office Limited

Parent Company Financial Statements

2012-2013

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Post Office Limited

Independent auditor's report to the members of Post Office Limited

We have audited the parent company financial statements of Post Office Limited for the 53-week period ended 31March 2013 which comprise the company balance sheet, the company statement of total recognised gains and losses, the company reconciliation of movements in shareholder's and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the consolidated financial statements of Post Office Limited for the 53-week period ended 31 March 2013.

Ernst & Young LLP

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

1. The maintenance and integrity of the Post Office Limited's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Balance sheet of the company at 31 March 2013 and 25 March 2012

	Notes	2013 £m	2012 £m
Intangible assets	2	**-**	-
Tangible assets	3	**11**	11
Investments in joint ventures and associates	4	**1**	5
Retirement benefit surplus	12	**97**	-
Total fixed assets		**109**	16
Current assets			
Stocks		**8**	6
Debtors - receivable within one year	5	**362**	226
Financial assets – investments	6	**92**	62
Financial assets – derivatives		**1**	-
Cash at bank and in hand	7	**879**	758
		1,342	1052
Current liabilities			
Creditors - amounts falling due within one year	8	**(901)**	(587)
Financial liabilities - interest bearing loans and borrowings	9	**(291)**	(377)
Net current assets		**150**	88
Total assets less current liabilities		**259**	104
Creditors - amounts falling due after more than one year	10	**(4)**	(8)
Provisions for liabilities	11	**(26)**	(14)
Retirement benefit obligation	12	**-**	(206)
Net assets/(liabilities)		**229**	(124)
Capital and reserves			
Called up share capital	13	**-**	-
Share premium	14	**465**	465
Profit and loss account	14	**(236)**	(589)
Shareholder's surplus/(deficit)		**229**	(124)

The financial statements on pages XX to XX were approved by the Board of Directors on XXX 2013 and signed on its behalf by:

P A Vennells
Chief Executive

C M Day
Chief Financial Officer

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Post Office Limited

Statement of total recognised gains and losses
for the 53 weeks ended 31 March 2013 and the 52 weeks ended 25 March 2012

	Notes	**2013 £m**	2012 £m
Profit for the financial year	14	**74**	37
Actuarial gains on defined benefit pension schemes	12	**14**	108
Taxation on items taken directly to equity		**(21)**	-
Total recognised gains for the financial year	14	**67**	145

There is no statement of historical cost profits and losses as the financial statements are produced under the historic cost accounting convention.

Reconciliation of movements in shareholder's funds
for the year ended 31 March 2013 and 25 March 2012

	Notes	**2013 £m**	2012 £m
Opening shareholder's deficit	14	**(124)**	(269)
Total recognised gains for the financial year (see above)		**67**	145
Transfer of pension deficit to government		**286**	-
Closing shareholder's surplus/ (deficit)		**229**	(124)

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Post Office Limited

Notes to the financial statements

1. Accounting Policies

The following accounting policies apply throughout Post Office Limited (the Company):

Financial year

The financial year ends on the last Sunday in March and accordingly, these financial statements are made up to the 53 weeks ended 31 March 2013 (2012 52 weeks ended 25 March 2012).

Basis of preparation

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

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own profit and loss account. The result dealt with in the accounts of the company amounted to £74m profit (2012 £37m profit).

No cash flow statement has been presented as the Company is part of the Post Office Limited Group which has presented a consolidated cash flow statement within its Group financial statements.

The company has taken advantage of the exemption conferred by FRS 29 not to disclose financial instrument information as the Company is part of the Post Office Limited Group which has presented such disclosures in its Group financial statements.

Changes in accounting policy

The accounting policies are consistent with those of the previous year.

Intangible fixed assets

Intangible assets acquired separately or generated internally are initially recognised at cost and are reviewed for impairment. An impairment loss is recognised in the profit and loss account for the amount by which the carrying value of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

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

Software	1 to 6 years

Tangible fixed assets

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

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

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

Impairment reviews

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

Leases

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Company are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

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

Investments in subsidiaries

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

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

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

Deferred tax is not recognised in the following instances:

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

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

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

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

For defined benefit schemes, the amounts charged to operating profit, as part of staff costs, are the current service costs and any gains and losses arising from settlements, curtailments and past service costs.

The net difference between the interest costs and the expected return on plan assets is recognised as net pensions interest in the profit and loss account. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses (STRGL). Any deferred tax movement associated with the actuarial gains and losses is also recognised in the STRGL.

For defined contribution schemes, the Company's contributions are charged to operating profit, as part of staff costs, in the period to which the contributions relate.

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

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

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

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

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1. Accounting Policies (continued)

Financial liabilities – interest-bearing loans and borrowings
All loans and borrowings are classified as financial liabilities measured at amortised cost. Borrowing costs are recognised as an expense when incurred.

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

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

Fair value measurement of financial instruments
The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

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

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

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

2. Intangible assets

Cost	**2013 £m**	2012 £m
At 26 March 2012 and 28 March 2011	**183**	166
Additions	**25**	17
Disposals	**-**	-
At 31 March 2013 and 25 March 2012	**208**	183
Amortisation and impairment		
At 26 March 2012 and 28 March 2011	**183**	166
Impairment	**25**	17
At 31 March 2013 and 25 March 2012	**208**	183
Net book value		
At 31 March 2013 and 25 March 2012	**-**	-

The above intangible assets relate to software.

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3. Tangible fixed assets

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 26 March 2012	79	17	114	34	1	709	954
Reclassification	-	1	(1)	-	-	-	-
Additions	9	-	1	9	-	22	41
Disposals - external	(1)	-	-	(1)	-	(12)	(14)
At 31 March 2013	**87**	**18**	**114**	**42**	**1**	**719**	**981**
Depreciation							
At 26 March 2012	69	16	114	34	1	709	943
Depreciation	-	-	-	-	-	-	-
Impairment (see note 5)	9	1	-	9	-	22	41
Disposals - external	(1)	-	-	(1)	-	(12)	(14)
At 31 March 2013	**77**	**17**	**114**	**42**	**1**	**719**	**970**
Net book value							
At 31 March 2013	**10**	**1**	**-**	**-**	**-**	**-**	**11**
At 26 March 2012	10	1	-	-	-	-	11

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £3m (2012 £3m) of the total cost of properties.

4. Investments in joint ventures and associates

	2013 £m	2012 £m
Investment in joint ventures and associates	**1**	5

Joint ventures

During 2012-13 and 2011-12, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited with a carrying value of £0.6m (2012 £0.6m), whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom.

Associates

During 2011-12, the Company's only associate investment was a 49.99% interest (4,999 £0.01 ordinary A shares) in Midasgrange Limited with a carrying value of £4.6m (2011 £4.6m), whose principal activity is the provision of personal financial products. This investment was disposed of during the year ended 31 March 2013.

5. Debtors - receivable within one year

	2013 £m	2012 £m
Trade debtors	**32**	39
Prepayments and accrued income	**81**	39
Client debtors	**240**	138
Other receivables	**9**	10
Total	**362**	226

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6. Current financial assets – investments

	2013 £m	2012 £m
Money market funds	**86**	43
Short-term deposits - bank	**6**	19
Total	**92**	62

7. Cash at bank and in hand

	2013 £m	2012 £m
Cash in the Post Office Limited network	**879**	758

8. Creditors – amounts falling due within one year

	2013 £m	2012 £m
Trade creditors and accruals	**178**	172
Advance customer payments	**50**	48
Social security	**10**	9
Client creditors	**528**	332
Obligations under finance lease and hire purchase contracts	**3**	4
Amount due to other group companies	**5**	9
Capital creditors	**18**	10
Business transformation payments	**7**	3
Government Grant	**102**	0
Total	**901**	587

9. Financial liabilities – interest bearing loans and borrowings

Analysis of loans and committed facilities:

	2013 £m	2012 £m
Loans drawn down	**291**	377
Total facility	**1,150**	1,150

The loans under the facility are short dated on a programme of liquidity management and mature on average 1 day after the year end (2012 1 day). On maturity it is expected that further loans will be drawn down under this facility, which expires in 2016. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date is £859m (2012 £773m.) The average interest rate on the drawn down loans is 1.0% (2012 0.8%).

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

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

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10. Creditors – amounts falling due after more than one year

	2013 £m	2012 £m
Obligations under finance lease and hire purchase contracts	**4**	6
Other payables	**-**	2
Total	**4**	8

11. Provisions for liabilities

	Crown Conversions Project £m	Network Transformation £m	Other £m	Total £m
At 26 March 2012	9	-	5	**14**
Charged in operating exceptional items	-	10	12	**22**
Charged in operating costs		-	6	**6**
Charged in financing costs	1	-	-	**1**
Utilisation	(3)	-	(14)	**(17)**
At 31 March 2013	7	10	9	**26**

Other provisions of £9m (2012 £5m) include property contracts, comprising amounts from onerous lease obligations and personal injury claims.

Amounts charged in financing costs relate to the unwinding of discounted long-term provisions.

The Crown Conversions project relates to past franchising of Crown offices and onerous property lease provisions are expected to be utilised within 5 years.

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12. Pensions

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

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

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

The disclosures in this note relating to the year ended 31 March 2013 reflect the Post Office Limited sectionalised RMPP scheme which is independently operated by Post Office Limited and the approximate 7% share of the RMSEPP scheme. The comparative figures for the year ended 25 March 2012 and the opening position at 28 March 2011 represent approximately 7% of the previous combined RMPP and RMSEPP plans.

The disclosures in this note relate to the year ending 31 March 2013 and show how the value of the assets and liabilities have been calculated at the balance sheet date.

The Company participates in pension schemes as detailed below.

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

Defined Contribution

The charge in the profit and loss account for the defined contribution schemes and the Company contributions to these schemes was £1m (2012 £1m) during the year. A new defined contribution plan (RMDCP) was launched in April 2009. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Company for a year.

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds. The latest full actuarial funding valuation of both schemes was carried out as at 31 March 2009 using the projected unit method. For RMPP, this valuation was concluded at £10.3bn deficit. For RMSEPP, the valuation was concluded at £100m deficit. RMPP includes sections A, B and C each with different terms and conditions:

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

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

The changes encompass:

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

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Payment of £24m (2012 £23m) was made by the Company during the year in respect of regular future service contributions, nearly all relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1% (2012 17.1%), effective from April 2010. This rate is not expected to change materially during 2013-14. For RMSEPP, these contributions have remained at 35.9% (2012 35.9%) until its closure.

The Company pays 7% of the total deficit payment required to fund the deficit in RMSEPP and a payment of £2m (2012 less than £1m) was made by the Company during the year. Following the State Aid clearance granted on 21 March 2012 and the subsequent transfer of the historical pension deficit to HM Government on 1 April 2012 no RMPP deficit payment was made during 2011-12 or 2012-13. For RMSEPP, deficit recovery payments will be £1m per annum, from 1 April 2010 to 31 January 2024.

A current liability of £nil (2012 £nil) has been recognised for payments to the pension schemes relating to redundancy. During the year, payments of £2m (2012 £3m) relating to redundancy were made.

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

b) Major long-term assumptions

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

	At 31 March 2013 % pa	At 25 March 2012 % pa	At 28 March 2011 % pa
Rate of increase in salaries	**4.3**	4.3	4.5
Rate of pension increases – RMPP sections A/B	**2.3**	2.3	2.8
Rate of pension increases – RMPP section C	**3.2**	3.3	3.5
Rate of pension increases – RMSEPP all members	**3.3**	3.3	3.5
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**3.3**	3.3	3.5
Rate of increase for deferred pensions	**2.3**	2.3	2.8
Discount rate	**4.8**	5.1	5.5
Inflation assumption (RPI)	**3.3**	3.3	3.5
Inflation assumption (CPI)	**2.3**	2.3	2.8
Expected average rate of return on assets	**n/a**	5.9	6.5

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

The above assumptions relate to both defined benefit plans with the exception of the expected average rate of return on assets which was computed for the combined assets of the plans. The expected average rate of return on assets was a weighted average of the long-term expected rate of return of each principal asset class (see section b). The expected average rate of return was computed at each balance sheet date based on the market values and long-term rate of return of each principal asset class as at that date. The change in IAS 19 that will be implemented with effect from 1 April 2013 means that the expected average rate of return on assets is no longer required.

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

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

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Mortality

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

Average expected life expectancy from age 60:	**2013**	2012	2011
For a current 60 year old male RMPP member	26 years	26 years	26 years
For a current 60 year old female RMPP member	29 years	29 years	29 years
For a current 40 year old male RMPP member	29 years	29 years	29 years
For a current 40 year old female RMPP member	32 years	32 years	32 years

b) Plans' assets and expected rates of return

The assets in the plans and the expected rates of return for the Company were:

Sectionalised RMPP	**Market value 2013 £m**	**Long-term expected rate of return 2013 % pa**
Equities	**29**	**n/a**
Bonds	**205**	**n/a**
Property	**-**	**n/a**
Other assets	**9**	**n/a**
Fair value of RMPP assets	**243**	
Present value of RMPP liabilities	**(144)**	
Surplus in plan	**99**	

Share of RMSEPP	**Market value 2013 £m**	**Long term expected rate of return 2013 % pa**
Equities	**146**	**n/a**
Bonds	**193**	**n/a**
Property	**19**	**n/a**
Other assets	**3**	**n/a**
Fair value of plan assets for RMSEPP	**361**	
Present value of plan liabilities for RMSEPP	**(347)**	
Surplus in plan for RMSEPP	**14**	
Surplus in plan for the POL share (at approximately 7%) of RMSEPP	**1**	

A retirement benefit surplus of £97m is disclosed on the balance sheet, representing the surplus in plans of £99m and £1m for RMPP and RMSEPP respectively, and net of tax of £3m at a rate of 35% on the element of the surplus which is recoverable through a refund from the plans.

Combined plans	Market value 2012 £m	Market value 2011 £m	Long term expected rate of return 2012 % pa	Long term expected rate of return 2011 % pa
Equities	3,385	4,268	7.7	8.2
Bonds	25,610	21,409	5.7	6.2
Property	1,417	1,590	6.8	6.5
Other assets	333	418	3.4	4.2
Fair value of plans' assets for the combined plans	30,745	27,685		
Present value of plans' liabilities for the combined plans	(33,667)	(32,186)		
Deficit in schemes for the combined plans	(2,922)	(4,501)		
Deficit in schemes for share (at approximately 7%) of combined plans	(206)	(316)		

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

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c) Movement in plans' assets and liabilities

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

Assets	Sectionalised RMPP 2013 £m
Assets in sectionalised RMPP at beginning of period	**2,108**
Transfer of pension assets to government	**(1,953)**
Contributions paid	**25**
Employee contributions paid	**8**
Finance income (expected rate of return)	**11**
Actuarial gains (additional increases in market values)	**43**
Benefits paid to members	**(2)**
Assets in sectionalised RMPP at end of period	**240**

Assets	Share of RMSEPP 2013 £m
Share of assets in RMSEPP at beginning of period	**21**
Contributions paid	**2**
Movement in contributions accrued	**-**
Employee contributions paid	**-**
Finance income (expected rate of return)	**1**
Actuarial gains (additional increases in market values)	**1**
Benefits paid to members	**-**
Share of assets in RMSEPP at end of period	**25**

Assets combined plans	2012 £m	2011 £m
Share of assets in combined plans at beginning of period	1,923	1,797
Contributions paid	26	46
Movement in contributions accrued	(3)	2
Employee contributions paid	10	11
Finance income (expected rate of return)	124	120
Actuarial gains (additional increases in market values)	131	33
Benefits paid to members	(82)	(86)
Share of assets in combined plans at end of period	2,129	1,923

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

Liabilities	Sectionalised RMPP 2013 £m
Liabilities in sectionalised RMPP at beginning of period	**(2,313)**
Transfer of pension liabilities to government	**2,239**
Current service cost	**(24)**
Curtailment costs*	**(2)**
Finance cost	**(9)**
Employee contributions	**(8)**
Actuarial loss (recognised in statement of comprehensive income)	**(29)**
Benefits paid	**2**
Liabilities in sectionalised RMPP at end of period	**(144)**

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

Liabilities combined plans	2012 £m	2011 £m
Share of liabilities in combined plans at beginning of period	(2,239)	(2,361)
Current service cost	(23)	(25)
Curtailment costs*	-	(3)
Finance cost	(122)	(132)
Employee contributions	(10)	(11)
Actuarial gain/(loss) (recognised in statement of comprehensive income)	(23)	207
Benefits paid	82	86
Share of liabilities in combined plans at end of period	(2,335)	(2,239)

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

d) History of experience gains and losses

The cumulative amount of actuarial gains and losses recognised since transition to IFRS as adopted by the European Union at 26 March 2012 in the consolidated statement of comprehensive income is a gain of £14m.

	Sectionalised RMPP	Share of RMSEPP	7% share of combined plans			
	2013 £m	**2013 £m**	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of assets	**243**	**25**	2,168	1,944	1,811	1,407
Present value of liabilities	**(144)**	**(24)**	(2,374)	(2,260)	(2,375)	(1,882)
Surplus/(Deficit) in schemes	**99**	**1**	(206)	(316)	(564)	(475)
Experience adjustment on assets	**46**	**1**	131	33	313	(384)
Experience adjustment on liabilities	**(20)**	**-**	-	(1)	47	(1)

	2013 %	**2013 %**	2012 %	2011 %	2010 %	2009 %
Experience adjustment on assets as a % of scheme assets	**18.9**	**5.5**	6.1	1.7	17.4	(27.3)
Experience adjustment on liabilities as a % of scheme liabilities	**(13.9)**	**1.4**	0.0	0.0	(2.0)	0.1
Deficit in the scheme as a % of scheme liabilities	**-**	-	8.8	14.1	23.9	25.3

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e) Recognised charges

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

	2013 sectionalised RMPP £m
Analysis of amounts recognised in the income statement	
Analysis of amounts charged to operating profit before exceptional items:	
Current service cost	**24**
Total charge to operating profit before exceptional items	
Analysis of amounts charged to operating exceptional items:	
Loss due to curtailments (within provision – note 11)	**2**
Total charge to operating profit	**26**
Analysis of amounts charged/(credited) to net pensions interest:	
Interest on plan liabilities	**9**
Expected return on plan assets	**(11)**
Net pensions credit to financing	**(2)**
Net charge to the income statement before deduction for tax	**24**
Analysis of amounts recognised in the statement of comprehensive income	
Transfer of pension liabilities to government	**2,239**
Transfer of pension assets to government	**(1,953)**
Gain on transfer to government	**286**
Actual return on plan assets	**57**
Less: expected return on plan assets	**(11)**
Less: taxation on surplus recoverable through plan refunds	**(3)**
Actuarial gains on assets (all experience adjustments)	**43**
Experience adjustments on liabilities	**(20)**
Effects of changes in actuarial assumptions on liabilities	**(9)**
Actuarial losses on liabilities	**(29)**
Total actuarial gains recognised in the statement of comprehensive income	**300**

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	2013 share of RMSEPP £m
Analysis of amounts recognised in the income statement	
Analysis of amounts charged to operating profit before exceptional items:	
Current service cost	**1**
Total charge to operating profit before exceptional items	
Analysis of amounts charged to operating exceptional items:	
Loss due to curtailments (within provision for organisational review – note 11)	**-**
Total charge to operating profit	**1**
Analysis of amounts charged/(credited) to net pensions interest:	
Interest on plan liabilities	**16**
Expected return on plan assets	**(18)**
Net pensions interest	**(2)**
Share of net pensions interest (at approximately 7%)	**-**
Net charge to the income statement before deduction for tax	**-**
Analysis of amounts recognised in the statement of comprehensive income in the Royal Mail Holdings Group financial statements	
Actual return on plan	**38**
Less: expected return on plan	**(18)**
Actuarial gains on assets (all experience adjustments)	**20**
Experience adjustments on liabilities	**5**
Effects of changes in actuarial assumptions on liabilities	**(23)**
Actuarial losses on liabilities	**(18)**
Total actuarial gains recognised in statement of comprehensive income in the Royal Mail Holdings Group financial statements	**2**
Share of actuarial gains/(losses) recognised in statement of comprehensive income (at approximately 7%)	**-**

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Combined plans	2012 £m	2011 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptional items:		
Current service cost	23	25
Total charge to operating profit before exceptional items	23	25
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments (within provision for organisational review – note 11)	-	2
Total charge to operating profit	23	27
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plans' liabilities for the combined plans	1,749	1,881
Expected return on plans' assets for the combined plans	(1,775)	(1,714)
Net pensions interest for the combined plans	(26)	167
Share of net pensions interest (at approximately 7%)	(2)	12
Net charge to the income statement before deduction for tax	21	39
Analysis of amounts recognised in the statement of comprehensive income in the Royal Mail Holdings Group financial statements		
Actual return on plans' assets for the combined plans	3,644	2,184
Less: expected return on plans' assets for the combined plans	(1,775)	(1,714)
Actuarial gains on assets for the combined plans (all experience adjustments)	1,869	470
Experience adjustments on liabilities for the combined plans	(5)	(8)
Effects of changes in actuarial assumptions on liabilities for the combined plans	(320)	2,962
Actuarial (losses)/ gains on liabilities for the combined plans	(325)	2,954
Total actuarial gains recognised in statement of comprehensive income in the Royal Mail Holdings Group financial statements	1,544	3,424
Share of actuarial gains/(losses) recognised in statement of comprehensive income (at approximately 7%)	108	240

13. Called up share capital

	2013 £	2012 £
Authorised		
Ordinary shares of £1 each	**51,000**	51,000
Total	**51,000**	51,000
Allotted and issued		
Ordinary shares of £1 each	**50,003**	50,003
Total	**50,003**	50,003

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14. Reserves

	Share premium £m	Retained earnings £m	2013 Total £m
Balance at 26 March 2012	465	(589)	**(124)**
Profit for the financial year	-	74	**74**
Actuarial gains on defined benefit pension schemes	-	14	**14**
Taxation on items taken directly to equity	-	(21)	**(21)**
Transfer of pension deficit to government	-	286	**286**
At 31 March 2013	**465**	**(236)**	**229**

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Corporate information

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Post Office Limited Annual Report and Financial Statements 2012-13

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Section: Overview

Title: Who we are

At the Post Office our aim is to provide customers with the things that are important to them – from mail to their broadband package, car insurance to their savings account. Whether customers come into branch, are on the move, or shop online, we will ensure they can trust us to always deliver a great experience. That's the Post Office promise.

Heading: The Post Office in numbers

- The largest retail network in the UK
- 11,780 branches
- 99.7% of the population within three miles of a branch
- Number one travel money provider
- Fast-growing UK financial services provider
- Biggest accepter of contactless payments in Europe
- 18 million customers a week, including half of the UK's small businesses
- 15 billion inland addressed items handled every year
- 95% of all UK debit card accounts accessible through our branches
- The sixth largest telecoms provider in the UK
- 87% customer satisfaction across our branches
- One of the most trusted brands in the UK

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Section: Overview

Chairman's foreword

It is with great pleasure and pride that I write the foreword to the first Annual Report and Financial Statements for the Post Office as an independent business.

The Report describes the way in which the Post Office has embarked on a remarkable turnaround to reverse the trend of years of declining revenues, sustained branch closures and a reputation for inconvenience and queues.

Thanks to our Shareholder, the government, we are investing millions of pounds into our network over the three years up to April 2015. There is no longer a programme of Post Office branch closures. Instead, we are modernising the network, increasing our opening hours, offering new services, developing new methods of interacting with our customers, working with our key partners in new ways, cutting costs and increasing our revenues.

All of this puts the Post Office on the path to securing financial sustainability for the long term, reducing our dependence on the taxpayer to the minimum, and changing our culture so that we are always on the front foot, responding to changes in the world around us in partnership with the key people on whom we depend for the delivery of our services. If we are successful in achieving these changes, in particular financial sustainability, the conditions for the successful mutualisation of the Post Office could be in place - a prospect which could help to secure the kind of self-sustaining Post Office we all want to see in the future.

A series of important changes has already happened and many more are in the pipeline.

We ceased to be a subsidiary of Royal Mail Group Limited in April 2012 and began operating independently. Since then, I have completed the formation of my Board and we are now operating Board governance in keeping with best practice in the corporate world. Full details of the Board members and our Board committees are on pxx. I am delighted to have been able to appoint such able people with varied backgrounds who are all committed to supporting and challenging the Post Office as it pursues the changes which must be made if we are to secure its future.

We achieved a number of notable successes last year. For the second year running, our revenues are up on the previous year despite the difficult economic environment. We are on the road to reducing our reliance on the Network Subsidy Payment received from the government. We have made great headway in our plan to modernise the network of branches run by our agents. 1,450 have signed up to be converted into new operating models which give much better service to customers, resulting in higher footfall and turnover. And we have made real improvements to the running of our Crown branches where the operating loss has reduced this year from £xx million to £37 million.

We have won a number of new government contracts under which we are providing some completely new services and enabling central and local government to realise significant administrative savings. We are also offering new financial services, maintaining our appeal to customers who come to us for the reliability and transparency of our financial offers. Our mails business, meanwhile, remains the market leader and is increasingly innovative.

We are clear about the way forward for the Post Office and about the changes which need to take place to build on the successes set out in this Report. We are equally clear, that there are

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significant challenges ahead; the going is not easy. This turnaround, like any other, requires people throughout the organisation and their partners to work in new ways. We need to win new business on proper commercial terms - something which is difficult in current economic circumstances. And we need to reduce our high fixed costs while at the same time finding the resources to operate on our own two feet and to modernise and innovate - catching up after years of under-investment.

I would like to thank the Post Office Chief Executive, Paula Vennells, her team and all the people who work to support the Post Office business, and have brought about the remarkable changes we have already seen and will see in the coming months and years. I would like also to thank all those stakeholders and partners with whom we work so closely.

The Post Office has a long and honourable 370-year history. We need to retain the essence of what has made it great and made it loved, while at the same time making it fit for the future. It is in that context that this Annual Report and Financial Statements should be seen. They report on the first steps of progress into the future - a future which blends the trust, integrity and accessibility, for which the Post Office is renowned, with the contemporary relevance, innovation and professionalism of a financially sound 21st century business.

Alice Perkins

Chairman

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Section: Overview

Title: Chief Executive's review

The Post Office is committed to a strategy which will grow and modernise our business business and customer excellence is always at its core. It is heartening, therefore, to be able to report good progress in these endeavours during the 2012-13 financial year. In essence, the evidence on the pages which follow shows that we have started to turn the business around, remaining at the heart of communities while becoming increasingly commercial and entrepreneurial.

In a challenging economic climate, and with particular pressures on the high street, we can report strong progress in attracting the revenue so important to underpinning the business and sustaining the network. Revenue has grown in three of our four pillars during 2012-13, with turnover increasing by £44 million to £1.02 billion. Mails and Retail revenue has grown by 4.3%, Financial Services by 6.4%, and Telecoms by 7.5%, while Government Services revenue remained flat in the context of the very tight fiscal environment resulting in reducing volumes and margins.

This is an encouraging performance. It demonstrates our increasing appetite for innovation, the power of the Post Office brand and the continued attractiveness to customers of accessibility through a branch network of 11,780 outlets, and our inherent principles of trust, transparency and fairness.

This solid progress means we are able to report an increase of £33 million to £94 million in operating profit before exceptional items. This includes £210 million received from the government in 2012-13 as a subsidy to support the branch network. This enabled the provision of key general and economic services to citizens nationwide, including the most remote as well as the most deprived areas of the country. We are proud as a commercial business with a public purpose to fulfill this critically important task, and we are committed to maintaining the network.

The subsidy payment constituted 17 % of revenue in 2012-13 and will decline by £10 million in the coming year and by a further £40 million in 2014-15. Future extension of this payment will depend on government-spending decisions beyond 2015. To achieve our ambition of reducing dependency on the subsidy and achieving commercial sustainability, it is critical to continue modernising and innovating, growing revenue and continuing to focus on our customers while keeping a strong control on costs.

The significant practical progress which has been made in strategy implementation is therefore very welcome. In 2010 the government pledged £1.34 billion of funding for the Post Office up to 2015. While half of this related to the network subsidy the remainder was pledged to support the modernisation of the Post Office.

The activity undertaken in 2012/13, in pursuit of this goal, has been unprecedented in our history. A major transformation programme to modernise the branch network began, with hundreds of branches converting to new, more customer-friendly, formats and building the momentum to convert many more.

There is no more visible indicator of a Post Office that is changing for the better than the changes customers see in their cities, towns and villages. And the evidence is that these changes are meeting with approval: customer satisfaction with the new 'main' and 'local' branch models runs at 95%[6], while queue times in the 'local' model have fallen below a minute and customers are using new opening hours stretching from early morning to late evening. Subpostmasters switching to the

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new models, meanwhile, are able to increase their retail businesses. Moreover, the physical network that is so central to our business is now being complemented by online and telephone channels, further enhancing the convenience of our service to customers.

Naturally, a programme such as this involves challenge. The Post Office has made significant progress, for instance, in reducing the losses in the network of Crown branches directly managed by the business. There remains a long way to go to reach the point where this part of the network breaks even, and that is why we are holding firm in relation to our position on pay and franchising in the Crown network. There will be other challenges ahead, but as our Chairman has noted in her foreword, we are determined to complete a transformation which underpins the future of the Post Office and brings more benefits to our millions of customers.

If our financial and practical progress has been encouraging in 2012-13, so has our pursuit of new ways of running the business. In 2012 we set up a stakeholder forum to begin a process which is a key step in our journey toward potential future mutualisation, that of defining the public purpose of the Post Office. In 2013-14 we will complete this work and over the summer ahead we will engage the public on this work, with a view to embedding this public purpose in our business planning and processes.

It is a process in tune with our ambitions to be more proactive in delivering our public purpose. The Post Office is a long-standing part of UK high streets and will work hard to support their revival in challenging economic times, joining with others to lead and develop solutions which help high streets and other communities to survive and thrive. We will step up our work in supporting the growth of small business by ensuring that we develop more of the products and services they need to grow. We are also working with the Business in the Community high street task force, supporting the work of 'town teams' in Sydenham, Stockton-on-Tees and Brighton, work which complements our membership of the High Street Forum co-chaired by the Department for Communities and Local Government and Alliance Boots.

The Post Office will also work ever more closely with those seeking to close the digital skills gap, work which is so important to a thriving economy. As a founder member of Go On UK, the charity set up to make the UK the most digitally skilled nation in the world, the business will focus on building the online skills of our people. We will also work with our partners to develop solutions which will enable the 16 million people in the UK, who still do not have basic online skills, to access and enjoy the benefits of being online.

As Chief Executive of this great business, I would like to thank all those who have worked so hard for it over the past year, whether they are members of our staff or those whose businesses deliver our services.

I am particularly grateful to Alice Perkins and to the Board for their guidance throughout the year. They have strengthened our strategic oversight in relation to the markets in which we operate – Mails and Retail, Financial Services, Government Services and Telecoms – and brought a level of focus and challenge to decision making at the Post Office which has helped both revitalise the company and energise its commercial focus.

The Post Office changed significantly over the course of 2013-13, and for the better. We have no illusions about the hard work ahead, but our determination to deliver the business transformation of the decade remains undimmed.

Paula Vennells Chief Executive

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Section: Overview

Title: Strategy

Boxout: [THE STRATEGY WILL BE DEPICTED THROUGH GRAPHICS SETTING OUT OVERALL OBJECTIVES AND EVIDENCE OF PROGRES DURING THE FINANCIAL YEAR 12/13]

Key objectives

The Post Office strategy is based on being commercially successful and growing as a business, while maintaining the key role that Post Office branches play in supporting communities across the UK.* Our people are fundamental to the way we do business; they are at the core of everything we do and are therefore critical to the success of the Post Office strategy.

Growth

Objective: A key part of our strategy to 2015 is to grow income by introducing new products and services across our portfolio to offset declining income from traditional product areas.

Evidence from 2012-13: Introduced new products such as Post Office mortgages while also attracting and retaining clients – RBS and HSBC signed up to partner banking – and winning new contracts such as the DVLA licensing contract.

Modernisation

Objective: To modernise the Post Office and the network through the Network Transformation programme, Crown Transformation programme (to break even by 2015) and investment in technology to improve customer-facing systems.

Evidence from 2012-13: To date, a total of 1,450 branches have either been converted or subpostmasters have signed contracts to have their branches modernised in 2012-13. 507 local and main branch conversions have resulted in 17,500 additional opening hours. Crown transformation: progress to reduce losses – financial performance improved by £9 million; successfully introduced new ways of working including increased automation and longer opening hours in pilot branches.

This year has seen the completion of the rollout of new PIN Pad payment devices, making the Post Office the largest contactless payment network in Europe.

Customer excellence

Objective: To put customers at the heart of everything we do, transform our technology to offer more responsive and customer-focused systems.

Evidence from 2012-13: Improvement in online capabilities, including a full website redesign. Our website now receives four million customer views per month, with unique visitors 30% up year on year. In 2012-13, overall customer satisfaction across 1,000 of our largest branches was 87%[1].

[1] Quadrangle Brand and Customer Insight Programme 2011-12 & 2012-13 (1,000 largest branches)

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* This strategic approach is fully consistent with the government's policy document on the Post Office Network 'Securing the future of the Post Office Network in the Digital Age'. [1]

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Section: Operational review

Title: Branch network

Modernising the Post Office branch network

The Post Office has an unrivalled network, with a branch within three miles of 99% of the population. No other retailer can match the reach which puts the Post Office at the heart of communities across the UK.

The business is committed to maintaining its branch network of more than 11,700 outlets, ensuring services are readily accessible to communities across the UK. The physical network, increasingly enhanced by digital and telephone services, lies at the core of the business. 97% of the Post Office branches in the network are run in conjunction with retail partners on an agency and franchise basis.

Underpinning the commitment to the network is an unprecedented branch modernisation programme – the largest investment in the history of the Post Office – which is creating modern, commercially sustainable branches that are improving customer experience.

This modernisation programme involves transforming those branches that are operated by other businesses or independent subpostmasters on behalf of the Post Office, and the 370 (offering public access) Crown branches directly owned and managed by the Post Office.

Network Transformation programme

Dependent on size, independent operators of Post Office branches are able to convert to one of two new models – a main branch or a local branch.

Main branches, of which there are now 178, continue to offer a dedicated Post Office counter, often open plan, in a brighter more modern environment. In addition, the majority of services will continue to be available outside traditional hours – for as long as the host business is open - from the retail counter.

The local model, for smaller branches (329 (NB need to use the figures as of March 31)), fully integrates the Post Office with the host business, offering services from the retail position rather than a dedicated Post Office counter. This often means services are available for much longer than before – in many cases from early morning until late at night, seven days a week.

With more than 507 new-style main and local Post Office branches already established during 2012-13, subpostmasters and customers across the UK are benefiting from a new modern approach to offering Post Office services. Customers are responding positively to longer opening hours, brighter environments and open plan counters. Independent research shows customer satisfaction scores at both these modernised main and local branches are consistently around 95%.

Subpostmasters are also benefiting from more efficient ways of working as well as increases in both their Post Office revenue and accompanying retail business.

Interest in the new models remains strong, with subpostmasters at a further 943 branches already signed up to convert during 2013-14.

Box out

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Postal Affairs Minister, Jo Swinson, joined us at the Bishop's Hull local Post Office in Somerset to celebrate the opening of more than 500 new model branches in the network. She said: "The Post Office is the cornerstone of many residents and businesses. With more than 11,700 branches, it provides unparalleled reach into communities up and down the country. The government recognises this value which is why we have made a clear commitment to its future."

Graphic: insert px of Jo Swinson

Boxout: Breakdown of the Post Office network to be inserted on these pages once numbers have been cross-referenced with other figures

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Section: Operational review

Title: Network transformation case studies

Greenwich main Post Office, London

Sandeep and Damandeep Sandhu have enjoyed a smooth transition of their branch. They believe the modernisation programme will give the Post Office a much more competitive edge on the high street.

Sandeep said: "The refurbishment of branches is essential. It means our branches are improving the aesthetics such as flooring and lighting to really compete and look professional. The Post Office has sustained its trusted status and now looks modern as well."

Note to design: px available

Dingwall main Post Office, The Highlands

Alicen Lawrie's branch is open from 7am to 9pm on weekdays allowing many customers working in nearby Inverness to visit at either end of the day. She said: "The new open plan counters fit very well in the surroundings of my convenience store. It helps our staff have more comfortable conversations with our customers."

Note to design: px available

Steve Roper, Sowerby Bridge main Post Office, West Yorkshire

"Staff prefer the open plan counters. The branch is a much friendlier environment and it's easier to have quality conversations with customers. We also have a private conversation area at the other side of the branch where we can speak to customers about financial services, telecoms products, savings and life insurance offers because people feel more at ease in privacy."

Note to design: px available

Drumaness local Post Office, County Down

Johnny Kimber and his customers have welcomed the new open-plan format and longer opening hours in the busy branch. He said: "Our Post Office services are now available an extra 69 hours every week, and this has already brought in new customers. We're a much more realistic option for everyone now and the Post Office is a far more convenient high street proposition."

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Medway Parade local Post Office, West London

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Chitty Thavachelvam is winning new business every day after converting to a local model. She said "I've been able to extend my retail counter, and have noticed new customers coming through the door, who are now able to take advantage of Post Office services until 10.30pm on Sunday nights."

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Section: Operational review
Title: Network transformation in numbers

507

New branches

We now have 507 new main and local branches open across the UK

1450

Contracts signed

507 branches have already been converted while a further 943 subpostmasters are already signed up to be converted to the new models in 2012-13, making a total of 1,450

87%

Increase in opening hours

Across our main and local estate there has been an average increase in opening hours of 87% following conversion to the new model (34% increase for mains and 117% increase for locals on average)

71%

Subpostmaster satisfaction

Subpostmaster satisfaction in transformed branches is also high with an average score of 71%

10% Increase in retail sales

An average retail sales increase of 10% is being reported across mains and locals

Customer reaction

95%

Satisfied customers

Customers are continuing to demonstrate high levels of satisfaction with the models, with satisfaction levels at 95% for both mains and locals

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55

Seconds

Average waiting times in branches are 55 seconds in local branches two minutes in main branches

20% (locals) and 8% (mains)

Visiting branches outside traditional opening hours

Customers are delighted with the extension of opening hours and the added convenience. On average, 20% of customers are visiting local branches outside of core hours and 8% in mains

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Section: Operational review

Crown Transformation programme

At a time when other high street brands are disappearing, the Post Office is investing in 294 of our Crown branches. These are usually larger branches in towns or city centres, are those directly managed by the Post Office.

Crown branches are fundamental to the future of the Post Office, and real progress has been made towards the target of turning around the current losses to achieve breakeven by March 2015. Over the last year, the losses for this part of the network have reduced from £46 million to £37 million. The on-going transformation builds upon this progress and is based on increasing income, improving the customer experience and controlling costs.

Customers will benefit from brighter, more modern branches with improved layouts. Many will give customers the option to use self-serve Post & Go machines, private consultation areas for financial services, and the benefit of longer opening hours. More open plan counters will be introduced and we will have more team members on the shop floor greeting and guiding customers. This new approach has been trialled with notable success across both customer and financial measures at a range of branches.

In six locations we will take the opportunity of merging branches in close proximity to create larger branches with improved facilities for customers. For a further 70 we are looking for retail partners to operate branches on our behalf. This approach will ensure we maintain a high standard of service in an area while putting the branch on a stronger commercial footing for the future.

Case study: Nottingham Post Office transformed November 2012
(images available of this branch)

What changed?

- Redesign of the branch with new customer zones
- New ways of working with more colleagues on the shop floor
- Financial Services consultation area with two private rooms
- Earlier opening on Mondays and Tuesdays
- New signage throughout the branch
- Four extra Post & Go machines with staff on hand to offer help

What's the feedback?

- Waiting times have reduced, with 63% of customers being served within five minutes compared with 49% before transformation and 36% during the same period in the previous year
- Increase in income by 9% year on year
- Twice as many customers choosing to use the self-serve Post & Go

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Case study: New Malden Post Office transformed February 2013
(images available of this branch)

What changed?

- Redesign of the branch to improve customer flow
- Retail area repositioned to drive income
- New mails zone with one extra Post & Go and staff on hand to offer help
- Private consultation room for Financial Services

What's the feedback?

- Waiting times have almost halved to an average of 2.37mins
- Increase in revenue by 6% year on year
- Three times as many customers choosing to use the self-serve Post & Go machines

Case study: Birmingham Post Office transformed November 2011
(images available of this branch)

What changed?

- Redesign of the branch to improve customer flow
- Extra Post & Go machines with staff on hand to offer help
- Extended opening hours
- Added two internal ATM machines

What's the feedback?

- Increase in income by 44% year on year
- Government Services revenue has risen by 43% year on year
- Mails and Retail sales are up 7% year on year

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Case study: Derby

(image available of this branch)

A brand new centrally located Post Office branch opened in Derby city centre in May 2013. The new branch, offering longer opening hours, 10 counter positions, self-serve mails zone and private consultation areas, replaces two branches that were located on the fringes of the city. The move to the newly refurbished premises will secure the long-term future of the Post Office in Derby city centre and follows a 12-week public consultation.

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Operational review: Branch network

Title: Supporting our network

Boxout: Technology (to be checked by IT)

The Post Office is continuing to invest in technology to ensure the continued provision of high-quality, reliable services which improve customer service. There has been significant investment in the key systems that underpin our service to customers.

Drop & Go

Launch of Drop & Go self-service machines for small businesses – A pre-paid card lets business customers drop off their mail and parcels and pay quickly and have them processed without waiting

Post & Go

Rolled out Post & Go self-service machines – These enable customers to save time by posting mail and parcels without the need for a branch colleague

Pin Pad payment devices

- Completion of the rollout of 30,000 new Pin Pad payment devices, making the Post Office the largest contactless payment network in Europe. Contactless payments allow customers to make purchases of £20 or less simply by tapping their contactless enabled card or mobile over electronic readers, saving time and improving the overall customer experience in branch.

Horizon point-of-sale system

- Provides a secure and reliable service to 33,000 counter positions. At peak times, it handles around 1,000 transactions per second. (INCLUDE ANY ENHACEMENTS MADE TO HORIZON IN 2012-13?)

