

Introduction

The Post Office is a commercial business with a public purpose. Our 11,780 branches sit at the heart of communities across the UK. We employ almost 8,000 people and work closely with thousands more across our network.

The Post Office is focused on growing as a business and modernising its network, complemented by a growing digital presence.

This was our story in 2012-13.



Contents



Overview 2-9

- 2 Who we are
- 4 Chairman's foreword
- 6 Chief Executive's review
- 8 Strategy

Operational review 10-21

- 12 Business in detail
- 16 Branch network
- 19 Supporting our network
- 20 Customer excellence

Performance review 22-35

- 24 Our people
- 28 Corporate responsibility
- 30 Financial review
- 34 Business risk

Governance 36-55

- 38 Board of Directors
- 40 Board biographies
- 42 Corporate governance
- 47 Directors' report
- 49 Directors' remuneration report

Financial statements 56-110

- 58 Statement of Directors' responsibilities
- 59 Independent auditor's report to the members of Post Office Limited
- 60 Consolidated income statement
- 61 Consolidated statement of comprehensive income
- 62 Consolidated statement of cash flows
- 63 Consolidated balance sheet
- 64 Consolidated statement of changes in equity
- 65 Notes to the consolidated financial statements
- 92 Independent auditor's report to the members of the parent Company, Post Office Limited
- 93 Balance sheet of the Company
- 94 Statement of total recognised gains and losses
- 95 Reconciliation of movements in Shareholder's funds
- 96 Notes to the Company financial statements
- 111 Corporate information



The Post Office in numbers

Our aim is to provide customers with the things that are important to them – from mail to their broadband package, from car insurance to their savings account. Whether customers come into a branch, are on the move or shop online, we work hard to deliver a great experience. That's the Post Office promise.



11,780

branches



18m

customers visit a Post Office branch each week, including a third of the UK's small businesses



N^o. 1

UK travel money provider

95%

of all UK debit card holders
can access their cash through
our branches

99.7%

of UK population is within
three miles of a branch

87%

customer satisfaction
across our branches

Other highlights

- Number one Mails retailer
- Largest deployer of contactless enabled terminals in Europe
- Sixth largest telecoms provider in the UK
- 754 branches offer world-leading identity technology



Chairman's foreword

Fit for the future founded on our history

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.



Alice Perkins Chairman

Highlights

- Revenues are up for a second year, and we are on the road to reducing our reliance on subsidy
- We are modernising branches and providing new services to our customers
- The transition to independence has been smooth without any loss of service

This Report describes the way in which the Post Office has embarked on a remarkable journey of transformation.

Thanks to our Shareholder, the government, we are investing millions of pounds into our network over three years up to April 2015. There is no longer a programme of Post Office branch closures. Instead, we are modernising the network and increasing our opening hours. We are offering new services and 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. We are reducing our dependence on the taxpayer to the minimum and changing our culture so that we respond proactively to changes in the world around us, in partnership with the key people on whom we depend for the delivery of our services.

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

Moving to independence

We ceased to be a subsidiary of Royal Mail Group Limited in April 2012 and began operating independently, as sister companies, under Royal Mail Holdings plc. Working closely with our colleagues at Royal Mail Group, good progress was made during 2012-13 in the complex process of separating the two organisations – so much so that the transition to date has been remarkably smooth, without any loss of service or impact on standards.

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 can be found on pages 40 and 44. 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 undergoes the changes which must be made if we are to secure its future.

“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.”

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, and we are on the road to reducing our reliance on the Network Subsidy Payment received from the government.

Modernisation and growth

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 £46 million to £37 million.

The Post Office has 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 also on the path to creating the right conditions for the mutualisation of the Post Office. These require both financial sustainability and completely new ways of working with our key stakeholders across the board. In the last year, we have taken the first steps towards achieving both of these goals, with our strong financial performance on the one hand and the creation and work of the Stakeholder Forum on the other.

We are clear about the way forward for the Post Office, and the changes that need to take place to build on the successes set out in this Report. We are equally clear that there are significant additional 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 commercial terms and manage our fixed costs more effectively, while at the same time finding the resources to operate on our own two feet and to modernise and innovate.

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 who 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. It reports 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.

Revenue up on previous year



Reduced Crown losses by

£9m



Chief Executive's review

Transformation is the key for growth

The Post Office is committed to a strategy which will grow and modernise our business and ensure customer excellence remains at our core.



Paula Vennells Chief Executive

Highlights

- Increase in revenue with growth in three of our four product pillars
- A major transformation programme delivering benefits to our customers
- Developing digital strategy to complement unrivalled branch network

It is heartening to be able to report good progress during the 2012-13 financial year. The pages that follow show 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 have grown revenue in three of our four product pillars. Turnover increased 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 a very tight fiscal and competitive environment.

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.

Sound financial performance

It 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. The Post Office is entrusted to provide key 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 fulfil this critically important task, and are committed to maintaining our network.

The subsidy payment constituted 17% of revenue in 2012-13. It 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 securing 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.

In 2010, the government agreed £1.34 billion of funding for the Post Office up to 2015. While approximately half of this related to the network subsidy, the remainder will 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 we are building momentum to convert many more.

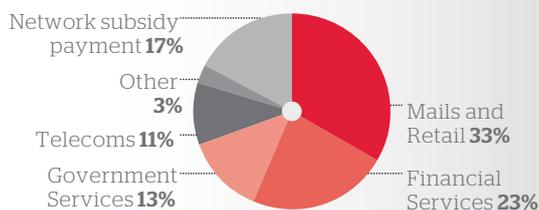
“

We have no illusions about the hard work ahead, but our determination to deliver the business transformation of the decade remains undimmed.

”

Breakdown of revenue

(%)



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. The evidence is that these changes are meeting with approval: customer satisfaction with the new 'main' and 'local' branch models runs at 95%^[1], while queue times in the 'local' model have fallen below a minute, and customers are benefiting from new opening hours stretching from early morning to late evening. Subpostmasters switching to the new models have increased their retail businesses. Moreover, the physical network that is so central to our business is now being complemented by a comprehensive digital strategy aimed at further enhancing our service to customers.

Challenges ahead

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 becomes profitable, and that is why it is so important that we complete the transformation of 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.

In 2012 we set up a Stakeholder Forum to begin a process which is a key step in our journey towards potential future mutualisation: that of defining the public purpose of the Post Office. In 2013-14 we will engage the public on this work with a view to embedding this public purpose in our business planning and processes.

Our ambition is 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, 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 small businesses by ensuring that we develop more of the products and services they need.