Extending helpdesk availability

- IT has extended the helpdesk opening hours to support the increase in opening hours in branches. With longer opening hours, customers can access postal services at a time convenient to them while branch colleagues can use the helpdesk for longer so that they can respond to customer queries quickly.

New customer relationship management system

Copy to be added

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Boxout: Supply chain

The Post Office customer base contains some of the most financially dependent members of the UK population. Therefore, a key driver for the business is providing reliable access to cash.

- The Supply Chain, part of the business, collected and delivered more than £42 billion of cash, coin, foreign exchange, secure stock, (stamps, postal orders etc.) and transactional stock, (government forms and leaflets). Included 754,000 Cash and Valuables in Transit (CViT) visits to and from these branches

- £3 billion of customers monies are processed and banked on the day after collection

- CViT operation is the third largest in the UK after G4S and Loomis

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Section: Operational review

Title: Business at a glance

Mails and Retail

Mails and Retail is the largest product area in the Post Office, generating up to 40% of the business' total turnover. Our long-term partnership with Royal Mail Group and diverse customer base is central to retaining our position as the UK's number one mails and parcels retailer.

The Post Office offers an unparalleled range of Royal Mail Group mails and parcels products and services. These include everything from next-day guaranteed courier services to home shopping returns and collections.

In the Post Office mails and parcels business, small businesses are critical and account for up to one third of our income and include many online sellers and small local enterprises.

The business' relationship with Camelot means that the Post Office is one of the main lottery distributors in the UK, offering a range of Camelot national lottery products including scratch cards and EuroMillions in more than 6,000 outlets. The Post Office also works with Vow Retail Ltd to offer customers high-quality stationery, office supplies and collectible product ranges through selected branches and online.

Boxout: Mails and Retail revenue grew from £392 million in 2011-12 to £409 million in 2012-13, an increase of 4.3%

Financial Services

Our Financial Services business is a fast-growing UK financial services provider, aiming to challenge the traditional banks by offering simple, transparent and value-for-money products, supported by an unrivalled network.

The portfolio includes a broad range of products to meet the needs of a large and diverse customer base, which we offer through strong partnerships with third-party providers, of which Bank of Ireland (UK) plc is one. The Post Office and Bank of Ireland (UK) plc have built a successful business since 2003, providing financial services across the Post Office network in the UK.

The Financial Services business includes the Post Office-branded personal financial services products, foreign currency, payments services (such as bill payment), personal and business partner banking and ATMs.

Our personal Financial Services products include a comprehensive range of insurance products such as car, home and travel; savings products such as Growth Bond, Online Saver, and Cash ISA; and lending products such as mortgages and credit cards.

The Financial Services business is a key focus for the Post Office as the organisation continues to build a commercially sustainable business.

Boxout: Financial Services revenue grew from £264 million in 2011-12 to £281 million in 2012-13, an increase of 6.4%

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Government Services

The Government Services business offers a range of essential services in our branches on behalf of a number of government departments. These services are used by a variety of customers including pensioners collecting their state pension, customers who want to renew their passport, drivers buying their car tax or renewing their driving licence using state-of-the-art technology.

The Post Office partners with the Department for Work and Pensions for the Post Office card account, which allows customers to collect their state pension or benefits in cash, either in a Post Office branch or from a Post Office ATM. We also issue car tax discs on behalf of the DVLA and capture digital photographs for the renewal of driving licence photo counterparts. The Post Office uses ground-breaking Application Enrolment and Identity technology which offers a paperless process for our customers in 754 Post Office branches nationwide. One example is our contract with UK Border Agency where foreign nationals can enrol for an identity card. In addition, the Passport Check & Send service for customers applying for a passport, helps ensures their applications are error free and processed quickly.

Boxout: Government Services revenue remained flat year on year at £164 million

Telecoms

The Telecoms business incorporates three main product areas: HomePhone and Broadband, Mobile Top-up and International Phone cards.

HomePhone and Broadband offers a competitive fixed line phone and broadband services to just under 500,000 residential customers, making us the sixth largest telecoms provider in the UK. Customers are attracted by our low-cost services, UK-based call centre and ability to pay bills in cash at any of our branches. This service will be migrating to a managed service provided by Fujitsu in the summer of 2013.

Mobile Top-up allows customers to top-up their pre-pay mobile phone for all the main UK mobile networks at any of our branches. The Post Office has the UK's largest estate of top-up enabled terminals in the UK. This is run through an agreement with E-Pay.

International Phonecards, a service run through an agreement with Econet Mobile, are pre-paid products enabling customers to make low-cost international phone calls so that they can stay in touch with friends and family overseas.

Box-out: Telecoms revenue grew from £120 million in 2011-12 to £129 million in 2012-13, an increase of 7.5%

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Section: Operational Review

Title: Mails and Retail

Mails and Retail is core to the Post Office's offering to individual customers and small businesses in the UK. The Mails and Retail business generated revenue of £409 million in 2012-13, representing growth of £17 million compared to the previous year.

Extremely strong commercial performance across the product portfolio, activity relating to the Olympics and Paralympics and our best Christmas mails and parcels sales ever has made this the single most successful year for the Mails and Retail part of the business.

The Post Office gives customers access to an unrivalled mails and retail product range combined with unparalleled expertise and professionalism from its frontline teams. Revenue grew across all four main categories of the product portfolio (Mails, Parcels, Retail and Lottery) in 2012-13. This was delivered by:

Creating and enhancing Royal Mail services

The Post Office Mails team enhanced services with Royal Mail to maximise opportunities from online shopping collection and returns. The launch of our new Drop & Go priority service for small business customers has helped us retain and grow our Mails business. Small businesses and eBay customers can sign up for a pre-paid card to enable them to drop off their mail and have it processed in their absence. The Post Office now has more than 2,300 small businesses signed up to the service with further enhancements planned for the year ahead.

General parcels market growth

We have achieved an 8% growth in parcels revenue through a combination of a boom in online shopping and eBay customers and continued improvements in frontline training and sales capability.

Launching online retail shop

The new online shop was launched in July 2012 and has seen steady growth ever since. The shop offers an extensive range of mailing solutions, collectibles and office supplies.

Expanding our network of Lottery terminals

The rollout of an additional 1,850 Camelot Lottery terminals has helped the Post Office deliver a 5.2% growth in Lottery sales over the course of 2012-13; this has been further facilitated by strong Lottery marketing.

Overall, the Post Office consolidated its position as the number one distributor of mails and parcel products in the UK. The strength, quality and convenience of the Lottery and retail product ranges added further value to Post Office customers.

Looking ahead, the Post Office will continue to develop small business propositions to increase value and convenience for this critical customer group. We will maximise opportunities to grow the services we provide in this sector, in partnership with Royal Mail, particularly in the fast-growing online shopping market.

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Boxout: Key highlights

- 30% growth in Retail revenue
- 8% increase in Parcels revenue
- 5.2% growth in Lottery sales
- 3.5% growth in Mails revenue

Boxout: Key launches

- Drop & Go launch - A prepaid card lets small businesses drop off parcels and pay quickly without queuing – by the end of 2012-13, 2,300 small business customers had signed up
- New online retail shop offering mailing solutions, collectibles and office supplies

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Section: Operational Review

Title: Financial Services

The Financial Services business is placing the Post Office as a challenger in the sector and giving customers a real mainstream alternative. The Post Office aims to offer simple, relevant and value-for-money products, supported by excellent customer service and an unrivalled network.

The comprehensive range of financial products and services covers savings, credit cards, mortgages insurance, foreign currency, payments services (such as bill payments), personal and business partner banking and ATMs.

In 2012-13 we continued to build an award-winning financial services business*, challenging the market with simple, value-for-money and transparent products. In achieving this, the Post Office delivered £281 million in revenue - an increase of 6.5% on last year - which was driven predominantly by growth in savings and lending.

Financial Services works with a range of partners and suppliers and a key development in the last year has been the renegotiation and reconfirmation of the arrangements with Bank of Ireland (UK) plc. The strong partnership with Bank of Ireland (UK) plc, which dates back to2003, delivered significant growth in 2012-13, particularly in the Personal Financial Services area - Growth Bonds, Online Saver and Reward Saver. We also extended our award-winning mortgage range, offering competitive rates that featured regularly in Best Buy tables. The Financial Services business continues to improve accessibility of its products to customers, including making mortgages available in branch.

The Post Office maintained its position as the market leader in foreign exchange against a backdrop of a challenging travel market. The public also voted the Post Office the Best Foreign Exchange retailer and Best Travel Insurance Provider at the 2012 British Travel Awards, for the sixth and seventh year respectively.

Our Financial Services team won and retained key contracts in the bill payment market, ensuring that customers can continue to use their local, convenient Post Office branches throughout the UK to pay bills.

Contactless payment terminals were installed across 30,000 counter positions in our extensive network across the UK. This move makes the Post Office the biggest user of contactless acceptance technology in Europe, allowing customers to pay for transactions of up to £20 using contactless cards and Near Field Communication (NFC) enabled mobile phones.

We continued to work on our personal banking offering, and increased access of UK bank accounts in our network by signing new agreements with HSBC and First Direct. 95% of all UK debit card holders can now access their accounts from a Post Office branch.

The Financial Services business is a key focus for the Post Office as the organisation continues to build a commercially sustainable business. In 2013-14 the Post Office is announcing a current account, the next step in our strategy of growing an already well-established financial services portfolio.

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Extensive research into the current account market tells us that customers want simplicity, transparency and good value for money. With more branches than all the UK banks combined, the Post Office is very excited at the prospect of offering a current account through the most accessible retail network in the UK. The current account has already launched in a small number of Post Office branches during spring 2013 with a wider rollout planned for later in the financial year.

Growth will help the Post Office achieve the goals of providing customers with the option to service all their financial needs under one roof and allowing the Post Office to become the leading financial services challenger brand in the UK.

Boxout: Highlights

- Best Travel Insurance Provider at the 2012 British Travel Awards, as voted by the public, for the seventh successive year
- Best Foreign Exchange / Travel Money Retailer at the 2012 British Travel Awards, as voted by the public, for the sixth successive year
- Agreement with HSBC and First Direct for their customers to have free access to their accounts at all of our Post Office branches from spring 2013
- The Post Office became the biggest accepter of contactless payments in Europe
- What Mortgage Awards 2012: Best Online Lender, Best Fixed Rated Mortgage Provider

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Section: Operational Review

Title: Government Services

The Post Office is, and will remain, the front office for government delivering services on behalf of government departments through the Post Office branch network and online channels. In 2012-13 we grew our passport Check & Send business by 12.5% and increased our revenue from capturing customers' biometrics on behalf of the United Kingdom Border Agency (UKBA) by 284%.

The main priority in 2012-13 was to retain the contract for Front Office Counter Services provided on behalf of the Driver Vehicle Licensing Agency (DVLA). This framework contract will allow other government departments to contract with the Post Office without having to run a further procurement process. The contract is for seven years with an option to renew for a further three years.

In November the Post Office was successful in retaining the DVLA framework contract for Front Office Counter Services. In addition, the Post Office also won a place on the Department for Work and Pensions (DWP) Identity Assurance Framework contract which is now being managed by the Cabinet Office, Government Procurement Service. It was particularly pleasing to be awarded a place on the Identity Assurance Framework and to retain the DVLA Front Office Counter Services contract against strong competition.

As well as these significant contract wins, our new world-leading Application Enrolment and Identity business generated more than £12 million of revenue and now accounts for more than 9% of our total Government Services revenue. This service, available in 104 Post Office branches, captures digital finger prints, photographs and electronic signatures for the UKBA and photographs for customers renewing their driving licences. It also allows the Post Office to extend the services offered and includes increased security features such as the ability to record transactions in branch.

Nearly 90% of Government Services revenue is still generated by the traditional motoring, benefits and passport services. We saw significant growth in our passport and existing Identity business, which helped to offset the decline in benefits payment. Income from the Post Office card account declined as customers continue to migrate to bank accounts. Income from motoring, primarily the issuing of tax discs in our branches, was broadly flat compared to 2011-12.

In 2013-14 the Post Office expects to complete the rollout of new services with the DVLA and continue to grow the passport business. The year will also see the Post Office laying the foundations for future growth in the Government Services market as we seek to support the rollout of Universal Credit and the government's Digital by Default agenda.

Boxout: Key highlights

- Won the DVLA framework contract for the provision of Front Office Counter Services
- Growth in the Passport Check & Send service with an increased market share
- Awarded a place on the DWP Identity Assurance framework contract

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Section: Operational review

Title: Telecoms

The Post Office Telecoms business consists of HomePhone and Broadband, Mobile Top-up and International Phonecards. 2012-13 was a very positive year for the business as it achieved an 8% increase in revenue from £120 million to £129 million. The HomePhone and Broadband business performed particularly well, offsetting weakening performance in our Mobile Top-up business. The Post Office was also able to increase profitability of the portfolio.

At the beginning of the year, the Post Office signed an agreement with Fujitsu Services to provide the HomePhone and Broadband services from the summer of 2013. This is a strategically important agreement as it provides us with a platform from which we will be able to develop and grow our business in an agile and cost-effective way. The new platform will make it easier for customers to sign up to our services through branches and online. It will also reduce our cost base and provide improved and flexible back office IT systems. The customer experience will be enhanced with improved online account management tools and access to higher speed broadband services over the TalkTalk network. The agreement with Fujitsu Services will also enable the development of bespoke services for the SME market.

Over the course of the year, the Post Office boosted revenue generated by the HomePhone and Broadband business increasing from £112 million to £122 million, an increase of just under 10%. This achievement has been driven by two key factors: first, the customer base is very stable, driven by solid customer acquisition across all channels, and a reduction in customer churn, particularly in high-value segments. Second, a number of changes to our service offering were implemented which has made it more attractive to higher value customers, while improving customer retention.

The Post Office has seen a reduction in the volume of mobile top-up transactions in our branches as mobile networks actively look to migrate customers from post-pay to pre-pay packages and customers top-up less frequently. However, we still achieved 15 million transactions and remain the largest estate of top-up enabled retail outlets in the UK.

The International Phonecard business has been in decline for a number of years and continues to be impacted as customers move to solutions such as Skype.

The Post Office will continue to grow the Telecoms business in 2013-14, both in terms of revenue and customers, but it will be a transitional year as we migrate our services to our new supplier. This transition will provide the platform to enable our Telecoms business to grow rapidly in the future. The Post Office is also looking at opportunities to enter the mobile market during the coming financial year so that we are able to offer our customers the full suite of telecoms products.

Boxout: Highlights

- £9 million increase in revenue
- New contract signed with Fujitsu Services
- Mobile launch planned for 2013-14

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Section: Performance Review

Title: Our people

The Post Office is proud of its heritage and equally proud of the unique role our colleagues play at the heart of communities, serving a public purpose, while becoming increasingly commercial and entrepreneurial. The Post Office also recognises the important role our support teams play in delivering the business strategy. We strive to nurture our people, ensuring they feel valued, trusted and committed to putting the customer first. The Post Office is ambitious about the future and confident of the key role our people will play in achieving that vision.

This year saw the introduction of our core values – Care, Challenge and Commit. These three values sit at the centre of everything we do and are intrinsic to how the Post Office interacts with customers and colleagues. Our values underpin our employee proposition and help to deliver the best possible customer experience, while at the same time giving everyone within the business the chance to fulfil their potential.

The Post Office is particularly proud of the progress made in relation to talent, diversity, people development and engagement.

Engaging with our people

We value the opinions and ideas of our colleagues. Our employee engagement survey, which was conducted in 2012, is managed by independent research company Ipsos MORI. The survey helps the Post Office understand how colleagues are feeling about the business, what is going well and where we can improve.

The survey saw many positive results, especially compared to similar companies:

- An impressive response rate of 76%
- An increase in the Engagement Index score from 62% to 68% from the previous year
- 84% of employees would recommend Post Office services to friends and family (retail norm 71%)
- 76% of employees feel proud to work for the Post Office (retail norm 49%)

While the survey demonstrated a number of positive results, we are keen to continue with this progress and ensure we listen to our colleagues and build on this success for next year and beyond.

Learning and development

The Post Office continues to support the development of people right across the organisation.

Our people have undertaken a broad range of development activities this year including:

- Introduction of 'Discovery Days' for new managers, ensuring they have the tools to succeed in their new roles

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- Supporting the development of a Post Office procurement function, utilising internal expertise, external training and professional qualifications

- Introduction of the Certificate of Professional Business Practice in the Information Services team in partnership with Sheffield Hallam University – sharing skills, knowledge and best practice across the organisation

- Building the capability and commercial skills of our managers through the development of the Crown Leadership Excellence programme which will launch in spring 2013.

Talent and diversity

Becoming an organisation working independently of Royal Mail Group has required an increase in capability and expertise across a range of areas. New-found corporate responsibilities have been taken on across the breadth of the professional functions. Coupled with the goal of ensuring a high-performing sustainable business, we have put in place a robust assessment and development approach, looking at both performance and future potential of our senior leaders with the overall aim of raising the capability of our people.

Raising our leadership capability and performance standards will continue to be an important focus which the Post Office will deliver through its Leadership Development programme.

At this stage of our development, building talent and diversity merits special attention. The Board has, therefore, delegated authority to the Nominations Committee to monitor the development of a talent management programme for senior levels of the organisation.

As part of this, we have introduced a range of initiatives to promote an inclusive workforce. These include establishing a diversity forum; recruiting young people under 24 on the Paid Work Experience programme and launching our Trainee Manager scheme.

The Post Office is also proud of the progress made in gender equality. Our Chairman and CEO are women. The Board has equal numbers of male and female directors and women make up half of the Executive Committee. To ensure we maintain this focus, we have pledged our support to the government's Think, Act, Report initiative which is aimed at improving gender equality in the workplace.

Our general policy will be to recruit for talent, using a range of tools, including encouraging open applications through our attraction website, engaging specialist recruitment consultancies and operating specific talent attraction campaigns.

Challenges remain, but we are confident our commitment to building a culture of inclusion will continue to make the Post Office relevant to its increasingly diverse customer base.

We view our approach to diversity as an integral part of talent management. This year we have developed two programmes, taking positive action on both fronts.

Paid Work Experience programme

Over the last 12 months, the government and media have both highlighted the problem with high unemployment in inner city areas, especially among young people. The Paid Work Experience

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programme aims to provide a period of paid employment during the Christmas period for young people and those furthest from the labour market. The Post Office employed 61 individuals in the lead up to Christmas in some of the busiest Crown branches across London and Greater Manchester. The initiative led to 39 individuals being offered further employment. Due to the success of the scheme, in 2013-14 the Post Office intends to extend the programme within the branch network.

Trainee Manager scheme

The scheme was designed to take positive action to attract young people to consider a career with the Post Office, working with our colleagues and customers in our Crown branches. We employed eight individuals under the age of 24 to work in the London area. The trainees have subsequently undertaken a development programme including a foundation degree, senior manager mentoring and regular learning sessions. The scheme has already seen positive results with three progressing to other managerial roles in the business. The trainees continue to progress and have provided a welcome injection of new ideas and enthusiasm.

Accelerated development scheme for senior leaders

We have started to inject talent into different levels of the organisation and are currently piloting a high-potential development programme for new entrants at the senior leadership level. This focuses on accelerated career progression across a range of roles within the business, alongside targeted personal development in which individuals draw upon a range of available activity including coaching, mentoring and behavioural workshops.

Safety, health and wellbeing

The safety and wellbeing of our people is of paramount important to the Post Office. This year we have embarked on an extensive programme of health checks that will allow all our employees to understand how healthy they are, and learn about what they can do to reduce the risk of illness and improve their wellbeing.

The Post Office aims to fulfil its business mission without compromising the safety of customers, employees, suppliers and all those affected by our activities. We want to make healthy and safe working a way of life.

To this end, the business ensures:

- we comply fully with the relevant legislation
- that the health and safety responsibilities of our employees are clearly defined, allocated and understood
- we encourage and help all our people to carry out their responsibilities through effective health and safety management systems, with safe premises, equipment and processes
- we improve our employees' capability to manage and work safely, through instruction and training
- we support and encourage our people to get involved in the health and safety performance of our business and pursue a healthy and safe lifestyle and

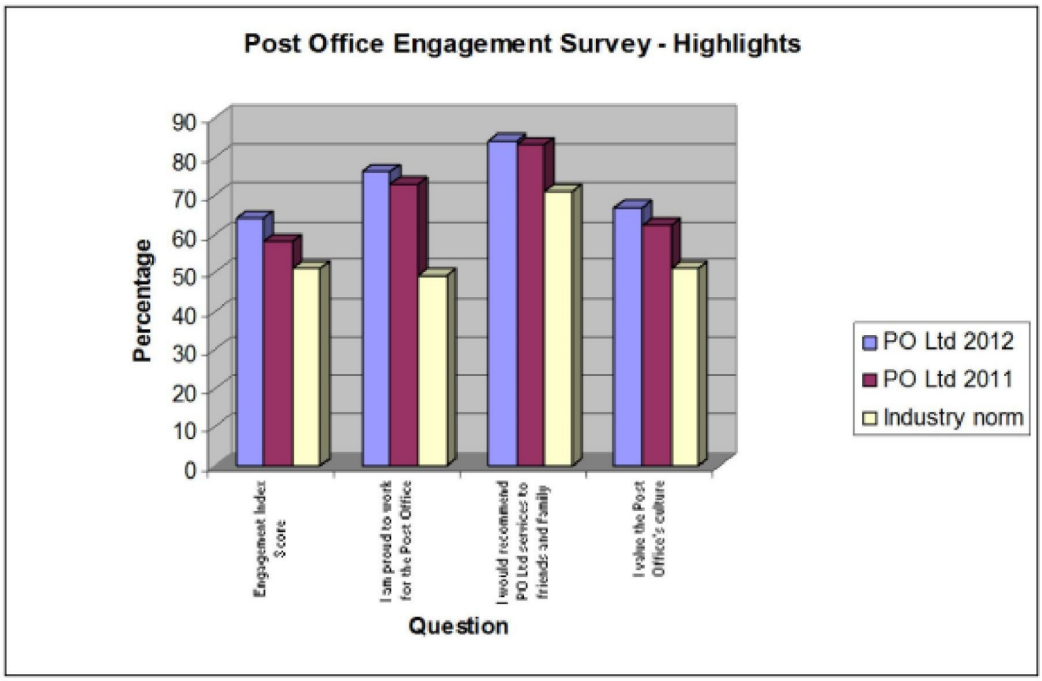
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- we monitor and review how well we put our health and safety policies into practice.

Looking ahead

The Post Office wants people who are capable of delivering a turnaround strategy. Therefore, we aim to continue building people capability; to foster a culture of continuous learning; to increase our people's understanding of our business in a commercial context along with our social purpose; to develop a proactive talent and career management process that recognises the value in diversity; and to continue to nurture a culture where people are actively encouraged and valued as role models of Care, Challenge and Commit.

Boxout 1



Boxout 2

Our people vision

Great performance through great leadership

The Post Office will attract and develop great people who have pride in and a passion for delivering value for customers and reflect the diverse communities we serve. Everyone will have a strong sense of ownership for their work, demonstrating initiative and flexibility, working well together to adapt to the rapidly changing needs of our markets. We will have an environment where our people work in partnership with all those who contribute to the success of our business. The Post Office will be a place where people are valued and respected, are encouraged and supported to fulfil their potential and rise to the commercial challenge.

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Section: Performance review

Title: Our people

Case studies

James Reid – Property Lead, Network Transformation programme

Picture required

James joined the Post Office from Royal Mail a year ago on the Network Transformation programme as a Field Change Advisor in South Wales.

James saw the role as a great opportunity to develop and support the change across the network. "The role was really rewarding and I really enjoyed working with the subpostmasters.

"I then saw the Property Lead role advertised and went for it. It did mean moving down to London, but I have been made to feel really welcome. I feel really proud that my managers saw potential in me and have helped me settle in to a new role and a new city.

"I think I have achieved a lot this year and feel I am making a real difference. Seeing converted branches opening and knowing you have helped to do that, feels great. I am here for a career and see my long-term future with the Post Office."

Ashley Hall – Change Analyst, Finance

Picture required

Ashley joined the Post Office 13 years ago. A year ago, Ashley was an administrator in the Information Services team when he became one of the successful applicants for the Certificate in Professional Business Practice introduced by the Post Office with Sheffield Hallam University.

"The course was a great opportunity to develop in my current role. I couldn't have imagined the difference it has made to me in just 12 months. I've been actively encouraged by my managers to improve my skills and make a positive contribution to the business."

Ashley has since moved to his new role in the Finance team.

"I've now had the opportunity to work in another part of the business and continue with my qualification. It's really broadened my horizons. Personally, I feel more valued and understand the contribution I make to the wider business."

Bushra Ali – Trainee Manager, Network

Picture required

Bushra joined the Post Office a year ago through the Trainee Manager scheme.

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"I hadn't ever considered a career with the Post Office, but after meeting the people at the interview and seeing their passion, I couldn't wait to join."

In the last 12 months, Bushra has worked in five different branches and was part of the Post Office team working in the Olympic village during London 2012. She is also undertaking a foundation degree in Retail Management.

"It's challenging doing my degree alongside work, but it's given me so many practical skills I can apply to work. I've gained confidence and learned so much about our products and services, as well as developing my leadership skills. I'm really grateful for the support I've received from my managers and mentor. I'm still really enjoying myself and I'm really keen to become a Branch Manager."

Shahidul Islam – Paid Work Experience

Picture required

Shahidul joined the business in November, through the Paid Work Experience scheme. He was our youngest candidate at 16. He currently works in Houndsditch.

"I left school in the summer and started looking for work. I had tried a number of companies but with no luck. I was really pleased when I got my role with the Post Office.

"Everyone has been really supportive and my managers have helped me a lot and are always there for me. I learnt a lot of new skills and met different people from different walks of life. I think my main achievement has been developing my communication skills.

"I've changed a lot in the time I have been here, I've started to really believe in myself and feel like I have a future here."

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Section: Performance Review

Title: Our customers

It is essential to our growth strategy that our customers feel they get a first-class experience every time. So, we are rigorously focused on putting them at the heart of the business. In 2012-13 we carried out extensive research to better understand our diverse customer base and their needs.

Research has shown what we do well and where we need to improve. Customers value the Post Office and rate our customer service highly, but tell us they want the Post Office to be easier to do business with and that we should offer them a greater choice of ways to interact with the Post Office.

Using this feedback will help shape the ongoing development of a multi-channel strategy for the future that optimises convenience, choice and relevance for Post Office customers.

Customer satisfaction

The Post Office has made some significant progress over the past year with the relationships we have with our many customers. 18 million customers visit our branches every week, half the small businesses (SMEs) in the UK use our services each week, 34 million visit our website each year and nearly eight million customers talk to our 34 UK and Republic of Ireland contact centres each year.

In 2012-13 the Post Office experienced impressive customer satisfaction rates with 87% of customers saying they were happy with the service they received, consistent with 2011-12[1].

Underlying these high customer satisfaction ratings, there has been a reduction in wait times. The average wait time in 2012-13 was three minutes, which is 12 seconds quicker than 2011-12 and one minute and eight seconds quicker than 2010-11[2].

Our research also told us that we needed to re-engage customers with the overall Post Office brand in order to achieve future growth. We, therefore, launched a brand campaign in October inviting customers to consider the Post Office in a different way.

The Post Office understands how important customer service is during the lead up to Christmas. As a result, we put extra effort into making Christmas easier for our customers. This formed a business-wide project during November and December which contributed to improved sales performance and customer perception. Christmas Makers (Post Office management and support staff working in branches), longer opening hours, online help, pop-up Post Office branches and discounted stamp arrangements were highlighted to customers by press, outdoor and digital advertising and PR. This helped to demonstrate how we were making strides to be easier to deal with. All of this delivered our best ever Christmas performance, with our core Mails product range exceeding last year by 3.8%, with 86% of customers saying they were satisfied with their experience in branch[3].

[1] Quadrangle Brand and Customer Insight Programme 2011-12 & 2012-13 (1,000 largest branches)

[3] Empathica Voice of Customer Programme: December 2012

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There was also a positive impact on wait times in December with an average wait time of three minutes and 47 seconds - 80 seconds quicker than last year and three minutes and 27 seconds quicker than 2011[2].

Voice of Customer programme

The Post Office is constantly looking at ways to improve customer satisfaction and offer more convenient channels for customers to provide feedback. Our new Voice of Customer programme to 'tell us – how we did today' was piloted in 150 branches this year. It uses pre-printed till receipts, cards and a QR code to invite customers to give feedback online, via mobile or by telephone.

At the end of March 2013, we had feedback from 36,500 customer visits. This feedback helps the Post Office address customer issues at branch level quickly (such as plans for dealing with busy times and reducing queue times), as well as helping to develop an overall strategy to address common themes across the network.

Customers also have the opportunity to praise service where it is 'above and beyond' and more than 700 individual 'wows' are received weekly[4].

Voice of Customer is in place in more than 2,000 of our largest branches and will be rolled out to all newly transformed branches in 2013-14.

A key focus in 2013-14 will be to make the Post Office an easier organisation to do business with. The modernisation of the network and Crown branches, coupled with our multi-channel strategy, and offering more transparent and relevant products and services will be essential in ensuring this happens and that the customer view remains at the heart of the Post Office's strategy.

[2] ABa Mystery Shopping Programme 2012-13

[4] Empathica Voice of Customer Programme 2012-13

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Section: Performance review

Title: Our customers

Boxout

Transformed branches

Customers in transformed network branches are already enjoying even higher levels of satisfaction than the rest of the network:

- In both main and local branches, 95% of customers were satisfied[5]
- Average wait time in transformed network branches was one minute and one second[5]
- 71% of subpostmasters were satisfied with their new Post Office branch[5]

Case study:

In line with the high street, the Post Office has introduced automated self-service kiosks which help customers save time. The Post & Go kiosks help customers post letters and parcels and buy stamps and packaging. One customer commented: "Michael (Post Office) was very welcoming when I came into branch. He asked if I needed help with anything while I was posting a parcel. He asked if there was anything important inside and if I needed to get it there for the next day which neither applied to me. Michael then helped me to process it through the Post & Go machines near the door; it was so easy."

Durham Crown branch[6]

Case study: Small businesses

It is estimated that up to half of the UK's small businesses will visit a Post Office at least once a week. This is often for mail services – with Post Office branches providing a convenient access point to the onward postal distribution system. In an increasingly digital age, this means that these businesses are able to transact beyond their immediate geographical environment, taking orders by post, phone and internet and being able to fulfil them throughout the country and the world. The Post Office network acts as a critical part of the infrastructure supporting the growth of small businesses throughout the UK.

[5] Brass Network Transformation Programme research: August 2012-March 2013
[5] Brass Network Transformation Programme research: August 2012-March 2013
[5] Brass Network Transformation Programme research: August 2012-March 2013
[6] Empathica Voice of Customer Programme 2012/13

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This Post Office infrastructure also provides a wider suite of services that can conveniently meet the needs of local small businesses – including banking and cash services as well as insurance, travel and Government services. The strong local relationships with small businesses are strengthened by the empathy and understanding of their needs from subpostmasters who are typically running the Post Office in a small business themselves.

This is an area of development for Post Office. Service enhancements have been developed to meet small business needs, such as 'Drop and Go' whereby local businesses can drop off packages at their local office and the Post Office will apply the postage and billing afterwards. This is an approach that will continue to develop strongly over the next few years as the Post Office plays its role in promoting growth in a sector that is so critical for growth and employment prospects across the UK.

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Section: Performance Review

Title: Corporate responsibility

Environment

The Post Office recognises its environmental responsibilities and is committed to minimising our adverse environmental impact by means of a continuous improvement process.

We embrace environmental considerations in the business management process and decision making throughout the organisation.

We set ourselves some challenging goals for 2012-13:

- 5% reduction in building energy use
- 5% reduction in CO2 from vehicle fuel
- 5% reduction in water use
- 55% of all waste generated to be recycled.

Year-end performance against these goals was encouraging in that we achieved or exceeded three out of four goals. Our performance in reducing building energy use was significantly affected by the unusually severe weather conditions during the winter of 2012-13.

Activities

Change control

All business projects and supplier contracts are reviewed for environmental impacts and recommendations made to positively influence them so that they make use, whenever possible, of sustainable raw materials and examine responsible end-of-life considerations.

Buildings

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

Vehicles

The Post Office is continually looking at technological advances and new materials to reduce the weight of our vehicles so they use less fuel. A new concept vehicle will go on trial in the second financial quarter of 2013-14. This vehicle will also utilise telemetry systems, which will enable us to improve overall fuel efficiency. Our aim is that this vehicle will become our flagship for the future, further supporting our environmental aspirations.

By autumn 2013 three quarters of our operational fleet of 420 vehicles will also meet the current Euro 5 emissions standard, and 50% of the fleet will have been adapted to accommodate exhaust gas reduction systems and deliver improved performance.

Waste

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Most of our buildings are now participating in the Dry Mixed Recycling scheme where everything that can be recycled is now segregated into separate bins or bags. This is a key initiative to reduce dependence of the Post Office on sending waste to landfill, something that is both expensive and environmentally unsustainable. In addition to this, 100% of all our confidential waste is now shredded, pulped and sent to manufacture recycled paper.

The Post Office measures and looks to reduce the amount of packaging that is produced and the quantity of electrical and electronic equipment that will end up in waste streams once they have reached the end of their useful life. To assist the Post Office in meeting these obligations, we have arrangements with Biffa, our prime waste contractor and Valpak, who specialise in the treatment of electrical waste.

Sustainable operations

We actively look for opportunities to ensure that all of the paper we use is from sources accredited by the Forest Stewardship Council and aim to advertise this fact by including the FSC logo on all of our point-of-sale literature. Currently, some 90% of all the paper we buy is from FSC accredited "mixed" sources. This means that the pulp used has come from either well managed forests, controlled sources or from recycled wood or fibres. In addition, we have also reduced the amount of packaging associated with our retail sales by some 44%.

Disability and accessibility

The Post Office strives to be one of the most accessible organisations in the UK by ensuring colleagues with disability needs are provided with all of the support they need and disabled customers receive an excellent customer experience.

In 2012-13 the Post Office achieved the following:

- Following separation from Royal Mail, the Post Office Disability Helpline was launched to provide solutions and specialist equipment to help employees with disability or accessibility issues

- Provided grants to agent branches to upgrade their outlets to make them more accessible

- Ensured accessibility was an integral part of the Network Transformation programme. We also developed a new Post Office Accessibility Guide and incorporated disability training as a core part of Network Transformation training

- The Post Office created and meet a panel of accessibility experts from disability organisations on a regular basis. Their role is to advise on accessibility issues facing disabled people, new and best industry practise, and changes and developments within the Post Office that may impact on disabled customers and our people.

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Section: Performance review

Title: Corporate responsibility

Charity Giving

The Post Office has a rich history of charity giving with our people and customers supporting a wide variety of causes. We have been major supporters of BBC Children in Need for several years. In 2012, the branch network increased its impact by playing a leading role in Children in Need's BearFaced initiative. This gave extra impetus to our fundraising, helping engage customers and branches to have fun and get involved. Our fund raising activities helped raise more than £1m for Children in Need, a record amount for the Post Office.

We have also developed Your Charity this year, an exciting new approach to our fundraising activity. Your Charity empowers branches and teams to choose their own charity to support. The rollout has already started and will continue throughout 2013.

Digital inclusion

As a founder partner of Go ON UK, the Post Office is committed to helping the 16 million people in the UK who have either never used, or rarely use the internet develop the necessary digital skills to enjoy the benefits of being online.

The internet has become an integral part of everyday life so we want to ensure our own people have the necessary digital skills to get the most out of being online.

We are committed to providing the basic digital skills training and support to all our permanent Post Office colleagues and we will be progressing this initiative during the next financial year.

To help customers become digitally literate, we plan to launch the Online Centre Locator in all of our 11,780 branches in June 2013, which for the first time will signpost customers across the UK to their nearest digital training location. We are working with a number of partners to deliver this database which covers 1000s of learning centres across the UK.

We also participated in a number of digital inclusion campaigns in 2012-13, including Go on Give an Hour which encouraged those online to help a friend, family member or neighbour to get online.

Business in the community scheme

In 2012/13 the Post Office became a standalone member of the Business in the Community (BITC) scheme, working to develop our support for both BITC and a wider community role in line with our public purpose.

Our work with the BITC-led high street task force is offering the Post Office an opportunity to work with three of the 27 government-backed Town Teams to help redefine and regenerate their high streets. The Post Office is now working with the Sydenham, Stockton on Tees and Brighton teams and the local communities to help regenerate interest, activity and ultimately provide a long- term future for these areas so that they can survive and thrive. As a part of every community across the UK, the Post Office is proud to be playing its part in this pilot work protecting the sustainability of these local amenities and retail hubs.

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The Post Office also supports the BITC Rural Action Group in its work to help communities in villages and rural areas across the UK where often the Post Office plays an important social and economic role providing services to those who otherwise may feel isolated.

The Post Office takes pride in being a responsible business and looks forward to developing its relationship and support further in the coming year.

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Section: Performance review
Title: Financial review

Chris Day [Insert picture]
Chief Financial Officer

Summary results
The Post Office has delivered a sound performance in its first year operating as an independent business. Turnover has increased by 4.5% with strong performance in three of the four core product pillars. This has enabled investment in building the Post Office brand and driving future revenue growth. Whilst the scale of transformational change required to reach the goal of commercial sustainability remains significant our performance in 2012-13 was a significant step in the right direction.

Key Financial Performance Indicators

	2013 £m	2012 £m	Variance £m	Variance %
Turnover	1,024	980	44	4.5
Operating profit before exceptional items	94	61	33	54.1
Operating loss before exceptional items and Network Subsidy Payment	(116)	(119)	3	2.5
Operating cashflow	151	38	113	>100%

Operating profit before exceptional items was £94 million (2012 - £61 million), and there was a cash inflow of £151 million (2012 - £38 million).

Profit and Loss Summary

	2013 £m	2012* £m	Variance £m	Variance %
Turnover	1,024	980	44	4.5
Network Subsidy Payment	210	180	30	16.7
Revenue	1,234	1,160	74	6.4
People costs	(259)	(254)	(5)	(2.0)
Subpostmasters' costs	(478)	(483)	5	1.0
Other operating costs	(435)	(393)	(42)	(10.7)
Share of profit from joint ventures and associates	32	31	1	3.2
Operating profit before exceptional items	94	61	33	54.1

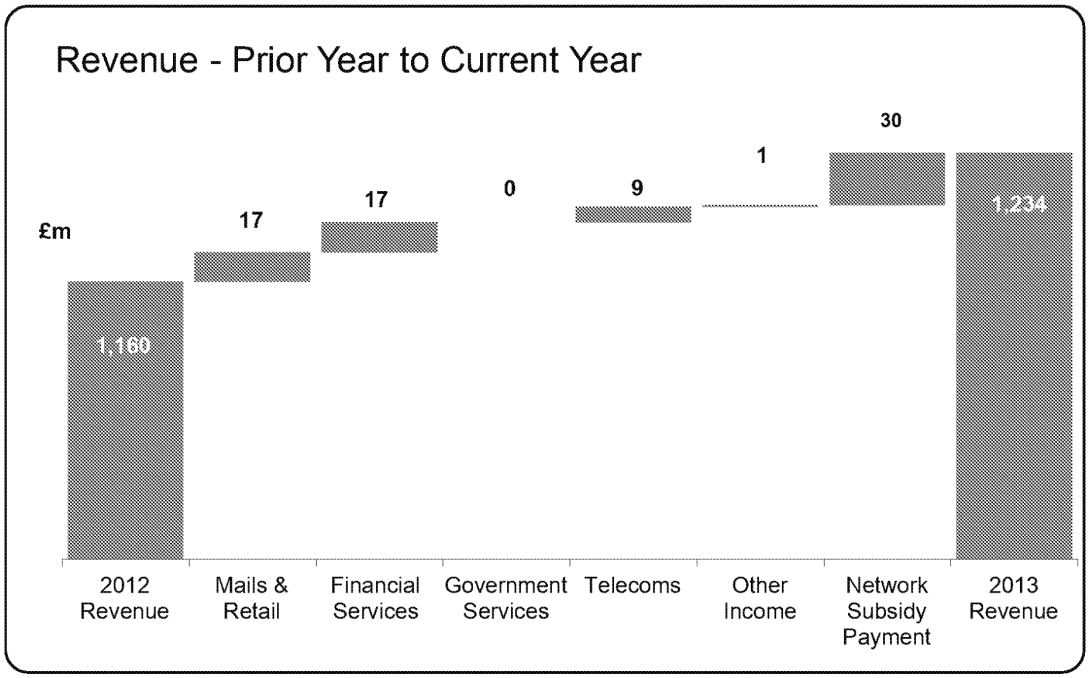
* Note that Royal Mail Holdings plc Annual Report and Financial Statements 2011-12 reported operating profit after modernisation costs but before other exceptional items of £59 million. The prior year result has been presented to exclude modernisation costs consistent with 2013 where results are reported before all exceptional items.

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Revenue

The Post Office's revenue increased by £74 million (6.4%) to £1,234 million including an increase of £30 million in the Network Subsidy Payment from the government. The Post Office segments income into four pillars; Mails & Retail, Financial Services, Government Services and Telecoms. The pillars and their performance are analysed below.

	2013 £m	2012 £m	Variance £m	Variance %
Mails & Retail	409	392	17	4.3
Financial Services	281	264	17	6.4
Government Services	164	164	0	-
Telecoms	129	120	9	7.5
Other income	41	40	1	2.5
Turnover	1,024	980	44	4.5
Network Subsidy Payment	210	180	30	16.7
Revenue	1,234	1,160	74	6.4



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Mails & Retail

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

Mails and Retail revenue of £409 million increased by £17 million (2012: £392 million). Of this, turnover in relation to Royal Mail products increased by £13 million, driven primarily by strong parcel and premium product volumes and the impact of the stamp price rise introduced on 30 April 2012 In addition, retail turnover increased by £2 million due to the collectibles relating to the Diamond Jubilee and the Olympics memorabilia. The rollout of 1,850 additional terminals contributed to an increase of £2 million in income from sales of lottery tickets.

Financial Services

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

Financial Services revenue in 2013 increased by £17 million to £281 million (2012: £264 million).

During the year the Post Office sold its 49.9% share in its financial services associate, Midasgrange Limited, to the majority shareholder and long-term banking partner, Bank of Ireland (UK) plc. This was part of a wider agreement to restructure this long-term relationship, aligning the partners to build a significant long-term financial services business. Through this agreement, the Post Office will offer an increasing range of transparent and value-for-money financial products and services, providing value to customers, subpostmasters and the Post Office.

Personal Finance Services income rose by £24 million driven by strong growth in savings products (particularly Growth Bonds, Online Saver and Reward Saver) and the introduction of new mortgage products. The value of savings held in Post Office branded accounts increased by £2 billion to almost £18 billion. Revenue from traditional financial services products including bill payment services and Postal Orders declined. This was due to the increasing provision of electronic alternatives to paper-based products and the increasing use of alternative payment methods. Revenues were impacted by the wind down of the Department of Work and Pensions contract for Cash Cheques (Green Giros) and the decision by NS&I to provide most of their products through their own direct channel

Government Services

The Government Services pillar covers services provided under contract to government departments. This includes services in relation to the work of the Department for Work and Pensions (DWP), the Driver and Vehicle Licensing Agency (DVLA) and the Identity and Passport Service (IPS).

Government Services revenue of £164 million remained flat (2012 - £164 million), though income from the Passport Check & Send service increased by £3 million due to higher volumes from growth in both our market share and the overall market. Conversely, the anticipated growth in income from identity-related services has been disappointing. Revenue from the payment of benefits through the Post Office Card Account was £4 million lower impacted by customers continuing to migrate to receiving benefits through bank accounts.

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Telecoms

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

Telecoms revenue of £129 million (2012 - £120 million) increased by £9 million. Income from HomePhone and Broadband rose by £10 million primarily due to increased customer numbers following the introduction in May 2012 of more competitive service packages. Income from e-top ups was £1 million below prior year as more customers migrated away from pre-pay and mobile networks reduced their transaction fees. 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 approximately 5%.

Other income

Other income is generated primarily from the Supply Chain business which manages and distributes cash for Post Offices and for third parties. It also offers warehousing services, mainly to Royal Mail. Other income increased marginally to £41 million (2012: £40 million) reflecting the growth in cash in transit income from third parties.

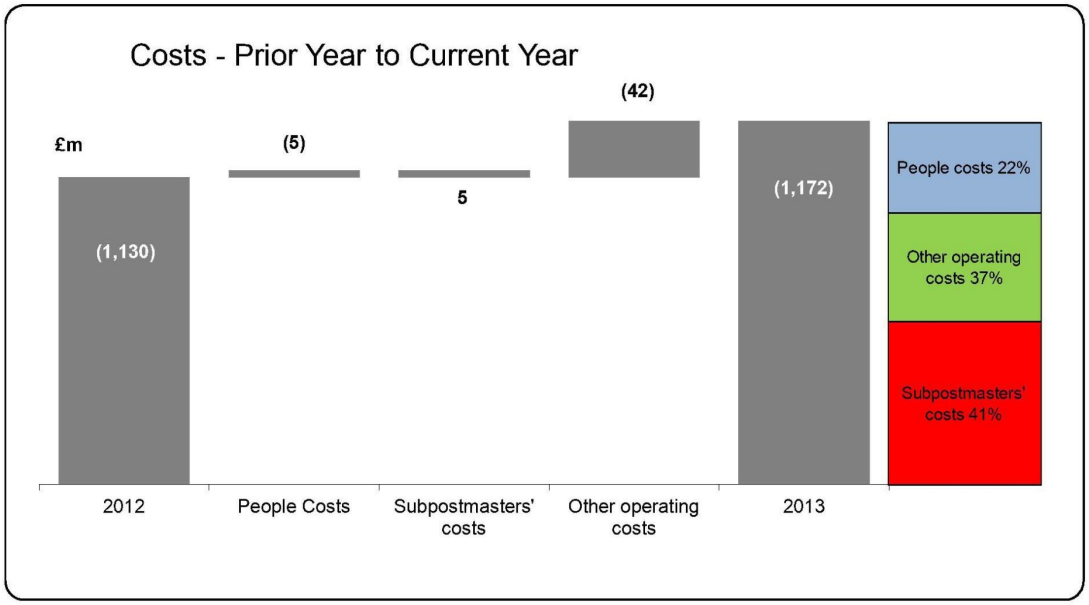
Network Subsidy Payment

The Network Subsidy Payment is government grant revenue towards the costs of maintaining the Post Office network. The payment increased by £30 million in the year to £210 million; this will begin to reduce with effect from 2013-14 as set out in the current funding agreement with the government.

Costs

Total costs rose by £42 million to £1,172 million (2012: £1,130 million).

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People costs

People costs of £259 million (2012 - £254 million) have increased by £5 million reflecting the associated costs of bringing a number of functions in-house, following separation from Royal Mail, and historical pay agreements. These are partially offset by efficiency savings in the Crown network.

Subpostmasters' costs

Subpostmasters' costs of £478 million are £5 million lower than last year (2012 - £483 million). This includes decreases in fixed costs arising from the introduction of the new network models.

Other operating costs

Other operating costs have increased by £42 million to £435 million (2012- £393 million), driven largely by additional programmed investment spend. This one-off investment spend was £50 million (2012 - £26 million) and included an increase in media spend to raise customer awareness of Post Office services in addition to focused campaigns on travel-related services and mortgages together with development of new and improved services. There were also increases in the cost of sales, reflecting greater sales volumes, and in property related costs.

Joint venture and associate

Share of operating profit from the joint ventures (First Rate Exchange Services Limited) and associate (Midasgrange Ltd until its sale on 1 September 2012) was £32 million (2012 - £31 million). First Rate Exchange Services Limited results improved despite lower retail sales due to market conditions. This has been achieved mainly through driving efficiencies in operating costs. Post Office Limited's interest in the associate company, Midasgrange Ltd was sold during the year and made a loss on disposal of £30 million.

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Exceptional Items

Exceptional items	2013 £m	2012 £m
Operating exceptional items:		
Restructuring costs including subpostmasters' compensation	(79)	(2)
Impairment of investment, property, plant and equipment	(66)	(36)
Government grant	98	
Subtotal operating exceptional items	(47)	(38)
Non-operating exceptional items:		
Profit on disposal of property, plant and equipment	2	1
Loss on sale of associate	(30)	
Net exceptional items	(75)	(37)

Restructuring costs
Restructuring costs include the costs of delivery of major change. Network transformation resulted in costs of £12 million for subpostmasters' compensation and £40 million programme costs. Costs of £10 million relate to IT transformation which will create the IT infrastructure appropriate for a business with ambitious growth plans. Redundancy costs of £11 million were incurred during the year and mainly related to the Crown network. Business transformation payments of £4 million (2012 - £3 million) are payments that are sometimes made to staff as an incentive in order to secure agreement for significant changes in working practices to improve business efficiency.

Government Grant
In addition to the Network Subsidy Payment to support the network, the Post Office also receives government grant funding towards the transformation programme. Government grant funding of £200 million was received in the year. The additional government grant funding is included within operating exceptional items to match the associated costs. £98 million of this government grant funding has been allocated in accordance with the designation letter, dated 2 April 2012, from the Department of Business, Innovation and Skills, to cover £66 million capital expenditure, £12 million network transformation related subpostmasters' compensation and £20 million network transformation programme costs.

Treasury

Following the transfer of Post Office Limited from the ownership of Royal Mail Group Ltd to Royal Mail Holdings plc on 1 April 2012, Post Office Limited has operated an independent Treasury function and manages its own financial assets (including network cash) and financial liabilities (mainly government loans).

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

The cash position of the business remains strong with cash and cash equivalents of £971 million (2012 £820 million) and a net cash inflow during the year of £151 million.

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Net debt (excluding cash in the Post Office network) decreased by £119 million year on year as shown in the table below:

	2013 £m
Net debt brought forward at 25 March 2012	(325)
Net cash inflow before financing activities (see page XX)	244
Deduct: Increase in cash in the network included in net cash inflow	(121)
Finance costs paid	(4)
Total net debt carried forward at 31 March 2013	(206)

Post Office Limited's borrowing facility from the government and the associated Framework Agreement imposes constraints on the purposes for which the facility can be used and the availability of external borrowing. Post Office Limited's treasury policy is to minimise the amount drawn down on the loan in order to reduce the interest charge. The facility is limited to a maximum of £1.15 billion or the amount of security available (mainly network cash), whichever is the lower. The maximum drawn down under the facility during the year was £499 million on 30 March 2012. The facility is available at two days' notice.

At 31 March 2013 the company was financed as follows:

Borrower: Post Office Limited Purpose	Interest rate* %	Facility end date	Facility £m	Utilised £m	Average Loan maturity date
Network Cash	1.0	2016	1,150	291	2013

* Average interest rate of loan drawn down

Pensions

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

On 1 April 2012 – after the granting of state aid by the European Commission on 21 March 2012 – almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP), built up until 31 March 2012, were transferred to HM Government. On this date, the RMPP was also sectionalised, with Royal Mail Group Ltd and Post Office Limited each responsible for their own sections in future. This arrangement left the RMPP fully funded on an actuarial basis in respect of historic liabilities at this date.

The balance sheet pension position moved from a deficit of £206 million at March 2012 to an asset of £97 million at March 2013. The improvement in position is primarily due to the transfer to government noted above.

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Both defined benefit plans are now closed to new members. RMSEPP closed on 31 December 2012 and has no active members. New employees are offered membership of the defined contribution plan.

Pension cash payments for all plans

The future funding of ongoing pension contributions into RMPP and deficit payments into RMSEPP is being discussed with the respective pension trustees. The payments for 2013 disclosed in the table below were based on the arrangements that were in place for the 2012 financial year.

	2013 £m	2012 £m
Regular pension contributions	(24)	(24)
Funding of the pension deficit - RMSEPP	(2)	-
Payments relating to redundancy	(2)	(3)
Net cash payments	(28)	(27)

The regular future service contributions cash rate for RMPP expressed as a percentage of pensionable pay remained at 17.1% (2012 - 17.1%). The regular rate of employee contributions for the RMPP remains unchanged at 6%.

Events after the reporting period
In accordance with the funding agreement with government announced on 27 October 2010, for which state aid approval was received on 28 March 2012, Post Office Limited received £415 million of funding on 2 April 2013.

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Chris Day
Chief Financial Officer
Post Office Limited
XX June 2013

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Section: Performance review

Title: Business Risk

Ref required to Corporate Governance section

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

Key Risk	Impact	Mitigation
1. Changes in customer preferences There is decline in the traditional Post Office income streams as customer preferences change. The revenue growth plans in personal financial services, mails, government and telecoms are ambitious. New income streams may fail to grow sufficiently to exceed the losses from traditional products in decline.	Projected reduction in government subsidy is not delivered.	We have introduced new services in growth areas and continue to refine and develop these product offerings. There are detailed plans in place to deliver the growth trajectory and progress against these plans is monitored rigorously.
2. Funding As set out in note xx, Post Office Limited has a funding agreement with government until 31 March 2015 with a working capital facility until 31 March 2016. There is a risk that funding beyond these dates cannot be negotiated or that state aid approval is not granted in time.	Funding is required beyond 2015 in order to complete the business modernisation and sustain the non-profitable elements of the network. The working capital facility is required to fund the cash in the network.	Planning is well underway for the future period beyond 2015 and discussions will commence shortly with Government.
3. Business transformation programmes We are managing a significant number of change programmes	Failure to implement the	

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to modernise the Post Office and enable its processes to operate independently from those of Royal Mail Group. These include the network, Crown and IT transformation programmes. The success of the Post Office strategic plan depends upon the successful realisation of the benefits from these programmes.	modernisation will leave the Post Office with an unsustainable cost base and a continued reliance on significant government subsidy.	We have detailed plans in place to manage the transformation and ensure it is delivered within budget and on time. Delivery is tracked monthly by a Transformation Board made up of Executive Committee members which provides direction and oversight over the programmes' delivery.
4.Engagement risk The support and active engagement with our people and subpostmasters during this significant time of change is key to the successful delivery of our strategy. Withdrawal or lack of support from our employees or subpostmasters in the network could cause delays in the Post Office transformation programmes and limit our ability to meet business objectives.	Lack of support from our people and subpostmasters will jeopardise our ability to meet our strategic goals of growth, profitability and reduced reliance on government subsidy.	We maintain a fluid and comprehensive engagement programme with unions, staff and subpostmasters. These include regular meetings with the National Federation of subpostmasters (NFSP). Communication Workers Union (CWU) and Unite, senior management briefings to staff and subpostmasters, as well as events to engage our people in our vision and strategy. We have a people plan aimed at addressing staff motivation and skill needs. This includes development of new leadership and reward frameworks and increased focus on recruitment and training.

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5. Regulatory & compliance There is a risk of non-compliance with the changing regulatory environment. We operate under an extensive regulatory environment including areas such as financial and postal services, procurement, competition law and data security regulations.	Failure to meet regulatory requirements could result in fines, negative impacts on our reputation, as well as costs of investigation and resolution.	Our legal and compliance team works closely with the relevant business owners in identifying new requirements and monitoring compliance against existing ones. The Risk and Compliance Committee monitors key risks and actions to mitigate them.
6.Business continuity The Post office has particular operational risks around disruption of its services. This includes adverse weather conditions, industrial action, systems breakdown or failure of a critical supplier.	Breakdowns in the network would reduce quality of service, increase costs and/or damage our reputation.	Disaster recovery and business continuity plans are under continuous development and review in line with business change. This includes contingency planning and training in the event of disruption such as industrial action or IT failure. Key suppliers' ability to continue to meet Post Office's requirements is closely monitored.

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Section: Governance

Board biographies

Board:

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

Board responsibilities

The responsibilities of the Board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to the shareholder.

There are a number of Board committees which deal with specific topics requiring independent oversight including audit, risk and compliance, nominations of the Board, pensions and senior remuneration.

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

Alice Perkins CB – Post Office Limited Chairman (Chairman of Nominations Sub-Committee)

Alice had a wide-ranging career in the civil service, which included policy and operational roles in health, social security and public spending in the HM Treasury. Alice was also the Civil Service's Group HR Director in the Cabinet Office between 2001 and 2005. Before joining the Post Office as Chairman in September 2011, she served as Non-Executive Director on the boards of Littlewoods, BAA and TNS, where she also chaired the Remuneration Committee, Alice is an external member of the Oxford University Council, a business coach at the JCA Group, and a member of the faculty at Meyler Campbell where she teaches senior executives how to coach.

Neil McCausland – Senior Independent Director (Chairman of Remuneration Sub-Committee)

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

Alasdair Marnoch – Non-Executive Director (Chairman of Audit, Risk and Compliance Sub-Committee) – being updated

Alasdair Marnoch joined the Board of the Post Office as a Non-Executive Director on 23 May 2012. A Chartered Accountant, he chairs the Board's Audit, Risk and Compliance Sub-Committee which reviews the statutory accounts and financial controls. Alasdair has had wide experience as Finance Director of a number of FMCG and service businesses, including listed companies. Most

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recently, he served as CFO of the Equiniti Group, a leading provider of complex administration and processing services to the public and private sectors.

Tim Franklin - Non-Executive Director

Tim Franklin joined the Board as a Non-Executive Director on 19 September 2012. Tim was Chief Operating Officer of the Co-operative Banking Group until the end of 2011, having previously served as Managing Director of the Britannia Building Society. Prior to that, he was Director of Customer Programmes and Loyalty and Managing Director of Savings at Barclays. Tim's experience extends across the private and public sectors. He is also a Non-Executive Director of HM Land Registry and was previously on the Boards of Reclaim Fund Limited, Mutual Plus Limited and the Link Cash Machines Network.

Virginia Holmes - Non-Executive Director (Chairman of Pensions Sub-Committee)

Virginia brings to the Board extensive knowledge of the financial services industry including both investment management and banking. Her experience includes serving as Chief Executive of AXA Investment Managers UK and more than a decade with the Barclays Bank Group where she ultimately served as Managing Director of Barclays Bank Trust Company. Virginia currently serves on the boards and chairs the investment committees of both the Alberta Investment Management Corporation in Canada and the Universities Superannuation Scheme in the UK. She also serves on the boards of Standard Life Investments Ltd and JPMorgan Claverhouse Investment Trust plc.

Susannah Storey – Non-Executive Director

Susannah Storey is the representative of the Department for Business, Innovation and Skills on the Post Office Board. She has recently been appointed as Director of Corporate Strategy and Change at the Department of Energy and Climate Change. Susannah has been a civil servant since 2006, working at the Shareholder Executive until 2013 in a number of roles including Head of the Royal Mail and Postal Services team and Chief Operating Officer. Prior to the Shareholder Executive, Susannah worked in investment banking at Citigroup and Schroders, specialising in UK Corporate Finance.

Paula Vennells – Chief Executive

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

Chris Day – Chief Financial Officer

Chris joined the Post Office in August 2011 from the BBC where he had been Group Financial Controller since 2005. Prior to that, Chris spent 14 years in FMCG with Grand Metropolitan/Diageo in a succession of Treasury/Corporate Finance roles in the UK, and as Finance Director in the Netherlands and subsequently Germany/Austria. Earlier in his career Chris worked as a financial management consultant at KPMG having started his career with Beecham Group.

Alwen Lyons – Company Secretary

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Alwen Lyons joined the Post Office in 1984 as a graduate and has worked at a senior level in several directorates including network, finance and marketing. She became the Company Secretary in July 2011, after leading the project to separate Post Office Limited from Royal Mail Group.

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Section: Governance

Title: Corporate governance

Corporate governance statement

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

Corporate governance principles

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

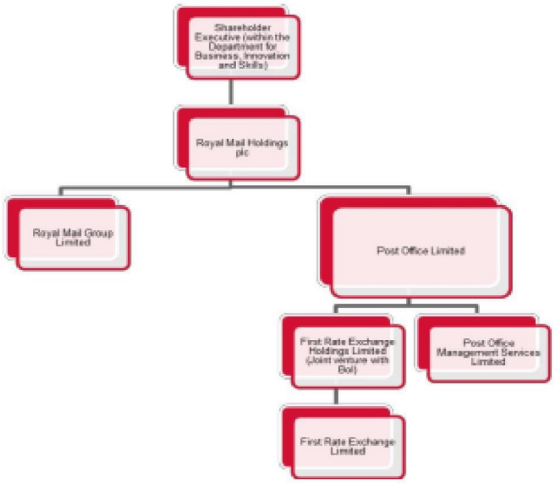
During the year, the Post Office has further established a full Board and Committee structure and has set principles for good governance which follow the provisions of the Code, so far as they can apply to a Government-owned entity which has no private or institutional external shareholders.

Legal ownership structure

The Post Office is a wholly owned subsidiary of Royal Mail Holdings plc. The Secretary of State for Business, Innovation and Skills (BIS) holds a special share in Post Office Limited. The Special Shareholder's rights are set out in the Post Office Limited Articles of the Association. These include a requirement for Post Office Limited to obtain the Special Shareholder's consent for Directors' remuneration arrangements.

A strong link remains between Royal Mail and the Post Office – the Post Office has a long-term agreement in place to continue to supply Royal Mail products and services through its network. That link is currently reinforced in the corporate structure by a common group holding company (Royal Mail Holdings plc) which holds shares in both Post Office Limited and Royal Mail Group Ltd.

Neither Royal Mail Holdings plc nor BIS, through its Shareholder Executive (ShEx), have any day-to-day involvement in the operations of the Post Office or the management of its branch network and staff.



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The Board

Alice Perkins was appointed as Chairman of the Board in July 2011, marking the first step on the road to building an independent Board for the Post Office. Neil McCausland joined in September 2011 as the Senior Independent Director and, in the year under review, a further four Non-Executive directors have been appointed, each bringing particular skills and experience relevant to the business targets of growth, modernisation, customer focus and business efficiency.

The Board is unusual in having a female Chairman and Chief Executive and being equally balanced between men and women. The Board, comprises two Executive Directors and six independent Non-Executive Directors, including the Chairman. This provides a strong level of independent challenge to decision-making and enables the Post Office to call upon a wide range of experience and opinion. Short biographies of all members of the Board appear on page X of this Annual Report.

The Remuneration Committee liaises with ShEx in BIS to obtain Special Shareholder's consent for all Directors' appointments and the terms under which they serve, including Non-Executive Directors' fees and any changes in the total remuneration for each Executive Director. The Executive Directors' contracts provide for six months' notice of termination to be given by the director and 12 months' notice to be given by the organisation.

Non-Executive Directors are not employees of the Post Office but provide services under the terms of an individual Letter of Appointment, signed at the commencement of their directorship. All Non-Executive Directors are entirely independent of the Post Office, having no other connection or financial interest, other than as customers and taxpayers.

Non-Executive Directors' Terms of Office

Director	Date of appointment	Term of office	Unexpired term at 31 March 2013	Committee memberships
Alice Perkins	21 July 2011	GRO		Nominations (Chair) Remuneration
Tim Franklin	19 September 2012			ARC
Virginia Holmes	4 April 2012			Pensions (Chair) Nominations Remuneration
Neil McCausland	22 September 2011			Remuneration (Chair)

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		GRO	ARC Nominations
Alasdair Marnoch	18 May 2012		ARC (Chair)
Susannah Storey	18 April 2012		ARC Pensions

Board meetings

The Board meets at least eight times a year, with an additional strategy away day, and has a formal schedule of matters reserved to it.

The Board's responsibilities include setting the Post Office's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to the shareholder. During the year to 31 March 2013 the Board has focused on financial performance, network transformation, and the people and capability of the business Over the last six months the Board's primary focus was on setting the strategic direction for the business, in preparation for completion during 2013-14 of the Strategic Plan and Funding Agreement with Government for the period 2015-20.

During the year under review, the Board established sub-committees which met regularly to undertake more detailed reviews in specialist areas, as recommended by the Code. Such focus areas included accounting policy and practices, risk and controls, pensions, executive remuneration, the processes for evaluation of performance, and the nomination and appointment of new directors or the removal of directors from the Board.

The full Terms of References for the Board sub-committees can be found on the Post Office website.

The following shows the attendance of the directors at meetings of the Board and its principle committees during the year:

	Board	ARC	Mutualisation Committee	Nominations Committee	Pension Committee	Remuneration Committee
Alice Perkins	8/8	3/4†	3/3	2/2	-	4/4
Chris Day	8/8	4/4†	3/3	-	7/7	-
Tim Franklin*	5/5	2/3	2/2	-	-	-
Virginia Holmes	8/8	-	2/3	2/2	7/7	4/4

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Neil McCausland	8/8	4/4	3/3	2/2	-	4/4
Alasdair Marnoch*	7/7	4/4	3/3	-	-	-
Susannah Storey*	8/8	3/3	2/3	-	6/6	-
Paula Vennells	8/8	-	3/3	-	-	2/2†

*from date of appointment

† in attendance, by invitation

Board sub-committees

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee ("ARC") is made up of five Non-Executive Directors and is chaired by Alasdair Marnoch. The ARC considers Post Office Limited's financial reporting, including accounting policies and internal financial controls. It looks at the levels of risk which exist within the Post Office and the steps taken to mitigate those risks.

During the year the Post Office has been building its own risk management, internal control and internal audit procedures and this will be an area for further development during the coming year.

One of the ARC's primary responsibilities during the period was to review both the half-year trading statement and the full-year accounts, to assess the validity of assumptions made and the accounting policies used and to consider the ways in which the Post Office should present its financial performance.

A second major responsibility has been to promote the development of a risk management framework suited to the complex nature of the Post Office business. This will take some time and is a key focus area for the coming year. The development of risk management and control procedures and the establishment of a full internal audit programme are areas of high priority.

In this period, a new Head of Internal Audit was appointed and the transition from using the Royal Mail internal audit function to building a new internal team had begun.

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

Remuneration Committee

The Remuneration Committee is made up of three Non-Executive Directors and is chaired by Neil McCausland, the Senior Independent Director. The committee is responsible for making recommendations to the shareholder on the remuneration of the Executive Directors in accordance with the articles of association. In doing so, it also reviews the remuneration policy and packages of the most senior leadership team, being the roles which report directly to the Chief Executive. It also obtains information on salary levels across the business and within external organisations of comparable size in order to set remuneration levels within an appropriate context.

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

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

No material changes can be made to directors' base salaries, benefits or incentives without Special Shareholder consent. Further details of the schemes now in place, and a table setting out the remuneration paid to all directors in the year to 31 March 2013, are provided in the Directors' Remuneration Report on page X.

Nominations Committee

The Nominations Committee is made up of three Non-Executive Directors and is chaired by Alice Perkins, the Chairman. It met for the first time in December 2012, with director appointments up to that time having been made according to specific criteria, following discussions with the shareholder.

The primary role of this committee is to recommend to the Board any changes in Board membership and manage the process for recruiting and replacing directors. The Board is complete and no immediate changes are expected. The committee will keep under review the balance of skills, experience and diversity available within the Board and each of the Board sub-committees.

The Nominations Committee will also oversee the process for Board and committee performance evaluation, and monitor talent and diversity (see pxx). The Chief Executive may attend meetings, at the invitation of the Chairman, to discuss matters relating to the talent and diversity policies.

Pension Committee

The Pensions Committee is made up of two Non-Executive Directors and one Executive Director and is chaired by Virginia Holmes.

The Pensions Solution, adopted in April 2012, saw a substantial transfer of assets from the Royal Mail Pension Plan (RMPP) to the government, in return for the government assuming the obligations for past service liabilities. The transfer was made possible following European Union approval for UK government state aid.

As part of the solution, the pension fund was sectionalised, with the Post Office assuming responsibility for that part of the pension fund that relates to Post Office employees and pensioners.

The Board has delegated authority to the Pension Sub-Committee to appoint professional advisers, to enter into negotiations with the trustees of the RMPP on the forthcoming valuation of the funds, to agree the investment strategy for the Post Office sections and to monitor funding levels and investment performance. The committee reports back to the full Board so that its work can dovetail with executive recommendations and union negotiations on pay and benefits.

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In August 2012 the committee recommended to the Board the appointment of AON Hewitt as its investment advisers. Working with AON Hewitt and with Towers Watson, its Actuarial advisers, the committee has satisfied itself as to the fair value of assets transferred into the Post Office section at 1 April 2012 and agreed a revised investment strategy with the trustees of the RMPP with the aim of maintaining the long term sustainability of the Scheme and protecting against an unmanageable increase in liabilities for the Post Office in the future.

Mutualisation Sub-Committee

The Mutualisation Sub-Committee is chaired by Alice Perkins, the Chairman of the Post Office and its membership is the same as that of the full Board. It met for the first time on 4 July 2012, the week in which the government published the response to its consultation 'Building a Mutual Post Office'. The committee is responsible for ensuring that the work to develop proposals for the mutualisation of Post Office Limited is provided with strategic direction, involves the appropriate level of stakeholder involvement and has adequate support.

The focus of the committee has been to consider the financial, cultural and business implications of mutualisation to ensure that progress on mutualisation supports and enables the successful delivery of the Post Office's transformation programme and the delivery of its future commercial strategy, which is an essential perquisite of any change in governance.

Performance evaluation

The Board intends to carry out an annual evaluation of the effectiveness of the Board and of the Board sub-committees. The initial performance evaluation will take the form of an assessment by the Chairman. Following this internal review, external evaluations will be completed every three years.

Executive Committee

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

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

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

The Terms of Reference of the ExCo have been set out in writing and are available to download from the Post Office website.

Risk management

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The Post Office has adopted the requirements of the FRC Guide to Corporate Governance and established an approach to the management of risk, tailored to meet the demands of a new business with ambitious plans for expansion in its chosen markets.

The Board takes ownership of risk management through its Audit, Risk and Compliance Committee (ARC). The Business' Risk & Compliance Committee reports into the ARC and is responsible for:

The Board takes ownership of risk management and has asked its Audit and Risk Committee to co-ordinate a proposed approach in this area for:

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

This committee is chaired by the Director of HR & Corporate Services and reports to the Post Office Executive Committee. The committee comprises members of the executive committee and other senior managers.

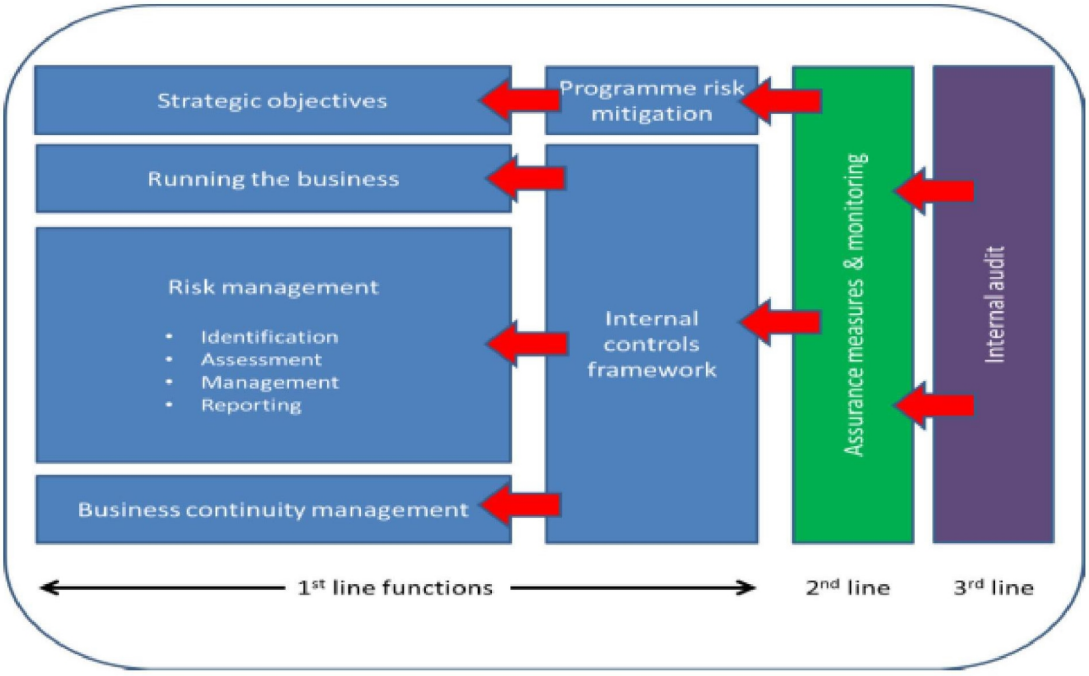
During the year the Post Office set up its own Internal Audit department as part of the 'three lines of defence' model (see below). Internal Audit provides independent assurance and advice on the risk management framework, its future strategy and evolution, and reports directly to the ARC.

The business also governs financial and related regulatory risk with its partner, the Bank of Ireland (UK) plc through established joint regulatory risk committees.

Risk management framework

The Post Office has set out the components of risk management in its risk framework. This framework is described at high level in the diagram below.

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The framework utilises a 'three lines of defence' model to establish accountability and responsibility for the effective operation of this framework.

1st Line of Defence	• Day-to-day risk management in business operations
2nd Line of Defence	• Risk management oversight and challenge
3rd Line of Defence	• Independent assurance

1st line of defence – is responsible for managing risk in day-to-day business operations

2nd line of defence – comprises central functions which oversee regulatory compliance and provide advice on the operation of the framework

3rd line of defence – provides independent assurance in respect of the Post Office's regulatory risk management

The risk framework is supported by the Risk & Compliance team, with dedicated resource in place to administer the tools and committees in use to manage risk.

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Progress

Over the past 12 months, each directorate has gone through a process of identifying and assessing the risks associated with achievement of its respective objectives. These risks are recorded on a software tool to enable aggregation, comparison and risk reporting. In addition, the key strategic programmes of the business capture their own risks.

The top 12 risks from each of these sources, together with the respective mitigation plans, are reviewed by the Risk & Compliance Committee to assess the robustness of risk assessment and management.

The above assessment will be supplemented in the first quarter of the new financial year with a top down assessment of the company's risks by the Post Office Executive Committee.

Risk appetite

Over the next 12 months the Post Office will be fully developing its risk appetite statements for each of the key risks, with a view to establishing where additional risk may be taken to generate new opportunities and/or where further treatment of existing risks is required.

Business continuity

As part of the development of risk management, the Post Office is bringing together a wide range of business continuity arrangements throughout the business under one central policy and governance framework to ensure that the Post Office is capable of withstanding any significant threat to its ongoing operations.

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Directors' report

The directors present the Group Annual Report and Financial Statements for Post Office Limited. These financial statements relate to the 53 weeks ended 31 March 2013.

Principal activities

The Group's principal activities are the provision of access to a wide range of mails, government, financial, travel and retail services through its network of Post Office branches and other channels across the United Kingdom (UK).

Review of the business and expected future developments

Information contained within the Chief Executive's Review (pxx) and the Financial Review (pxx) constitutes the business review required by the Companies Act 2006 and is incorporated into this directors' report by reference.

Results and dividends

The profit after taxation for the year was £38 million (2012 - £30 million). The directors do not recommend the payment of a dividend (2012 £nil dividend).

Pensions

As explained in note 19 on 1 April 2012, almost all of the pension assets and liabilities of the Royal Mail Pension Plan were transferred to HM Government. On this date the Royal Mail Pension Plan was also sectionalised with Royal Mail Group Ltd and Post Office Limited responsible for their own sections. All employees were transferred to be directly employed by Post Office Limited on the same date.

Royal Mail Group Ltd is the principal employer in the Royal Mail Senior Executive Pension Plan and for the Royal Mail Defined Contribution Plan. Post Office Limited became a participating employer for both of these plans with effect from 1 April 2012. Post Office Limited continues to account for approximately 7% of the Royal Mail Senior Executive Pension Plan scheme as it has done previously. Both defined benefit schemes were closed to new members in 2008 and the Royal Mail Senior Executive Plan closed on 31 December 2012. New employees are offered membership of the Royal Mail Defined Contribution Plan.

The balance sheet pension surplus of £97m (2012 - £206m deficit) has arisen principally due to the transfer of pension assets and liabilities to HM Government.

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

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Political and charitable contributions

During the year charitable contributions of £989,702 (2012 - £320,108) were made. No political contributions were made in the year (2012 £nil).

Research and development

Research and development expenditure during the year amounted to £nil (2011 £nil).

Policy on the payment of suppliers

The Post Office policy is to use its purchasing power fairly. Payment terms are agreed in advance for all major contracts. For lower value transactions, the standard payment terms printed on the purchase order apply. It is policy to abide by the agreed terms. The business has sought to comply with the Department for Business, Innovation and Skills (BIS) Better Practice Code. The number of days' purchases in creditors at the balance sheet date was 24 days (2012 - 33 days).

Land and buildings

The net book value of land and buildings, based upon a historic cost accounting policy and excluding fit-out, is £11 million (2012 - £11 million). In the opinion of the Directors, the aggregate market value of Post Office's land and buildings at the year end exceeded their net book value by £73 million (2012 - £45 million).

Directors and their interests

The following served as directors of Post Office Limited during the year ended 31 March 2013 and remain in post as at the date of approval of these financial statements.

A Perkins CB

N W McCausland

V A Holmes (appointed 4 April 2012)

S J Storey (appointed 18 April 2012)

A Marnoch (appointed 23 May 2012)

T A Franklin (appointed 19 September 2012)

P A Vennells *

C M Day *

*Executive Directors

No director has a beneficial interest in the share capital of Post Office Limited. All the Non-Executive Directors are considered to be independent, having no financial connection with Post Office Limited other than by virtue of the fees paid for their services as a director. The emoluments of directors are set out in the Directors' Remuneration Report (pxx).

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Insurance and qualifying third-party indemnity provisions for directors

Post Office Limited maintains directors' and officers' liability insurance for the benefit of all directors and officers of Post Office Limited.

A partial qualifying third-party indemnity provision (as defined in section 234 of the Companies Act 2006) was and remains in force for the benefit of all the directors of Post Office Limited and former directors who held office during the year. The indemnity is granted under article 129 of Articles of Association or Royal Mail Holdings plc, the ultimate parent company. The indemnity is partial in that it does not allow Post Office Limited to cover the costs of an unsuccessful defence of a third-party claim.

People

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

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

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

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

Corporate responsibility

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

Disabled employees

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

Post balance sheet events

[To be confirmed post year end.]

Going concern

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

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Audit information

The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

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

By order of the Board

Alwen Lyons

Secretary

Post Office Limited (company number 2154540)

148 Old Street, London EC1V 9HQ

XX June 2013

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Section: Governance

Title: Directors' remuneration report

Statement by the Chair of the Remuneration Committee

I welcome this opportunity to outline our progress on executive remuneration during the year. Remuneration is a highly sensitive issue in the challenging economic environment in which we operate and, as a publicly funded business with a commercial and public purpose, we embrace the transparency and accountability required to establish a responsible approach to remuneration.

Once the Post Office Board appointment process was complete in September 2012, a Remuneration Committee was set up to take responsibility for executive remuneration. The members of the committee are independent Non-Executive Directors (NEDs) and no individual participates in discussions about their own remuneration. We have used the recommended governance principles and proposed legislative changes on the disclosure of executive remuneration to prepare this report and to aid the development of the remuneration strategy.

The committee recommends the strategy and policy for Executive Directors' remuneration to the Post Office Board for their approval taking into account their potential impact across the organisation. Prior written consent of the Special Shareholder is required in respect of any variation or amendment to the remuneration of the Executive Directors. During this first year I have held regular dialogues with officials and ministers in the Department for Business Innovation & Skills to build working relationships and a common understanding of the issues.

The Post Office has begun the journey to turnaround the business to become a sustainable organisation, characterised by sound cost control in a performance culture and active stakeholder participation and engagement. We are planning the future of the business for the next 10 years so the longer term remuneration policy becomes very important. We have deliberately made no changes to the remuneration policy for the Executive Directors during this first year as we build a track record of solid achievements against challenging targets.

The framework for the Executive Directors' remuneration was inherited, with neither the Board nor the Remuneration Committee involved in its creation. The Remuneration Committee faces a difficult situation in which it needs to incentivise senior leaders during the transition to turn the business around while working within a constrained framework and challenging circumstances. There is limited scope to flex the remuneration framework and reward mechanism to suit the circumstances and reward appropriately.

The Chief Executive, Paula Vennells, and the Chief Financial Officer, Chris Day, were appointed to their roles prior to 1 April 2012, the date the Post Office commenced operating independently from Royal Mail Group. While the responsibilities of the Chief Executive and Chief Financial Officer have increased significantly, their remuneration remains unchanged.

An extensive remuneration benchmarking exercise was undertaken during the year and data from similar-sized organisations from three distinct sectors was considered. The organisations used for the benchmarking activity came from the mutual, government owned and PLC sectors. The results of the benchmarking showed the levels of Post Office executive reward for both fixed and total remuneration are substantially below the market median. The Remuneration Committee agreed that whilst it would not recommend any immediate remedial action, the relative market position of

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the Executive Directors would be kept under review. Any recommended future change in remuneration for Executive Directors would be subject to Special Shareholder approval.

For the financial year ended 31 March 2013, the committee was satisfied that there had been a clear link between performance of the business and payments under the two incentive plans, the Short Term Incentive Plan (STIP) and the Long Term Incentive Plan (LTIP). Details of STIP and LTIP targets and the results achieved are shown in the Implementation section of the Remuneration Report.

The remuneration policy will remain largely unaltered for 2013-14 and the Remuneration Committee is in discussion with the Special Shareholder on the future remuneration framework for Executive Directors. The Post Office is undergoing a fundamental transformation and we anticipate that each year progressively more demanding targets will be set for the STIP and LTIP in order to achieve our goal of financial sustainability.

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

Neil McCausland

Chair, Remuneration Committee

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The remuneration report

This report has been prepared in accordance with the provisions of the Companies Act 2006 to the extent that they are applicable for an unlisted company. The committee has also, where practicable, adopted early the proposed legislative requirements for disclosure of directors' pay being put forward for UK listed companies. Accordingly, the remuneration report has been split into two sections: a policy report and an implementation report. The policy report sets out the policy for the remuneration of directors and its link to the business strategy. The implementation report sets out how this policy was applied during the year under review and the remuneration received by directors. Both sections of the report have been approved by the Remuneration Committee and the Board.

Remuneration policy report

The committee is responsible for setting the remuneration packages for the Chief Executive and Chief Financial Officer and determining the overall remuneration policy for the Chief Executive's direct reports and the Company Secretary.

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

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

Remuneration policy summary

The table [overleaf] describes the remuneration policy for the year ended 30 March 2014 and the breakdown of the packages for the Executive Directors, which comprise of fixed pay (base salary, benefits and cash in lieu of pension contributions) and pay at risk (STIP and LTIP).