The Post Office will also work more closely with those seeking to close the digital skills gap. 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. And we will work with our partners to develop solutions that will help enable the 16 million people in the UK who do not have basic digital skills to access and enjoy the benefits of being online.

Support of our people

I would like to say thank you to all of those who have worked so hard for the Post Office over the past year; especially to those colleagues working in Post Office branches across the length and breadth of the UK, and to the Post Office Executive team for their outstanding commitment to the success of our strategy.

Finally, I am grateful to Alice Perkins and to the Board for their guidance throughout the year. They have strengthened our strategic oversight 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 2012-13, 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.

Turnover

£1.02bn



Customer satisfaction

95%^[1]

with converted branches



^[1] Brass network transformation programme research August 2012-March 2013

Growing as a business while serving the UK's communities

Key objectives

The Post Office's 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. We offer a range of products in Mails and Retail, Financial Services, Government Services and Telecoms through our branch network, online and on the phone.

Strategy model



Growth

Increase in turnover

+4.5%

2011-12: +0.9%

Objective

To grow revenue by introducing new products and services across our portfolio to offset declining revenue from traditional product areas.

Progress in 2012-13

We grew revenue by £44 million during the financial year, while also introducing new products such as Post Office in-branch mortgages and the 'Drop & Go' priority mails service for small business customers.

HSBC and First Direct have linked up with the Post Office, meaning 95% of all UK debit card holders can now access their cash at our branches.

We attracted and retained clients in bill payments, rolled out additional Lottery terminals and introduced a new online shop - www.postofficeshop.co.uk.

We won key contracts such as the provision of counter services for the Driver and Vehicle Licensing Agency (DVLA) and won a place on the government's Identity Assurance framework.



Modernisation

Branch conversions

17,500

additional opening hours

Objective

To modernise the Post Office and its branches through the network and Crown transformation programmes (to break even by 2015).

Progress in 2012-13

During 2012-13, a total of 1,450 Post Office agency branches either converted to new models with longer opening hours or subpostmasters signed contracts to do so. With 507 of these converted during the financial year, it means branches were open for an additional 17,500 hours per week by the end of 2012-13.

Our programme to transform the Crown network of branches directly managed by the Post Office made progress to reduce losses, with financial performance improving by £9 million.

The programme has also introduced new ways of working, including increased automation in pilot branches.

In-branch technology was also enhanced with more automated Post & Go machines and the completion of the rollout of new PIN Pad payment devices.



Customer excellence

Customer satisfaction

87%

across our branches^[1]

Objective

To put customers at the heart of everything we do, and invest in technology to offer more responsive and customer-focused systems.

Progress in 2012-13

On average, customer satisfaction stood at 87% in 2012-13 in our branches, while this figure rose to 95%^[2] in newly converted branches in the agency network.

Customer wait times are down on the previous year, while our Voice of the Customer feedback scheme is now in place in 2,000 branches.

We have improved our digital offering with a full website redesign. The site now receives four million customer views per month, with unique visitors up 30% year on year.

We piloted a new online booking system for financial services customers and hope to build on this in 2013-14.



^[1] Quadrangle Brand and Customer Insight Programme 2011-12 and 2012-13

^[2] Brass network transformation programme research August 2012-March 2013

Operational review





Operational review 10-21

- 12 Business in detail
- 16 Branch network
- 19 Supporting our network
- 20 Customer excellence

Business in detail



Mails and Retail



Revenue (£million)

409m

2011-12: £392m **+4.3%**

Highlights

- Launch of Drop & Go, a new service for small businesses to drop off parcels and pay quickly without queueing
- New online retail shop offers mailing solutions, collectibles and office supplies
- 8% growth in parcels revenue

Mails and Retail is the largest product area in the Post Office, generating around 40% of the business' total turnover through four categories of the product portfolio – Mails, Parcels, Retail and Lottery.

We offer an unparalleled range of Royal Mail Group mails and parcels products and services, from next-day guaranteed courier services to home shopping returns and collections.

The Post Office is also one of the main Lottery distributors in the UK, offering Camelot's National Lottery products, including scratch cards and EuroMillions in more than 6,000 outlets.

In 2012-13 the Mails and Retail area recorded its most successful ever year with revenue of £409 million, representing growth of £17 million compared to the previous year.

This was driven by extremely strong commercial performance across the product portfolio, activity relating to the Olympics and Paralympics and our best ever Christmas for mails and parcels sales.

During the year, the Post Office Mails team enhanced services with Royal Mail to maximise opportunities from online shopping collection and returns.

Growth in Mails and Parcels business

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 online sellers 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.

We achieved an 8% growth in parcels revenue through a combination of an increase in online buying and selling and continued improvements in frontline training and sales capability.

A 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.

The rollout of an additional 1,850 Camelot Lottery terminals 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.

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



Financial Services



Revenue (£million)

281m

2011-12: £264m **+6.4%**

Highlights

- Reaffirmed strong partnership with Bank of Ireland (UK) plc to build the Post Office as a financial services challenger
- Reached agreement with HSBC and First Direct for their debit card customers to have free access to their cash at all Post Office branches from spring 2013
- What Mortgage Awards 2012: Best Online Lender, Best Fixed Rated Mortgage Provider

The Financial Services business is a fast-growing part of the Post Office, seeking to offer customers simple, transparent and value-for-money products, supported by an unrivalled branch network.

The Post Office provides a comprehensive range of savings, insurance (including car, home and travel) and lending products (including mortgages and credit cards), and is the leading provider of retail foreign currency in the UK. We also offer over-the-counter payment services, personal and business partner banking and cash machines.

The products are offered through strong partnerships with third-party providers, in particular Bank of Ireland (UK) plc, with whom we have built a successful partnership since 2003.

In 2012-13, the Financial Services business delivered £281 million in revenue - an increase of 6.4% on the previous year.

Strong banking partnership

A key development in 2012-13 was the renegotiation and reconfirmation of the arrangements with the Bank of Ireland (UK) plc. This partnership delivered significant growth in 2012-13, particularly in Growth Bonds, Online Saver and Reward Saver. Together we extended our award-winning mortgage range, offering competitive rates that featured regularly in Best Buy tables and customers can now access Post Office mortgages in branches.

We maintained our position as the market leader in foreign exchange, and was voted by the public as Best Foreign Exchange retailer and Best Travel Insurance Provider at the 2012 British Travel Awards, for the sixth and seventh year respectively.

Key contracts in the bill payment market were won and retained, ensuring that customers can continue to use Post Office branches to pay bills.