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Remuneration policy table

Element	Link to strategy	Operation	Performance period	Maximum values
Base salary	Determined by reference to the skills and responsibilities of the individual. Consideration is given to pay and employment conditions elsewhere in the Post Office when determining base salary increases and to market data on comparable roles.	Directors' salaries are reviewed annually. The next review is scheduled for July 2014. .	-	The current salaries for the Executive Directors, as at 1 April 2013, are: GRO
Benefits	Participation in life and health assurance schemes, company car and private medical schemes are part of Post Office-wide benefit programmes to retain talented staff and encourage greater health and wellbeing.	The value of the benefits package is monitored by the Remuneration Committee and benchmarked against comparator organisations.	-	GRO
Pension	Pension provision is provided by the Post Office and is available to all employees to help them meet their retirement needs and provide a competitive remuneration package. Executive Directors receive a salary supplement in lieu of pension scheme membership.	GRO	-	GRO
Short-term Incentive Plan (STIP)	The STIP drives and rewards performance against a set of key financial and operational targets taken from the balanced scorecard, set each year according to the current priorities for the business. STIP awards are also linked to the achievement of personal performance	The metrics and target ranges are agreed annually with the Board and the Special Shareholder as part of the annual business and budget planning cycle. The STIP metrics are a mixture of financial (45%), customer (20%) modernisation (25%), employee engagement (10%) measures which link directly to the overall strategy. 80% of the STIP award is based on the balanced scorecard and	One year	GRO

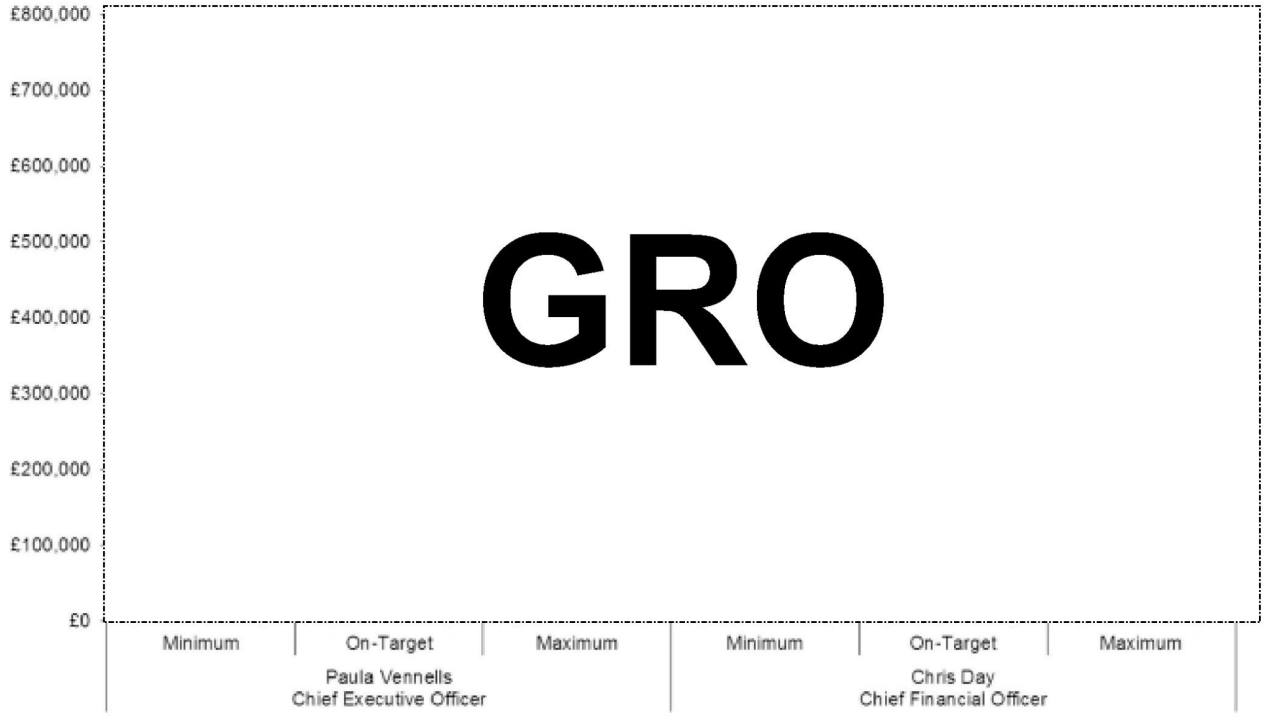
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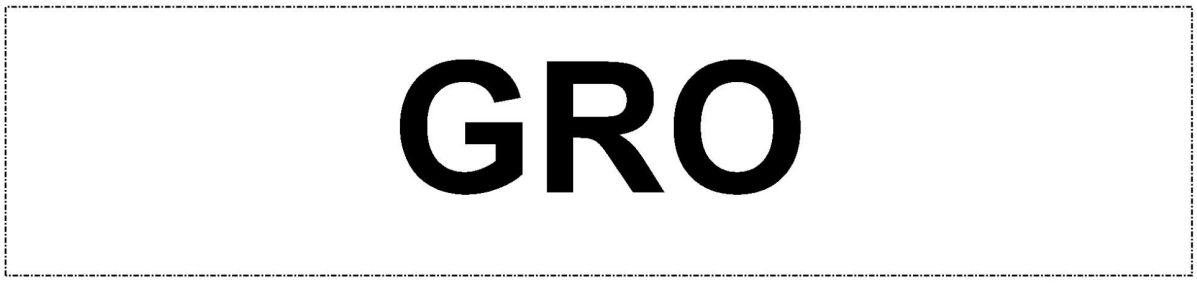
	objectives.	20% is based on individual performance objectives which are agreed with the Board and will require approval by the Special Shareholder.		
Long-Term Incentive Plan (LTIP)	The LTIP is designed to reward and retain key executives and senior managers and to incentivise the achievement of longer term performance goals. The payout of the award is based on the achievement of strategic targets linked to the longer term development growth of a sustainable business.	Performance measures for the LTIP are drawn from the Post Office Funding Agreement agreed with the Special Shareholder. The intention is to award an LTIP subject to Special Shareholder agreement. The proposed awards follow a three-year cycle. Awards for 2013 will be based on access criteria and EBITDAS targets.	Three financial years	GRO

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Performance scenarios 2013/2014

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





*subject to Special Shareholder approval

Statement of pay considerations elsewhere in the Post Office

The committee takes into account the pay and employment conditions of employees elsewhere in the Post Office when setting the remuneration policy for the Executive Directors. For

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example, when determining salary increases for the Executive Directors, consideration is given to the policy and budget applied elsewhere to other employees. The balanced scorecard used for the STIP for Executive Directors is also used to assess performance in the STIP for Post Office managers, providing alignment between performance reward for all employees at manager level and above.

Contracts and loss of office payment policy

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

Key terms of the contract

Notice period	GRO
Remuneration-related provisions	

Clawback provision

GRO

Non-Executive Directors

The fees paid to the Chairman are approved by the Special Shareholder. Fees for the Non-Executive Directors are determined by the Executive Directors and are submitted to the Special Shareholder for approval taking into account time commitment and responsibilities.

GRO

Non-Executive Directors' Letters of Appointment are described in the Corporate Governance statement (pxx).

Statement of consideration of shareholder's views

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

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Implementation report

Remuneration for each director (audited)

Name	Annual fees	Actual salary/ fees 2012-2013	Benefits	Cash in lieu of pension	STIP	LTIP	Total
Non-Executive Directors	GRO						
Tim Franklin							
Virginia Holmes							
Alasdair Marnoch							
Neil McCausland							
Alice Perkins							
Susannah Storey (Note 1)							
Executive Directors (Note 2)							
Paula Vennells							
Chris Day							

GRO

Pay at risk paid to Executive Directors in 2012-13 (audited)

a) Short Term Incentive Plan 2012-13

The Short Term Incentive Plan is based on the Post Office balance scorecard for 2012-13. Six measures from the scorecard were identified for use in the STIP. These relate to financial performance (50%), the customer experience (25%) and achievement of specific objectives related

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to the modernisation program (25%). Financial performance was assessed through the use of stretching revenue and operating profit targets. Strong growth in the business during the year delivered revenue of [(£1.02bn)] which was between target and stretch performance. Tight cost control meant that operating profit [(£94.2m)] was in excess of the stretch hurdle. Significant improvements were made in our interaction with customers, with reductions in queue times and call centre targets being achieved. Overall, performance exceeded the on-target level across all the six measures and was in excess of the stretch hurdle for two measures.

Chief Executive

GRO

Chief Financial Officer

GRO

b) Long Term Incentive Plan awards 2010-2013

GRO

Outstanding Long-Term Incentive awards

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Under the remuneration policy, LTIP awards are granted annually. GRO

GRO

	Target award	Stretch award	Performance period
Paula Vennells – Chief Executive Officer			
2011 LTIP	GRO		
2012 LTIP			
Chris Day – Chief Financial			
2011 LTIP			
2012 LTIP			

*LTIP award pro-rated as commenced employment 1 August 2011

Both the 2011 and 2012 LTIP awards are subject to challenging financial and strategic performance conditions.

Total pension entitlements (audited)

GRO

	Age at Year end	Accrued benefit at 25 March 2012 or date of appointment to the Board if later	Accrued benefit at 31 March 2013 or date of leaving if earlier	Increase in accrued benefits during the period (net of inflation)	Transfer value of increase before inflation less Directors' contributions
	GRO	£ pa	£ pa	£ pa	£ pa
Paula Vennells	GRO				

	Age at Year end	Transfer value at 25 March 2012 or at date of appointment to Board if later £	Transfer value at 31 March 2013	Transfers in received during the period £	Member's contributions in the period £	Movements in the period less Directors' contributions £
	GRO					

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£

Paula Vennells	GRO

Relative importance of the spend on pay (audited)

Total people costs at Post Office Limited (excluding exceptionals) for the year ended 31 March 2013 were £259 million, of which £1.4 million related to Directors' pay. This compares to total revenues of £1.02 billion.

Outside directorships

Subject to Board approval, the Executive Directors are permitted to take on Non-Executive positions with other companies and are allowed to retain the fees received in respect of such positions. Paula Vennells is a Director of Hymns Ancient and Modern and a fee of £xx in respect of the year ended 31 March 2013.

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Representation Letter to Ernst & Young

xx June 2013

Ernst & Young

1 More London Place

London SE1 2AF

Dear Sirs,

This representation letter is provided in connection with your audit of the consolidated and parent company financial statements of Post Office Limited ("the Group and Company") for the 53 weeks ended 31 March 2013 ("the period"). We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent company financial statements give a true and fair view of the financial position of the Group and Company financial position of Post Office Limited as of 31 March 2013 and of its results of operations and its cash flows for the period then ended in accordance with IFRS and UK GAAP respectively.

We understand that the purpose of your audit of our consolidated and parent company financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 25 February 2013, for the preparation of the consolidated financial statements in accordance with IFRS and the standalone company financial statements in accordance with UK GAAP.

We acknowledge, as members of management of the Group and Company, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of (or 'present fairly, in all material respects') the financial position, results of operations and cash flows of the Group and Company in accordance with IFRS and UK GAAP respectively, and are free of material misstatements, including omissions. We have approved the consolidated and parent company financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

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As members of management of the Group and Company, we believe that the Group and Company have a system of internal controls adequate to enable the preparation of accurate Group financial statements in accordance with IFRS and the Company financial statements in accordance with UK GAAP that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the Group and Company financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because we do not believe that they are material to the reader's understanding of the Group and Company financial statements.

B. Fraud

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the Group and Company financial statements may be materially misstated as a result of fraud.

We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Group and Company (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the Group and Company financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the Group and Company financial statements.

C. Compliance with Laws and Regulations

We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the Group and Company financial statements.

D. Information Provided and Completeness of Information and Transactions

We have provided you with:

Access to all information of which we are aware that is relevant to the preparation of the Group and Company financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.

Additional information that you have requested from us for the purpose of the audit and

Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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All material transactions have been recorded in the accounting records and are reflected in the Group and Company financial statements.

We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through to the most recent meeting on xx May 2013.

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated financial statements.

We have disclosed to you, and the Group and Company has complied with, all aspects of contractual agreements that could have a material effect on the Group and Company financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the Group and Company financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the Group and Company financial statements all guarantees that we have given to third parties.

F. Subsequent Events

Other than those disclosed, there have been no events subsequent to period end which require adjustment of or disclosure in the Group and Company financial statements or notes thereto.

G. Accounting Estimates

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

Accounting estimates recognized or disclosed in the Group and Company financial statements:

- We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.

POL00027545

- The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the Group and Company financial statements.

H. Going Concern

Note 1 to the Group and Company financial statements discloses all of the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

I. Contingent Liabilities

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the Group and Company financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the Group and Company financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

Yours Faithfully,

_____

Chief Financial Officer

POL00027545

Accompanying schedule of audit differences

Uncorrected misstatements	Assets: current	Assets: non-current	Liabilities: current (£m)	Liabilities: non-current	Income/ expenses	Equity
	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/(Credit) Current period	Debit/(Credit)
Errors:						
▸ **1) Business Transformation Payments Reclassification Misstatement**						
Dr. Accruals			6.7			
Cr. Provisions			(6.7)			
▸ **2) DVLA Remuneration Accrual Reclassification Misstatement**						
Dr. Accruals			3.2			
Cr. Provisions			(3.2)			
▸ **3) LTIP Bonus Accrual Turnaround Adjustment**						
Dr. Current Year P&L					1.9	
Cr. Prior Year P&L						(1.9)
Income statement total					**(49)**	
Balance sheet totals	**1,342**	**168**	**(1,211)**	**(11)**		
Income effect of uncorrected misstatements (before tax)					1.9	
Less: tax effect at current year marginal rate					0.5	
Cumulative effect of uncorrected misstatements before turnaround effect					1.4	
Turnaround effect					(1.4)	
Cumulative effect of uncorrected misstatements, after turnaround effect					-	

POL00027545

UNDERTAKINGS AND STATEMENTS MADE BY DIRECTORS

1. Overview

A statement of the Directors' responsibilities regarding the preparation of the financial statements is included in the Annual Report and Financial Statements. The financial statements also make specific references to Directors' responsibilities. These are set out below.

2. Directors' Report - land and buildings

This Directors' Report states "The net book value of the Group's land and buildings, based upon a historic cost accounting policy and excluding fit-out, is £11m (2012 £11m). In the opinion of the Directors, the aggregate market value of Post Office Limited's land and buildings exceeds this net book value by £73m (2012 £45m)."

Commentary. *The figure has been reached based on the external valuation carried out in March 2011 which covered almost all properties and on the basis that the property market has been static. The properties transferred from Royal Mail were valued in September 2012 and their value forms £30m of both the total value and the difference in excess of net book value as they are recorded on the balance sheet at a net book value of £nil.*

3. Directors' Report – audit information

This paragraph states "The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information"

Commentary. *This statement is a requirement of the Companies Act introduced for the first time in the financial statements year ending 25 March 2007. The Ernst & Young Audit and Risk Committee report states that, to the best of their knowledge, they have had all the information necessary to enable them to complete the audit.*

4. Directors' Report - Going concern

This paragraph states "After analysis of the financial resources available and cash flow projections for Post Office Limited, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis".

Commentary*. A going concern update is included in Section 12 of the ARC Briefing Book which is included with these papers.*

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5. Statement of Directors' responsibilities in relation to the financial statements

This is the statement recording the Directors' responsibilities and that they consider the financial statements to be true and fair.

Commentary. *An enterprise wide integrated accounting system (ESFS) is in operation, which is supplemented by Royal Mail Group wide finance policies, as well as Post Office's own policies, and an internal control environment. This ensures that the underlying accounting records are not materially misstated. Consolidation systems and processes ensure all appropriate intercompany transactions are eliminated. The Post Office Limited management accounts are reviewed by the Post Office Executive Committee and Board on a monthly basis. All numbers are sourced from the same underlying finance records.*

It can be concluded, therefore, that the financial statements prepared give a true and fair view of the state of affairs of the Group and Company. This view is supported by the findings of the external audit.

6. Signatures

A minimum of one Director needs to be given delegated authority to sign the financial statements on behalf of the Board as a whole. It is recommended, however, that Paula Vennells and Chris Day both sign the balance sheet. Alice Perkins is recommended in the event that either is unavailable.

POL00027545



The fabric of our society

Annual Report and Accounts 2013

POL00027545

ternal Revenues (£m)

,270

12:1,160

erating profit (£m)

61

1259

st Office branches

1,820

12:11,818

- Revenue increased in 2012/13 by £xx million to £1,xxx million, with growth in our Mails, Retail and Financial Services businesses
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For more information visit our online annual report at www.postoffice/ar2013.com

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Who we are

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3 million
Sitatque rest, omnis por si sitiumendae sequi utecus et volor si rehent.

£2.3bn
The amount of social value we have delivered to businesses and the public according to an independent study

93.1%
The percentage of people in the UK living within a mile of a Post Office

6,000
…e number of branches to be …ansformed in the next three years

20 million
The number of people who visit a Post Office every week

90%
The percentage of our customers who say they are satisfied with our services



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Chairman's statement

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GRO

Alice Perkins
Chairman

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A year of significant progress

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Post Office network

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Harum fuga (£m)
98
2012: 1,160

Car insurance claims
+16%



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Financial Services

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Life insurance sales
+21%



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12,112
2012: 11,124

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Chief Executive's review

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GRO

PaulaVennells
Chief Executive

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A year of significant progress

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Post Office network

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Harum fuga (£m)
98
2012:1,160

Carinsurance claims
+16%





Quiaspe audam
£1,398+12%



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Financial Services

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Life insurance sales
+21%



Ipsum berehendi
12,112
2012:11,124

POL00027545

Business at a glance

Government services



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Doloratetdolore

1.2 million
2012: 0.9 million

Overview

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To read more about Government Services go to page xx

Mails and retail



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3 million
2012: 2.1 million

Overview

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To read more about Government Services go to page xx

Harum fuga (£m)
98
2012:1,160

Carinsurance claims
+16%

ancial services



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0.1 million
2012: 00.1 million

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To read more about Government Services go to page xx

Telephony



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Quiaspeaudam

6 million
2012: 3.1 million

Overview

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To read more about Government Services go to page xx

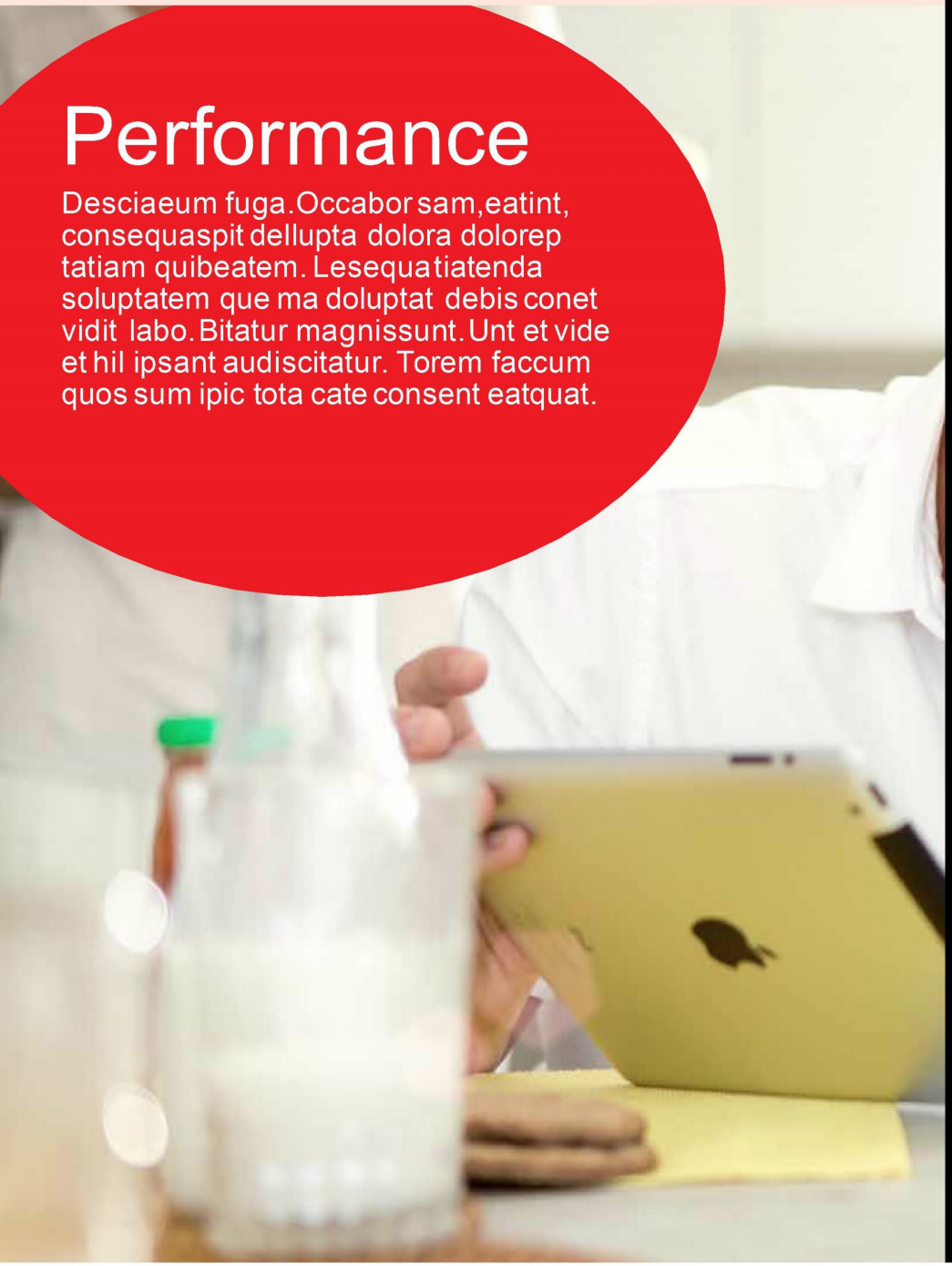
Life insurance sales
+21%

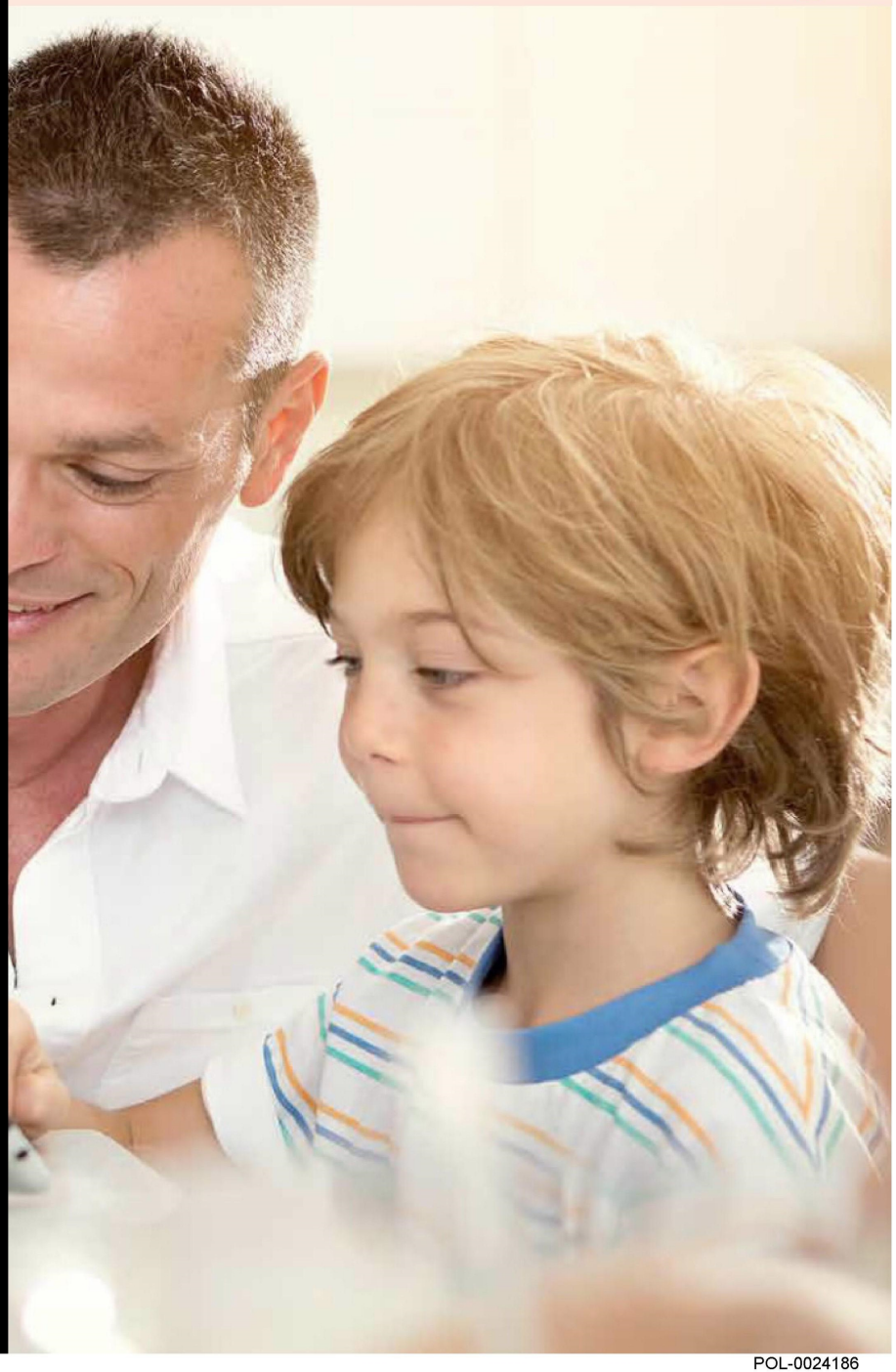
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12,112
2012:11,124

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Performance

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Our people

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Improving career management

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Safety: an enduring priority

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Developing skills for a changing business

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The Post Office Apprenticeship scheme

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> The apprenticeship is a good way of entering the engineering environment. I'm looking forward to working my way up.
>
> **AlexandraAllsop**
> Programme participant

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Board of Directors

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Consolidated income statement

	Note	2012 £m	2011 £m
Non-current assets			
Goodwill	11	58.2	69.7
Distribution rights	12	132.8	124.0
Other intangible assets		50.8	45.5
Property, plant and equipment		26.4	28.4
Interests in joint ventures and associates	13	28.9	34.0
Investments		4.4	2.5
Deferred tax assets		9.4	22.9
Derivative financial assets		1.2	1.0
		312.1	328.0
Current assets			
Programme rights and other inventories	14	104.8	83.5
Trade and other receivables		296.5	285.8
Derivative financial assets		2.6	3.5
Cash and cash equivalents		31.1	63.1
Assets classified as held for sale		11.9	44.4
		446.9	480.3
Total assets		759.0	808.3

Group statement of total recognised gains and losses

	Note	2012 £m	2011 £m
Non-current assets			
Goodwill	11	58.2	69.7
Distribution rights	12	132.8	124.0
Other intangible assets		50.8	45.5
Property, plant and equipment		26.4	28.4
Interests in joint ventures and associates	13	28.9	34.0
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roup balance sheet

	Note	2012 £m	2011 £m
urrent assets			
ill	11	58.2	69.7
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ive financial assets		2.6	3.5
nd cash equivalents		31.1	63.1
classified as held for sale		11.9	44.4
		446.9	480.3
ssets		759.0	808.3
t liabilities			
bearing loans and borrowings	15	30.5	20.1
nd other payables		372.0	363.4
tax liabilities		2.4	8.7
ons		2.5	7.2
ive financial liabilities		1.8	5.0
es relating to assets held for sale		–	36.5
		409.2	440.9
urrent liabilities			
bearing loans and borrowings	15	65.0	95.3
nd other payables		3.0	9.9
ons		9.7	11.4
ive financial liabilities		4.5	4.2
d tax liabilities		5.6	15.3
		87.8	136.1
abilities		497.0	577.0
sets		262.0	231.3
capital		0.2	0.2
g reserve		1.2	0.8
tion reserve		34.1	33.0
d earnings		219.3	190.8
attributable to owners of the parent company		254.8	224.8
ntrolling interests		7.2	6.5
quity		262.0	231.3

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Client
Post Office Limited

Project
Annual Report 2013

Job no.

Date
25 April 2013

Thanks to…..	Post Office Limited Annual Report 2013 Strapline introducing the theme
OBC	FC

Corporate statement Highlights (key stats) - Financial - Operational	Contents
IFC	1

Overview Who we are – Care, Challenge, Commit	Overview What we do – key stats in numbers
2	3

Overview: Chairman's statement [	Overview: Chairman's statement
4	5

Overview: Chief executive's review [	Overview: Chief executive's review
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Overview: Chief executive's review	Overview: Chief executive's review
8	9

Overview: Strategy	Overview: Strategy
10	11

Operational review Branch network - Network and Crown trans	Operational review Branch network Transformation
12	13

Operational review Branch network Transformation - Network and Crown	Operational review Branch network Transformation
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Operational review Branch network Transformation	Operational review Include customer base – small businesses, supply chain and normal customers?
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Operational review: Business at a glance Mails and Retail, Financial services	Operational review: Business at a glance Govt services, Telephony -
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Operational review Mails & Retail	Operational review Financial services
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Operational review Govt Services	Operational review Telephony
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Performance review Our People	Performance review Our People: case study
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Performance Review CSR	Performance Review CSR	Performance Review Financial overview	Performance Review Financial overview	Performance review Financial overview	Performance review Financial overview	Performance review Business risk	Performance review Business risk	Performance review Business risk	Governance Contents		
30	31	32	33	34	35	36	37	38	39		
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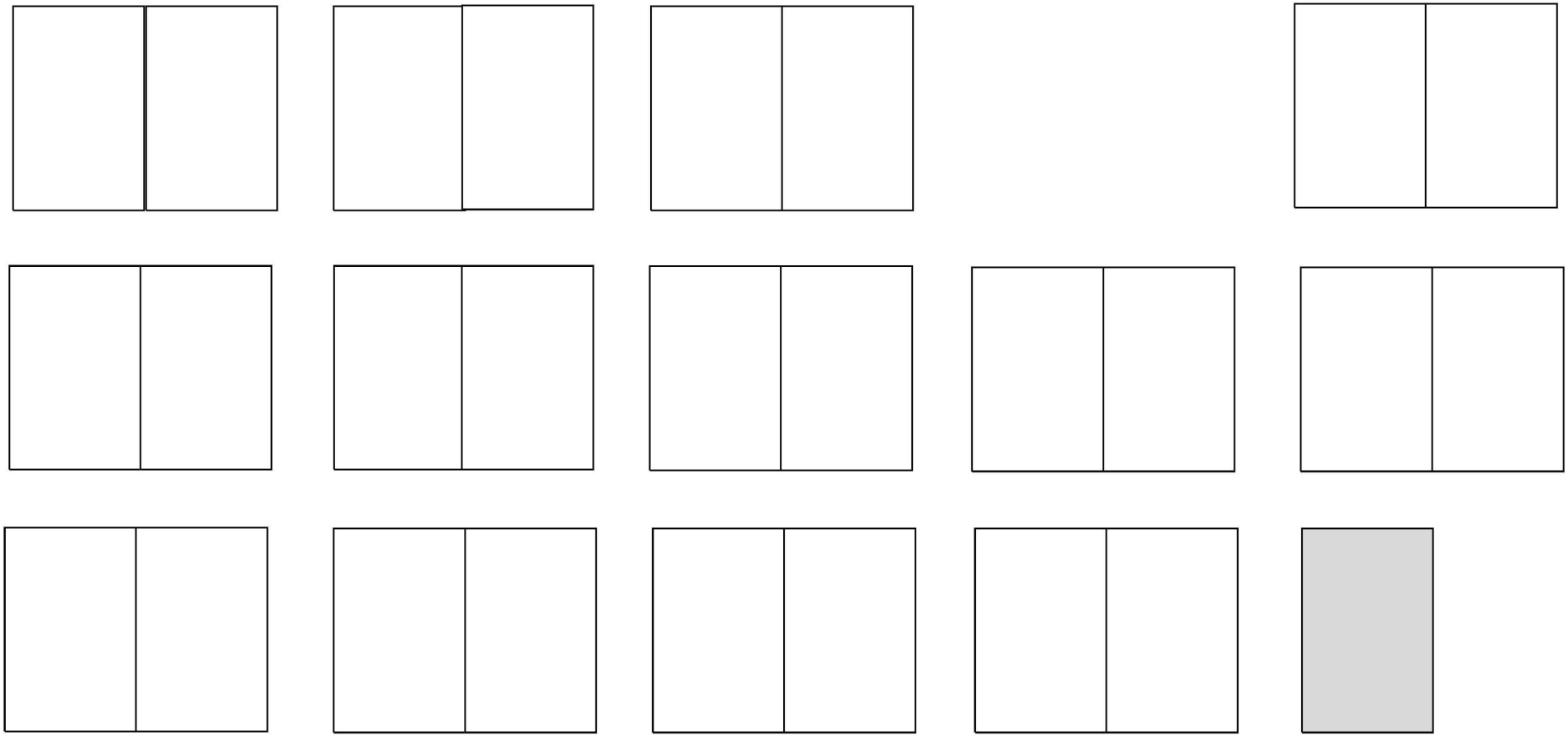
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Post Office Limited

Audit, Risk and Compliance Board Sub-Committee

Briefing Book

Full Year ended 31 March 2013

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1 Glossary review

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

Abbreviation	Meaning
ATM	Automated teller machine
BIS	Department for Business Innovation & Skills
CWU	Communications Workers Union
DVLA	Driver & Vehicle Licensing Authority
DWP	Department of Work & Pensions
Eagle	Deal in August 2012 to sell POFS to the Bank of Ireland, restructure commission rates for personal financial services and extend the contract to 2023
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
JV	Joint venture
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
SGEI	Services of General Economic Interest
UKBA	United Kingdom Borders Agency

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2. Introduction

This Briefing Book has been prepared to explain the Post Office Limited results for the year ended 31 March 2013. It is a summary of the key data, trends and analyses to be read in conjunction with the Annual Report & Financial Statements, which readers may find useful to further their own understanding of the results for 2012-13. Post Office Limited has opted not to take advantage of the Companies Act exemption from the preparation of consolidated accounts as it is a wholly owned subsidiary within the Royal Mail Holdings plc group which prepares group accounts. The Annual Report & Financial Statements therefore report consolidated results.

Most of the analyses are based on the comparison of this year's actual results to prior year. This year consists of 53 weeks (2012 was 52 weeks).

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

3. Accounting policies

This is the first year that Post Office Limited has reported its results since operating independently and it has been decided to report under International Financial Reporting Standards (IFRS). The changes to accounting policies and disclosures, which have been necessary as part of the transition to reporting under IFRS as adopted by the European Union, have had no effect on the income statement or net asset position.

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4. Primary Statements

4.1 Post Office Limited Consolidated Income Statement.

Post Office Limited Consolidated income Statement for the year ended 31 March 2013 and 25 March 2012

	Section	2012-13 £m	2011-12 £m
Continuing operations			
Turnover		1,024	980
Network Subsidy Payment		210	180
Revenue	6	1,234	1,160
People Costs	7.2	(259)	(254)
Subpostmasters costs	7.2.4	(478)	(483)
Other operating costs	7.3	(435)	(393)
Share of post tax profit from joint venture and associates		32	31
Operating profit before operating exceptional items	5	94	61
Operating exceptional items	10	(47)	(38)
Operating profit		47	23
Profit on disposal of fixed assets	10	2	1
Loss on sale of associate	10	(30)	
Profit before financing and taxation		19	24
Net interest payable	11.1	(4)	(7)
Finance income		1	1
Net pensions interest		2	2
Profit before taxation		18	20
Taxation credit		31	10
Profit for the financial year from continuing operations		49	30

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4.2 Post Office Limited Consolidated Cashflow Statement

Post Office Limited consolidated cashflow statement for the full year to 31 March 2013

	Notes	**2013 £m**	2012 £m
Cash flows from operating activities			
Operating profit before exceptional items		**94**	61
Adjustment for:			
Depreciation and amortisation		**-**	1
Share of profit from joint ventures and associates	14.3	**(32)**	(31)
Pension operating costs		**25**	24
Working capital movements:		**71**	24
(Increase)/Decrease in trade and other receivables		**(138)**	11
Increase in trade and other payables		**207**	15
(Increase) in inventories		**(2)**	-
Increase/(Decrease) in non-exceptional provisions		**4**	(2)
Pension operating costs paid		**(26)**	(27)
Cash payments in respect of operating exceptional items:		**133**	(27)
Business transformation		**(44)**	(12)
Government grant		**200**	-
Restructuring costs		**(11)**	(15)
Other		**(12)**	-
Net cash inflow from operating activities		**265**	25
Income tax recovered		**11**	12
Cash flows from investing activities			
Investment in associate		**(11)**	-
Dividends received from joint ventures and associates	14.3	**40**	38
Finance income received		**1**	-
Proceeds from sale of property, plant and equipment		**2**	2
Proceeds from disposal of associate		**2**	-
Purchase of property, plant and equipment		**(66)**	(33)
Net cash (outflow)/inflow from investing activities		**(32)**	7
Net cash inflow before financing activities		**244**	44
Cash flows from financing activities			
Finance costs paid		**(3)**	(4)
Payments to finance lease creditors		**(3)**	(3)
(Repayment)/proceeds from bank borrowings		**(86)**	2
Net cash (outflow) from financing activities		**(92)**	(5)
Net increase in cash and cash equivalents		**152**	39
Effect of exchange rates on cash and cash equivalents		**(1)**	(1)
Cash and cash equivalents at the beginning of the year		**820**	782
Cash and cash equivalents at the end of the year	11.2	**971**	820

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4.3 Post Office Limited Consolidated Balance Sheet

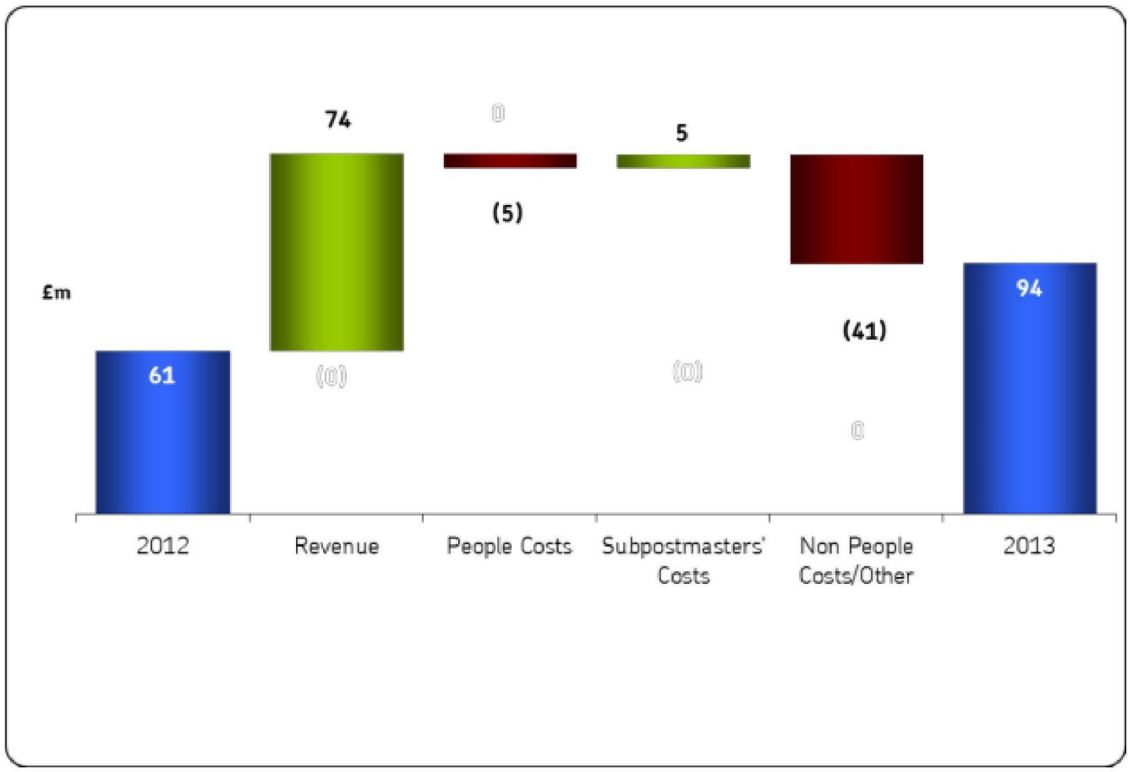
Post Office Limited consolidated balance sheet at 31 March 2013 and 25 March 2012 and 28 March 2011

	Notes	**2013 £m**	2012 £m	2011 £m
Non-current assets				
Intangible assets		**-**	-	-
Property, plant and equipment	13	**11**	11	12
Investments in joint ventures and associates	14.1	**60**	89	96
Retirement benefit surplus		**97**	-	-
Total non-current assets		**168**	100	108
Current assets				
Inventories	15.1	**8**	6	5
Trade and other receivables	15.2	**362**	226	241
Cash and cash equivalents	11.2	**971**	820	782
Financial assets – derivatives		**1**	-	-
Total current assets		**1,342**	1,052	1,028
Total assets		**1,510**	1,152	1,136
Current liabilities				
Trade and other payables	15.3	**(898)**	(583)	(579)
Financial liabilities - interest bearing loans and borrowings	11.2	**(291)**	(377)	(375)
- obligations under finance leases	11.2	**(3)**	(4)	(4)
Provisions	16	**(19)**	-	-
Total current liabilities		**(1,211)**	(964)	(958)
Non-current liabilities				
Financial liabilities – obligations under finance leases	11.2	**(4)**	(6)	(9)
Other payables		**-**	(2)	(5)
Provisions	16	**(7)**	(14)	(26)
Retirement benefit obligation		**-**	(206)	(316)
Total non- current liabilities		**(11)**	(228)	(356)
Net assets/(liabilities)		**288**	(40)	(178)
Equity				
Share capital		**-**	-	-
Share premium		**465**	465	465
Retained earnings		**(179)**	(552)	(690)
Other Reserves		**2**	47	47
Total equity/(deficit)		**288**	(40)	(178)

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5. Operating profit

5.1 Operating profit bridge analysis



5.2 Explanations for key movements are as follows:

- Revenue explanation is in section 6.

- The £5.4m increase in People costs was mainly due to:
  - Higher wages and salaries and NI costs of £5.2m due to pay awards, increased use of people, both temporary and permanent such as FOoG and the new Communications Directorate and the impact of the 53rd week,
  - Higher pension costs of £1.4m due to the higher IAS19 rate,
  - Higher temporary resource costs of £2.1m driven by modernisation and separation programmes, and higher agency labour in Network prior to change implementation. Year on year the headcount figure has increased by 88, primarily due to the NTP programme,
  - This was offset by lower productivity & bonus costs of £3.8m, largely due to long term incentive scheme costs over accrued in the prior year by £1.9m and corrected in 2012-13.

- Subpostmasters' costs were £4.8m lower than last year, this includes decreases in fixed costs arising from the introduction of new network models.