Contactless payment terminals were also installed across 30,000 counter positions, making the Post Office the largest deployer of contactless enabled terminals in Europe; these allow customers to pay for transactions of up to £20 using contactless cards and Near Field Communication (NFC)-enabled mobile phones.

We also signed agreements with HSBC and First Direct, ensuring that 95% of UK debit card holders can access their cash in a Post Office branch.

The Financial Services business is a key focus for the Post Office and in May 2013 the Post Office announced it would launch a current account, the next step in our strategy of growing our Financial Services business.

Business in detail continued



Government Services



Revenue (£million)

164m

2011-12: £164m +0%

Highlights

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

The Post Office offers a range of essential front office counter services on behalf of government departments.

We partner 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 cash machine. 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 to offer a paperless process for our customers in 754 Post Office branches nationwide.

Nearly 90% of Government Services revenue is still generated by the traditional motoring, benefits and passport services. In 2012-13, we grew our passport Check & Send business and increased our revenue from capturing customers' biometrics on behalf of the United Kingdom Border Agency (UKBA). This helped to offset the decline in benefits payments. Revenue from the Post Office card account declined as customer numbers continued to reduce. Revenue from motoring, primarily the issuing of tax discs in our branches, was broadly flat compared to 2011-12.

Retained key contracts

The retention in the face of strong competition of the contract for Front Office Counter Services provided on behalf of the Driver Vehicle Licensing Agency (DVLA) was a key development during 2012-13. This framework contract will allow other government departments to contract with the Post Office without a further procurement process. The contract is for seven years with an option to renew for a further three years.

In addition, the Post Office also won a place on the Department for Work and Pensions (DWP) Identity Assurance Framework contract now being managed by the Cabinet Office, Government Procurement Service.

As well as these significant contract wins, the Application, Enrolment and Identity business generated more than £12 million of revenue and now accounts for more than 9% of total Government Services revenue. In 104 of the 754 Post Office branches with Application, Enrolment and Identity technology, we capture digital fingerprints, photographs and electronic signatures for the UKBA, and in the full network of 754 branches we capture photographs for customers renewing their driving licences.

In 2013-14 the Post Office expects to complete the rollout of new services with the DVLA and continue to grow the passport business, while also seeking to provide support for the government's Digital by Default agenda.



Telecoms



Revenue (£million)

129m

2011-12: £120m +7.5%

Highlights

- Increased revenue by £9 million
- Signed new contract with Fujitsu Services
- Mobile launch planned for 2013-14

The Telecoms business incorporates HomePhone and Broadband, Mobile Top-ups and International Phonecards.

HomePhone and Broadband offers a competitive fixed line phone and broadband service to just under 500,000 residential customers, making us the sixth largest fixed line telecoms provider in the UK.

2012-13 was a positive year for the Telecoms business, with an 8% increase in revenue from £120 million to £129 million. The HomePhone and Broadband business performed particularly well, with the revenue generated by the HomePhone and Broadband business rising from £112 million to £122 million, an increase of just under 10%. This achievement was driven by a stable customer base and changes to our service making it more attractive to higher value customers.

Mobile Top-up allows customers to top-up pre-pay mobile phones for the main UK mobile networks at any of our branches. We saw a reduction in the volume of mobile top-up transactions in branches as mobile networks look to migrate customers from pre-pay to post-pay packages and customers top-up less frequently. However, we still achieved 15 million transactions and maintain the largest estate of top-up terminals in the UK.

Improving our customer proposition

During the year, the Post Office signed an agreement with Fujitsu Services to provide the HomePhone and Broadband services from the summer of 2013. This strategically important agreement provides a platform from which to develop and grow an agile and cost-effective business while strengthening our existing customer proposition. The new platform will make it easier for customers to sign up to our services through branches and online. 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.

The International Phonecard business has been in decline for a number of years and continues to be impacted as customers move to other low-cost international calling options such as Voice over Internet Protocol solutions.

The Post Office will aim to grow the Telecoms business in 2013-14, but it will be a transitional year as we migrate our services to our new supplier. The Post Office is also looking at opportunities to enter the mobile market during the coming financial year.

Modernising the Post Office branch network



Introduction

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

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

Underpinning our 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 370 Crown branches directly owned and managed by the Post Office.

Network transformation programme

Depending 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.

Local branches, of which there are now 329, fully integrate 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 507 new-style main and local Post Office branches already established, subpostmasters and customers across the UK are benefiting from a new, modern approach to offering Post Office services. Customers are responding positively. Independent research shows that customer satisfaction scores at both modernised main and local branches are consistently around 95%¹¹.

Subpostmasters are also benefiting from more efficient ways of working and an increase in revenue both from their Post Office activities and their accompanying retail business.

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

Subpostmasters

Supporting local communities

Subpostmasters and their colleagues are vital to the Post Office network, contributing to their local communities with a trusted and valued face-to-face service. Effective communications across the network are key to ensuring their energy and talent is harnessed in building a modernised and sustainable network.

In 2012-13, a series of communication channels has helped link the network together. They include the Subspace Online website, regular Subspace magazine, network transformation updates, roadshows, meetings, and workshops to help boost sales. There has been ongoing liaison with the National Federation of Subpostmasters as well as links to the retail chains whose employees run a number of Post Office branches within their stores.

¹¹ Brass network transformation programme research August 2012-March 2013



Q Case study

Sandeep and Damandeep Sandhu

Greenwich main Post Office branch, London

“The refurbishment of branches is essential. It means our branches are improving their 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.”

New branches:

507

In 2012-13 we converted 507 branches to the new main and local formats

Contracts signed:

943

A further 943 subpostmasters have already signed up to be converted to the new models in 2013-14

Q Case study

Alicen Lawrie

Dingwall main Post Office branch, The Highlands

“The new open plan counters fit very well in the surroundings of my convenience store. It helps our staff to have more comfortable conversations with our customers.”



Increase in retail sales:

10%

An average retail sales increase of 10% is being reported across main and local branches

Waiting time:

55 secs

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



Q Case study

Johnny Kimber

Drumaness local Post Office branch, County Down

“Our Post Office services are now available for 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.”

Q Case study

Chitty Thavachelvam

Medway Parade local Post Office branch, West London

“I’ve been able to extend my retail counter, and I’ve noticed new customers coming through the door who are now able to take advantage of Post Office services until 10.30pm on Sunday nights.”



Branch network continued

Crown transformation programme

The Post Office is investing in 292 of its Crown branches. These are usually larger branches in towns or city centres, and are 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 break-even by March 2015. During 2012-13, the losses for this part of the network reduced from £46 million to £37 million. The ongoing transformation builds on this progress and is based on increasing revenue, improving customer experience and controlling costs.

Customers will benefit from brighter, more modern branches with improved layouts. Many of these 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 where we have two branches in close proximity to each other, we are taking the opportunity of merging branches, which will create branches with improved facilities for customers. There are two further instances where combining two branches into one new site will provide the best experience for customers. For a further 70 branches, we are looking for retail partners to operate branches on our behalf. This approach will ensure we maintain a high standard of service while putting the branch on a stronger commercial footing for the future.

Case study

Birmingham Post Office branch



What's changed?

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

Customer feedback

"Really impressed. This has brought the Post Office into the 21st century."

"I like the self-service machines very much. It makes it so much easier and quicker to come in and do what you need to."

"The changes are time-saving and the staff are very helpful."

Case study

New Malden Post Office branch



What's changed?

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



Customer feedback

"Customer service at this Post Office is fantastic."

"The counter clerk was happy and informative. I was very impressed."

"It's very convenient, offers a lot of services, has pleasant staff and has recently been refurbished."

"There wasn't a long line to wait in. The chap who served me was very helpful, polite and friendly. You can't beat good customer service with a smile."

Supporting our network

Technology

The Post Office continues to invest in technology to ensure the development of high-quality, reliable services that will improve the customer experience. There has been significant investment in the key systems that underpin our service to customers.



Drop & Go

Small business customers can now drop off their mail and parcels without waiting.

Post & Go

Additional Post & Go self-service machines: enable customers to save time by posting mail and parcels without the need for assistance from a branch colleague.

Point-of-sale system

This provides a service to 30,000 counter positions. At peak times, the system handles around 1,000 transactions per second.

Extending helpdesk availability

We have extended the helpdesk opening hours to support the increase in opening hours in branches. Branch colleagues can use the helpdesk for longer so that they can respond to customer queries quickly.

New financial services customer booking service

The Post Office undertook a pilot with selected customers to enable them to book appointments online with in-branch financial services specialists. We are looking to extend this facility to all customers in the near future.

The Cash Supply Chain business in numbers

The Post Office customer base contains some of the most financially dependent members of the UK population. So a key driver for the business is providing reliable access to cash through its cash and valuables in transit (CViT) operation.

Collected:

£42bn

In 2012-13, our Cash Supply Chain 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)

Processed:

£5.3bn

of customers' monies are processed and banked on the day after collection

Market share:

3rd largest

Our CViT operation is the third largest in the UK

Customer excellence

Putting customer needs at heart of our offer



Measuring satisfaction

For more than three centuries, the Post Office has provided services central to the everyday lives of people in the UK. As we move forward as a growing business, our customers remain at the heart of what we do and how we measure our success.

In 2012-13, we carried out extensive research to better understand our diverse customer base and their needs.

Customers value the Post Office and rate our customer service highly, but they want the Post Office to be easier to do business with and offer them a greater choice of ways to interact with the business.

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.

Wait times down

The Post Office 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, a third of small businesses (SMEs) in the UK use our services each week, 41.7 million individual customers 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 achieved impressive customer satisfaction rates, with 87% of customers saying they were happy with the service they received, a figure consistent with 2011-12^[1].

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

Case study

Durham Crown branch^[4]



In line with the high street, the Post Office has introduced automated self-service kiosks that help customers save time. The Post & Go kiosks help customers post letters and parcels and buy stamps and packaging. One customer commented: "Post Office colleague Michael was very welcoming when I came into the branch. He asked if I needed help with anything while I was posting a parcel, if there was anything important inside and if I needed to get it there for the next day. Michael then helped me to process it through the Post & Go machines near the door. It was so easy."

Our research also showed we need to re-engage customers with the overall Post Office brand in order to achieve future growth. We therefore launched a brand campaign in October 2012 inviting customers to consider the Post Office in a different way.

The Post Office understands the importance of customer service during the lead-up to Christmas. 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. 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].

There was also a positive impact on wait times in December, with an average wait time during that busy month of three minutes and 47 seconds – 80 seconds quicker than the previous year, and three minutes and 27 seconds quicker than 2011^[2].



Voice of the Customer programme

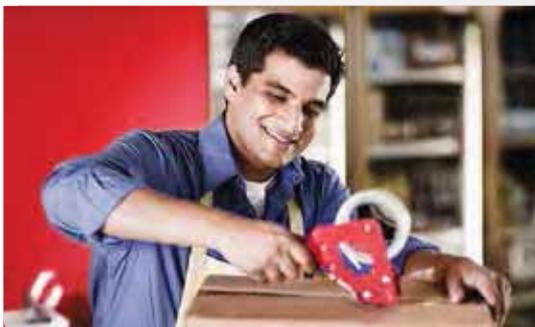
Our new Voice of the Customer programme to ‘tell us how we did today’ was piloted in 150 branches. It uses pre-printed till receipts, cards and a Quick Response code to invite customers to give feedback online, via mobile or by telephone.

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 (for example, by making plans for dealing with busy times and reducing queue times) as well as helping to develop an overall strategy to address common themes across our 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].

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

Q Case study
Small businesses



It is estimated that up to a third of the UK’s small businesses visit a Post Office branch at least once a week^[6]. 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.

^[4] Empathica Voice of the Customer Programme 2012-13
^[5] Brass network transformation programme research August 2012 to March 2013
^[6] Quadrangle Small Business Insight Programme April 2011 to December 2012
^[1] Quadrangle Brand and Customer Insight Programme 2011-12 and 2012-13 (1,000 largest Post Office branches)
^[2] ABa Mystery Shopping Programme 2012-13
^[3] Empathica Voice of the Customer Programme December 2012

Performance review



Performance review 22-35

- 24 Our people
- 28 Corporate responsibility
- 30 Financial review
- 34 Business risk

.....
See page 26 to read about
Shahidul Islam's story
.....

Our people

Working with our people to build the business



Our people vision

- 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, and are encouraged and supported to fulfil their potential and rise to the commercial challenge

The Post Office is proud of its heritage and equally proud of the unique role our colleagues play at the heart of communities. The Post Office also recognises the important role our support teams play in delivering the business strategy. We strive to nurture our people, so they feel valued, trusted, and committed to putting the customer first. We also continue to place a high emphasis on the health, safety and wellbeing of our people.

This year saw the introduction of our core values: **Care**, **Challenge** and **Commit**. These three criteria 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.

Q Case study

James Reid

Property Lead,
Network transformation programme



James joined the Post Office from Royal Mail a year ago on the network transformation programme as a Field Change Adviser 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 into 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."

“

I feel more valued and understand the contribution I make to the wider business.

”

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.