- Non people costs/other (including project one off costs) were higher by £40.5m mainly due to:
  - £26.3m higher project one off costs (POOC), (see section 7.3.15),
  - Last year's compensation costs included a £2.4m release relating to WHS TUPE transfers,

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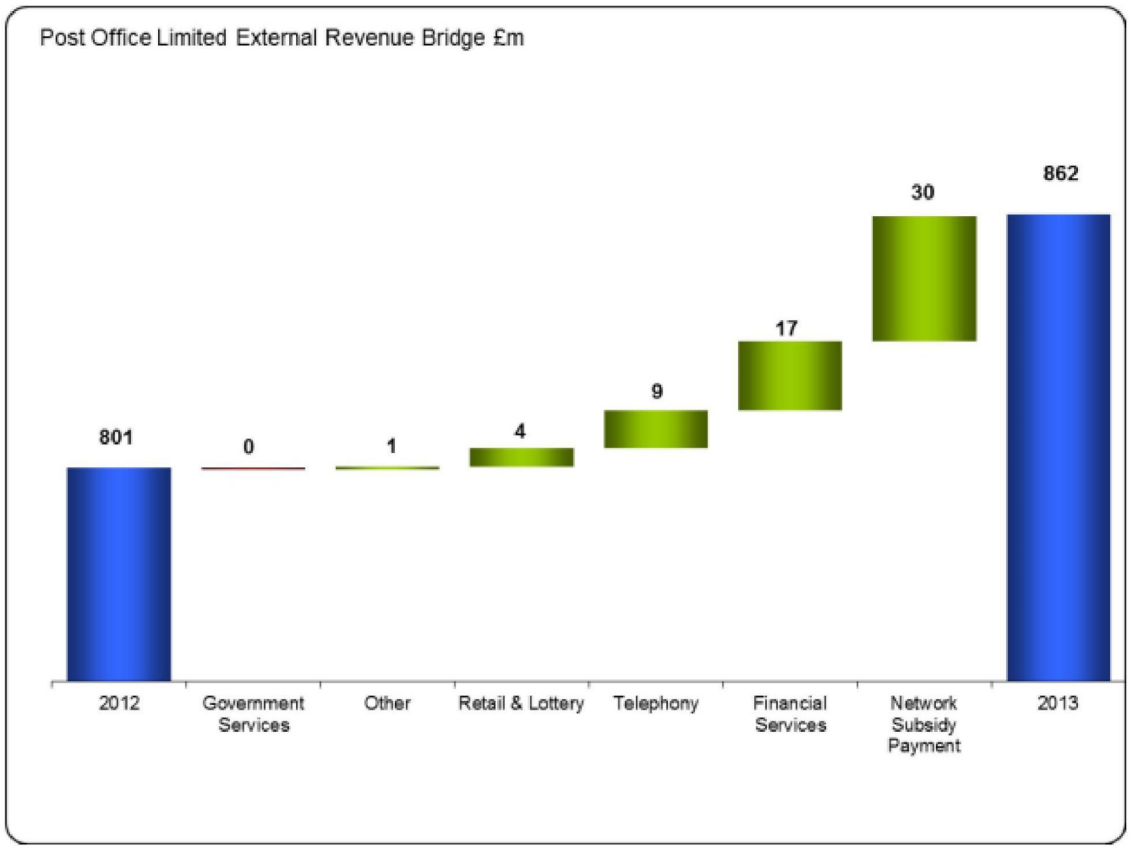
- £3.5m increase in marketing and legal fees (after offsetting the £10m skills group costs within the People and Agent Related line) due to marketing costs of £2.2m relating to brand development, and legal costs of £1.3m relating to primarily to separation and modernisation programmes,
- £4.3m increase in property facilities and maintenance costs, due work transferred in post separation and increased rates relating to a higher number of ATM machines,
- £6.9m higher cost of sales was mainly driven by increased Telephony bandwidth costs and higher UKBA volumes as a result of rolling out more ID Services terminals, and also due to higher Retail costs due to the Olympic and Jubilee collectables,
- This was offset by £5.0m lower Group overheads costs as a result of separation.

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6. Revenue

	2012-13 £m	2011-12 £m	Variance £m
External Revenue	862	801	61
Internal Revenue	372	359	13
Total Revenue	1,234	1,160	74

6.1 Post Office Limited – External revenue analysis



The increase in year on year external revenue of £61m (7%) to £862m (2011 £801m) is driven by the £30m increase in the Network Subsidy Payment, and an increase of £31m in like for like income.

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

6.1.1 Financial Services

Financial Services income has increased by £16.5m (6.2%) year on year. This continues the trend of increases in new products offsetting the decline of traditional products. The main variances are:

- a £23.7m increase in PFS savings products (Online Saver, Growth Bonds, Reward Saver and Instant Saver- £6.5m, £6.4m, £4.5m and £3.0m favourable respectively).

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This includes the benefit of the renegotiated commission rates following the 'Eagle' deal, and

- a £0.9m increase in ATM revenue, driven by increased volumes as machines reach maturity and the rollout of new machines.

This was offset by

- a £3.3m decline in NS&I revenues as NS&I look to provide most of their products, particularly savings, through their own direct channel,
- a £1.6m net decrease in Banking revenue from:
  - a £4.0m fall from the DWP. Volumes continue to fall as the Government is migrating customers to other payment methods, offset by
  - a £0.2m increase in business banking revenues due to rate reduction from renegotiated contract, and
  - an increase of £2.2m in personal banking driven by the new RBS contract and adjustment in the prior year.
- A £2.1m decrease from Payment Services due to:
  - a £1.0m decline from bill payments, as utilities and other bill payment clients continue to migrate customers to other payment methods such as direct debit and online, and
  - a £2.7m decrease in Postal Order income (including write back of uncashed Postal Orders over 2 years old).

6.1.2 Telephony

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

Telephony Services revenue of £129m (2012: £120m) has increased by £9m. Income from the Post Office Homephone and Broadband product rose by £10m, primarily due to higher customer numbers, following the introduction in May 2012 of more competitive service packages to attract and retain customers. Income from mobile top-ups was £2m below prior year, as transaction volumes 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 as we have seen a slower decline in volumes than many retailers.

6.1.3 Retail & Lottery

Retail and Lottery revenues have increased by £4.4m (9.5%):

- Lottery is £2.0m higher than last year, driven by the large amount of rollovers, new draws (Euromillions twice a week) and more terminals,
- Retail up £2.4m benefiting from collectibles for the Olympic and Paralympic games, as well as the Diamond Jubilee.

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6.1.4 Government Services

Government Services revenue is flat year on year but included the following movements:

- £2.6m higher Passport income due to both higher price and higher volumes,
- £5.5m higher AEI UKBA income as this is a new product,

This was offset by

- £4.1m adverse variance from AEI DVLA, due to last year having a one off payment of £3.0m relating to service levels
- £4.2m adverse from falling numbers of POCA accounts, through natural attrition, migration of customers to bank accounts and lower commissions linked to lower LIBOR.

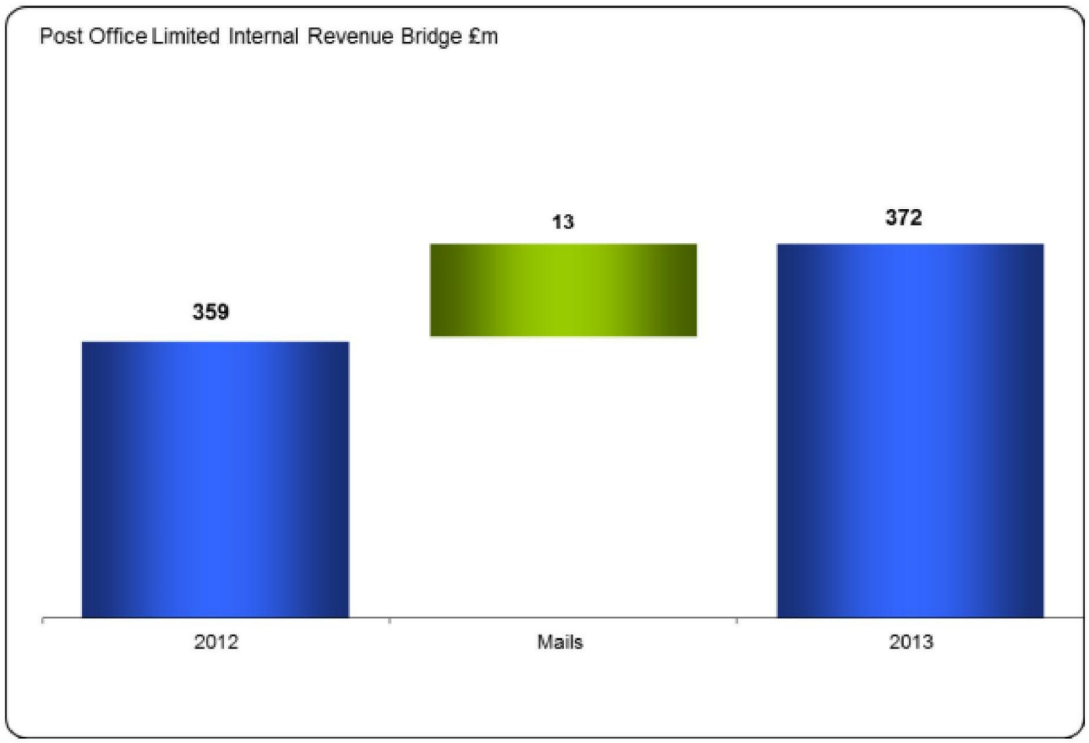
6.1.5 Other

Year on year increase of £0.6m was primarily due to:

- Increased revenues from External Cash in transit services and the remainder from Gamma income.

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6.2 Post Office Limited – Internal Revenue Analysis



6.2.1 Mails

The £13.0m (3.8%) increase in Mails Revenue is driven by strong volumes and the price increase in May 2012.

- Approximately £8.8m was driven by price, and £4.2m by volume increases.
- The new Mails Distribution Agreement resulted in a reduction in fixed fee of £30.3m, which is more than offset by increases in variable commissions across the product range.

Mails Income is analysed in the table below:

	2012-13	2011-12	Variance	Volume	Price
	£m	£m	£m	£m	£m
Special Delivery	53.2	53.3	(0.1)	0.7	(0.8)
Parcelforce 24/48	8.3	6.5	1.7	2.5	(0.7)
Labels	100.2	83.9	16.3	2.8	13.5
Stamps	35.2	31.8	3.4	(1.7)	5.2
Royal Mail Parcels	6.2	7.5	(1.3)	(0.4)	(1.0)
International Express & Non Express	34.9	29.9	5.0	(0.8)	5.8
Other Parcelforce	8.1	8.2	(0.1)	0.4	(0.5)
Other Royal Mail	37.8	19.4	18.4	0.7	17.7
Total Variable Income	283.9	240.6	43.3	4.2	39.0
Fixed Fee	74.4	104.7	(30.3)	-	(30.3)
Total Mails	358.3	345.3	13.0	4.2	8.8

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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 year ending 31 March 2013 compared to the year ending 25 March 2012

	Section	2012-13 £m	2011-12 £m	Variance £m	
Expenditure - (pre- exceptional)					
Wages & Salaries		182	179	(3)	(2%)
Overtime		9	8	(1)	(15%)
Productivity/Bonus		15	19	4	20%
Employers NI		19	17	(2)	(12%)
Pensions		25	24	(1)	(6%)
Projects (temp people resource)		2	3	1	28%
Temporary Resource		7	5	(2)	(45%)
PEOPLE COSTS	7.2.1	259	254	(5)	(2%)
Subpostmasters' costs	7.2.4	478	483	5	1%
Collection, Delivery & Conveyance Charges	7.3.1	1	1	(0)	(12%)
Compensation	7.3.2	1	(2)	(3)	127%
Property Facilities	7.3.3	8	6	(2)	(39%)
Property Maintenance	7.3.4	6	4	(2)	(48%)
Vehicles	7.3.5	2	2	(0)	(10%)
Computers & Telephones	7.3.6	79	79	0	0%
Consultancy, Marketing & Legal Fees	7.3.7	27	13	(14)	(103%)
Staff & Agent Related Costs & Consumables	7.3.8	2	12	10	86%
Finance	7.3.9	16	16	0	0%
Cost of Sales	7.3.10	121	114	(7)	(6%)
Other Operating Costs	7.3.11	21	18	(3)	(16%)
Depreciation	7.3.12	0	0	0	6%
Interbusiness Expenditure	7.3.13	85	85	0	0%
Group Overheads	7.3.14	15	20	5	24%
Projects (excluding temporary people resource & IB)	7.3.15	50	24	(26)	(110%)
Total Other Operating Costs	7.3	435	393	(42)	(11%)
TOTAL EXPENDITURE (Pre Exceptionals)		1172	1130	(42)	(4%)

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7.2 People Costs (2013 £259m vs 2012 £254m)

7.2.1 People costs (2013 £259m vs 2012 £254m)

People costs have increased in total by £5.4m (2.1%) to £259.3m, representing 22.1% (2012 22.5%) of the cost base. The number of people employed increased by 88 to 7,886 at 31 March 2013 (2012 7,798), primarily due to the Network Transformation Programme. NTP people costs are included within exceptional costs.

The people cost movement comprises:

- A total increase of £3.1m (2%) in Wages and Salaries an increase reflecting the impact of the agreed pay awards and the 53rd week.
- Overtime has increased by £1.2m (15%).
- Employers NI has increased by £2.1m (2%).
- Pension costs have increased by £1.4m (6%), as a result of a change in the IAS 19 rate for the RMPP service cost to 18.2% (2012 17.1%), driven by market conditions at 25 March 2012.
- Productivity costs have decreased by £3.8m (20%), largely due to long term incentive scheme costs over accrued in the prior year by £1.9m and corrected in 2012-13.
- Temporary resource costs have increased by £2.1m (45%), driven by recruitment to support various projects and higher agency labour in Network. This has been offset by a decrease in other project resource of £0.7m.

7.2.2 People Numbers

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

The People numbers were as follows:

	Period end employees		**Average employees**	
	31 March 2013	25 March 2012	**2013**	2012
Total employees	**7,886**	7,798	**7,842**	7,734

7.2.3 Average Cost Per Employee

The 2013 average number of employees for the year ending 31 March 2013 was 7,842 (2012 7,734). The average annual cost per employee (excluding exceptional costs and exceptional heads) based on these averages has increased by £1,415 (4.3%) to £34,000 (2012 £32,585) due to pay awards and recruitment.

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7.2.4 Subpostmasters costs (2012 £478m vs 2011 £483m)

Total subpostmasters costs decreased by £4.7m (1%) due to the one off payment made in 2012 of £400 to all subpostmasters and this has offset the increase of £4.2m reflecting the increase in stamps tariff and increase sales.

There have been savings of £2.0m in fixed pay arising from the introduction of new local models and savings in VAT/NI of £2.6m largely due to the improved VAT recoverable rate.

The average annual cost per subpostmaster branch (excluding VAT and NI) is £43,727 (2011 £43,568). This is a 0.4% increase on the prior year.

	2012-13	2011-12
MAIN	178	25
LOCAL	329	177
Franchise	367	409
MSPO	580	603
SPSO	8,882	9,209
Locally Funded	11	12
Total Subpostmaster Branches	10,347	10,435
Outreach	939	888
Satellite	121	123
Crown	373	373
Total Branches	11,780	11,819

7.3 Other Operating Costs (2012 £435m vs 2011 £393m)

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

7.3.2 Compensation costs have increased by £3.0m, mainly due to a one off provision release relating to the CWU TUPE claim for the WHS transfers in 2011-12 of £2m.

7.3.3 Property Facilities costs have increased by £2.3m, due to a provision for ATM business rates £1.7m (see section 16) and electricity charges.

7.3.4 Property Maintenance costs have increased by £2.0m, due to the increased number of Post & Go machines requiring annual maintenance.

7.3.5 Vehicles costs have remained flat.

7.3.6 Computers and Telephones costs have decreased by £0.4m year on year. £1.5m is due to cheque processing now classified as other operating costs, therefore the underlying variance is an increase of £1.0m which is due to increased Prism charge.

7.3.7 Consultancy, Marketing & Legal Fees have increased by £13.8m. £10m of this is offset with the line staff and agent related costs below for Skills group off charges for the greater

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project activity. The remainder relates to increased marketing costs and increased legal costs relating primarily to separation.

7.3.8 Staff & Agent Related Costs & Consumables have decreased by £10.3m. This needs to offset with the line above as £10m is due to Skills group off charging to projects. Other variances in this section were reduced training and printing costs.

7.3.9 Finance costs have remained flat.

7.3.10 Cost of Sales has increased by £6.9m (6%), driven by bandwidth payments of £5.4m for Telephony customers and £2.0m due to new UKBA volumes as a result of rolling out more ID Services terminals. The main reasons are detailed below:

Cost of Sales

	2013	2012	Variance		
	£m	£m	£m		Comments
Home Phone	85	79	(6)	(7%)	Increase bandwith charges of £5m partly due to higher customers
Retail	5	4	(1)	(24%)	Increase sales due to collectable products for the Jubilee and the Olympics
Financial Services	1	3	2	52%	Decrease in Travel Insurance sales
AEI UKBA	30	28	(2)	(7%)	Increase due to higher UKBA volumes as a result of rolling out more ID Services terminals
Total	121	114	(7)	(6%)	

7.3.11 Other Operating costs have increased by £3.0m (16%) primarily due to reclassification of cheque processing costs. (see 7.3.6).

7.3.12 Depreciation costs have remained flat.

7.3.13 Interbusiness expenditure has remained flat and is detailed below:

Interbusiness	2012-13	2011-12	Variance
	£m	£m	£m
Official Mail	16	14	(2)
Call Centres	5	4	(1)
Facilities Management	15	17	2
Vehicle Services	6	6	0
Romec	10	8	(2)
Property	32	35	3
Other	1	1	0
Total Interbusiness	85	85	0

7.3.14 Group overhead expenditure has decreased by £4.8m due to separation as work transfers over to the Post Office.

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7.3.15 Project expenditure (excluding temporary people resource and IB) has increased by £26.3m to £50.0m due to the acceleration of work towards full implementation of major transformation programmes. This includes Brand Marketing, IT Delivery, Finance Roadmap and Front Office of Government as well as the costs of separation from Royal Mail.

The £50m spent on projects is analysed below:

2012-13 Project Expenditure	£m
Customer Engagement (Brand & Mortgage Campaign)	18
Financial Services (Eagle -Sales Capability & Current Account)	6
FOoG (DVLA Tender & Home Office Development)	5
Telephony (Fixed Line Tender, Contract negotiations and Migration)	4
Independence (Legal & Consultancy)	3
Mails (Collections & Returns, Drop & Go Rollout, and Online Retail Shop)	3
Finance (Road Map)	2
HR & Compliance (Recruitment & Training)	2
IT Delivery (Saleforce Licences & Horizon Evolution)	2
Property (Across Network & 148 Old Street Re-design Project)	2
Communications	1
London Games Programme	1
Supply Chain (ATM Replenishment & Joining the Scottish Notes Circulation Scheme)	1
Grand Total	50

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8 Quality of Earnings

Post Office Limited (consolidated)	2012-13 £m	2011-12 £m	Growth £m	Growth %
Reported profit before other exceptional items	94	61	33	54%
Network Subsidy Payment	(210)	(180)	(30)	(17%)
Project one off costs (including temporary resource & interbusiness)	53	26	27	(104%)
Reported profit before project one off costs, exceptional items and NSP	(63)	(93)	30	32%
Litigation re 2007-08		(2)		
Release of savings stamps provision		(1)		
VAT/NI recovered re prior year Subpostmasters' fees	(1)	0		
VAT recovery re earlier years	(2)	2		
LTIP over -accrued in 2011-12	(2)	2		
Total adjustments	(5)	1		
Total	(68)	(92)	24	26%

This table shows underlying operating profit performance adjusted for one off items and items relating to previous years. Each item in the table is explained further below:

8.1 NSP has increased from £180m in 2011-12 to £210m in 2012-13 and has been accounted for as a government grant in both years.

8.2 Project one off costs. Project one off costs are non exceptional costs of project activity in the year. They increased in 2012-13 as work increased, particularly to build the brand and drive future revenue growth. These costs do not form part of the underlying ongoing performance of the company.

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

8.4 Release of savings stamps provision. Post Office Savings Stamps were found to be vulnerable to fraud and a provision was raised for potential fraudulent encashments made. They were withdrawn from sale in May 2010 and holders of savings stamps were encouraged to cash them. The level of encashment was less than anticipated and the provision was reduced substantially in 2010-11. Savings stamps continue to be cashed but the levels are low and the provision was further reduced during 2011-12.

8.5 VAT/NI recovered relating to Subpostmasters' fees is a correction of the VAT rate. VAT and NI claims are often completed a year or more after the year to which they relate. During 2012-13 £1.8m of VAT was recovered relating to 2011-12 following a rate change. £0.8m of NI was recovered relating to Subpostmasters' fees of which most related to 2011-12. During 2011-12 £1m of NI was recovered relating to 2010-11 and earlier.

8.6 VAT recovery re earlier years reflects the refund received following a correction of the recovery rate for 2011-12 during 2012-13.

8.7 Long term incentive scheme costs (LTIP) over accrued in the prior year by £1.9m and corrected in 2012-13.

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9. Pensions

9.1 Background

The UK pension plans were sponsored by Royal Mail Group Limited until 1 April 2012 and are set out below. 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. Deferred pensioner members and pensioner members were transferred to the Government's new Royal Mail Statutory Pension Scheme. 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.

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

A series of changes to RMPP began to take effect on 1 April 2008 as follows:

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

A new defined contribution plan (RMDCP) was launched in April 2009. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Post Office for a year.

RMSEPP closed on 31 December 2012.

9.2 Pension Accounting within Post Office Limited

Since 1 April 2012, Post Office Limited employees are in a separate section of RMPP and the assets and liabilities are assessed independently. The Post Office Limited Directors are responsible for the selection of the pension assumptions for the Post Office section for the 2012-13 year. Details of these are in Section 9.3 below. The Post Office continues to account for a 7% share of RMSEPP in the same way as previously and as explained below.

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Prior to 1 April 2012, the assets and liabilities of both of the defined benefit schemes, as measured under accounting standards, were reported as a net pension deficit in the consolidated balance sheet of Royal Mail Holdings plc, the ultimate parent company. The gross assets and liabilities and Post Office Limited's share of the net deficit were significant assets and liabilities. The Directors of Royal Mail Holdings plc were responsible for the selection of the pension assumptions for the 2011-12 year.

Before 1 April 2012 Royal Mail Group Limited had the legal relationship with the Trustees of the defined benefit schemes and, as such, the Trustees held Royal Mail Group Limited liable for the actuarial deficit in the schemes. However, under an agreement between Post Office Limited and Royal Mail Group Limited, Royal Mail Group Limited provided employees engaged in the business of Post Office Limited. Post Office Limited met the full costs of employment, and was responsible for the funding of the pension deficit attributable to these employees. Consequently, Post Office Limited recognised a balance sheet deficit on full adoption of FRS 17 and its international equivalent, IAS 19. This was based on employee numbers over 12 years and represented approximately 7% of the total balance sheet deficit (pre deferred tax) at that time. The net pensions interest, deficit recovery payments and actuarial gains or losses were also allocated on this basis, giving the Post Office approximately 7% of the total balance sheet deficit (pre deferred tax) at the balance sheet date. The current service cost, regular future service contributions and curtailments were computed separately for Royal Mail Group Limited and Post Office Limited, based on common factors/rates.

9.3 Assumptions

IAS 19 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 assumptions cover price inflation, discount rate, salary increases and increases to pensions in deferment and payment. The key assumptions based on market conditions at 31 March 2013 are set out in the table below. The assumptions for the year ended 25 March 2012 and earlier years, were made by the Directors of Royal Mail Holdings plc with the advice of the actuarial advisors to the Group.

Towers Watson has confirmed that the assumptions have been determined in a manner consistent with those used for the disclosures at 25 March 2012, and previous reporting dates with two adjustments overlaid. In previous years, no allowance has been made for the impact of maximum and minimum pension increases, or to lower the retail prices index price inflation assumption to reflect a price inflation risk premium. These are included for this financial year as many other schemes apply these adjustments and they are appropriate to make. The table below also shows a column excluding these adjustments for comparison.

Conversations with Royal Mail management indicate that it is their intention to adopt the assumptions as set out below, although this will not be formally agreed until their Board meeting in May.
Royal Mail Group Limited will set the assumptions for the RMSEPP. Post Office Limited will be allocated a 7% share of gains and losses consistent with previous years. These assumptions will be consistent with those used for RMPP.

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% pa Nominal	**March 2013**	March 2013 (for comparison)	March 2012	March 2011	March 2010	March 2009
Inflation (RPI)	**3.3**	3.6	3.3	3.5	3.6	3.2
Inflation (CPI)	**2.3**	2.6	2.3	2.8	3.6	3.2
Rate of increase in pensions RPI [1]	**3.3**	3.6	3.3	3.5	3.6	3.2
Rate of increase in pensions RPI (capped) [1]	**3.2**	3.6	3.3	3.5	3.6	3.2
Rate of increase in pensions CPI[2]	**2.3**	2.6	2.3	2.8	3.6	3.2
Rate of increase in salaries[3]	**4.3**	4.6	4.3	4.5	4.6	4.2
Expected average rate of return[4]	**n/a**	n/a	5.9	6.5	6.7	6.9
Discount rate (i.e. bond rate)	**4.8**	4.8	5.1	5.5	5.6	6.4

[1] Pension increases in accordance with RPI are applicable to pensions in payment for RMPP Section C and all RMSEPP members, and RMSEPP deferred pensions for members not transferred from Section A/B of RMPP. The RMPP Section C increases are capped at 5% resulting in a lower assumption of increases by 10 basis points

[2] Pension increases in accordance with CPI are applicable to RMPP Section A/B pensions in payment and all other deferred pensions not mentioned above.

[3] The rate of increases in salaries is set at RPI + 1%.

[4] The expected rate of return is not required due to changes in IAS 19.

Demographic assumptions, for example mortality, remain unchanged from those made in March 2012. It is normal practice for these to be updated following the conclusion of a funding valuation and, given the ongoing discussions with the RMPP Trustee, it would be anticipated that the demographic assumptions will be reviewed for the 2014 financial year end.

9.4 Income Statement

Post Office Limited recognised pension costs of £25m (2012 £24m) in operating profit before exceptional items. Of this charge, £1m (2011 £1m) related to the defined contribution scheme. The amount charged to the loss before taxation for the defined benefit schemes is analysed below.

RMPP & RMSEPP: Amounts recognised within profit before taxation	**2012-13 £m**	2011-12 £m	Variance £m
Current service cost	**24**	23	(1)
Net pension charge to operating profit before exceptionals	**24**	23	(1)
Loss due to curtailments (exceptional charge included within provision for restructuring charge)	**2**	0	(2)
Net pension charge to operating profit	**26**	23	(3)
Net interest (credit)/charge to financing	**(2)**	(2)	-
Net pension charge to income statement before taxation	**24**	21	(3)

Overall, the net pension charge to income statement before taxation has increased by £3m (14%). The impact on the income statement is a £1m (4%) increase in the charge to operating profit before exceptionals (£3m after exceptionals).

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, has increased to 18.2% for RMPP (2012 17.1%) and 37.6% for RMSEPP (2012 34.9%), as a result of market conditions at 25 March 2012.

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The curtailment cost of £2m (2012 £nil) is the cost within the net exceptional redundancy provisions charge that relates to the receipt of early pensions. The timing of exit and hence the crystallisation of the liability to the scheme may occur in an accounting period subsequent to the recognition of costs in the income statement i.e. in a different period to which the redundancy provision was charged. This liability is matched by payments from the Post Office and is within the short-term pension redundancy payable recognised on the balance sheet. These curtailments therefore do not appear in the analysis of the movement in the pension deficit. (see section 9.7 below).

The net interest credit of £2m (2012 £2m), a non-cash item, is reported under finance income and reassessed annually. It consists of two components:

- a 7% share of the Royal Mail Group expected return on plan assets of £158m for the year (2012 £1,775m). Assessed by applying the expected average rate of return on assets as at the prior year end, to the expected average fair value of scheme assets for the year; and
- a 7% share of the Royal Mail Group interest on plan liabilities of £123m for the year (2012 £1,749m). Assessed by applying the discount rate as at the prior year end to the expected average scheme liabilities for the year.

For 2013-14 this will be calculated on the Post Office section of RMPP and will continue to include a 7% share of RMSEPP. IAS 19 has changed for the coming year so that the expected average rate of return applied to the assets will be the discount rate.

9.5 Cashflow

The following cash flows exclude payments made by employees:

	2012-13 £m	2011-12 £m	Variance £m
Defined Benefit Schemes (RMPP & RMSEPP):			
Regular pension contributions	**23**	23	-
Funding of pension deficit	**2**	0	(2)
Payments relating to redundancy	**2**	3	1
	27	26	(1)
Defined Contribution Schemes: Regular pension contributions	**1**	1	-
	28	27	(1)

Regular contributions of £23m have remained flat. The regular rate of employer contributions for the RMPP remained at 17.1% of pensionable pay (2012 17.1%), effective from April 2010. The regular rate of employee contributions for the RMPP remains unchanged at 6%. The regular future service contributions for RMSEPP remained unchanged at 35.9% of pensionable pay (2011 35.9%) from April 2010 until the scheme closed on 31 December 2012.

These contribution rates, at 17.1% for RMPP and 35.9% for RMSEPP, are likely to be different to the current service cost charged to operating profit of 18.2% and 37.6% respectively during the period (see above). However, the rates are not directly comparable. For example, the cash rate is adjusted for expected returns on past investments, but this is excluded from the income statement rate – hence the separate income statement interest charge.

There was no RMPP deficit payment (2012 £nil) as a result of State Aid clearance granted on 21 March 2012 and the subsequent transfer of the historical pension deficit to HM

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Government on 1 April 2012. RMSEPP deficit payments of £2m (2012 <£1m) have been made during the year. There have been no employee deficit contributions.

9.6 Balance Sheet

The following amounts in the balance sheet relate to pensions:

RMPP & RMSEPP: Amounts recognised in the balance sheet	31 March 2013 £m	25 March 2012 £m
Pension deficit (non current "retirement benefit obligation")	**97**	(206)
Pension redundancy payable (within current "provisions")	**nil**	nil

9.7 Pension Surplus/(Deficit)

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 19 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.

The IAS 19 pension valuation has changed from a deficit of £206m at 25 March 2012 to a surplus of £97m at 31 March 2013. The improvement of £303m principally relates to the transfer of historic liabilities to Government. The movements in the pension position during the year were as follows:

	RMPP & RMSEPP: Pension deficit	£m	£m
	Pension deficit at beginning of year		(206)
Pre Exceptionals	Company's pension costs (current & past service cost)	(24)	
Pre Exceptionals	Company's pension payments (regular & deficit contributions)	25	
	Operating pension payments excess over pension costs by		1
	Net interest credit		2
	Transfer to Government		286
	Actuarial gain (net of withholding tax of £3m)		14
	Pension surplus at end of year		**97**

The actuarial gain includes the difference between the long-term expected rate of return on plan assets and the actual return during the period, and the impact of changes in assumptions. Actuarial gains and losses are recorded directly in the statement of total recognised gains and losses (and not the profit and loss account). The actuarial gain of £14m during the year arose primarily due to a greater than expected increase in assets as a result of changes in market conditions, partly offset by an increase in liabilities due to changes in long term assumptions.

9.8 Pension Redundancy Payable

The pension redundancy payable of £nil (2012 £nil) relates to the additional "top up" payments made to the pension schemes for members that have exited the business on redundancy and will be paid an early pension, and is partly based on estimates. All amounts had been settled at the year end.

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9.9 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. [redacted] Towers Watson has calculated that Post Office Limited would be able to recover £91 million of the £99 million surplus in RMPP through lower contributions and the remaining £8 million could therefore be recovered through a refund. For the RMSEPP scheme, Royal Mail has advised that the £1m surplus could be covered 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 £3 million to £97 million. The element that is recoverable through lower contributions has resulted in a deferred tax liability of £21m (see section 18.2).

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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 years ended 31 March 2013 and 25 March 2012

Exceptional items	Section	2012-13 £m	2011-12 £m
Operating Exceptionals:			
Government Grant	10.2	**98**	-
Restructuring costs including Subpostmasters compensation	10.3	**(79)**	(2)
Impairments	10.4	**(66)**	(36)
Total operating exceptionals		**(47)**	(38)
Non operating exceptionals:			
Profit on disposal of property		**2**	1
Loss on sale of associate	10.5	**(30)**	-
Net Exceptional costs		**(86)**	(37)

10.2 Government Grant – In April 2012 the Post Office received grants totalling £200m from the Government, primarily to fund capital projects and subpostmasters' compensation. £98m of this sum has been utilised during the year, the remainder is brought forward into 2013-14 and is included as deferred income in the March 2013 financial statements.

10.3 Restructuring costs - include the costs 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. IT Transformation will create the IT infrastructure appropriate for an independent group with ambitious growth plans.

Network Transformation resulted in costs of £12m for Subpostmasters' compensation and £40m programme costs. Redundancy costs of £11m mainly related to the Crown network, costs of £10m related to transforming our IT infrastructure and there was £2m related to the professional fees associated with the sale of Midasgrange Limited.

The £40m spent on Network Transformation is analysed below:

Network Transformation	£m
Branch Fit Out (Inc. Signage /Scales etc)	8
Horizon Implementation	3
Legal-New Operating Model Contracts	2
Management Consultancy	2
Marketing	3
CTP Pilot design/scoping	1
Professional Fees -Site Survey	1
Staff	15
Skills Group Internal Consultancy Resource	4
Project Management (Roll Out)	1
Total	40

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10.4 Impairments (2013 £66m vs 2012 £36m)

Other impairments charged in exceptional items comprise:

Impairment	Section	2012-13 £m	2011-12 £m
Property, plant and equipment	13.3	**41**	19
Intangible assets	13.3	**25**	17
Total impairments		**66**	36

Section 13.3 identifies the impaired capital expenditure as summarised above.

10.5 Loss on sale of associate (2013 £30m vs 2012 £0m)

During the year the investment in Midasgrange Limited was sold for proceeds of £2m. At the date of sale the investment had a carrying value of £32m giving a loss on disposal of £30m.

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11. Interest, Cash, Debt, Funding and Hedging

11.1 Net finance costs (interest) (2013 £3m vs 2012 £6m)

The Post Office incurred net finance costs of £3m in the year to 31 March 2013 (2012 £6m).

Finance costs & investment income	2012-13 £m	2011-12 £m
Interest received on investments – UK	1	1
Total finance income	**1**	**1**
Interest charged on Government borrowings	(1)	(3)
Interest payable on finance leases	(1)	(1)
Unwinding of discounts	(1)	(1)
Other finance costs	(1)	(2)
Total finance costs	**(4)**	**(7)**
Net finance cost	**(3)**	**(6)**

Interest payable on the BIS Loan reduced during 2012-13 as the average borrowing volume significantly decreased from the previous year. This arose through the receipt of £200m government grants, of which £102m was not utilised during the year, plus an increase of £30m in the NSP.

The discount unwind relates to the provision in respect of the WH Smith onerous contract.

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

The following table highlights the movements in cash, cash equivalents, debt and investments during the year:

Net cash/debt analysis	Section	31 March 2013 £m	25 March 2012 £m
Cash in the Post Office Limited network	11.3	**870**	759
Other cash at bank		**9**	(1)
Cash equivalent investments		**92**	62
Total cash and cash equivalents		**971**	820
Loans, repayable on demand or less than 1 year	11.4	**(291)**	(377)
Obligations under finance leases (current)	11.5	**(3)**	(4)
Total current financial liabilities		**(294)**	(381)
Obligations under finance leases (non-current)	11.5	**(4)**	(6)
Total		**673**	433

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11.3 Cash within the Post Office Limited network (2013 £870m vs 2012 £759m)

The £111m (15%) increase in Post Office network cash year on year is mainly due to the year end coinciding with Easter which necessitated increased branch and cash centre holdings to respond to customer behaviour.

11.4 Loans and borrowings (2013 £291m vs 2012 £377m)

The table below details the breakdown and movement on the loans and borrowings year on year:

Loans and Borrowings	**31 March 2013 £m**	25 March 2012 £m	Net (repayment) £m
Working Capital loan	**291**	377	(86)

11.5 Obligations under finance leases (current & non-current) (2013 £7m vs 2012 £10m)

The obligations under finance leases have decreased by £3m during the year attributable to lease repayments in 2012-13. Lease types are shown in section 13.2.

11.6 Loan facilities

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

11.7 Derivative assets

A derivative asset of £1m has been recognised on the balance sheet representing the gain on open foreign exchange forward contracts that were in place at the year end.

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12. Going concern

Post Office Limited has net cash and cash equivalents of £971m (section 11.2) and a borrowing facility of £1,150m of which £291m (section 11.4) was drawn down at 31 March 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 on 27 February 2013. The Post Office Board approved the 2013-14 budget on 20 March 2013 but the cash flow budget has since changed, reflecting the reversal of the significant inflow in 2012-13 in excess of forecast. The cumulative position across the two years is unchanged.

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.

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.

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12.3 Summary conclusion

Based on the analysis there is available borrowing headroom until March 2016. 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 March 2013 £m (cumulative apart from free cash flow)	2011-12	2012-13	2013-14	2014-15	2015-16
Opening Funds	(321)	(336)	(204)	(222)	(279)
Borrowing facilities	1,150	1,150	1,150	1,150	1,150
Restriction due to level of network cash	(326)	(98)	(350)	(350)	(350)
Borrowing from other sources - finance leases, bank overdraft etc	21	14	9	4	
Latest plan free cashflow before assumed non NSP grant injection	(15)	*(68)	**(233)	(227)	(231)
Non NSP grant injection per October 2010 plan		*200	**215	170	
Closing Funds Headroom	509	862	587	525	290
Downside impact of no NSP beyond March 2015					(130)
Adjusted Headroom pre risk	509	862	587	525	160

In year total cash flow: £m	Q3 FYF and board approved budget	Outturn and latest budget
2012-13	(28)	*132
2013-14	140	**(18)
Cumulative	112	114

*/** See breakdown in table 1 above

Table 2: Risks, with management actions £m (cumulative)	2011-12	2012-13	2013-14	2014-15	2015-16
Headroom pre risk (as above)	509	862	587	525	160
Risks					
Financial Services growth slower than plan			(3)	(8)	(18)
Network Transformation benefits are not fully delivered			(2)	(6)	(9)
Crown Transformation benefits are not fully delivered			(5)	(10)	(15)
Pension contribution rates increase			(4)	(8)	(12)
Headroom post risks	509	862	573	493	106

Notes:

2011-12 shows the year end outturn and last years are the latest view of the strategic plan.
Available facilities are defined as network cash, ATM cash, ATM debtor, POCA debtor and SGEI cheques.

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Table 1

This table shows the October 2010 strategic plan cashflow updated for the 2013-14 budget, and the initial 2020 strategic plan projections for 2014-15 and beyond. It demonstrates positive headroom throughout the plan period.

Table 2

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

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

There are further actions that could be taken but are not required. These include the sale of property and/ or tax losses.

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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 was £11m (2012 £11m). The movements in the year were as follows:

Movement in NBV	Land and buildings £m	Vehicles, plant and fixtures £m	Intangible fixed assets £m	Total £m
NBV at 26 March 2012	11	-	-	11
Add capital expenditure	10	31	25	66
Less disposals	-	-	-	-
Less depreciation	-	-	-	-
Less impairment	(10)	(31)	(25)	(66)
NBV at 31 March 2013	**11**	**-**	**-**	**11**

13.2 Assets held under finance leases

The value of equipment held under finance leases is £nil (2011: £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.

The finance lease for Supply Chain cash boxes expired during 2012-13.

13.3 Capital expenditure

The following table summarises capital expenditure to 31 March 2013:

Capital expenditure analysis	Land & buildings £m	Vehicles, plant & fixtures £m	Intangibles £m	Total £m
Technology Roadmap	-	-	14	14
Network Transformation	2	14	2	18
Pinpads	-	4	-	4
Telephony	-	1	-	1
Finance Roadmap	-	-	2	2
FOoG Front Office of Govt	-	-	2	2
Mails, Retail	-	-	2	2
Vehicles	-	9	-	9
Property	8	-	-	8
Other (items <£1m)	-	3	3	6
Total	**10**	**31**	**25**	**66**

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14. Goodwill, investments and intangibles

14.1 Investments in joint ventures and associates

	2012-13 £m	2011-12 £m
Investment in joint ventures and associates	**60**	89

Joint ventures

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

Associates

During 2011-12 Post Office Limited's only associate investment was a 49.99% interest in Midasgrange Limited whose principal activity is the provision of personal financial products. This investment was disposed of to the Bank of Ireland during 2012-13.

14.2 Movements in investments in JV and associate

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

14.3 Joint venture and associate

The table below contains details of the share of post tax profits and dividend payments.

	Consolidated (Share of Profit)			**Company (Dividend)**		
Joint ventures and associates	**2012-13 Share of post tax profit £m**	2011-12 Share of post tax profit £m	Variance £m	**2012-13 Dividends Received £m**	2011-12 Dividends Received £m	Variance £m
First Rate (FRES)	**33**	32	1	**40**	38	2
Midasgrange Limited(POFS)	**(1)**	(1)	-	**-**	-	-

The share of post tax profit from FRES has remained consistent year on year.

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15 Working capital

15.1 Inventories (2013 £8m vs 2012 £6m)

	31 March 2013 £m	25 March 2012 £m
Scratchcards	5	4
Retail	3	2
Total	8	6

The movement in inventory is immaterial year on year.

15.1.1 Cost of Sales, Retail

Cost of sales in 2012-13 was £5.1m (2011-12: £4.1m).

15.1.2 Inventory written off

The provision for stock write downs and discrepancies has increased to £0.5m in 2013 from £0.2m in 2012. Shrinkage and obsolete stock written off in 2012-13 was £0.4m (2011-12 £0.4m).

15.2 Trade receivables

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

Receivables

	31 March 2013	25 March 2012
Trade receivables	32	39
Client receivables	240	138
Prepayments and accrued income	81	39
Other receivables	9	10
Total	362	226

15.2.1 Trade receivables: Current (due within one year)

Trade receivables

	31 March 2013	25 March 2012
Sales ledger	18	22
Doubtful debt provision	(1)	(1)
Homephone debtors	14	12
Homephone provision	(6)	(5)
Subpostmasters debt	14	16
Subpostmasters debtors provision	(9)	(9)
POFS, FRES cost recovery	2	5
Total	32	39

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The decrease in invoiced debt year on year is largely explained by the £nil debtor at March 2013 for DWP card account income (March 2012 DWP debtor: £5m). Mainly the DWP adhere to agreed terms and pay the month following invoice receipt though there are instances when the DWP settle in-month, including March 2013.