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;
- 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; and
- building the capability and commercial skills of our managers through the development of the Crown Leadership Excellence programme.

Q Case study

Ashley Hall

Change Analyst, Finance



Ashley joined the Post Office 13 years ago. In 2012, 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.”

Our people continued

“
I’ve started to really believe
in myself and feel like I have
a future here.
”

Talent and diversity

Becoming an organisation working independently of Royal Mail Group Limited 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 the 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.

We have also 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 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.

Q Case study

Shahidul Islam

Paid Work Experience programme



Shahidul joined the business in November 2012 through the Paid Work Experience scheme. At 16, he was our youngest candidate. He currently works in Houndsditch, London.

“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. My managers have helped me a lot and are always there for me. I learned 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.”

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 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 on 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 importance to the Post Office. This year, we have embarked on an extensive programme of health checks that will enable 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 that:

- we comply fully with the relevant legislation;
- 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 under effective health and safety management systems, with safe premises, equipment and processes;
- through instruction and training, we improve our employees' capability to manage and work safely;
- 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
- we monitor and review how well we put our health and safety policies into practice.

Case study

Bushra Ali

Trainee Manager, Network

Bushra joined the Post Office a year ago through the Trainee Manager scheme. "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 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 keen to become a Branch Manager."

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**.

Corporate responsibility

Supporting colleagues and communities

As a commercial business with a public purpose, the Post Office is strongly conscious of the need to operate responsibly, sustainably, and with a commitment to furthering accessibility and inclusion.

Disability and accessibility

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

In 2012-13, the Post Office:

- launched the Post Office Disability Helpline to provide solutions and specialist equipment to employees with disability or accessibility issues;
- provided grants to agency branches to upgrade their outlets to make them more accessible; and
- created and met a panel of accessibility experts from disability organisations on a regular basis, whose role is to advise on the accessibility issues facing disabled people and our people.

Environment

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

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; and
- 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.

Change control

All business projects and supplier contracts are reviewed for environmental impacts.

Buildings

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

Vehicles

A new concept vehicle will go on trial in the second financial quarter of 2013-14 which will also utilise telemetry systems that will enable us to improve overall fuel efficiency. Our aim is that this will become our flagship vehicle for the future.

Waste

Most of our buildings are now participating in the Dry Mixed Recycling scheme, where everything that can be recycled is segregated into separate bins or bags. In addition, 100% of all our confidential waste is now shredded, pulped, and sent to manufacture recycled paper.

Sustainable operations

We actively look for opportunities to ensure that all the paper we use is from sources accredited by the Forest Stewardship Council (FSC), and include 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 the pulp used has come from well-managed forests, controlled sources, or recycled wood or fibres.

Charity giving

We have been major supporters of BBC Children in Need for several years. In 2012, the branch network played a leading role in Children in Need's BearFaced initiative. Our activities helped raise more than £1 million for Children in Need, a record amount for the Post Office.

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 lack the skills or confidence to benefit from new digital services.

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 thousands of learning centres across the UK.

By April 2015, 23 of the government's key services will be Digital by Default. To help people who may not have access to, or know how to use, the internet, the Post Office is working with the government and community partners to ensure people can go to a Post Office branch to get the help they need to access these services in a safe and trusted environment.

The Post Office is also focused on providing basic digital skills training and support to all permanent Post Office colleagues. We will be progressing this initiative during the next financial year.

Business in the Community

In 2012-13, the Post Office became a standalone member of the Business in the Community (BITC) scheme, working to develop both our support for 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 partner 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 their local communities to help regenerate interest and activity and ultimately provide a long-term future for these areas so that they can survive and thrive.

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 in providing services to those who otherwise may feel isolated.



Paving the way towards financial sustainability



Chris Day 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 results in three of the four core product pillars. This has enabled investment in driving future revenue growth through building the Post Office brand and developing new and improved services. While the scale of transformational change required to reach the goal of commercial sustainability remains considerable, our performance in 2012-13 was a significant step in the right direction.

Key Financial Performance Indicators

Turnover (£m)

1,024

2012: 980

Operating profit before exceptional items (£m)

94

2012: 61

Operating loss before exceptional items and Network Subsidy Payment (£m)

(116)

2012: (119)

Operating cash flow (£m)

151

2012: 38

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)
Other operating costs	(913)	(876)	(37)	(4.2)
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 2012-13, where results are reported before all exceptional items.

Revenue

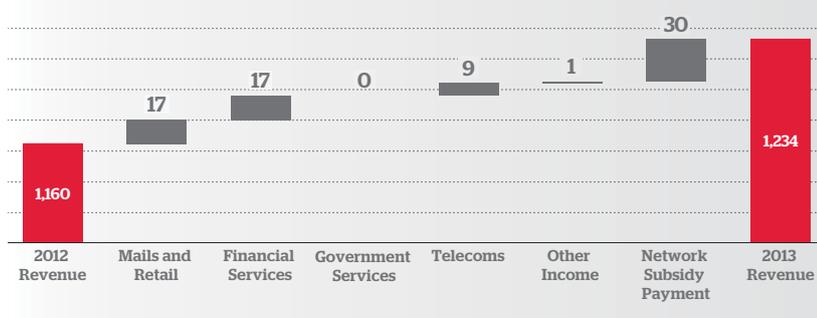
The Post Office's revenue increased by £74 million (6.4%) to £1,234 million, including an increase of £30 million in the Network Subsidy Payment from the government. The Post Office segments revenue into four pillars: Mails and Retail, Financial Services, Government Services and Telecoms. The pillars and their performance are analysed below.

	2013 £m	2012 £m	Variance £m	Variance %
Mails and Retail	409	392	17	4.3
Financial Services	281	264	17	6.4
Government Services	164	164	-	-
Telecoms	129	120	9	7.5
Other	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

Revenue

Prior year to current year

£m



Mails and Retail

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

Mails and Retail revenue of £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 Olympics memorabilia. The rollout of 1,850 additional terminals contributed to an increase of £2 million in revenue from sales of Lottery tickets.

Financial Services

The Financial Services pillar includes Post Office branded personal financial services products, cash machines 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 Ltd, to the majority Shareholder and long-term banking partner, Bank of Ireland (UK) plc. This was part of a wider agreement to restructure this established 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 benefit to customers, subpostmasters and the Post Office.

Personal Financial Services revenue 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. Revenue from traditional financial services products, including bill payment services and Postal Order sales, declined.

This was due to the increasing provision of electronic alternatives to paper-based products and the increasing use of alternative payment methods. Revenue was impacted by the winding down of the Department for Work and Pensions contract for cash cheques and green giros, and the decision by National Savings and Investments (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 revenue 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, revenue from identity-related services did not grow as expected. Revenue from the payment of benefits through the Post Office Card Account was £4 million lower than in the previous year as customer numbers continued to decline.

Telecoms

The Telecoms pillar includes the Post Office's HomePhone and Broadband services, mobile top-up services and international phonecards.

Telecoms revenue of £129 million represented an increase of £9 million (2012-£120 million). Revenue 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.

Revenue from our Mobile top-up business was £1 million below the previous 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

Other revenue was generated primarily from the Cash Supply Chain business, which manages and distributes cash for Post Offices and for third parties. It also offers warehousing services, mainly to Royal Mail. This revenue 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. This payment increased by £30 million from the previous year to £210 million (2012-£180 million), a figure that will begin to reduce with effect from 2013-14 as set out in the current funding agreement with the government.

Financial review continued

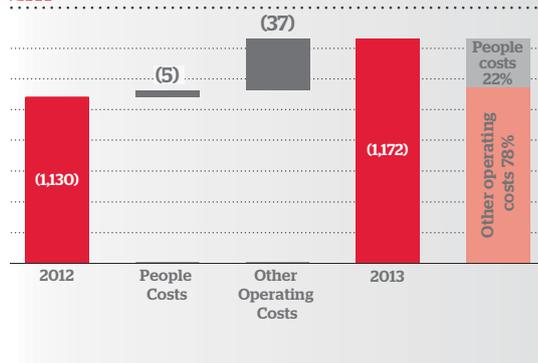
Costs

Total costs rose by £42 million to £1,172 million (2012-£1,130 million).

Costs

Prior year to current year

£m



People costs

People costs of £259 million (2012-£254 million) have increased by £5 million, reflecting historical pay agreements and the associated costs of bringing a number of functions in-house following our separation from Royal Mail.

Other operating costs

Other operating costs have increased by £37 million to £913 million (2012-£876 million), driven largely by additional programmed investment spend mainly related to future revenue growth ambitions. This one-off investment spend included an increase in media spend to raise customer awareness of Post Office services; focused campaigns on travel-related services and mortgages; and the 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 venture (First Rate Exchange Services Holdings Limited) and associate (Midasgrange Ltd, until its sale on 1 September 2012) was £32 million (2012-£31 million). First Rate Exchange Services Holdings Limited results improved, despite lower retail sales due to market conditions. This was achieved mainly by 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.

Exceptional items

	2013 £m	2012 £m
Operating exceptional items:		
Restructuring costs including subpostmasters' compensation	(79)	(2)
Impairment of non-current assets	(66)	(36)
Government grant	98	-
Subtotal of 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 of 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, mainly relating to the Crown network. Business transformation payments of £4 million (2012-£3 million) are payments that are periodically made to staff as an incentive in order to secure agreement for significant changes in working practices in order 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 its transformation programme. Government grant funding of £200 million was received in the year. This 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.

Cash flow and net debt

Following the transfer of Post Office Limited from the ownership of Royal Mail Group Limited 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, but 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), mostly in the Post Office branch network, and a net cash inflow during the year of £151 million. Within working capital, both client receivables and client payables increased significantly compared to the previous year, largely due to the year-end date falling on the Easter weekend, which increased cash flows and delayed settlements.

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 62)	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 Limited is the principal employer of the Royal Mail Senior Executives' Pension Plan (RMSEPP), and Post Office Limited is a participating employer within RMSEPP. RMPP and RMSEPP are both defined benefit plans.

On 1 April 2012 – after the granting of state aid by the European Commission on 21 March 2012 – almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP), built up until 31 March 2012, were transferred to HM Government. On this date, the RMPP was also sectionalised, with Royal Mail Group Limited and Post Office Limited each responsible for their own sections in future. This pensions transfer left the RMPP fully funded on an actuarial basis in respect of historic liabilities at this date.

The balance sheet pension position under IAS 19 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.

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

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.

Business risk

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

Key risk

Impact

Mitigation

Changes in customer preferences

There is decline in the traditional Post Office income streams as customer preferences change.

New income streams may fail to grow sufficiently to exceed the losses from traditional products in decline.

The Post Office might not be able to reduce its reliance on government subsidy.

We have introduced new services in growth areas and continue to refine and develop these product offerings. There are detailed plans in place to deliver the growth trajectory, and progress against these plans is monitored rigorously.

Funding

As set out in note 2, 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.

Business transformation programmes

We are managing a significant number of change programmes to modernise the Post Office and enable its processes to operate independently of those of Royal Mail Group. These include the network, Crown and IT transformation programmes. The success of the Post Office strategic plan depends on the successful realisation of benefits from these programmes.

Failure to implement the modernisation programme would leave the Post Office with an unsustainable cost base and a continued reliance on significant government subsidy.

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.

Key risk

Impact

Mitigation

Engagement risk

The support of our staff and subpostmasters and engagement with them during this significant time of change is key to the successful delivery of our strategy. Withdrawal or lack of support from our staff or subpostmasters 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 staff and subpostmasters would jeopardise our ability to meet our strategic goals of growth, profitability and reduced reliance on government subsidy.

We maintain a fluid and comprehensive engagement programme with unions, staff and subpostmasters. These include regular meetings with the National Federation of Subpostmasters (NFSP), the Communication Workers Union (CWU) and Unite; senior management briefings to staff and subpostmasters; and events to engage our people in our vision and strategy.

We have a people plan aimed at addressing staff motivation and skill needs. This includes development of new leadership and reward frameworks and increased focus on recruitment and training.

Regulatory & compliance

There is a risk of non-compliance with the changing regulatory environment. The Post Office operates under an extensive regulatory environment, including areas such as financial and postal services, procurement, competition law and data security.

Failure to meet regulatory requirements could result in fines and negative impacts on our reputation, as well as the 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 our actions to mitigate them.

Business continuity

The Post Office has particular operational risks relating to disruption of its services.

This includes adverse weather conditions, industrial action, systems breakdown and the failure of a critical supplier.

Breakdowns in the network would reduce quality of service, increase costs and/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 the Post Office's requirements is closely monitored.

Governance





Governance

36–55

- 38 Board of Directors
- 40 Board biographies
- 42 Corporate governance
- 47 Directors' report
- 49 Directors' remuneration report

Board of Directors





From left to right:
Tim Franklin
Alasdair Marnoch
Paula Vennells
Alice Perkins
Chris Day
Susannah Storey
Neil McCausland
Virginia Holmes
Alwen Lyons

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 business' strategic aims, putting in place the leadership to deliver them, supervising the management of the business and reporting to the Shareholder.