Other variances largely net off, however note that the Bank of Ireland March 2013 balance includes £6m of cost recovery and £5m transactional debt. (March 2012 £2m and £2m). Transactional invoices are larger following the sale of Midasgrange. The process for cost recovery has also changed following the sale, with invoicing in advance such that the Bank of Ireland is in a creditor position. However delays in settling these invoices explain why a debtor continues to exist.

Receivable balances remaining in relation to former subpostmasters of £9m 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

	31 March 2013	25 March 2012
DWP	-	5
Bank of Ireland (2012: POFS)	11	4
FRES	-	3
Partner banks	-	2
Bank of Ireland (ATM commission)	2	2
Bill payment partners	1	1
Subpostmasters	1	1
Others	3	4
Total	18	22

Ageing of trade receivables:

Debtors over 60 days overdue: March 2013 £0.4m (March 2012: £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. Among those ageing at March 2013 are £0.5m RBS, £0.5m Bank of Ireland and £0.1m Lloyds.

Debts written off during the year did not originate from the trade debtor base. Write-offs included £1.5m for Homephone debtors which are provided for in full when the debt is over 60 days old.

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15.2.2 Client receivables

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

Client receivables

	31 March 2013	25 March 2012
ATM (Bank of Ireland)	123	77
Card Account (JP Morgan)	76	31
Partner banks	29	18
Others	12	12
Total	240	138

The reason for the significant increase in Client levels over March 2012 due to the coinciding of the March 2013 year end with Easter, which has increased transactional activity and also temporarily extended settlement feel into 2013-14 because of the bank holiday.

The trend for the ATM debtor to increase year on year as more ATMs are installed and also through increased usage of the existing estate continues. Additionally partner bank debtors have increased through increased transaction activity, and also HSBC joining as a trading partner during 2012-13.

15.2.3 Prepayments and accrued income 2013 £81m (2012 £39m)

Accrued income represents the majority of this amount (March 2013: £34m, March 2012: £35m), and year on year the product components are similar. The larger accruals at March 2013 are: DWP card account income for March £7m, Homephone £6m and Bank of Ireland commissions £8m.

Additionally there are prepayments of £47m of on the balance sheet at March 2013 (March 2012 £3m). There are two main elements: a £28m advance payment to Fujitsu in respect of the 2013-14 managed service, and £13m – also to Fujitsu – for set-up costs for their take-on of the Telephony contract, this latter prepayment will be amortised over the life of that contract.

15.3 Payables: amounts due within one year

A summary of payables categories is:

	Section	31 March 2013	25 March 2012
Trade payables	15.3.1	43	32
Accruals and deferred income	15.3.1	134	140
Client payables	15.3.2	528	332
Advance customer payments	15.3.3	50	48
Capital payables	15.3.4	18	10
Social security		10	9
Business transformation		7	3
Amounts due to group companies		6	9
Government grant deferred income	10.2	102	-
Total		898	583

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15.3.1 Trade payables and accruals

Trade payables and accruals

	31 March 2013	25 March 2012
Trade payables	43	32
Accruals, GRNI	57	50
Agent, employee pay balances	24	61
Productivity, bonus schemes	16	17
Deferred income (Gamma)	31	-
Others	6	12
Total	177	172

The increase in purchase ledger and GRNI accruals is driven by the current significant levels of project activity.

Agent and employee pay balances represents March salaries and remuneration which were paid in March 2013 (2012: paid following year end).

During the year POFS and the Bank of Ireland paid a total of £40m of contractual Gamma payments of which £31m remains to be amortised at March 2013.

15.3.2 Client payables

	31 March 2013	25 March 2012
Santander	183	139
NS&I	28	15
DVLA	107	18
Utility companies	24	15
Bank of Ireland	8	13
BACS	59	33
Others	119	99
Total	528	332

All balances are impacted by the Easter bank holiday coinciding with the Post Office's year end, having the effect of increasing the settlement timescale temporarily. Additionally the DVLA balance relates to car tax renewals and was most affected by the coinciding of year end with calendar month end.

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15.3.3 Client advances

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

Client advances

	31 March 2013	25 March 2012
Client advances, deferred income	23	20
Postal order liability	17	18
Homephone line rental advance payments	10	10
Total	50	48

15.3.4 Capital payables

The increase over 2011-12 reflects the increased pace of capital project activity in Q4, particularly Network Transformation and Technology roadmap.

15.4 Payables: amounts due after one year

Payables due after one year

	31 March 2013	25 March 2012
Amounts due under finance leases	4	6
Bank of Ireland deferred brand income	-	2
Total	4	8

The 10 year brand income contract with Bank of Ireland becomes fully amortised during 2013-14, the remaining one year's amortisation is included within accruals and deferred income.

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16. Provisions

Provisions (2013 £26m vs 2012 £14m)

	Crown Conversions Project £m	Network Transformation £m	Other £m	Total £m
At 26 March 2012	9	-	5	**14**
Charged in operating exceptional items	-	10	12	**22**
Charged in operating costs		-	6	**6**
Charged in financing costs	1	-	-	**1**
Utilisation	(3)	-	(14)	**(17)**
At 31 March 2013	7	10	9	**26**
	Included within current liabilities			**19**
	Included within non current liabilities			**7**

The network transformation provision relates to compensation payments due to subpostmasters who have signed up to the new contract terms at March 2013.

Other provisions include property contracts, being amounts from onerous lease obligations, and personal injury claims. Additionally at March 2013 the provisions balance includes £2.1m for sales capability investment arising from the revised contract with Bank of Ireland (Eagle provision) and £1.7m following a recent court case in Scotland in which it was decided that external ATMs were subject to business rates. The Ratings Agency intends to seek application of this judgement to the rest of the UK and therefore a provision has been made for rates backdated to 2010.

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17. Litigation and Claims- Potential Claims regarding Horizon

17.1 Post Office Limited has received notification of five potential claims from former subpostmasters. Each of these subpostmasters had their appointments terminated following the discovery at audit of significant cash losses at their respective branches. Two of the subpostmasters were subsequently prosecuted and pleaded guilty to false accounting.

17.2 Each has claimed wrongful termination of contract on the basis that the losses are alleged to have arisen due to the unfairness of the system devised by Post Office Limited and/or have been generated by a computer error in the Horizon system. More specifically, it is alleged that (a) the accounting procedures in place are unfair in that they do not permit subpostmasters to properly verify losses which are alleged to have been incurred, (b) the Horizon system itself contains inherent defects and/or (c) the training and support for subpostmasters using the system is inadequate,

17.3 Each subpostmaster is claiming circa £150,000 by way of damages.

17.4 Four of the claims have not progressed beyond the pre-action stage (i.e. there are no live court proceedings). Post Office Limited has strongly denied liability and rebutted the allegations made. The fifth claim was struck out by the Court and cannot be pursued further.

17.5 The last correspondence received on these matters was in December 2011. Post Office Limited is not aware of any further substantive steps having been taken to advance these claims through the Courts since that date.

17.6 Post Office Limited continues to receive challenges to the integrity of the Horizon system and it is possible that further claims may be received. Reports in the press have previously suggested that solicitors Shoosmiths may have consulted on between 85 and 150 potential cases in total.

17.7 Subpostmasters have also made complaints about Horizon to Members of Parliament, and through the "Justice for Subpostmasters Alliance", an organisation "established to raise awareness of the issues within the Post Office Horizon system".

17.8 Post Office Limited has commissioned an independent third party, Second Sight Support Services Limited, to investigate these cases, which investigation is ongoing.

17.9 On the basis of the evidence to date, no provision has been made and it is not considered appropriate to make any disclosure on this matter. This position is being actively monitored.

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18. Taxation

18.1 Income statement – taxation credit 2013 £(17)m (2012 £(10)m)

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

	2012-13 £m	2011-12 £m
Corporation tax credit for year	**(10)**	(11)
Tax over provided in previous years	**-**	1
Current tax	**(10)**	(10)
Deferred tax	**(21)**	-
Taxation credit in the consolidated income statement	**(31)**	(10)

18.2 Factors affecting tax credits

A deferred tax credit of £21m has been recognised in relation to the retirement benefit surplus on the balance sheet. During 2012-13 the pension deficit was transferred to government and consequently the defined benefit pension scheme is now in surplus. A proportion of this surplus is considered to be recoverable through future contributions and therefore creates a deferred tax liability which is taken through Group reserves. The equivalent amount of deferred tax asset has been recognised through the income statement as the credit detailed above.

The Group has significant tax losses of £57m (2012 £128m) that are available for offset against future taxable profits. It also has £133m (£157m) of 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.

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POST OFFICE LTD

Post Office Short Term Incentive Plan (STIP) and Long Term Incentive Plan (LITP) Outturn and Payments for 2012/2013

1. Purpose

The purpose of this paper is to:

1.1 To inform the Board of the outturn of the 2012/2013 scorecard measures for the STIP and recommend to the Board the STIP payments to be made to Paula Vennells, Chief Executive and Chris Day, Chief Financial Officer.

1.2 To inform the Board of the outturn of the LTIP measures for awards dated April 2010 and to recommend to the Board the LTIP payment to be made to Paula Vennells, Chief Executive.

2. STIP Scorecard Outturn, application of Framework and Payments

2.1 The Post Office Scorecard 2012/2013 was based on 3 distinct sections, Financial Performance, Customer Measures and Modernisation containing 18 measures, 6 of which were bonus worthy.

2.2 Details of the target and actual performance are in appendix 1.

2.3 The STIP for Paula Vennells, Chief Executive is based 80% on the Post Office Scorecard and 20% on personal objectives with a total on-target potential of 48% of salary and maximum stretch potential of 80%. The annual salary of the CEO is £250,000.

2.4 The STIP payment to be made to the Chief Executive based only on the results of the scorecard (excluding payment for achievement of personal objectives) is £138,736. The Remuneration Committee agreed the Chief Executive had met 80% of her personal objectives and therefore the total award recommended is £157,936. This equates to 63% of salary.

2.5 The current STIP design for the CFO has an on-target bonus of 30% with a total stretch potential of 45% linked to the achievement of the business scorecard. The result is then factored by personal performance, ranging from 0 to x2, as determined by the annual appraisal (PDR) rating, which can make the STIP range 0% - 90%. The annual salary of the CFO is £215,000.

2.6 The STIP payment due to the Chief Financial Officer before the PDR multiplier is applied is £86,035. The Chief Financial Officer has been awarded a PDR score of 4, giving a multiplier of 1.5, therefore the payment to be made is £129,053. This equates to 60% of salary.

3. LTIP Outturn, application of Framework and Payments

3.1 Paula Vennells, Chief Executive was given an LTIP award dated April 2010 which has been tested during the financial year 2012/2013. This award was based on 70% of her base salary with a potential stretch of 98%.

3.2 Chris Day, Chief Financial Officer commenced employment with the Post Office in August 2011 and therefore was not eligible for an award under this plan year.

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3.3 This award was subject to two predetermined performance conditions to be tested during the financial year 2012/2013. The first performance condition is operating profit which only paid out dependent on the performance of the second condition, Network Contract Conversions. Details of the targets and actual performance are in appendix 2.

3.4 The LTIP payment to be made to the Chief Executive is £217,508.

4 Recommendation

The Remuneration Committee has met, reviewed and endorsed these recommendations which it now commends to the Board for formal approval. The Board is asked to:

4.1 Note the outturn of the STIP against the scorecard targets and accept the recommendations for the STIP payments for the Chief Executive Officer and Chief Financial Officer of £157,936 and £129,053 respectively.

4.2 Note the outturn of the LTIP against the performance conditions and accept the recommendation for the LTIP payment for the Chief Executive Officer of £217,508.

Neil McCausland
Chair, Remuneration Committee
May 2013

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Appendix 1

Post Office Scorecard 2012/2013 STIP Measures - Results

	% Bonus	Threshold	Target	Stretch	2012/13 Outturn	Executive Committee (including CFO)	CEO Performance (POL Scorecard 80%)
Growth							
Total Revenue (excluding NSP) £m	25.0%	1,000.0	1,015.8	1,046.3	1,023.6	28.20%	29.27%
Operating Profit £m	25.0%	84.0	84.0	92.4	94.2	37.50%	41.67%
Customer							
Queue time % < 5 minutes - Top 1k branches	12.5%	77.9%	78.9%	82.8%	80.7%	15.35%	16.30%
Call Centres 3D	12.5%	95.0%	100.0%	110.0%	105.6%	15.97%	17.13%
Modernisation							
Crown Profit/(Loss) £m	12.5%	(42.3)	(40.3)	(36.3)	(37.0)	17.62%	19.32%
Network Conversions (Mains & Locals)	12.5%	960	1,200	1,345	1,450	18.75%	20.83%
Post Office Scorecard Results	**100.0%**					**133.39%**	**144.52%**

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Appendix 2

Post Office Long Term Incentive Plan (LTIP) Measures - Results for 2012/13

	Threshold	Target	Stretch	2012/13 Outturn	SLP Performance
Primary Performance Condition					
Operating Profit £m	58.8	84.0	100.8	94.2	124.29%
% Payout	70%	100%	140%	124.29%	
Secondary Performance Condition					
Network Conversions (Mains & Locals)	960	1,200		1,450	100.00%
% Payout	50%	100%		100.0%	
Post Office LTIP Results					**124.29%**

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POST OFFICE LTD

Post Office Short Term Incentive Plan (STIP) Measures and Design 2013/2014

Post Office Long Term Incentive Plan (LTIP) Measures 2013/2016

1. Purpose

Following the Remuneration Committee meeting of 1 May 2013, the Committee wish to inform and commend to the Board for final approval the framework and measures proposed for 2013/14 STIP & LTIP schemes. Therefore, the purpose of this paper is to:

1.1 Inform the Board of the Scorecard measures for 2013/2014 for STIP.

1.2 Recommend for adoption the STIP design for the Chief Financial Officer for 2013/2014.

1.3 Inform the Board of the LTIP performance conditions for the award dated April 2013.

1.4 Ask the Board to note the framework of the STIP and LTIP design and measures for the Chief Executive and Chief Financial Officer requires Special Shareholder approval.

2 STIP Measures 2013/2014

2.1 The purpose of the STIP is to use short term variable reward to incentivise the delivery of the business strategy and drive turnaround. The Remuneration Committee has reviewed the bonus worthy measures from the business scorecard, these have been modified from 2012/13 to better align with the company strategy with the inclusion of revised customer and people measures. All of the figures are based on the budget. There are 6 measures subject to STIP in the Post Office Scorecard (see appendix 1) split into 4 sections which are explained further below.

- Growth – Total Net Income and Operating Profit
- Customer – Easy to do Business With (ETDBW)
- People – Engagement Index
- Modernisation – Crown Profit/Loss and Network Conversions

2.2 *Growth*

The target figure for net income is the budget figure and it should be noted that the threshold figure is to maintain the growth achieved in 2012/2013 (over a 53 week year) recovering the decline, whilst stretch is approximately half way to the 2014/2015 strategic plan target.

It has been a challenge to build a financial budget that can deliver £890m income which is the threshold figure. The target includes an additional £10m above plan. Of which £5m has not been fully underpinned but, is planned to arise from the brand activity and a further £5m is still to be identified.

For the operating profit both the threshold and target are the same and is the budget figure of £102m, with the stretch being challenging at £120m which is approximately half way to the strategic plan target for 2014/2015. The Network Subsidy Payment is worth £10m less in 2013/2014 and with a profit target of £102m the plan target represents a real year on year improvement of £17.8m.

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2.3 *Customer*

The metric of ETDBW gives a score to indicate how easy to do business with the Post Office is. A major concern in terms of the customer experience is that the Post Office is seen by key customer segments as an organisation that is hard work to do business with. The measure has been relatively stable for the last 18 months and is based on industry based methodology. The targets set are stretching and have been set in the context of 3 year targets what are guided by our strategic aspirations. Over time there is an aspiration to move to the use of Net Promoter Score (NPS) at the business level; however there are some drawbacks with its use as a bonus worthy measure as it is distorted for the Post Office because of the impact of mails where customers currently do not believe they have a choice. To further understand NPS for the Post Office the business will, during the coming year, be introducing measurement of NPS at a channel level and a product level.

2.4 People

The engagement score is extremely important to indicate how our people are feeling. The suggested figure for plan is to maintain the score achieved in 2012/2013 however for target the proposal is to show an improvement of +1% and for stretch +2%. It is felt in the current climate this is achievable but testing.

2.5 Modernisation

Focus must be maintained on turning the Crown Network around into a profit making part of the business and therefore an essential measure in the STIP. The loss threshold and target has been set at a level that is consistent with the Post Office operating profit target of £102m. The improvement required to achieve stretch is approximately in line with the improvement in the Post Office operating profit required to achieve stretch.

A similar argument can be made for the importance of the number of Network Conversions. The targets for 2013/2014 are cumulative and therefore include the 1,450 conversions in 2012/2013. The threshold is set consistently with the threshold for the LTIP (2011/2014) at 2,880. The 3,000 target is derived from assessment of the minimum and maximum potential for contract signature across each journey type, for each model. The stretch is set consistently with the LTIP (2011/2014) target.

2.6 We have deliberately increased the Threshold and Stretch targets, where appropriate, by making the budget more challenging and being progressively tougher with targets but ensuring the stretch is achievable whilst maintaining the motivation of the leadership team to overachieve. The key to determining how this principle has been applied is in how stretching the plan and targets are.

3. The Design of the STIP for the Chief Financial Officer

3.1 The current STIP design for the CFO is the same as that of ExCo. The on-target bonus is 30% with a total stretch potential of 45%. The result is then factored by personal performance, ranging from 0 to x2, as determined by the annual PDR rating, which can make the STIP range 0% - 90%.

3.2 The Remuneration Committee agreed to align the STIP design for the Chief Financial Officer to that of the Chief Executive, meaning 80% of the bonus potential is based on the Post Office Scorecard and 20% of bonus potential is based on the achievement of personal objectives. There will be no PDR multiplier but a strong personal performance element has been built into the design.

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3.3 The Remuneration Committee want the range of the STIP for the CFO to fall between that of ExCo (30% On-target and Stretch of 45%) and the CEO (48% on-target and Stretch of 80%). The external benchmarking would support this relative positioning. Therefore it is proposed the on-target STIP will increase from 30% of salary to 40% of salary with a total potential stretch of 67%, maintaining the stretch multiplier at 1.67 in line with the CEO.

4. LTIP Performance Conditions and Design

4.1 There are two performance conditions. The first performance condition is to maintain the Access Criteria as set out in the funding Agreement with the Government and this will act as a gateway. If the Access Criteria is not met no payment will be made under the scheme.

4.2 The second condition is Earnings Before Interest and Tax, Depreciation, Amortisation and Subsidy (EBITDAS). This is effectively the controllable element of the existing operating profit target. The elements that are not known at this stage are the Network Subsidy and whether the business will have reached a position to cease impairing fixed assets. If impairment ceases there will be additional depreciation and amortisation charges that are not included within plan targets at this stage. The proposed target therefore excludes subsidy, depreciation and amortisation.

4.3 The threshold target has been set at 80% to ensure focus on accelerating the turnaround of the business, ensuring the leadership of the Post Office are required to perform at a high level to achieve pay-out. Previously the finance metric for the LTIP (operating profit) was at 70%, by raising the threshold target performance over the 3 year period of the LTIP, it will drive success within the business.

4.4 Payment against the target will be on a straight line sliding scale assuming the first condition has been met. GRO

GRO

5. Recommendations

The Remuneration Committee has met, reviewed and endorsed these recommendations which it now commends to the Board for formal approval. The Board is asked to:

5.1 Accept the recommendations of the Scorecard Measures subject to STIP for 2013/2014

5.2 Approve the change to the STIP design for the Chief Financial Officer.

5.3 Accept the recommendation for the LTIP performance conditions for the awarded dated April 2013.

5.4 To note the framework for the STIP and LTIP design and measures for the Chief Executive and Chief Financial Officer require Special Shareholder approval.

Neil McCausland
Chair, Remuneration Committee
May 2013

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Appendix 1

Proposed Post Office Scorecard for 2013/2014

Key Performance Indicators		Bonus %	2012-13 results	Threshold 2013/2014	Target 2013/2014	Stretch 2013/2014
Growth						
Total Net Income (excl NSP) £m	Existing	20%	902.4[1]	890[2]	900	920
Operating profit £m	Existing	25%	94.2	102	102	120
Customer						
Easy to do business with	New	20.0%	41%	44%	44%	46%
People						
Engagement Index % (Quarterly)	Existing	10.0%	65.0%	12-13 outturn held	12-13 outturn +1%	12-13 outturn +2%
Modernisation						
Crown Profit (Loss) £m	Existing	12.5%	(37)	(23)	(23)	(20)
Network Conversions	Existing	12.5%	1450	2,880	3,000	3,600

[1]2012/2013 is a 53 week year
[2]2013/2014 is a 52 week year

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POST OFFICE LTD BOARD

Update on Front Office for Government Business – May 2013

1. Purpose

The purpose of this paper is to:

1.1 Provide an update to the Board as to the current position of the Front Office for Government (FOoG) Business and to update the Board's understanding as to the revised FOoG strategy.

2. Background

2.1 Although current and projected FOoG income has fallen substantially behind the original strategic plan agreed at the beginning of 2009/10 as part of the 5 year plan, it remains a crucial part of Post Office Ltd strategy as it:

- is a very profitable part of the portfolio
- offers significant growth potential
- provides hooks for our Customer Value Propositions
- drives footfall in branches
- provides income for sub postmaster across the network and
- it demonstrates our public purpose that is expected by Government and customers.

Benefits		2012-13	2013-14	2014-15	2015-16	2016-17
New Net Income	Target	£25m	£50m	£100m	£150m	£200m
	Forecast	£21.3m	£24m	£48m	£81m	£98m
Total Net Income	Target	£142.2m	£156.2m	£196.1m	£239.2m	£284.1m
	Actual/ Forecast	£133.2 m	£115m	£130.0m	£157m	£172m

2.2 Going forward we will focus on six major opportunities that will deliver the future income:

- a Post Office card account plus (POca plus) proposal for DWP
- an Identity (ID) proposition for DWP in support of Universal Credit
- develop and deliver a range of services for the IPS to support their migration to the provision of Digital by Default services
- work with Government Digital Services (GDS) to develop the identity, assisted digital and step out (removal of paper) additions to support the Governments Digital by Default agenda
- develop the DVLA account, offering new assisted digital solutions
- work with the UKBA to support development of an accelerated application process

2.3 As a consequence we have re-focused the team on to these main objectives and will have a greater focus on the four main departments that will have the greatest influence on our future income; Cabinet Office, Home Office (IPS and UKBA), DWP and DfT (DVLA).

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3. Activities/Current Situation

3.1 As a result of the above refocusing, the team will reduce from twenty one to sixteen people with the Sales Director and the supporting sales team leaving the business enabling us to reduce our staff budget by 20%. We will also reduce the numbers of contractors who support the business saving a further £1m per annum and when compared to 2012/13, overall spend will reduce by 60%.

3.2 **Post Office card account** currently generates £90m of gross income, approximately 10% of Post Office income and underpins our cash business. If we do not provide POca, we do not need to distribute cash around the network. We pay out £20bn of cash per year of which we estimate that £1bn is spent in the host retail store. We have engaged with DWP to ascertain the appetite for a future for POca. Initial work suggests that in the current POca customer base there are 1m pensioners who will continue to need a POca type product in future and 0.5m people of working age who will need help to budget monthly when Universal Credit is introduced. The current position is:

- we have engaged with DWP at senior level (Commercial Director)
- DWP recognise the politics at play and the sensitivity of the Post Office network to politicians
- Universal Credit will impact on this audience
- we are conducting detailed research of our customer base to help inform our strategy
- DWP accept there will need to be new payment methods but believe it to be lower than 1m customers.
- DWP are producing an options paper for their Finance Director
- DWP has indicated they believe ministers would consider customer charging
- we have a working hypothesis that is currently being fully evaluated prior to presentation to ExCo

3.3 **Identity Assurance supporting Universal Credit.** We have recently, along with seven other identity providers, won a place on the Identity Assurance Framework which has been transferred from DWP to Government Procurement Service (GPS) in the Cabinet Office. GPS has confirmed there will only be one call off under this framework and we are working closely with them to agree the structure of this contract. Francis Maude recently committed that all Government Departments would use IDA in future and that HMRC would be the first user.

- the call off contract under the existing framework is forecast, but not guaranteed, to be for up to 600,000 customers over an 18 month period and will be launched in October 2013. Within that 18 month period Post Office will be paid £20.50 for each customer identity account. Our market share will be dependent on the number of existing identity providers who launch a service in October 2013 and the actual size of the market generated by Government during this period
- following the launch of the first call off contract, GPS will issue a new tender for the next phase of the service. This is expected to be issued in November 2013 and for the service under this procurement process to go live in April 2014
- as the market becomes established GPS are predicting a market of 75m customers (citizens and businesses) by 2017

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- as we are the only provider with a significant national retail network and current Government standards suggest that up to 50% of customers will not be able to verify their identity on line, there is a further opportunity for us to provide wholesale face to face services for other identity providers. This could be a significant opportunity with the launch of Universal Credit where significant numbers of customers are expected to need a face to face identity verification service.

3.4 **Support IPS to deliver digital services.** We are in the process of migrating the IPS check and send contract into the DVLA Front Office Counter Services framework contract. This will deliver a 7 year contract with IPS for the existing passport check and send service, worth £20m of existing income) and will also allow for future development of an automated passport service using our AEI capability. We will be testing a premium check and send service this summer which IPS hope will relieve pressure on their own front counters. IPS has indicated they will look to adopt use of AEI in late 2014 which will be worth approximately £20m p.a of new income.

3.5 **Working with Government Digital Services.** We are closely engaged with GDS on the development of an assisted digital proposition in support of the Governments Digital by Default agenda. They have estimated that it currently costs Government £4bn to carry out 236.5m non digital transactions. They believe Digital by Default will allow them to reduce this to £1.3bn to carry out 74m non digital transactions. This is the assisted digital market but the £1.3bn includes some service costs that Government will retain. GDS also recognises that customers will not migrate to digital services and therefore savings cannot be made, if existing channels are left in place. We have confirmed this with case studies on car tax where 50% still use the Post Office 9 years after the on line service was introduced. We have fortnightly meetings with GDS. We know that:

- assisted digital will need to be in place by end of 2014-15 financial year
- our 2019-20 income only assumes that we get a 3% share of the estimated on-going cost to Government of serving non digital transactions (£1.3bn)
- we are better engaged than any other providers in this space
- we may need political support to persuade GDS that POL already has contractual cover through the DVLA framework
- HMRC has approached us separately and they have confirmed they believe the DVLA framework gives them the contractual cover they need

3.6 **Developing the DVLA contract.** Our original plan assumed that we could develop the range of services we could offer for DVLA. The numbers in our revised plan only reflect the services we currently undertake for DVLA with some minor enhancements. The opportunity still exists to become the Digital by Default partner for DVLA offering assisted digital services such as change of vehicle keeper, first time driving licence applications, change of address etc. This will allow us to grow the income from DVLA by c50% by 2019-20 worth circa. £10m p.a.

3.7 **Developing the UKBA contract.** We are working closely with the new Visa and Immigration Directorate (formerly UKBA), to develop the range of services we offer to their customers which will deliver an additional £4m p.a of income They have already issued a number of change requests and we are currently working with them on:

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- providing biometric equipment (AEI units) for domestic and international use
- providing a super-premium service for VIP enrolments
- supporting the extension of biometric residency permits

3.8 The delivery of these objectives is underpinned by the delivery of our stakeholder plan.

4. Conclusion

4.1 As we have highlighted in the strategy plan shared with BIS, there is a reliance on our retaining POca income and footfall and the delivery of new FOoG income. There remains a significant opportunity for Post Office as a Front Office for Government however, Government also needs to demonstrate its commitment to this strategy by using the DVLA framework to give commercial cover for the delivery of assisted digital services and finding a way to allow Post Office to continue to offer a Benefits Payment solution post 2015-17 (POca plus solution).

5. Recommendation

The Board is asked to note:

5.1 the revised income forecasts and progress to date; and

5.2 the change in approach

Martin Moran
21st May 2013

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Post Office Limited – Strictly Confidential

POLB 13(3rd)
POLB 13/14-13/25

POST OFFICE LIMITED
(Company no. 2154540)

Minutes of a Board meeting held on 20 March 2013 at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In attendance:

Kevin Gilliland	Network and Sales Director (item 13/14)
Nick Kennett	Financial Services Director (item 13/15)
Paul Havenhand	Head of Insurance and Travel (item 13/15)
Jeremy Law	Head of FS Sales Strategy (item 13/15)
Sue Barton	Strategy Director (item 13/16)
Sarah Hall	Head of Financial Control and Compliance (item 13/18)
Alwen Lyons	Company Secretary

POLB 13/14 **INTRODUCTION**

(a) A quorum being present, the Chairman opened the meeting and welcomed Kevin Gililland.

The Board congratulated and thanked Kevin Gilliland and his team for delivering the 1200 Network conversion target. Kevin Gilliland accepted the thanks on behalf of his whole team and recognised the support of the Board through what had been a challenging year.

Kevin Gilliland left the meeting

Susannah Storey informed the meeting that she had resigned from her role in the Department of Business, Innovation and Skills (BIS) to take up the position of Director of Strategy and Change at the Department of Energy and Climate Change (DECC). Her new role would not affect her position on the Post Office Board, but she would relinquish her role at the ARC after today's meeting.

POLB 13/15 **FINANCIAL SERVICES 2020 STRATEGY**

Nick Kennett, Paul Havenhand and Jeremy Law joined the meeting.

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(a) Nick Kennett introduced the Financial Services 2020 Strategy with the objective of creating a challenge brand in the FS market place. He recognised that the plan was ambitious, but in his view achievable, and explained that the strategy was built in separate steps each of which would return to the Board for sign off as appropriate. His ambition is to build the capability in the Business and take more control of the value chain for products as existing contracts expire and therefore create additional customer benefit and profitability for the Post Office.

(b) The Board discussed the phasing approach using changes in the Travel Insurance model to establish the foundation for the strategy.

(c) Phase 1
The proposal to bring Travel insurance 'in-house' as opposed to outsourcing was debated and the CFO explained that the decision would be part of the wider outsourcing work. The Board discussed and agreed that it might make sense to bring the work in house to resolve any issues before out-sourcing. The Board stressed the need to retain ownership of the Brand and customer but asked the CEO to consider fully whether running such operations were a core competence of the Business, to be reviewed at sign-off for phase 1.

ACTION: Nick Kennett

(d) Phase 2
Nick Kennett explained the process for any buy-out of Bank of Ireland's (BoI) interest in insurance which had been agreed as part of the Eagle negotiations. The Board supported early exploratory discussion with the BoI and using KPMG to establish the possible value. Nick Kennett would return to the Board in July having explored the options.

ACTION: Nick Kennett

(e) Phase 3
Paul Havenhand explained the advantages of using a standard technology insurance platform and integrating general insurance onto that platform and away from the Junction contract. The Board supported the Insurance phasing and asked for more pace where possible. The Board was disappointed that more cross- pillar products would not be included and asked for more work to undertaken to accelerate the customer database which was planned for 2020.

ACTION: Sue Barton/Lesley Sewell/ Nick Kennett

It was acknowledged that this was a wider IT and Horizon issue and the Board asked for a paper on IT Architecture and Customer Database Development, with particular focus on future FS requirements.

(f) Sales Capability
Jeremy Law updated the meeting on the new sales structure and the progress made with mortgage specialists and the sales process. He is confident that the new structure will drive the sales capability in the Business. The Board asked for reassurance that the line management structure will still be focussed on compliant sales. It was explained that although the first line manager was part of the FS sales structure and therefore a trained FS specialist, the second line compliance oversight was outside the FS structure and accountable to Susan Crichton, HR and Corporate Service Director

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(g) Regulation
The Board asked if the changes in the Travel insurance structure would change the regulatory environment for the Business. Paul Havenhand explained that the Post Office is not a regulated principal in its own right, and that the plan would not change this position. Tim Franklin stressed that the regulator landscape was not clear and that regulators may at some point deem distributors to be covered by regulation, at which point the Post Office would be included. However any change in regulation would affect the Business irrespective of the proposed plan.

(h) Current Account update
Nick Kennett updated the Board that the BoI have now agreed three out of four of the proposed measures for evaluating the Current Account pilot. The only area still to be agreed is the commercial impact. The Chairman reported a conversation with Christopher Fisher, Chairman of Bank of Ireland UK plc., who explained that this is a big investment for the Bank which still requires Group approval. The CEO stressed the seriousness of the issue and reassured the Board that the Business realised the importance of drawing the negotiations to a speedy conclusion. Tim Franklin proposed that if the negotiations do not reach a satisfactory conclusion, the Business should consider procuring at alternative platform.

ACTION: Nick Kennett

(i) Investment requirement
The Board asked for a paper for the July meeting setting out the investment required for the FS strategy, including any effect on self-funding and state aid.
The paper should cover; Brand; IT (including interdependencies with the IT transformation); People and Compliance
The seven year P&L would also be produced showing the investment milestones.

ACTION: Nick Kennett

ACTION: Chris Day

(j) FS strategy
The Board asked Nick Kennett what his level of confidence was in delivering the strategy. He was over 80% certain of delivering the strategy and the revenue targets.

(k) The Board:
(i) endorsed the overall 2020 Financial Services Strategic Vision;
(ii) requested that the strategy be refined taking into account the ideas raised at the Board;
(iii) confirmed that the Business should progress step 1 of the Insurance plan, albeit keeping in mind the out-sourcing option
(iv) asked the Business to work out their 'Plan B' to take effect if the strategy became impossible to deliver.

Nick Kennett, Paul Havenhand and Jeremy Law left the meeting

POLB 13/16 **MUTUALISATION**

Susan Barton joined the meeting

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(a) The paper on Mutualisation was discussed by the Board. The Chairman reminded the Board of the Government's policy on Mutualisation, as enshrined in the Postal Services Act, which meant that any strategy and funding request needed to acknowledge this ambition.

(b) The CEO explained that the strategy and funding document would highlight three areas which needed the Government's support;
   (i) funding to complete modernisation of the Network;
   (ii) a long term funding agreement for unprofitable branches; and
   (iii) a more planned non-voluntary approach to Network Transformation

(c) She explained that the Post Office's support for mutualisation could be important for achieving the funding agreed. The Board believed that the funding was needed to achieve financial sustainability and turn around irrespective of mutualisation, but accepted the reason for linking the funding and mutualisation.

The Board stressed the need for the Government to agree the definition of 'financial sustainability', and the financial pre-conditions required before mutualisation, and for these to be made public.

ACTION: Chris Day/ Susan Barton

(d) It was agreed, that the Business should ask Rothschilds to update their report to include the new strategy and get their view on sustainability and balance sheet requirements in the light of this, within a tightly managed set of Terms of Reference and budget.

Susan Barton explained mutualisation Option 2 in the paper and the areas it covered:

(e) Internal Engagement
The Board agreed that the work on engagement should progress with pace

(f) Stakeholder Forum – Public Purpose of the Post Office
Two draft definitions of the Public Purpose of the Post Office are to be presented to the Stakeholder Forum on the 22nd March for discussion. The CEO assured the Board that the Forum would consider their effectiveness for a successful commercial business. The Board stressed the importance that the Public Purpose statement should not hamper the Business in driving the turn around and achieving financial sustainability. The Board would need sufficient time to consider the proposal during the summer, well before they were asked to agree the draft which resulted from the consultation exercise.

ACTION: Company Secretary

(g) Governance
The Business was asked to consider its future stakeholder engagement and the most effective meeting structure to be put on place.

ACTION: Sue Barton

It was agreed that the word 'Trust' in Option 2 be replaced by an 'oversight body', which could possibly be the Board or the ARC.

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(h) The Board confirmed that the strategic plan should be developed around a revised version of Option 2 taking into account the Board's discussions.

POLB 13/17 **FINANCIAL PERFORMANCE UPDATE**

(a) The CFO presented the monthly finance and performance report for February 2013, which continued to show a strong operating performance in the current year.

(b) He explained that the Crown Offices were on track to deliver their target for this year and that he was now more confident that the Crown loss could be reduced to a breakeven exit rate by the end of 2014/15, following adoption of the 'Plan B' measures.

(c) The Board noted that the Government grant was underspent and asked if this had any implications. The CFO assured the Board it would have no effect on receiving the next funding or the State Aid position.

(d) The Board noted the Financial performance report for February 2013.

POLB 13/18 **2013/2014 BUDGET**

Sarah Hall joined the meeting

(a) The Board considered the proposed budget for 2013/2014, and noted the actions that had been taken in response to the challenges given to the Business by the Board at the Budget meeting held on 13 February 2013.

(b) The CFO reported that the Business had accepted the additional challenge of keeping income flat despite the 53 week year effect by holding a central target of £5m which would be allocated after the first quarter, and which was counterbalanced by an additional £5m of ring-fenced cost.

(c) The CFO explained that the budget assumed 1800 NT mains and locals conversions next year but that any changes brought about by the McKinsey modelling would not have a significant impact on the 2013/14 profit target.

ACTION: Chris Day

(d) The Board asked the CFO to consider a measure of the underlying profit/(loss) exit rate at the year-end which flows through into next year, as this would give a good measure of progress and show the size of the challenge in future years.

(e) The Board discussed the fluctuations in the operating cashflow and the ability to forecast future requirements. Sarah Hall explained the volatility caused to network cashflows over Easter and month ends and the CFO assured the Board that he continues to monitor the position.

(f) The Budget for 2013/2014 was approved.

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(g) The development of the Key Performance Indicators for 2012-2013 was noted and would return to the Board for sign off. The Board discussed their preference to use Net Promoter Score (NPS) as the customer measure instead of Easy TO Do Business With. The CEO explained that this was a holding position for 2013/14 and that NPS would be tracked through the year for use in 2014/15.
Sarah Hall left the meeting

POLB 13/19 **CHIEF EXECUTIVE'S REPORT**

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

(b) Project Rainbow
The CEO updated the Board and informed them that no action was to be taken by the ICO, because of the low risk and the actions taken at the time. She assured them that the Business remained prepared to respond if any further action was required.

(c) The CEO shared a letter from a Branch Manager supporting the stance on the Branch pay and possible industrial action. She had also had the same reaction from branch staff during a visit with the Minister.

(d) The quarterly meeting with Moya Greene CEO RMG had taken place and click and collect had been discussed.

(e) The Health and Safety report, which included risk reduction activities, appended to the CEO's report was noted.

POLB 13/20 **MINUTES OF PREVIOUS MEETING AND MATTERS ARISING**

(a) The minutes of the Board meeting held on 23 January 2013 were approved for signature by the Chairman.

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

(c) The Board noted the minutes of the Pensions Committee meeting held on 22 January 2013.

(d) The Board also noted the minutes of the Nominations Committee meeting held on 7 November 2012.

(e) Minutes of the Remuneration Committee meeting held on 5 February 2013 had been circulated to members of the Board who had no personal interest in the matters discussed. The minutes were noted by the Board.

(f) It was noted that the minutes of each of the above Committee meetings, provided for information, had been formally approved by the relevant Committee.

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POLB 13/21 **TREASURY RISK MANAGEMENT**

(a) The Board considered the proposed framework, policies and authorities for Treasury Risk Management, which had been reviewed by the Audit, Risk and Compliance Committee ("ARC") in February 2013 and was being recommended for adoption.

(b) The Board approved:-
(i) the Treasury Risk Management approach;
(ii) the Treasury Governance and reporting framework, including the delegation of authorities to enable efficient Treasury operations; and
(iii) the Treasury Policies and authorities

POLB 13/22 **ITEMS FOR NOTING**

(a) The Board noted the update on the Front Office for Government Programme. It was reported that a full Board Presentation and discussion would be included on the May 2013 Board agenda.

(b) The Significant Litigation report was noted.

(c) The Board noted the Report on Sealings.

It was resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 840 to 864 inclusive in the seal register is hereby confirmed.

POLB 13/23 **ANY OTHER BUSINESS**

(a) It was agreed that the Board away day on the 18th and 19th June should commence with a Board dinner on the 18th including a pre-dinner speaker.
The following day would look at three areas:
(i) People- organisational design; the structure of the new business model; resource/people and talent management
(ii) Mails- what the world will look like in 5 to10 years and how we will respond to the challenges.
(iii) A stakeholder session – involving 4-5 guests including SME representative. To discuss a customer focussed issue.

ACTION:
Company Secretary

POLB 13/24 **CLOSE**

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

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Post Office Limited – Strictly Confidential

POLB 13(4th)
POLB 13/26-13/30

(Company no. 2154540)

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

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In attendance:

Kevin Gilliland	Network and Sales Director (item 13/27)
Sue Barton	Strategy Director (item 13/27)
Mark Davies	Communications Director (item 13/27)
Robin Nuttall	McKinsey (item 13/27)
Jules Seeley	McKinsey (item 13/27)
Gill Catcheside	Assistant Company Secretary

POLB 13/26 **INTRODUCTION**

(a) A quorum being present, the Chairman opened the meeting.

POLB 13/27 **NETWORK TRANSFORMATION**

Kevin Gilliland, Sue Barton, Mark Davies, Robin Nuttall and Jules Seeley joined the meeting.

(a) Robin Nuttall tabled a paper on Transforming the Post Office Network which outlined the conclusions from Phase 1 of the programme and an assessment of the changes required to make the next phase of Network Transformation a commercial success, which the Directors noted and discussed.

(b) The Board discussed the declining environment for many Post Offices, and the probability that without transformation to counter economic realities, the Business would continue to decline further. The Chairman suggested that was the right time to modernise the Business, even if this meant difficult changes for people.

(c) Kevin Gilliland advised the Board that as long as fixed pay continued for Sub Postmasters ("SPM"), the Business would not be able to convert the bulk of the network by 2020 and that the 2015 conversion target was no longer viable.