There are a number of Board committees which deal with specific topics requiring independent oversight, including audit, risk and compliance, nominations of the Board, pensions and senior remuneration.

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

Alice Perkins CB

Post Office Limited Chairman

(Chairman of Nominations Sub-Committee and the Mutualisation Sub-Committee)

Alice Perkins had a wide-ranging career in the civil service which included policy and operational roles in health, social security and public spending in HM Treasury. She was 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, Alice 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 McCausland has had a portfolio of Non-Executive roles over the last 10 years. He is currently Chairman of three companies: Snow+Rock, a retail chain selling skiing and outdoor brands, bikes and running gear; sk:n, a chain of skin treatment clinics specialising in laser hair removal; and Create Health, a chain of IVF clinics. 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.

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 Holmes 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 in the UK and more than a decade with the Barclays Bank Group, where she ultimately served as Managing Director of the 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 Limited and JPMorgan Claverhouse Investment Trust plc.

Alasdair Marnoch**Non-Executive Director****(Chairman of Audit, Risk and Compliance Sub-Committee)**

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 recently, he served as CFO of the Equiniti Group, a leading provider of complex administration and processing services to the public and private sectors.

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 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 Vennells 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, latterly as Group Commercial Director. She began her career with Unilever and L'Oréal 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 the Hymns Ancient and Modern group.

Chris Day**Chief Financial Officer**

Chris Day 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 and corporate finance roles in the UK, and as Finance Director in the Netherlands and subsequently in 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**

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 Company Secretary in July 2011, after leading the project to separate Post Office Limited from Royal Mail Group.

Corporate governance

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

Corporate governance 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 association.

A strong link remains between Royal Mail Group Limited and the Post Office: the Post Office has a strategic agreement in place to continue to supply Royal Mail Group Limited 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 Limited.

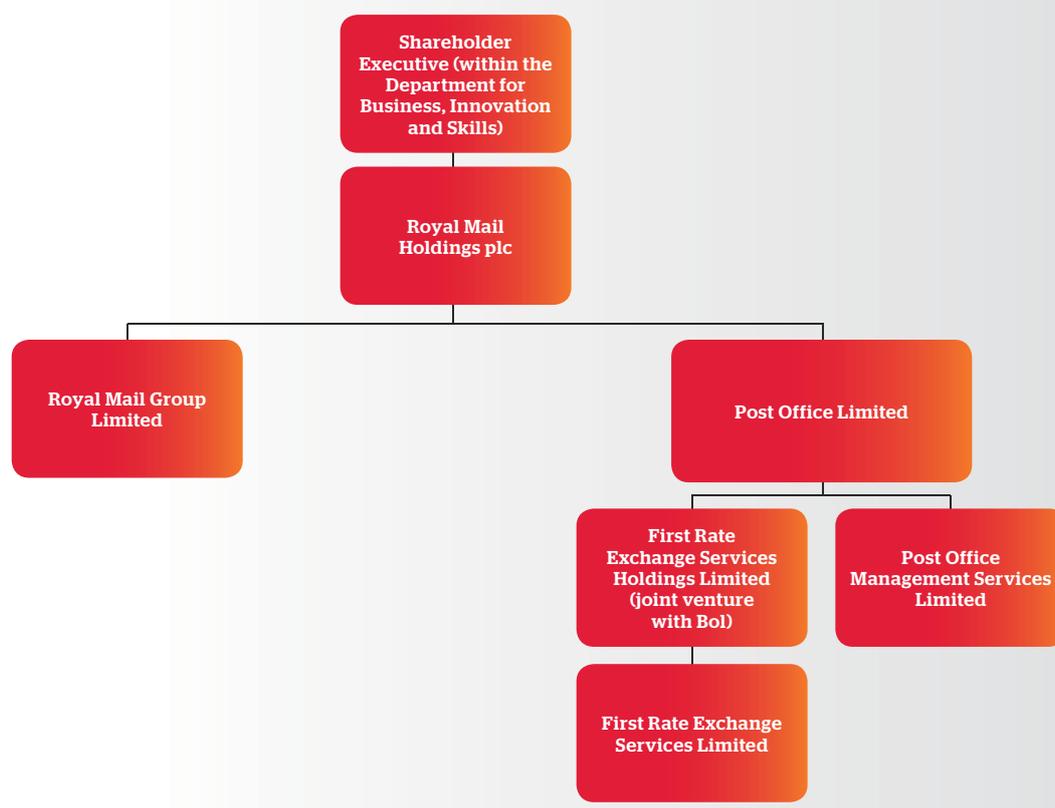
Neither Royal Mail Holdings plc nor BIS, through its Shareholder Executive (ShEx), have any day-to-day involvement in the operations of the Post Office or the management of its branch network and staff.

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

Legal ownership structure



Non-Executive Directors, including the Chairman. This provides a strong level of independent challenge to decision-making and enables the Post Office to call on a wide range of experience and opinion. Short biographies of all members of the Board appear on pages 40-41.

The Nominations Committee liaises with ShEx in BIS to obtain the Special Shareholder's consent for all Directors' appointments. The Remuneration Committee agrees 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.

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, putting in place 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 the government for the period after March 2015.

During the year under review, the Board established sub-committees which met regularly to undertake more detailed reviews in specialist financial reporting 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 reference for the Board sub-committees can be found on the Post Office website.

The table on the following page shows the attendance of the Directors at meetings of the Board and its principal committees during the year.

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	Rolling 12-month contract	n/a	Nominations (Chair), Remuneration
Tim Franklin	19 September 2012	4 years	3 years, 172 days	ARC
Virginia Holmes	4 April 2012	3 years	2 years, 4 days	Pensions (Chair), Nominations, Remuneration
Neil McCausland	22 September 2011	4 years	2 years, 175 days	(Chair), ARC, Nominations
Alasdair Marnoch	23 May 2012	3 years	2 years, 53 days	ARC (Chair)
Susannah Storey	18 April 2012	3 years	2 years, 18 days	ARC, Pensions

Corporate governance continued

Director	Board	ARC	Remuneration Committee	Nominations Committee	Pensions Committee	Mutualisation Committee
Alice Perkins	8/8	-	4/4	2/2	-	3/3
Chris Day	8/8	-	-	-	7/7	3/3
Tim Franklin*	5/5	2/3	-	-	-	2/2
Virginia Holmes	8/8	-	4/4	2/2	7/7	2/3
Neil McCausland	8/8	4/4	4/4	2/2	-	3/3
Alasdair Marnoch*	7/7	4/4	-	-	-	3/3
Susannah Storey*	8/8	3/3	-	-	6/6	2/3
Paula Vennells	8/8	-	-	-	-	3/3

* From date of appointment.