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(d) It was noted that at the March board meeting, the Directors had accepted the recommended approach, and the need to move to a mandatory programme.

(e) Kevin Gilliland undertook to prepare a commercial analysis of the conversions completed to date. It was agreed that, although data varied from branch to branch, it would be good to be able to gain a sense of what had been achieved so far.

ACTION: Kevin Gilliland

(f) Assessment of new approach
Kevin Gilliland reported that the different new models i.e. Mains, Locals, Basics, Community and Outreach had been tested to ensure that they gave the business flexibility to response to changes in market conditions. It was noted that it was economically better for a SPM to have a Main model, but that the Business would benefit (on a P&L basis) from more Local models. Susan Barton advised that current SPMs were used to over generous fixed pay remuneration, but that the Business needed to change this to become more competitive. The Board agreed that this would be a painful transition, but that it was necessary to achieving a successful commercial retailing Business going forward.

(g) The Directors discussed the strategic approach to partnering with Symbol Groups and Multiple convenience retailers, and the appetite that these retailers had for the new models. The latter had not yet expressed their views on these and Kevin Gilliland advised that the Business was in the early stages of engaging with these retailers at a senior level. The Board recognised the risk that these retailers might not sign up to the new models. Virginia Holmes suggested that the Board would feel more comfortable once meaningful discussions were held with the Multiples and Symbols Groups, and the Board agreed this needed to progress as quickly as possible.

ACTION: Kevin Gilliland

(h) Neil McCausland raised his concerns that SPMs were being incentivised to leave the business rather than to convert their branches to new models, and that this could lead to a serious loss of experience in the network. Susan Barton outlined the approach that would be taken which would include helping businesses to produce business cases which would be tested to ensure commercial viability before conversion. If the SPM could not produce a viable business case, the business would consider either an OnSite conversion with a different retailer, or a move to a new site. However, the Directors were advised that no business would be closed until another Local was open and trading.

(i) Susan Barton advised that it might be positioned to consider enhanced compensation for OnSite conversion as these were easier to deliver. However, it was noted that this could possibly lead to back-dated challenges from other branches who had already converted as part of phase 1. The Board also discussed the probability of making more help/advice available to those who were going to convert to support them in making a success of it.

(j) Robin Nuttall outlined competitors' (PayPoint, CollectPlus and

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MyHermes) activities, advising that they were growing extremely rapidly and constituted a real competitive threat. Jules Seeley outlined the experience of other agency driven networks in other countries. The Board recognised that the Business' competitors were already contracting with the Multiple and Symbol groups and the opportunity for the Post Office might be time-constrained. Robin Nuttall advised that the revised model could be executed even if a large retailer such as the Coop were not involved. The Chairman pointed out that the Board did not have time on its side. A decision on Network Transformation needed to be taken as part of the funding request and therefore was being driven by a tight external timetable.

(k) Mark Davies outlined the Communications strategy to support the Government Funding Agreement and the McKinsey Proposals for a switch to a mandatory network transformation programme. Virginia Holmes asked that competitors' activities should be included in the strategy to highlight the sense of urgency.

ACTION: Mark Davies

(l) Susan Barton, Kevin Gilliland, Mark Davies, Robin Nuttall and Jules Seeley left the meeting.

(m) Paula Vennells advised the Board that if a decision were taken not to approve the revised Network Transformation and continue with the current conversion programme, the business would reach a position where not enough volunteers would come forward, and the Business would have to pay high levels of fixed fees to run inefficient offices from public monies. She noted that this could then result in a large closure programme in 4-5 years.

(n) Paula Vennells thanked the Board for their input. She believed that the new approach was right for the Business, and that any other approach would be sub-optimal. It was recognised that the transformation would not be easy, but that the Board had to deliver the best outcome for the Post Office.

(o) Chris Day advised the Board that, in his opinion, time was of the essence and the window of opportunity was limited for implementing the McKinsey Proposals; the Business was at a crisis point and needed to take action. The funding and political cycles were noted. It was agreed that the McKinsey Proposal needed to address the expected competitor response.

ACTION: Kevin Gilliland

(p) Whilst noting the high risk nature of the McKinsey Proposal, and the flexibility that would be required throughout the process, the Directors approved the approach to achieving network transformation and the Business' long-term objectives. It was also agreed that it would be useful to have Chatham House style conversations with a number of the large Multiples to assess their appetite for the Scheme as soon as possible, and that the messaging to Government should be positioned as a refinement of the existing strategy highlighting the consequences of not being implemented.

ACTION: Kevin Gilliland

ACTION: Mark Davies

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(q) The Chairman thanked the Directors for an excellent discussion.

POLB 13/28 **STRATEGY AND FUNDING**

(a) The paper outlining the response to the actions from the Board Strategy session on 27 February 2013 was noted.

(b) Chris Day tabled an update on funding requirements continuing revised proposals which the Directors discussed.

(c) The Board agreed that part of the Investment funding could be used in Community post offices to respond to growth (in areas such as packets). This would be a presented to BIS as "more for the same investment".

(d) The Directors agreed that an early statement on Mutualisation and the definition of financial sustainability would be helpful. In answer to a query from Alasdair Marnoch, Chris Day advised the Board that the 2015/16 was the earliest point at which the business could achieve breakeven, but that this was the most optimistic case and would still require on-going NSP at that point.

(e) The proposed funding levels, as outlined in the paper were accepted, it being noted that the funding requirement should be presented as "more for the same investment". The strategy would only succeed if the Government accepted the underlying assumptions contained in the plan; a move to a mandatory NT programme; acknowledgement that our financial projections assume an extension to the POCA contract by 2 years, and that Post Office would like to be positioned as the preferred identity partner. It was also agreed that the messaging on mutualisation should be clear i.e. that financial sustainability must be achieved before the Post Office be mutualised.

ACTION: Susan Barton

(f) Sue Barton would be asked to submit a draft Strategy and Funding document to Paula Vennells and Chris Day by 12 April, with the intention of it being circulated to Board members by 17 April. Paula Vennells undertook to propose a timetable for announcement of the Strategy.

ACTION: Paula Vennells

(g) It was resolved that a Sub-Committee be formed to finalise the Strategy and Funding Agreement, comprising Alice Perkins, Chris Day and Paula Vennells.

POLB 13/29 **ANY OTHER BUSINESS**

(a) Paula Vennells advised the Board that CWU was visiting the offices on 10 April 2013 for further discussions. It was noted that a letter had been sent to colleagues advising them of this development, whilst making it clear that POL's stance had not changed.

POLB 13/30 **CLOSE**

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

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POLARC13 (1st)
POLARC13/1- 13/8

POST OFFICE LIMITED
(Company no. 2154540)

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held on Wednesday 13 February 2013 at 1.15pm at 148 Old Street, London EC1V 9HQ

Present:

Alasdair Marnoch	Chairman of Committee
Neil McCausland	Senior Independent Director
Susannah Storey	Non-Executive Director

In attendance:

Alice Perkins	Chairman, Post Office Limited
Paula Vennells	Chief Executive (CEO)
Chris Day	Chief Financial Officer (CFO)
Susan Crichton	HR & Corporate Services Director
Sarah Hall	Head of Financial Control and Compliance
Alwen Lyons	Company Secretary
Mark Davies	Communications Director (item 13/4 only)
Malcolm Zack	Head of Internal Audit
Stephen Collins	Audit Manager, Royal Mail Group Internal Audit (item 13/5 only)

Apologies for absence: Tim Franklin

POLARC13/1		**INTRODUCTION**
	(a)	A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present.
POLARC13/2		**MINUTES OF THE LAST MEETING AND MATTERS ARISING**
ACTION: Chris Day	(a)	The minutes of the meeting held on 13 November 2012 were approved for signature by the Chairman of the Committee.
	(b)	The CFO reported that there was one final item to agree before he could confirm the external audit fees payable for 2012/2013 but he was content with the value being offered and would report the final fee to the Committee once it had been finalised.
	(c)	The following minutes were noted:- Post Office Limited and Bank of Ireland (UK) Regulatory Risk Committee held on 16 November 2012 Post Office Limited and Bank of Ireland (UK) Regulatory Risk Committee held on 12 December 2012 Post Office Risk & Compliance Committee held on 21 January 2013.

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ACTION: Susan Crichton	(d)	It was agreed that in future, instead of the minutes of the above Risk Committees being presented to the ARC for noting, Susan Crichton, as Chair of the Risk & Compliance Committee would provide a summary of the key issues covered.
ACTION: Susan Crichton	(e)	Susan Crichton explained the changes to the Post Office's Speak Up Policy (Whistleblowing) and the plan to communicate to Staff in April. The policy was noted by the Committee who requested a report on the issues raised at the end of 2013-2014, with any significant matters highlighted in the interim.
POLARC13/3		**RISK MANAGEMENT WITHIN POST OFFICE LIMITED**
ACTION: Susan Crichton/ Alasdair Marnoch	(a)	Risk Management Strategy 2013-2014 Malcolm Zack presented the Post Office Limited's Risk Management Strategy for 2013-2014. The current status of the Enterprise Risk Management (ERM) framework was noted.
	(b)	The next stage of the ERM development was agreed and would be recommended to the Post Office Limited Board.
	(c)	The Committee discussed the Risk Management Strategy for 2013-2014 and the relationship between the Risk & Compliance Committee, the Audit and Risk Committee, the Executive Committee and the Board. It was agreed following the completion of the Strategy both the Business and the Board would identify the key material risks (top 5-10) which would be brought back to the ARC in the autumn for consideration.
ACTION: Susan Crichton/ Alasdair Marnoch	(d)	Regulatory Risk Framework and Controls The Committee considered the Regulatory Risk Framework currently in place for Post Office Limited and thanked the Business for the comprehensive list of regulation identified.
	(e)	Susan Crichton stressed the need for a clear view on risk appetite and the costs involved with assurance and mitigation. She asked the Committee to recognise that this was work in progress. The Committee endorsed the proposed approach to monitoring, and agreed that the Committee should review the Regulatory Risk Framework later in the year once the risk appetite work had been completed.
	(f)	Treasury Risk Management The CFO presented the Treasury risk management framework, policies and authorities to the Committee. The Chairman thanked him for the full report and the Committee discussed each principal treasury risk, as set out below.

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	(g)	Foreign exchange Risk The CFO explained that, although large volumes of currency were held by the Business, the value at risk was relatively small. Tim Franklin had asked the Business to consider the effect of reducing the number of currencies held as this would reduce complexity and cost. The CFO acknowledged that the 'long tail' of currencies with relatively few sales did add complexity. The Chairman asked if forward hedging a month was effective. The CFO explained that the current regime was very risk averse and time consuming and was an area which he would reconsider.
	(h)	Interest Rate Risk The CFO explained that the Business was affected by both sides of the interest rate market and that he would only be concerned if the market became volatile.
ACTION: Susan Crichton	(i)	Insurance Risk The Committee asked the Business to consider the need for Professional Indemnity Insurance cover as it moved into the area of financial services advice.
ACTION: Chris Day	(j)	Counterparty Risk The CFO presented the list of counterparties and reassured the Committee that any proposed additions would be presented to the Committee for approval. The Committee asked that the list be updated to show the parent company and highlight where a parent company guarantee existed. The list of counterparties was noted. The Committee discussed the flow of Government funds and the possible advantage for the Business and the Government of a different approach. The CFO was asked to explore the possibility with ShEx but ensuring this would not put receiving the agreed funding at risk.
ACTION: Malcolm Zack **ACTION: Chris Day**	(k)	Governance and Reporting The governance and reporting explained in the paper was discussed. It was agreed that policy breaches identified by management and any oversight processes should be notified to internal audit. The Head of Internal Audit would report any significant policy breach to the Committee. The Committee noted the treasury risks to which the Post Office was exposed. It was agreed that the proposed framework of treasury policies and procedures, including the governance and reporting mechanisms and associated approvals and limits, be recommended to the Post Office Board in March.
POLARC13/4		**ANNUAL REPORT AND ACCOUNTS**
		Mark Davies joined the meeting
	(a)	The Committee considered the plans for the publication of the Post

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		Office's Report and Accounts (R&A) for the financial year 2012/2013 which included the key messages, together with a proposed timeline for clearance of the report. It was agreed that the R&A should aim to change people's perception of the Business by being concise and engaging, showing solid progress but with a sense of realism and excitement.
ACTION: Mark Davies		The Chairman advised the Business to compare the R&A to those produced by mid-cap or small private limited companies as these were often more concise than those produced by big corporations.
	(b)	Neil McCausland explained the pressure from Government for full disclosure in the Directors' Remuneration Report. The Remuneration Committee had agreed with advice from New Bridge Street (Remuneration Consultants) an appropriate level of disclosure. Susannah Storey recommended checking with ShEx that we are in line with the other companies in which they hold a share.
ACTION: Neil McCausland/ Susannah Storey		
ACTION: Mark Davies		The Committee stressed the need to be prepared for the questions which would be raised by the disclosures in the Directors' Remuneration Report.
	(c)	The first draft of the Board Chairman's Foreword had been circulated and the Committee were asked to provide comments to Mark Davies and Alice Perkins.
ACTION: All		
ACTION: Mark Davies/ Alwen Lyons		Tim Franklin had asked that the Business consider if there was a subject on which it would want to make a public statement in the R&A. He gave, as an example, the easy way in which customers were able to move their bank current accounts.
		The plans for the publication of the Post Office's Report and Accounts for the financial year 2012/2013 were noted. The Committee asked for a high level detailed milestone plan showing when the Board would be required to input and who was signing off which parts of the document.
		Mark Davies left the meeting.
POLARC13/5		**INTERNAL AUDIT**
	(a)	Stephen Collins joined the meeting.
	(b)	Malcolm Zack presented the activity report for the internal audit function, which the Committee noted.
	(c)	The Chairman asked that future Internal Audit Reports include the outcomes required from the Audit and a timeline showing when those outcomes would be delivered so that they could be tracked. Susan Crichton explained that this detail was scrutinised by the Risk and Audit Committee and it would be included in the summary requested by the ARC. (POLARC 13/2 (d)).

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	(d)	Malcolm Zack reported the progress in setting up the Post Office internal audit team and how this would enable a more flexible approach. The proposed internal audit plan for the financial year 2013/2014 was considered and reviewed. The Business was asked to ensure it had enough focus on the major transformation programmes in both Network and IT. The Chairman asked that any other comments be forwarded to the Head of Internal Audit. It was agreed that (i) the remaining contracted 100 man days from the Royal Mail Internal audit function be utilised in the first quarter of the 2013/2014 financial year, with a view to exiting from the Royal Mail support by 30 June 2013 at the latest; (ii) the Internal audit plan for 2013/2014 be approved subject to an increased focus on transformation programmes; and (iii) a copy of the approved Internal Audit plan be circulated to the Risk and Compliance Committee, and the Executive Committee. Stephen Collins left the meeting
ACTION: Malcolm Zack **ACTION: All** **ACTION: Malcolm Zack** **ACTION: Malcolm Zack**		
POLARC13/6		**MATTERS REFERRED TO ARC BY THE BOARD**
ACTION: Lesley Sewell **ACTION: Lesley Sewell**	(a) (b)	Update report on Information Security The Committee noted the paper on Information Security. The Chairman explained that he had already asked Lesley Sewell to focus on the immediate actions required to ensure the matter was progressed to mitigate the significant risks. The Committee asked for an update in the CEO's Board Report explaining the specific actions being taken. Bank of Ireland (UK) plc Capital and Liquidity The Committee noted Bank of Ireland (UK) plc's capital and liquidity position against its regulatory and Eagle contract requirements, which had met the terms of the joint venture agreement. Tim Franklin had assured the Chairman that he was comfortable with the current position and the on-going agreed monitoring.
POLARC13/7		**ANY OTHER BUSINESS**
		None was reported.
POLARC13/8		**CLOSE**
		There being no further business, the meeting was declared closed.

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NC 13/1-13/5

POST OFFICE LIMITED
(Company no. 2154540)

Minutes of a meeting of the Nominations Committee held on 5 February 2013 at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Virginia Holmes	Non-Executive Director

In attendance:

Paula Vennells	Chief Executive
Susan Crichton	HR and Corporate Services Director
Fay Healey	Chief HR Officer
Alwen Lyons	Company Secretary

NC13/1 INTRODUCTION

A quorum being present, the Chairman opened the meeting.

NC13/2 MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

(a) The minutes of the meeting held on 7 November 2012 were approved for signature by the Chairman of the Committee.

Terms of Reference (NC 12/2)

(b) It was noted that the Committee's Terms of Reference had been revised and then approved by the Board on 23 January 2013.

NC 13/3 PROCESS FOR EVALUATION OF BOARD AND COMMITTEE EFFECTIVENESS

(a) The Committee discussed the process for evaluating the effectiveness of the Board and its Committees.

(b) It was agreed that:-

ACTION: Chairman

(i) an informal evaluation of the workings of the Board and Committees would be undertaken by the Board Chairman in the summer of 2013. It was noted that the Board assessment guidelines, shared with the Committee, would be used.

(ii) the Chairman would interview each Board member and the Company Secretary on a non-attributable basis. It was noted that the overall findings would be fed back to the Board, and individual feedback given on a 1:1 basis by the Chairman.

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ACTION: Neil McCausland

(iii) an appraisal of the effectiveness of the Chairman would be co-ordinated by Neil McCausland to the same timescale.

(c) The Committee agreed that the first external Board effectiveness review would take place by mid 2014, a year before the first NED appointment was due to expire.

NC 13/4 **SENIOR TALENT**

(a) The Committee noted the update on the current status of senior talent management. They discussed the business' approach to ensure candidates from diverse backgrounds were being considered for appointments. Fay Healey informed the Committee of an initiative using 'Diversity Jobs' which was being progressed.

(b) Susan Crichton assured the Committee of the business' focus on diversity, with training on diversity awareness and interview and selection planned for next year. The Chairman asked the business to be rigorous in its challenge to improve diversity but stressed the need to ensure that the best candidates with future potential were chosen.

(c) Susan Crichton informed the Committee that the graduate recruitment budget had unfortunately been cut for next year. The Committee recognised that the business was under pressure to cut budgets and had to make difficult decisions but would like them to do all they could to protect the graduate scheme which could bring young, diverse and bright people into the business. The CEO agreed and committed to revisit the decision on graduate recruitment.

ACTION: Susan Crichton

(d) The Chairman asked for a report for the next meeting updating the Committee on the progress and changes in the SLT since their evaluation earlier in the year, tracking changes in the 'misaligned' population and highlighting leavers and new appointments.

ACTION: Susan Crichton

NC 13/5 **ANY OTHER BUSINESS AND DATES FOR FUTURE MEETINGS**

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

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PC 13/07-13/13

POST OFFICE LTD

PENSIONS SUB-COMMITTEE

Minutes of a meeting of the Pensions Sub-Committee of the Board held at 148 Old Street, London EC1V 9HQ on Monday 4 March 2013

Present:	Virginia Holmes (VH) – in the Chair	
	Chris Day (CD) (by conference call)	
	Susannah Storey (SS) (by conference call)	
In Attendance:	Susan Crichton (SC)	HR & Corporate Services Director
	Sarah Hall (SH)	Head of Financial Control and Compliance
	Ken Potter (KP)	Pensions Adviser
	Ian McKnight (IM)	RMPTL (Item 13/12 only)
	Gill Catcheside (GC)	Secretariat

PC 13/07 OPENING OF MEETING

A quorum being present, VH opened the meeting.

PC 13/08 MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

The minutes of the meeting held on 22 January 2013 were approved for signature by VH.

The following matters arising from the minutes were discussed:

ACTION: GC

a) It was agreed that an Actions list should be available for future meetings.

ACTION: GC

b) GC undertook to check if the revised Pensions Committee's Terms of Reference had been approved by the Board. (Minute PC 13/02e))

ACTION: SC/GC

c) It was noted that the Board would be updated on pension risks at the March 2013 meeting as the February meeting had become a "strategy" meeting. (Minute PC 13/05a)) It was hoped that at future Board meetings, Pensions Risks would become a separate agenda item, instead of being part of the CEO's report. It was agreed that Pension Risk matters would be a separate item reported by ARC to the Board as required. It was further agreed that Pension Risk matters should go to RCC (Risk & Compliance Committee) initially, and then be noted by ARC. GC undertook to remove the item from future Committee agendas.

d) Report on recent interaction with the Trustees

CD advised the Committee that he had not yet met with Gerry Degaute, Chief Executive of Royal Mail Pension Trustees Ltd (RMPT), but hoped that a meeting would be arranged in the next 2-3 weeks.

e) Project Robin

SC reported that negotiations regarding Project Robin had been ongoing between Royal Mail and its unions, but that the unions had indicated that they could not support the strategy because of the outstanding pay and other

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issues. It was noted that CD/SC had written to the Unions clarifying the Post Office pensions strategy and were trying to get them in for further discussions.

SC advised that a letter would be sent out to all pension participants on 18 March 2013 outlining Project Robin with a consultation document paper being issued no later than 23 March 2013.

KP reported that he thought union agreement was required for the necessary rule change in order to make Wren binding on any future owner of RMG. It was noted that the Trustee had circulated a list of conditions at the last meeting, which were effectively the terms under which they would accept the Rule change. It was further noted that they would be effected by a Memorandum of Understanding to be circulated to the employers.

ACTION: KP/SC

KP/SC undertook to continue to liaise with the Shareholder Executive on the issue, and to keep the Committee updated of developments.

VH noted that it was important for the timetable to be adhered to in order to agree the Scheme valuation by the end of June 2013. VH asked what would happen to the valuation were, for example, POL to agree its contribution schedule but not Royal Mail Group Limited ("RMG"). KP advised that this would result in the late submission of the Scheme valuation and would need to be discussed and notified to The Pensions Regulator.

f) Pensions Valuation discussions with the Trustee and actuaries
The note circulated by KP to the Committee regarding the Pensions Valuation discussions with RMPT and actuaries was noted. CD advised that the engagement discussion with RMPTL had been encouraging and would hopefully provide value for POL, and that the mindset of the Executive Committee and the Board had provided helpful input.

KP reported that he had met with Mercer and AON Hewitt and had gained the impression that the parties were not far apart in their assumptions for the Valuation. It was noted that there was a need for clearer labelling of asset class categories so that the overall investment allocation could be seen and measured against POL's agreed strategy which could then be notified to the Trustee. It was also noted that the Trustee would be reluctant to move into higher equity allocations going forward at the 17.1% contribution rate.

PC 13/09 **INITIAL REVIEW OF ASSUMPTIONS FOR REPORT AND ACCOUNT DISCLOSURES UNDER IAS19 AND FRS17**

The paper on IAS 19 Employee Benefits – key assumptions principles was considered by the Committee. SH advised that the assumptions would be used for calculating the Pension balance sheet position and would not impact on the Valuation. It was noted that the Board was responsible for setting the assumptions but that the Committee would initially review the assumptions and then make a recommendation to the Board for approval.

The Committee noted that although POL represented 7% of the RMG pension pot and that some assumptions would need to be aligned, it had a good level of challenge on a demographic basis if it wanted to change some of the assumptions in relation to this.

SH advised that Towers Watson had reviewed the assumptions taking into

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account rates at the end of January 2013 as an estimate for the position at the end of March 2013. It was noted that Towers Watson had indicated that the assumptions were consistent with those being considered by RMG and were consistent with the approach taken in 2012.

SH reported that the assumptions would indicate a surplus of £36m and would lead to an increase in the profit and loss account charge for the 2013-14 year.

The Committee discussed the future rates of increase in salary assumption which had assumed that salary growth would be at RPI +1%. It was noted that under Crown proposals, there would be no consolidated pay increase for three years which, if overlaid as an assumption, would result in an increase in the surplus from £36m reported in the paper to up to £104m. It was noted that it might be appropriate to assume no pay increase for 2012-13 but that this might not be appropriate for subsequent years.

The Committee discussed additional possible adjustments to the assumptions raised in the paper and requested further clarification on them at the meeting to finalise the assumptions. It was noted that any adjustments would need to be agreed with RMG.

ACTION: SH

It was agreed that the key assumption principles, as outlined in the paper, be adopted as working guidelines, and that the final assumptions should be confirmed at the meeting to be held on 4 April 2013 by conference call. SH undertook to ascertain RMG's proposals.

PC 13/10 **PROFESSIONAL FEES**

The Committee noted the professional fees incurred to date for the Scheme, and discussed the proposed fees for AON Hewitt and Towers Watson.

It was agreed that
(i) a fee of £5,000 for AON Hewitt be approved for work related to and/or attendance at the next two Pension Committee meetings;
(ii) a fee of £25,000 for Towers Watson be approved for completion of year end reporting; and
(iii) a fee of £4,300 for Towers Watson be approved for work associated with the pension implications of transferring employees from the DVLA in relation to the new DVLA contract.

VH suggested that the costs incurred during the first year of separation would be a good learning curve for next year, but that all future costs should be challenged to ensure that there was no repeat charging of set-up costs.

PC 13/11 **ANY OTHER BUSINESS**

a) Briefing note on the UK Rating Downgrade
The briefing note from AON Hewitt on the UK Rating Downgrade was noted.

b) Date of next meeting
It was agreed that the next meeting would take place at 9am on Thursday 4 April 2013 at 148 Old Street, London EC1V 9HQ, at which Key Assumption Principles and Investments would be discussed.

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PC 13/12 **INVESTMENTS**

Ian McKnight ("IM") joined the meeting.

The Committee considered the paper from IM on the Investments for the POL section of RMPP, together with feedback on the paper from AON Hewitt. VH asked that, in future, the paper should be more detailed and informative for the Committee.

IM outlined the initial asset allocation for the Pensions Solution, and the target investment returns and liability hedging levels. It was noted that a Statement of Investment Principles had yet to be formalised, as agreed at the time of the Pensions Solution.

It was reported that RMPTL was undertaking a further investment strategy review, and the Committee discussed the Trustee's current position with regard to the target return of Gilts + 1.5% and proposed strategic allocation for the growth assets, and liability hedging.

The Committee noted that AON Hewitt had been uncomfortable with a period of six years for pre-hedging of future accrual, and had recommended that three years was a more suitable timeframe with further hedging arranged when appropriate. IM advised that any concerns that the Committee had should be raised via himself, by letter to RMPT or at the Implementation Working Group ("IWG"). It was noted that the next meeting of IWG would be held on 28 March 2013.

ACTION: CD/KP

VH indicated that that there was still a mis-match between POL's proposed investment strategy and that proposed by RMPTL which needed to be addressed. CD and KP undertook to close down the liability hedging mis-match outside of the meeting and report back to the Committee.

With regard to asset allocation, it was reported that the Scheme was overweight in LDIs and underweight in alternative assets. IM advised that the apparent underweight in alternative assets would even out once the private debt allocation had been filled. The Committee felt that there was a mis-match on terminology of asset class choices which needed to be made clearer. It was agreed that an absolute return of 6.2% on assets was too low, and that the Scheme would be comfortable with taking more risk with higher volatility. It was noted that historically the Scheme had been risk-averse, but that, going forward, the policy would be reconsidered.

ACTION: IM/KP

IM and KP undertook to review the terminology of asset class choices used to clarify labelling so that comparisons between POL's request and actual proposed by the Trustee could be made more easily.

The rebalancing strategy was discussed. It was noted that "one way" rebalancing from return seeking to liability hedging was used for existing assets, with new monies allocated in line with the Plan's overall target asset allocation. IM advised that it would take 1-2 years for the new monies to reach target asset allocation levels.

IM reported that, for Investment Managers' performance, separation of data between POL and RMG was not yet available, but estimated that the POL assets had performed better overall than the RMG assets. It was agreed that

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ACTION: IM

it would be useful to include a longer time frame for Investment Managers' performance, and that the data should be provided on a quarterly basis.

The Committee agreed that there were a number of issues which needed to be addressed:-
(i) the strategic liability hedging assumptions;
(ii) the strategic asset allocation, and clarification of terminology; and
(iii) a clear understanding of costs.

ACTION: CD

It was further agreed that the Scheme should look into the possibility of equity options in the shorter term, and also review the investment criteria. CD undertook to raise these issues at the IWG.

ACTION: IM/GC

IM agreed to attend the Pension Committee meetings, initially on a quarterly basis moving to once every six months. GC undertook to liaise with IM on meeting dates and submission of information to meetings.

PC 13/13 **CLOSE**

There being no further business, the meeting was declared closed.

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PC 13/014-13/17 **POST OFFICE LTD**

PENSIONS SUB-COMMITTEE

Minutes of a meeting of the Pensions Sub-Committee of the Board held by telephone conference on Monday 8 April 2013

Present:	Virginia Holmes (VH) – in the Chair Chris Day	
In Attendance:	Susan Crichton	HR & Corporate Services Director
	Sarah Hall	Head of Financial Control and Compliance
	Ken Potter	Pensions Adviser
	Billy Weir (BW)	Towers Watson

Apologies for Absence: Susannah Storey

PC 13/14 **OPENING OF MEETING**

A quorum being present, VH opened the meeting.

PC 13/15 **ASSUMPTIONS FOR REPORT AND ACCOUNT DISCLOSURES UNDER IAS19 EMPLOYEE BENEFITS**

The Committee discussed the basis of the assumptions for Report and Account disclosures under IAS19 and FRS17, as set out in the paper circulated on 5 April 2013.

BW explained the additional adjustments to the assumptions proposed to be made this year for the first time. The Committee noted that a surplus would be reported but that this was still to be quantified.

ACTION: CD

The Committee was satisfied that the assumptions proposed were in line with acceptable practice and consequently agreed them for recommendation to the Board for the IAS 19 calculations as at 31 March 2013.

PC 13/16 **ANY OTHER BUSINESS**

(a) Date of next meeting
It was agreed that the next meeting would take place at 10am on Wednesday 1 May 2013 at 148 Old Street, London EC1V 9HQ.

PC 13/17 **CLOSE**

There being no further business, the meeting was declared closed.

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REMCOM
13/11-13/19

POST OFFICE LTD

REMUNERATION COMMITTEE

Minutes of a meeting of the Remuneration Committee of the Board held at 148 Old Street, London EC1V 9HQ on Wednesday 13 March 2013

Present:	Neil McCausland (Committee Chairman)	
	Alice Perkins	
	Virginia Holmes	
In Attendance:	Paula Vennells (PV)	CEO
	Susan Crichton SC)	HR and Corporate Services Director
	Fay Healey (FH)	Chief HR Officer
	Jane Williams (JW)	Interim Head of Reward
	Alwen Lyons	Company Secretary

REMCOM 13/11		**OPENING OF MEETING AND CONSTITUTION OF COMMITTEE**
	(a)	A quorum of two directors being present, the Chairman of the Committee opened the meeting and welcomed those attending.
REMCOM 13/12		**MINUTES OF PREVIOUS MEETING AND MATTERS ARISING**
	(a)	The minutes of the meeting held on 5 February 2013 were approved for signature by the Chairman of the Committee.
	(b)	Neil McCausland advised that a letter had been sent to Jo Swinson, Post Office Minister, putting on record the Post Office's view regarding the remuneration strategy. No reply had been received or was expected.
REMCOM 13/13		**UPDATE ON LTIP (PAY-OUT 2015)**
	(a)	The Committee noted the progress made on the Long Term Incentive Plan ("LTIP") 2012/2013 (pay-out 2015). It was reported that the performance measures and rules for the Chief Executive and Chief Finance Officer had been approved by the Shareholder Executive by letter dated 4 March 2013, and that a Deed of Grant had been signed by Alice Perkins and Neil McCausland and the rules approved by Neil McCausland for the rest of the eligible participants.
	(b)	The Committee discussed the timing of the communication to those affected by the scheme. It was agreed that the communication be put on hold until after the Board Meeting on the 9th April as the Network conversion target in the strategy should then be clear. The Chairman asked that any communication stress the importance of the scheme to rewards the SLT commitment to driving the Business to Financial

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		Sustainability.
	(c)	The Chairman thanked Karen Hamer for her hard work and perseverance in getting consent for the Scheme.
REMCOM 13/14		**POTENTIAL OUTTURN OF STIP/LTIP 2012/2013**
		Paula Vennells left the meeting.
	(a)	The potential outturn of the 2012/2013 Annual Bonus and the 2012 LTIP were noted. The quantum of the awards shown in the paper were calculated in line with rules and for illustrative purposes only assumed the delivery of all personal objectives by the CEO and a 3 PDR marking for the CFO. It was further noted that the LTIP award only related to the Chief Executive as the Chief Finance Officer had been appointed August 2011 and was not eligible for an award.
	(b)	The Committee discussed the likely scale of the bonus payments and noted that the STiP was a similar amount to that awarded in 2011/12. The increase in the CEOs award was due to the LTiP.
	(c)	The Chairman acknowledged that the performance had been between target and stretch and that the above target outtrun for this years would become the base form next year.
REMCOM 13/15		**INCENTIVE PLAN MEASURES FOR SHORT TERM INCENTIVE PLAN ("STIP") AND LTIP**
	(a)	The Committee considered the proposed measures for STIP (2013/2014) and LTIP (Award date 2013; to be tested March 2016) and reviewed the principle of any threshold level below target.
ACTION: FH	(b)	The Committee agreed that the Business should try to remove the legacy issue of the CFO's PDR bonus multiplier and recommended a move to a similar 20% for personal objectives as per the CEO. The Committee reiterated that the setting of personal objectives for the CEO was the role of the Board Chairman and not within the authority of the Shareholder.
	(c)	Paula Vennells re-joined the Committee
	(d)	The Committee stressed the need to ensure the business continued to drive performance with bonuses only paid for genuine improvements.
	(e)	STiP The metrics for the STiP were discussed and the following measured and bonus allocation was <u>agreed</u>: Operating Profit 25% of bonus. No lower threshold Total Revenue 20% of bonus Easy to do Business with 20% of bonus Employee engagement 10% of bonus Crown Profit (loss) 15% of bonus Network conversions 15% of bonus

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ACTION: FH	(f)	The Committee considered using Net Promoter Score (NPS) instead of Easy to do Business With (ETDBW) as the Customer measure but agreed that for 2013/14 it would have both on the scorecard but bonus would be allocated to ETDBW with a view to consider moving to NPS in 2014/15. The Committee asked the Business to provide a paper explaining the ETDBW metric and how it would be measures.
ACTION: FH	(g)	The People engagement score was also discussed and it was recognised that in a year of significant change and likely industrial action it would be important to measure people engagement but recognise that to keep the performance level from the April 2013 result would be a good achievement. The Business also committed to developing an engagement index for agents to me measured during the year building a database to enable a hard target next year.
	(h)	The Committee was comfortable that the bonus threshold could be below target but that the range, when compared to 2012/13, should tighten below target and expand above. As a guide it was suggested that whereas last year's revenue had a threshold of £15m and a stretch of £30m, this year the range should be a threshold of £10m and a stretch of £35m. It was reiterated that Operating profit would not have a threshold and would only pay on target.
ACTION: CFO	LTiP (i)	The Committee agreed that the Network Access Criteria would remain a gateway to the bonus and that Operating Profit would be one of the measures. It discussed two ratio measures; total costs: revenue, and variable costs: revenue, and asked the Business to analyse theses in relation to the plan. The CEO asked that the use of an absolute measure of new network contracts signed be considered alongside the ration measures to see which would be most effective in driving change.
ACTION: FH	(j)	The measures and suggested tragets would return to the REMCOM in May.
	(k)	Paula Vennells left the meeting
REMCOM 13/16		**CLAWBACK FOR SCHEME RULES**
ACTION: FH	(a)	The Committee considered the proposed Clawback clause for the Executive Directors in the STIP 2012/2013. It requested that the Business return with a recommendation from New Bridge Street on the possible changes to clawback, including a definition of when it applies and an alignment of timescales.

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REMCOM 13/17		**DISCLOSURE**
ACTION: FH	(a)	The latest draft of the Directors' Remuneration Report was considered. The Committee asked that it be amended to take into consideration comments for New Bridge Street and then shared with Mark Davies Communications Director, to align with the rest of the Report and Accounts narrative. The new draft would then be share with the Committee.
REMCOM 13/18		**ANY OTHER BUSINESS AND DATE OF NEXT MEETING**
	(a)	The next meeting of the Committee was scheduled for Wednesday 1 May 2013.
REMCOM 13/19		**CLOSE** There being no further business, the meeting was then closed.

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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**	Ongoing
1b	January 2013 POLB 13/03(q)(v)	Stakeholder and communications plan to be drawn up covering key points of Crown transformation and Crown pay proposals.	**Mark Davies**	Completed.
		2. Finance		
2a	January 2013 POLB 13/07(c)	To check with ShEx what has to be reported to Brussels. CFO to email the Board regarding actions being taken.	**Chris Day/ Susan Crichton**	The funding for Post Office is based on cumulative performance over 3 years up to March 2015 – so an underspend in the first year is not an issue in itself. Post Office Finance has checked with ShEx who have confirmed that there is no need to report the current financial position of Post Office to Brussels. Post Office does have to provide a report to BIS, independently verified by Deloitte, later this year which compares last year's performance against the calculation agreed with Brussels for SGEI costs. This report will be shared with the Board.
2b	November 2012 POLB12/122(c)	CFO would produce a project spend benefits realisation analysis for ARC to give more detail on project spend against forecast.	**Chris Day**	After discussion with the ARC Chairman, this will be in

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				the Finance and Performance update to the May Board.
2c	March 2013 POLB13/18	CFO to consider for the 2013/14 budget a measure of the underlying profit/(loss) exit rate at the year-end which would flow through into next year, as this would give a good measure of progress and show the size of the challenge in future years.	**Chris Day**	Complete
		3. Strategy		
3a	January 2013 POLB 13/04(e)	A Champion on ExCo for the Digital Programme to be nominated. Implementation of Digital Programme to proceed with all urgency, working in alignment with the strategic plan. Updates on progress to be brought back to the Board.	**Martin Moran**	To discuss at the June Strategy day or July Board.
3b	November 2012 Strategy Evening	"Point person" to be identified for SME's, across pillars	**Martin Moran**	SME team to be headed by Martin Moran at ExCo level. Programme Manager still to be identified – expected to be in position end May 2013. Monthly meetings set up for 'SME Hit Squad' April-June 2013.
3c	March 2013 POLB13/15(c)	Business to consider fully whether running Travel insurance 'in-house' was a core competence for the business. To be reviewed at sign-off for phase 1.	**Nick Kennett**	To July Board
3d	March 2013 POLB13/15(d)	Business to hold early exploratory discussions with Bank of Ireland regarding possible buy-out of insurance, using KPMG to establish possible value.	**Nick Kennett**	To July Board
3e	March 2013 POLB13/15(e)	Paper to be prepared on IT Architecture and Customer Database Development, with particular focus on future FS requirements.	**Sue Barton/ Lesley Sewell/ Nick Kennett**	See Appendix A
3f	March 2013 POLB13/15(h)	Business to reach agreement with Bank of Ireland for proposed measures for evaluating the Current Account pilot. If not completed satisfactorily, consider procuring an alternative platform.	**Nick Kennett**	Complete
3g	March 2013 POLB13/15(i)	Business to prepare Board paper on investment requirement for the FS strategy, including any effect on self-funding and state aid. Seven year P&L to also be produced showing the investment milestones.	**Nick Kennett** **Chris Day**	To July Board
		4. People and Remuneration		

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4a	November 2012 POLB 12/116 (g)	The Board asked the Business to set clear objectives for delivery and behaviours before the beginning of the next financial year; and introduce more rigorous performance management to ensure the extremes of performance are recognised and managed appropriately.	**Susan Crichton**	Complete
4b	November 2012 POLB 12/116 (h)	The Board requested an update on the people and performance management framework at the February Board meeting.	**Susan Crichton**	The People Plan will be presented as part of the June Strategy day.
		5. Personal Injury Referral Fees		
5a		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**	To July Board
		6. Mutualisation		
6a	March 2013 POLB13/16(d)	Business to ask Rothschilds to update Mutualisation report to include the new strategy, and get their view on sustainability and balance sheet requirements in the light of this, within a tightly managed set of Terms of Reference and budget.	**Chris Day**	Verbal update to may Board.
6b	March 2013 POLB13/16(f)	Board to have sufficient time to consider proposed Public Purpose statement during the Summer.	**Alwen Lyons**	Possible time at July Mutualisation Sub Committee after the Board has been diarised.
6c	March 2013 POLB13/16(g)	Business to consider its future stakeholder engagement and the most effective meeting structure to be put in place.	**Sue Barton/Alwen Lyons**	On-Going.
		7. Other Actions		
7a	January 2013 POLB 13/05(b)	Business to reassess the Click and Collect and Failed Deliveries services (including escalation and looking again at the MDA as necessary).	**Martin Moran**	Conversations have now started with retail clients including M&S and Amazon. POL and RMG plan to launch with at least one major client prior to the Xmas lockdown on IT development. Failed Deliveries continue on a BAU basis; conversations

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				on a wholesale transfer of this work are continuing.
7b	November 2012 POLB12/120 (c)	A plan to be presented to enable members of the Board and ExCo to have greater exposure to the people involved in the Stakeholder Forum.	**Sue Barton/ Alwen Lyons**	Still to be organised.
7c	March 2013 POLB13/23(a)	Organise Board awayday for 18-19 June.	**Alwen Lyons**	Underway

APPENDIX A

March 2013 POLB13/15(e)
There are a number of activities, detailed below, which are currently underway and by October we will have a view of the business and technology roadmap to support our strategic aspirations, at which point a paper will be placed in the Board reading room.

All of the activities support the 15 – 20 Strategy, and include the capabilities to deliver the FS income growth and have been included in our IT plans and funding. We are currently defining our Customer Management Strategy and subsequently the technology roadmap. Javelin have supported the definition of the strategic digital requirements which has included customer, complemented by a project to define our customer management strategy by the end of June led by Nick Fox in Marketing, supported by Berkeley. We will take a pragmatic and incremental approach to how we will deliver our customer management capability.

In addition, for Financial Services we are working with BOI to pilot a more detailed analysis/segmentation exercise to identify cross/up-sell opportunities at a very granular level. The outcome is to generate targeted campaigns to fewer customers. This is a pilot and will inform our strategic approach.

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POST OFFICE LTD BOARD

Chief Executive's Report

1. Mails

- Following the introduction of Royal Mail's new tariffs in April, there has been a significant degree of negative feedback about the price for medium parcels, particularly from small businesses, eBay customers and sub-postmasters. While it is too early to reach definitive conclusions, these concerns appear to be reflected in the emerging trading data, with the loss of 1st class volumes higher than expected and the uplift in Parcelforce volumes not yet on track to achieve the required full year run rate. We have communicated our concerns to Royal Mail at a senior level, and they have agreed to hold weekly review meetings to assess the trading impacts and consider the full range of potential actions to mitigate any material adverse impacts on our business.
- Drop and Go has now attracted over 2,500 customers, with the rate of new sign-ups running at around 50 a week. Average spend levels on the live accounts are higher than originally anticipated at £3,800 per annum, generating £650 income for Post Office. A programme of activity is in place to accelerate the growth in new accounts, including removing the initial minimum deposit, shortening the application form to reduce effort and increasing our direct marketing to small businesses. The impact of these initiatives will be monitored closely through the weekly trading board. Further enhancements are planned for later this year, including multi-channel top-up and account management capabilities. We are also investigating with Royal Mail the potential for volume-based discounts for customers, which may provide part of the solution to the concerns around the new parcel tariffs highlighted above.
- Final testing of our Click and Collect technical solution is underway, ahead of a joint announcement with Royal Mail to launch the service in the next few weeks. Meetings have taken place with several major retailers, including Marks and Spencer, Amazon and eBay, with the aim of securing them as the early adopters from July. We have set aside some budget to assist with their IT costs if required. In contrast to the current proposition from Collect+, the service will be offered to clients and consumers at no additional charge compared to the alternative option of home delivery; the pricing structure will be reviewed over the next 6 months and beyond in light of the volumes achieved.
- We will provide an update on mails segregation performance and our discussions with Royal Mail on redefining targets at the Board meeting, taking into account the impact of the NFSP's latest actions.

2. Financial Services

- Our current account trial was launched on 13 May through an event in Norwich involving Jo Swinson and the local MP (Simon Wright). The launch was preceded by a concerted programme of media and stakeholder briefing, including meetings with ten MPs, the Treasury, the Financial Conduct Authority, the Prudential Regulation Authority, Consumer Focus and Which. This helped to secure widespread and largely positive coverage on the day, including a very supportive press release from Consumer Focus which highlighted that we are "well-placed to provide some leadership in the banking

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market". There was inevitably more critical commentary from some quarters on our account charging structure, particularly the Daily Telegraph and Daily Mail, and we will need to continue our programme of media and stakeholder engagement to move the public debate forwards in this area.

- We will provide an update on the first week of sales figures and early customer feedback at the Board meeting.

3. Marketing

- We are continuing our programme of activity to address the Post Office's long-term brand challenges, as the platform for achieving our future growth targets. Brand marketing through March and April has been focused on highlighting our position as a major financial services provider, particularly through our strong mortgage offering. Early indications from our consumer surveys suggest that the campaign has delivered tangible progress in changing perceptions, demonstrated by industry average recall of 26% in the target market, 83% being surprised by our mortgage offer and our financial services credibility doubling with those who have seen the advert.
- The post campaign evaluation also provided useful insights for the next stage of the programme, including the importance of highlighting our multi-channel capabilities and the need to showcase products other than mortgages to demonstrate our relevance to a broader range of consumer groups. During June through to the end of August our brand marketing will move to demonstrating our strong capabilities in travel.
- In addition the Post Office brand metrics are showing progress in underlying consumer perceptions. The gradual decline in recent years has been halted and key metrics have begun to rise. For example over the last 12 months the net promoter score 3 month rolling average has moved from -3 to 7, 'brand on the way up' has moved from 20% to 25% and 'easy to do business with' from 41% to 47%. Website visits are up 30% year on year since the launch of our brand advertising and the web site redesign.
- The mortgage brand activity has been complemented by a direct response campaign focused on our lowest ever mortgage rates. Within the context of a highly competitive market, this has delivered a 52% increase in monthly mortgage enquiries and a 10% year on year increase in applications totalling £348 million in the last 3 months.

4. Multi-channel strategy

- The programme of work to implement our digital and multi-channel strategy is progressing according to plan. Detailed specifications have been drawn up for our new 'Common Digital Platform', which will supersede our existing public website with significantly enhanced capabilities for customers to transact with us online across a broad range of product lines. The target date for initial launch is November 2013. We are also developing a version of our website optimised for mobile devices: the initial version launched next month will simply mirror the capabilities available on our existing website, but in parallel to the development of the Common Digital Platform this will eventually offer a much wider range of 'on the move' transactional capabilities.

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- Work is also underway to develop a detailed roadmap to ensure that the in-branch customer experience is aligned with our digital capabilities, enabling customers to transact with us seamlessly across different channels and increasing the productivity of branches. We have identified 21 key projects needed to deliver these outcomes, which range across activities such as reviewing branch formats, updating our MI strategy, redefining the roles and responsibilities of colleagues in a multi-channel environment (supported by appropriate engagement and training) and reviewing remuneration models to incentivise the right behaviours. These workstreams will commence from June 2013 with the full change programme completed by December 2015.
- Underpinning the above projects, we are also finalising the specification and implementation plan for our 'single view of customer' technical solution, which will enable us to manage customer data and insights more effectively to drive a higher conversions rate for sales interactions. This is complemented by a two month project to define our data management strategy, looking at issues such as what marketing consents we request and how these should be integrated into new and existing contracts.

5. Project Robin

- As discussed with the Pensions Committee on 1 May, we have agreed with Royal Mail to delay our consultation with staff on the proposed reforms to the pension scheme. Royal Mail wished to avoid the risk of this feeding into the CWU's ballot of members on pay and privatisation issues, which is due to be sent out on 22 May. While this means the changes will not be in place before the scheme valuation is due to be completed on 30 June, we are not expecting this to be a major problem for the Trustee or regulator given that the scheme is currently in surplus and we can be seen to be working on a significant rule change to manage the long-term liabilities. We will provide an update on the situation at the Board meeting.

6. Stakeholder Forum

- The Stakeholder Forum completed the first stage of its process to define the public purpose of the Post Office at its meeting on 22 March, the output of which is available in the BoardPad reading room. It was agreed that the next stage should be to test the emerging definition with wider stakeholders and the public. We have therefore established a public engagement working group to co-ordinate this process, comprising communications and research experts from the organisations involved in the Forum. To ensure impartiality and consistency in the collection of evidence, we are using a consultancy with experience in customer engagement and quantitative and qualitative market research, with a view to beginning a wide ranging and public facing campaign in June. We plan to invite the consultants to seek the views of the Board at the July meeting.
- The Stakeholder Forum will reconvene in the autumn to consider the evidence from the engagement exercise and agree a final definition to propose to the Post Office Board and Government.

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POST OFFICE AUDIT, RISK AND COMPLIANCE COMMITTEE

Update on various Financial Services matters, including Bank of Ireland (UK) plc capital & liquidity

1. Purpose

The purpose of this paper is to:

1.1 update the Committee on the Bank of Ireland (UK) plc's ("BoI") capital and liquidity position against its regulatory and Eagle contract requirements;

1.2 provide an update on the implementation of the Capital Requirements Directive IV (CRD IV) and its potential impact on the capital requirements on BoI;

1.3 update the Committee on Project Polo; and

1.4 update the Committee on the current Co-operative Bank plc situation and any potential impact on the Post Office.

2. Bank of Ireland (UK) - Capital and Liquidity position

2.1 A condition of the Financial Services Joint Venture Agreement ("FSJVA") is that BoI must attest bi-annually that it is meeting the capital and liquidity thresholds set out in the agreement.

2.2 The Bank's capital and liquidity reports are part of the early warning system that would enable the Post Office to take action in accordance with the termination provisions of the agreement, should this become necessary.

2.3 BoI has certified as at 31st December 2012 (BoI's year-end) that:

- BoI's Core Tier 1 Capital Ratio exceeded the amount required under the FSJVA;
- BoI was holding a surplus over its regulatory liquidity requirements;
- BoI is meeting the Capital Planning Buffer as set by the regulator.

2.4 BoI also confirmed that at no stage in the six months to 31st December 2012 did it breach any of the termination thresholds.

2.5 On 30th January 2013 Post Office executives met with the tripartite regulators (Bank of England, HM Treasury and Financial Services Authority) to confirm the status of the Post Office's relationship with BoI and the termination structure and processes. No material issues were raised by any party.

2.6 Post Office is of the view that BoI remains well capitalised with surplus liquidity. The position has not deteriorated since the signing of Eagle.

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3. CRD IV Update

3.1 The European Parliament passed CRD IV on 16th April 2013 and it is now in legal drafting review ahead of formal adoption. The UK's Prudential Regulation Authority ("PRA") will seek to implement the requirements from 1st January 2014.

- In order to achieve this, the PRA intends to carry out two consultations on the changes. It is expected that the majority of existing capital requirement rules will be replaced by the new rules. The main consultation will begin in mid-2013.

3.2 Following implementation, the FSJVA requires BoI to certify to the Post Office that it is meeting the new standards.

4. POLO update

4.1 On 13th May 2013 Post Office and BoI launched the Polo current account in 29 branches in East Anglia.

4.2 To enable the launch the Parties concluded the first operational Product Note[1].

4.3 Under Eagle all contracts in place at the time of signing were included in specific conditions relating to the sharing of any contract liability between the parties.

4.4 As part of the finalisation of the Polo Product Note, BoI requested that its contract with Affinion International Limited[2] should be included in these conditions. BoI's request was that, although the contract was not signed at the time of Eagle, Post Office was closely involved in the selection of Affinion, took part in the on-site operational reviews and made comments on the early draft of the contract. The potential liability risks potentially resulting from this contract are seen as slight.

4.5 To avoid a delay to the launch of Polo, Post Office agreed to BoI's request.

4.6 Post Office is working with BoI to establish a monitoring framework for this contract.

5. Co-operative Bank plc update

5.1 On 9th May Moody's downgraded the Co-operative Bank's credit rating from Baa1 to B1 ("junk" status), and continues to hold it on negative watch. Moody's has assessed that Co-Operative Bank has significantly lower levels of capital than its peers and is currently, by its own assessment below the Basle III CET 1 ratio of 7.0% at 6.7% (in January 2013).

5.2 The bank is in discussions with the PRA about improving its capital position, which could include selling its insurance business and potentially seeking more capital from the parent group.

5.3 The Post Office is monitoring the situation for the commercial opportunities this may present as well as any exposure we have to Co-operative Bank through our

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1 The Product Note is the structure, established under Eagle, which establishes the product and distribution strategy, roles and responsibilities of each party, commission payments, withdrawal arrangements and other relevant matters and must be agreed prior to the launch of any product.

2 The 3rd party that manages elements of the Package account.

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personal banking and bill payment business. Currently our overnight exposure to Co-operative Bank is very low (c£1 million owing from the bank and c£10m due from the Post Office).

6. Recommendations

The Committee is asked to:

6.1 note the update.

Nicholas Kennett
Director, Financial Services
21 May 2013

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POST OFFICE LTD BOARD

Health & Safety Report

1. Purpose

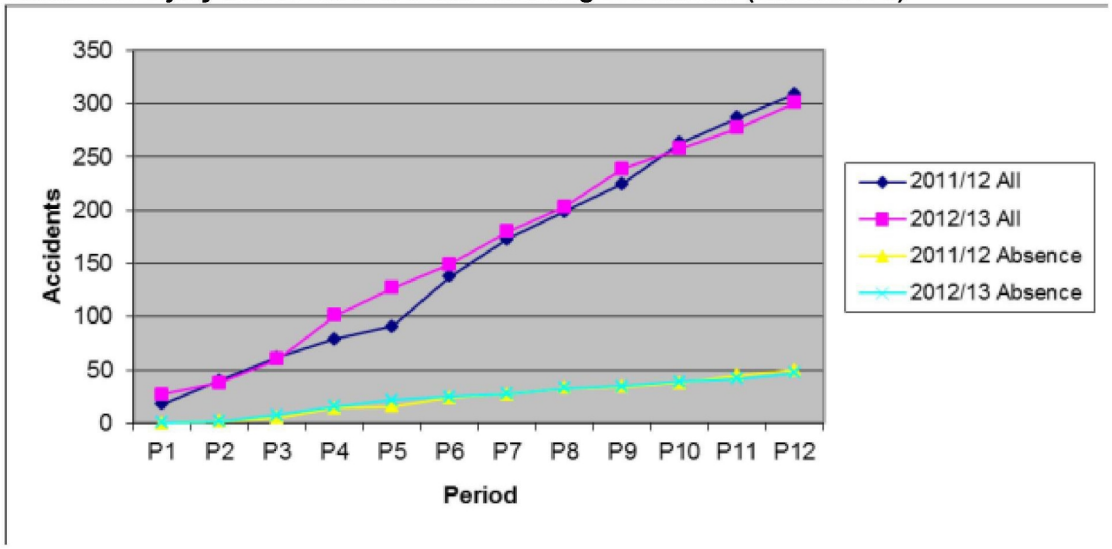
The purpose of this paper is to:

1.1 Provide an update on safety performance.
1.2 Outline risk reduction activities.

2. Current Situation

2.1 Injury accidents, for year end 2012/13, showed a marginally positive trend against the previous year, reducing by 2.6% against a target reduction of 5%. The relatively neutral performance is primarily due to a significant increase in slips trips and falls due to the wet/severe weather and manual handling incidents which has affected Supply Chain performance, in particular. Accidents involving absence have decreased by 6% against a target reduction of 5%. The "per 1000 staff in post" comparison indicator, which takes account of head count fluctuation year on year, is showing a slightly more favourable trend for 'all accidents'.

Table 1 All Injury accidents and those resulting in absence (Cumulative)

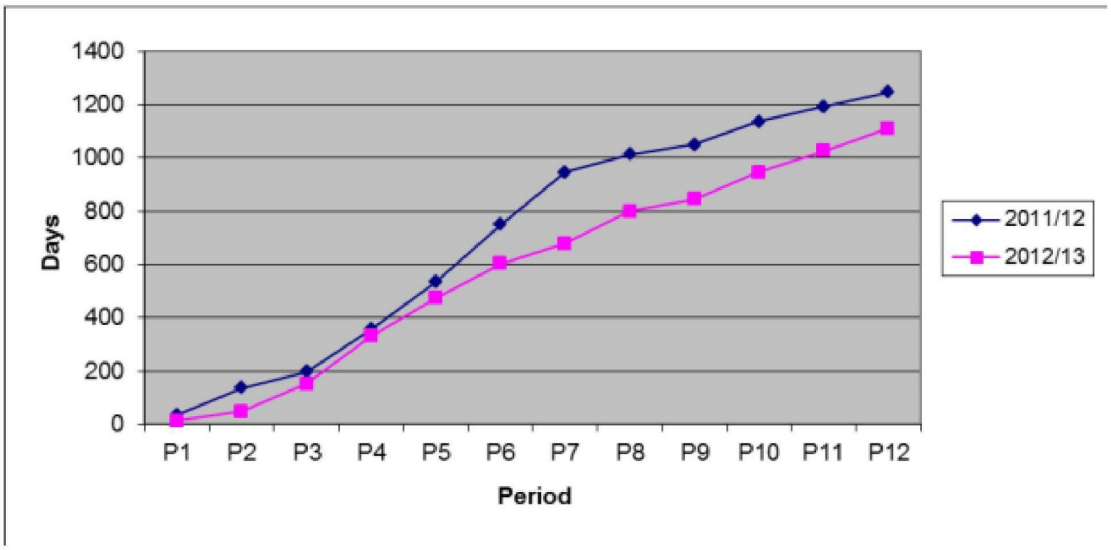


2.2 The number of days lost due to accidents out turned ahead of target showing a 10.9% reduction against a target reduction of 5%. (Table 2) Indicating that while there is a relatively neutral trend on the frequency of accidents there is a positive trend on the severity, or level of injury, of those accidents

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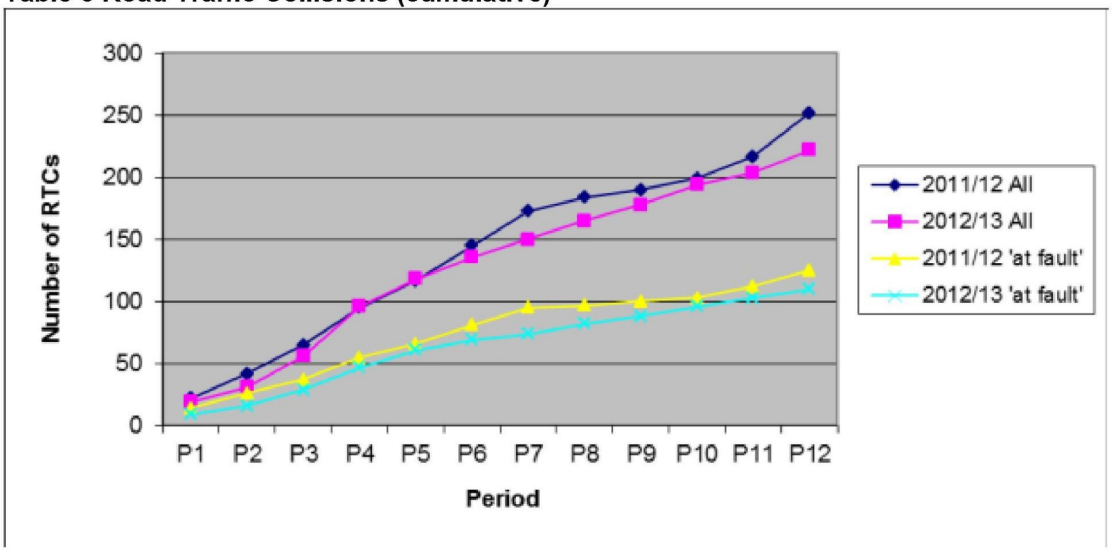
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Table 2 Days lost resulting from injury accidents (Cumulative)



2.3 The number of road traffic collisions (RTCs) cumulative to year end is showing an improving trend with 'at fault' collisions down 12% from 125 to 110. Total RTCs are showing a reduction of 11.9% on last year from 252 to 222. (Table 3 refers). While road traffic collisions account for less than 3% of the overall number of injury accidents they have the potential for high impact in terms of injury, loss and possible corporate manslaughter actions. The activities that are contributing to the improved performance are identified in 3.1 below.

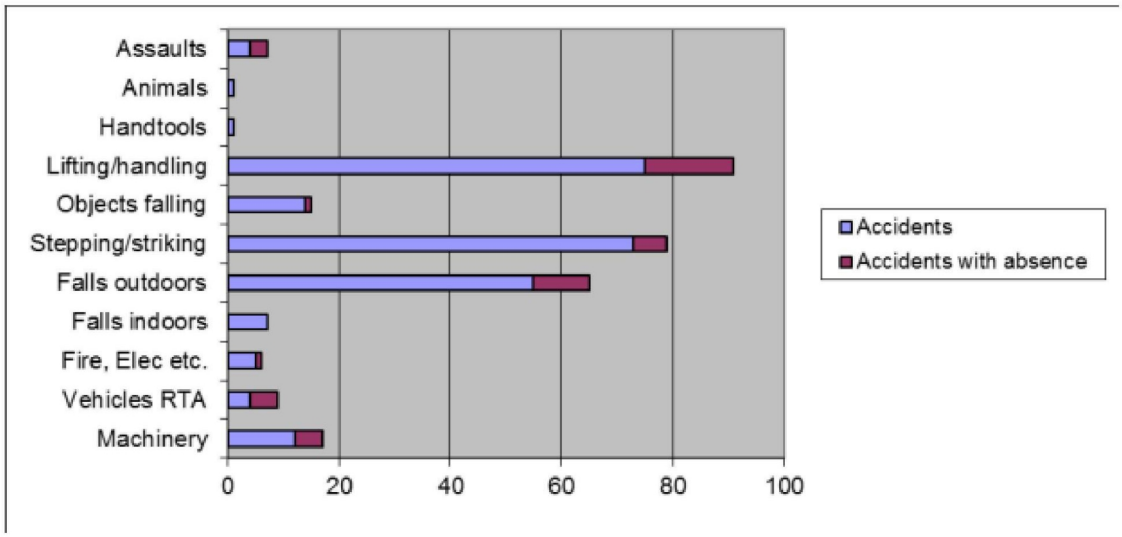
Table 3 Road Traffic Collisions (cumulative)



2.4 The majority of accidents currently fall into three main categories: lifting and handling, stepping and striking and outdoor falls. These are high frequency events with, in the majority, relatively low impact. The lower frequency types of incident carry the potential for very high impact, for example, assaults and road traffic collisions. Table 4 refers.

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Table 4. Types of accident



2.5 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are up from 35 to 52. Physical injuries during robberies, of which there have been 15 compared to 16 last year, remain relatively minor in severity. Fire arms continue to play a relatively minor, but more frequent, part in CViT robberies with 8 of the 52 robberies being enabled by the presence and/or threat of use of fire arms compared to 4 last year. There have been no occasions where the guns were discharged. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)

2.6 Robberies and attempted robberies on the Post Office network, at year end, are one lower than last year – 116 compared to 117. Supporting activities have been introduced to continue to mitigate this risk. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)

Burglaries and attempted burglaries (which do not involve personal attack) are down significantly from 156 to 86 compared to the full year last year.

2.7 The Post Office Health and Safety Policy 'Statement of Intent' has been reviewed and agreed by the ExCo Sub Committee for Health and Safety and is attached for noting at appendix 2. The full Policy is available in the Reading Room. The signatory is in line with the overall accountabilities enshrined in the Health and Safety at Work Act.

3. Activities

3.1 Road Risk

Current activities to mitigate road risk are:

- Road risk forum established to scope and develop road risk reduction initiatives and activities
- Analysis of effectiveness of face to face training given to top 50 high risk drivers has indicated that accidents amongst this community have reduced significantly following the refresher training
- Eye sight checks for operational drivers are in place
- Technical accident reduction interventions on new vehicles e.g. Reversing aids

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- Analysis and evaluation of data (e.g. risk profiles) to determine further accident reduction interventions
- Introduction of coloured 'high visibility' seat belts on new vehicles
- Safety team input and concurrence for vehicle specification and changes
- Safe driver of the year award introduced
- Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of best practice

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police and increased police support activity
- Liaison with Met. Police on the increase in gun enabled robberies
- Introduction of new deterrent technologies e.g. Smartwater – a solution that contains a unique identifier that is released automatically in the event of a robbery, spraying those involved and enabling identification of the individuals involved in the robberies
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles
- Increased security support visits to Post Offices in 'hotspot' areas
- Increased use of crime alert communication techniques to Post Offices
- Trialling new point of transfer arrangements to reduce exposure
- Increased use of surveillance vehicles

3.3 Health and Wellbeing

Current activities to enhance wellbeing

- Programme of visits to Crown offices to offer and encourage the use of health check equipment that provides a wide range of indicators on physical wellbeing
- Programme of visits extended to Supply Chain units
- Plans in place to visit all Post Office Crown Branches and Supply Chain sites within 12 – 18 months
- Health and wellbeing 'Team Talk' modules
- Development of a wellbeing intranet landing page
- Development of a wellbeing booklet and associated communications
- Enhanced Occupational health service provision from January 2013

4. Residual Risks

4.1 Driving activities have the potential for high impact/loss and remain a significant residual risk. However, the actions identified above are aimed at mitigating that risk and improving performance.

5. Recommendation

The Post Office Ltd Board is asked to:

5.1 note the overall safety performance;
5.2 note the risk reduction activities; and
5.3 note the attached H&S Policy 'Statement of Intent'.

Susan Crichton
21 May 2013

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Appendix 1

Significant Incidents (Period 1)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
GRO				

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Appendix 2

POST OFFICE LTD HEALTH AND SAFETY POLICY

Working safely, staying healthy.

We will fulfil our business mission without compromising the safety of our colleagues, customers, suppliers and all those affected by our activities.

We will make healthy and safe working a way of life.

Pursuing this aim reflects the high value we place on our people and all those touched by our business activities.

To achieve this, we will:

- comply fully with relevant legislation
- ensure that the health and safety responsibilities of our people are clearly defined, allocated and understood.
- encourage and help all our people to carry out their responsibilities, through effective health and safety management systems, with safe premises, equipment and processes.
- improve our capability to operate, manage and work safely, through instruction and training.
- support and encourage our people and unions to get involved in the health and safety performance of our business
- support and encourage our people and unions to get involved in pursuing a healthy and safe way of living and working
- monitor and review how well we put our health and safety policies into practice.

Everyone is responsible for health and safety. Each manager is accountable for the health and safety of those under their control.

A full copy of the policy can be found on the Health and Safety intranet site

GRO

Paula Vennells – Chief Executive

Date: 24th April 2013

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MAY 2013

POST OFFICE LIMITED MATTERS – DISPUTE RESOLUTION
PART (A) - 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	Simon Baker	POL has received various claims from subpostmasters (SPMs) alleging wrongful termination of contract and/or damages based on alleged defects in the Horizon system and POL's internal processes. These allegations were initially made in 5 claims brought through the SPMs' solicitors, Shoosmiths. Shoosmiths is not currently progressing these claims through the courts. Similar allegations are also being made through SPMs' MPs, and in defences to court proceedings brought by POL to recover debts from SPMs.	Following consultation with MPs, Second Sight Support Services Ltd (an independent investigator) is reviewing various cases where SPMs allege that Horizon caused losses in their branches. POL has also reached an agreement with Second Sight and Justice For Subpostmasters Alliance (an organisation "established to raise awareness of the issues within the Post Office Horizon system") whereby individual subpostmasters could raise concerns with Horizon within a "no blame" framework, provided such claims were brought by 28.02.13. Second Sight is investigating these concerns with JFSA. POL is cooperating with Second Sight's investigation by providing background data and explanations to discrete issues raised.	Bond Pearce
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	The parties are waiting for the Court to list the case for hearing, which is unlikely to be before June 2013. POL has tried to engage the SPM is settlement discussions, and continues to explore options for resolving the claim	DAC Beachcrofts

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			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.	before any Court hearing.	
[redacted]					

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

DESCRIPTION	STATUS
Two assistant sub postmasters accused of covering shortages by delaying the processing of business deposits to Santander. Case concerned 40 deposit slips being suppressed with a total value of £34,115.50.	Both defendants pleaded guilty, and were sentenced to 5 months and 6 months imprisonment (suspended for 12 months) respectively. Civil recovery of the outstanding debt is being considered.
Sub postmaster accused of theft of £78,660.63.	Defendant pleaded guilty on 05/02/13 and was sentenced to 2 years imprisonment. A timetable has been set for confiscation proceedings to determine the sum payable to POL, with a final hearing set for 07/06/13.

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DESCRIPTION	STATUS
Two brothers in partnership as subpostmasters accused of theft and/or fraud of £237,240.64.	On 09/10/12 on the second day of trial, one Defendant pleaded guilty to theft/fraud of £99,000. This was accepted by the prosecution and no evidence was offered against the other defendant. On 20/11/12 the guilty defendant was sentenced to 17 months imprisonment. A timetable has been set for confiscation proceedings to determine the sum payable to POL, with a final hearing set for 20/05/13.
Subpostmaster accused of theft of £77,905.02.	The case has been committed to the Crown Court. There will be a hearing on 03/06/13 to determine the details of trial. POL has recovered £62,992.78 to date.
Subpostmaster accused of theft of £57,811.79.	Defendant pleaded guilty and on 28/11/12 was sentenced to 9 months imprisonment (suspended for 18 months) and 180 hours unpaid community work. A timetable has been set for confiscation proceedings to determine the sum payable to POL, with a final hearing set for 25/03/13. POL has recovered £43,988.03 to date.
Subpostmaster accused of two offences of theft of £9,999.43 and £175,260, and two offences of false accounting.	The case has been committed to the Crown Court. There will be a hearing on 25/07/13 to determine the details of trial. A restraint order has been obtained to assist recovery of the financial loss.
Subpostmaster accused of fraud of £115,172.11.	Defendant pleaded guilty and on 03/05/13 was sentenced to 16 months imprisonment. A timetable has been set for confiscation proceedings to determine the sum payable to POL, with a final hearing set for 20/09/13. POL has recovered £61,000 to date.
Subpostmaster accused of theft of £197,107.36.	There will be a hearing on 28/05/13 to determine the details of trial.
Subpostmaster accused of theft of £16,565.30.	Defendant pleaded guilty and on 08/04/13 was sentenced to 12 months imprisonment (suspended for 18months) and 200 hours unpaid community work.
Subpostmaster accused of two offences of theft of £15,301.17 and £175,260, and one offence of false accounting.	On 03/05/13 the Defendant pleaded guilty to the offences and will be sentenced on 31/05/13.

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POST OFFICE LIMITED BOARD

Sealings 13 March – 14 May 2013

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 865 to 1039 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 865 to 1039 inclusive in the seal register is hereby confirmed."

Alwen Lyons
Company Secretary
21 May 2013

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POST OFFICE LIMITED

Extract from the Register of Sealings

Date
14/05/2013

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
865	13/03/2013	13/03/2013	Lease of premises at Part Basement at GRO GRO and Big Sur Properties Limited.	Alwen Lyons	Jean Reynolds
866	13/03/2013	13/03/2013	Collateral Warranty relating to a development at GRO GRO between Rushby Brewster Associates Limited, Post Office Limited and Big Sur Properties Limited.	Alwen Lyons	Jean Reynolds
867	13/03/2013	13/03/2013	Contractor Warranty relating to a development at GRO GRO between FE Chase & Son Limited, Post Office Limited and Big Sur Properties Limited.	Alwen Lyons	Jean Reynolds
868	13/03/2013	13/03/2013	Collateral Warranty relating to a development at GRO GRO between Design A C B Limited, Post Office Limited and Big Sur Properties Limited.	Alwen Lyons	Jean Reynolds
869	13/03/2013	13/03/2013	Lease of premises at Basement, GRO GRO between Post Office Limited and Big Sur Properties Limited.	Alwen Lyons	Jean Reynolds
870	13/03/2013	13/03/2013	Licence to Underlet premises at GRO GRO between Post Office Limited, Big Sur Properties Limited and Southern Electric Power Distribution PLC	Alwen Lyons	Jean Reynolds
871	13/03/2013	13/03/2013	Licence to carry out works at GRO GRO between Post Office Limited and Big Sur Properties Limited.	Alwen Lyons	Jean Reynolds
872	20/03/2013	20/03/2013	Legal Charge relating to GRO GRO between Dr Farah Anjum and Post Office Limited.	Alwen Lyons	Rodric Williams
873	20/03/2013	20/03/2013	Deed of Variation of Lease of premises at GRO GRO and Post Office Limited.	Alwen Lyons	Jean Reynolds
874	27/03/2013	27/03/2013	Group Relief Surrender Deed between Royal Mail Estates	Alwen Lyons	Charles Colquhoun

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POST OFFICE LIMITED

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			Limited and Post Office Limited.		
875	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons, Gill Catcheside	Jean Reynolds
876	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons, Gill Catcheside	Jean Reynolds
877	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons, Gill Catcheside	Jean Reynolds
878	27/03/2013	27/02/2013	Lease (999 years) relating to GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
879	27/03/2013	27/03/2013	Lease relating to GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
880	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
881	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
882	27/03/2013	27/03/2013	Lease relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
883	27/03/2013	27/03/2013	Lease relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
884	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds

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POST OFFICE LIMITED

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Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
885	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
886	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
887	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
888	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO etween Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
889	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
890	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
891	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
892	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
893	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
894	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
895	27/03/2013	27/03/2013	Lease (999 years) relating to GRO	Alwen Lyons	Jean Reynolds

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Extract from the Register of Sealings

Date
14/05/2013

Company Number
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Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
			GRO between Royal Mail Estates Limited and Post Office Limited.		
896	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
897	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
898	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
899	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
900	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
901	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
902	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
903	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
904	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
905	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known	Alwen Lyons	Jean Reynolds

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Company Number
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Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
			as GRO GRO between Royal Mail Group Limited and Post Office Limited.		
906	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
907	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
908	27/03/2013	27/03/2013	Lease of the Cash-In-Transit premises forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
909	27/03/2013	27/03/2013	Lease of the Cash-In-Transit Compound forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
910	27/03/2013	27/03/2013	Lease of the Cash-In-Transit Compound forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
911	27/03/2013	27/03/2013	Lease of the Cash-In-Transit Compound forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
912	27/03/2013	27/03/2013	Lease of the Cash-In-Transit Compound forming part of the premises known as GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds

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Company Number
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Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
913	27/03/2013	27/03/2013	Lease of part of the premises known as GRO GRO Office Limited and Royal Mail Group Limited.	Alwen Lyons	Jean Reynolds
914	27/03/2013	27/03/2013	Lease (999 years) relating to Ground, First and Second floors, GRO GRO between Post Office Limited and Royal Mail Estates Limited.	Alwen Lyons	Jean Reynolds
915	27/03/2013	27/03/2013	Lease of part of Annex 1 forming part of the premises known as GRO between Post Office Limited and Royal Mail Estates Limited.	Alwen Lyons	Jean Reynolds
916	27/03/2013	27/03/2013	Lease of Annex 2 forming part of the premises known as GRO between Post Office Limited and Royal Mail Estates Limited.	Alwen Lyons	Jean Reynolds
917	27/03/2013	27/03/2013	Lease of part of the premises known as GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
918	27/03/2013	27/03/2013	Lease of the parking area on the site known as GRO GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
919	27/03/2013	27/03/2013	Lease (999 years) relating to Otley DO/MSP, GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
920	27/03/2013	27/03/2013	Lease (999 years) relating to Paignton DO/CO, GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
921	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
922	27/03/2013	27/03/2013	Lease (999 years) relating to Northolt CO, GRO GRO between Royal Mail Estates	Alwen Lyons	Jean Reynolds

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			Limited and Post Office Limited.		
923	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
924	27/03/2013	27/03/2013	Lease (999 years) relating to Bognor Regis GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
925	27/03/2013	27/03/2013	Lease (999 years) relating to Wokingham GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
926	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
927	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
928	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
929	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
930	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
931	27/03/2013	27/03/2013	Lease 9999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
932	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds

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Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
933	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
934	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
935	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
936	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
937	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
938	27/03/2013	27/03/2013	Lease relating to GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
939	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
940	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
941	27/03/2013	27/03/2013	Lease relating to GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
942	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
943	27/03/2013	27/03/2013	Lease (999 years) relating to GRO	Alwen Lyons	Jean Reynolds

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Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
			GRO between Royal Mail Estates Limited and Post Office Limited.		
944	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
945	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
946	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
947	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
948	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
949	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
950	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
951	27/03/2013	27/03/2013	Lease of the Post Office forming part of GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
952	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
953	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known	Alwen Lyons	Jean Reynolds

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POST OFFICE LIMITED

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			as GRO between Royal Mail Estates Limited and Post Office Limited.		
954	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
955	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
956	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
957	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
958	27/03/2013	27/03/2013	Lease of the Cash-In-Transit Compound forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
959	27/03/2013	27/03/2013	Lease of the Cash-In-Transit premises forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
960	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
961	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
962	27/03/2013	27/03/2013	Lease (999 years) relating to GRO	Alwen Lyons	Jean Reynolds

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Company Number
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Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
			GRO between Royal Mail Estates Limited and Post Office Limited.		
963	27/03/2013	27/03/2013	Lease relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
964	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
965	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
966	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
967	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
968	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
969	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
970	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
971	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
972	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail	Alwen Lyons	Jean Reynolds

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			Estates Limited and Post Office Limited.		
973	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
974	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
975	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
976	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
977	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
978	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
979	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
980	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
981	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
982	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds

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983	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
984	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
985	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
986	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
987	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
988	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
989	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
990	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
991	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
992	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
993	27/03/2013	27/03/2013	Lease (999 years) relating to GRO	Alwen Lyons	Jean Reynolds

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			GRO between Royal Mail Estates Limited and Post Office Limited.		
994	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
995	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
996	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
997	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
998	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
999	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO GRO between Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
1000	27/03/2013	27/03/2013	Lease of the Post Office forming part of the premises known as GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
1001	27/03/2013	27/03/2013	Lease of office on the fourth floor of GRO GRO between Post Office Limited and Royal Mail Group Limited.	Alwen Lyons	Jean Reynolds
1002	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and	Alwen Lyons	Jean Reynolds

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			Post Office Limited.		
1003	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
1004	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
1005	27/03/2013	27/03/2013	Lease (999 years) relating to GRO GRO between Royal Mail Estates Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
1006	28/03/2013	28/03/2013	Deed relating to Insurance Rent Arrangements relating to leases pursuant to the Royal Mail Property Transfer Scheme (No. 2) 2013 between Royal Mail Estates Limited, Royal Mail Group Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
1007	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Lampeter, Larkhall, Leyburn, Lion Green, London Road and Mildenhall branches.	Alwen Lyons	Kate Newton
1008	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Stokesley and Southdown Road branches.	Alwen Lyons	Kate Newton
1009	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Budleigh Salterton branch.	Alwen Lyons	Kate Newton
1010	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Wolverton, Woodhouse and Worle branches.	Alwen Lyons	Kate Newton
1011	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Westbury, Westhill, Whitby, Whitley Bay, Wilton and Wolseley Road branches.	Alwen Lyons	Kate Newton

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1012	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Plympton, Rose Hill, Seafield, Shawlands, St Budeaux and Standish branches.	Alwen Lyons	Kate Newton
1013	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Moortown, New Washington, North Shields, Park Gate and Parkway branches.	Alwen Lyons	Kate Newton
1014	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Frecheville, Glossop, Hanford, Herne Bay, Kinross and Kirkham branches.	Alwen Lyons	Kate Newton
1015	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Dunoon, Dunscroft, Embankment Road, Enderby, Fair Hill and Fishponds branches.	Alwen Lyons	Kate Newton
1016	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Crook, Dawley, Devonport and Dumbarton branches.	Alwen Lyons	Kate Newton
1017	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Buxton, Campbeltown, Canmoney, Castlederg and Cockermouth branches.	Alwen Lyons	Kate Newton
1018	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Banchory, Barry Road, Blairgowrie, Brandon, Brecon and Broxtowe Lane branches.	Alwen Lyons	Kate Newton
1019	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Abbots Cross, Addiscombe Exchange, Allerton and Avonmouth Road branches.	Alwen Lyons	Kate Newton

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1020	28/03/2013	28/03/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Ardenlee, Craigy Hill, Crossroads, Avenue and Mirfield branches.	Alwen Lyons	Kate Newton
1021	28/03/2013	28/03/2013	Agreement for Lease, Licence for Alterations and Lease relating to premises at GRO GRO between Archrise Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
1022	28/03/2013	28/03/2013	Underlease by reference to superior lease relating to premises at Former Ground Floor Post Office at GRO GRO between Post Office Limited and Roppongi Investments Limited.	Alwen Lyons	Jean Reynolds
1023	28/03/2013	28/03/2013	Rent Deposit Deed relating to premises at Former Ground Floor Post Office, GRO between Post Office Limited and Roppongi Investments Limited.	Alwen Lyons	Jean Reynolds
1024	28/03/2013	28/03/2013	Agreement for Lease of premises at Former Ground Floor Post Office, GRO between Post Office Limited and Roppongi Investments Limited.	Alwen Lyons	Jean Reynolds
1025	02/04/2013	02/04/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Forest Row branch.	Alwen Lyons	Kate Newton
1026	02/04/2013	02/04/2013	Termination Request Letter between Co-Operative Group Limited and Post Office Limited relating to Stotfold, Thatcham, Thirsk, Thurso, West Bridgford and West Street branches.	Alwen Lyons	Kate Newton
1027	05/04/2013	05/04/2013	Deed of Surrender of Lease at Part Ground Floor, Midway House, 1 Elliott Way (Nexus Point), Birmingham B6 7AP between Bank of Scotland Plc and Post Office Limited.	Alwen Lyons	Jean Reynolds
1028	05/04/2013	05/04/2013	Lease of Part First Floor Premises, GRO GRO between Wilkinson Hardware Stores Limited and Post Office Limited.	Alwen Lyons	Jean Reynolds
1029	05/04/2013	05/04/2013	Licence for Alterations of Part First Floor Premises, GRO	Alwen Lyons	Jean Reynolds

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			GRO between Wilkinson Hardware Stores Limited and Post Office Limited.		
1030	15/04/2013	15/04/2013	Licence to Occupy between Derwent Holdings Limited and Post Office Limited relating to Totem Signage at The Ellesmere Shopping Centre, Walkden, Greater Manchester.	Alwen Lyons	Jean Reynolds
1031	23/04/2013	22/03/2013	Lease of GRO between Post Office Limited and UGS MK Limited	Gill Catcheside	Jean Reynolds
1032	23/04/2013	22/04/2013	Licence to carry out works relating to Unit N1, Theatre District, Milton Keynes between UGS MK Limited and Post Office Limited.	Gill Catcheside	Jean Reynolds
1033	25/04/2013		Trust deed constituting the Post Office Healthtrust between the Post Office Limited, Charles Colquhoun, Karen Hamer and Multiplex Financial Trustees Limited.	Alwen Lyons	Piero D'Agostino
1034	30/04/2013	25/04/2013	Counterpart Licence to Affix and Retain Signage relating to part First Floor Premises, GRO GRO between Wilkinson Hardware Stores Limited and POL	Alwen Lyons	Jean Reynolds
1035	30/04/2013	30/04/2013	Lease of First Floor Premises, 489 Union Street, Aberdeen between POL and Intelligent Plant Limited	Alwen Lyons	Jean Reynolds
1036	30/04/2013	30/04/2013	Licence to carry out alterations relating to 205 Old Street between Old Street Trustee (Jersey) 1 Ltd and Old Street Trustee (Jersey) 2 Ltd and POL	Alwen Lyons	Jean Reynolds
1037	13/05/2013	10/05/2013	TR1 (surrender) for GRO GRO from POL to the Mayor and Burgesses of the London Borough of Redbridge	Alwen Lyons	Jean Reynolds
1038	13/05/2013	10/05/2013	3x Licence to carry out alterations relating to GRO GRO	Alwen Lyons	Jean Reynolds
1039	13/05/2013	10/05/2013	3 x Tripartite agreement relating to GRO GRO	Alwen Lyons	Jean Reynolds