Board sub-committees

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee (ARC) is made up of four 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.

One of the ARC's primary responsibilities during the period was to review both the half-year trading statement and the full-year financial statements to assess the validity of assumptions made, the accounting policies used and 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 Group Limited's internal audit function to building a new internal team began.

The ARC works with both the internal audit team and Ernst & Young, the external auditor. The appointment and terms of engagement of the external auditor, including the proposed fee structure, were considered and their independence assessed. The Audit Committee considered the scope and planning of the external financial audit and assessed the effectiveness of the audit process. There is no current intention to change the existing audit relationship, but the ARC will continue to monitor the independence of the auditor and will, in future years, consider

whether the audit should be put out to competitive tender, in line with best practice applying to listed companies.

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 in an appropriate context.

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

The committee is able to consult on remuneration matters with the Human Resources and Corporate Services Director, with 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 the Special Shareholder's 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 49.

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 Special 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 page 26). The Chief Executive may attend meetings, at the invitation of the Chairman, to discuss matters relating to the talent and diversity policies.

Pensions Committee

The Pensions Committee is made up of two Non-Executive Directors and one Executive Director and is chaired by Virginia Holmes.

With the pensions transfer in April 2012 (see page 33), government assumed the obligations for past service liabilities of the Royal Mail Pension Plan (RMPP) in return for a substantial transfer of assets. The transfer was made possible following European Union approval for UK Government state aid.

As part of the transfer, the pension fund was sectionalised, with the Post Office assuming responsibility for that part of the pension fund which 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 section, 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.

In August 2012, the committee recommended to the Board the appointment of Aon Hewitt as its investment adviser. Working with Aon Hewitt and with Towers Watson, its actuarial adviser, the committee has satisfied itself as to the fair value of assets transferred into the Post Office section at 1 April 2012. The committee has 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 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, has 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. The committee looks at mutual ways of working to improve the performance of the business and the Post Office's progress towards mutualisation.

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. 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 that have arisen within the business and require senior-level resolution. Twice yearly, it reviews the results of personal performance assessments undertaken throughout the organisation.

The Chief Executive, Chief Financial Officer and Company Secretary attend both Board and ExCo meetings. This 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

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 and Compliance Committee reports into the ARC and is responsible 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 and Corporate Services and reports to the Post Office ExCo. The committee comprises members of the ExCo and other senior managers.

Corporate governance continued

During the year under review, the Post Office set up its own Internal Audit department as part of a 'three lines of defence' model (see diagram below). Internal Audit provides independent assurance and advice on the risk management framework and its future strategy and evolution, and reports directly to the ARC.

Compliance with the business' regulatory responsibilities in Financial Services is managed through established joint regulatory risk committees with the Post Office's partner, the Bank of Ireland (UK) plc.

Risk 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.

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. 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 and Compliance Committee to assess the robustness of risk assessment and management.

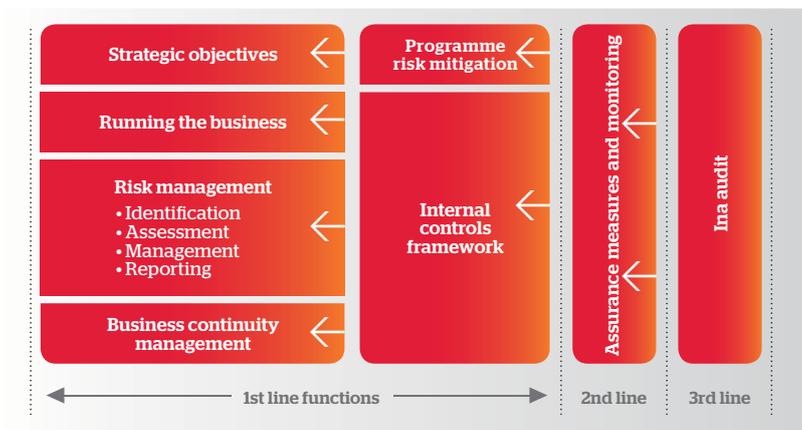
The above assessment will be supplemented in the first quarter of the new financial year with a top down assessment of the Company's risks by the Post Office Executive Committee.

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.



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 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 and Compliance team, with dedicated resources in place to administer the tools and committees in use to manage risk.

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 (page 6) and the Financial review (page 30) 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 £49 million (2012-£30 million). The Directors do not recommend the payment of a dividend (2012-nil dividend).

Pensions

In note 19 of the financial statements, 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 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 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 consolidated balance sheet pension surplus of £97 million (2012-£206 million deficit) has arisen principally due to the transfer of pension assets and liabilities to HM Government.

Prior to 1 April 2012, Royal Mail Group Limited had the legal relationship with the trustees of both defined benefit plans and, as such, the trustees held Royal Mail Group Limited 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 on full adoption of IAS 19 by Royal Mail Holdings plc based on employee numbers over 12 years, which 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. 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.

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 (2012-nil).

Policy on the payment of suppliers

The Post Office policy is to use its purchasing power fairly. Payment terms are agreed in advance. 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 on a historic cost accounting policy and excluding fit-out, is £11 million (2012-£11 million). In the opinion of the Directors, the aggregate value of the 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

Directors' report continued

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 opposite.

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 the articles of association of 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, recognising 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 and 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 to 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 on page 28.

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

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.

On 21 June 2013, Post Office Limited launched a consultation with members of the Royal Mail Pension Plan, on a proposal to change the terms of the plan, which will conclude on 25 August 2013. Post Office Limited will consider the feedback before making its final decision and communicating it to colleagues.

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.

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 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
16 July 2013

Directors' remuneration report



Neil McCausland Chair, 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. As a publicly owned business, funded by the taxpayer, with a commercial and public purpose, we recognise the need for transparency and accountability on Directors' remuneration and the need 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 its 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 and Skills to build working relationships and a common understanding of the issues.

The Post Office has begun the journey to turn around the business to become a sustainable organisation characterised by a strong performance culture and active stakeholder participation and engagement. We are planning for the future of the

business, 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 from Royal Mail Group. An extensive remuneration benchmarking exercise was undertaken during the year, and data from similar-sized organisations in 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 that the levels of Post Office executive reward for both fixed and total remuneration are substantially below the market median. The Remuneration Committee, mindful of the government's constraints on executive pay, agreed that while it would not recommend any changes, the relative market position of the Executive Directors would be kept under review. Any recommended future change in remuneration for Executive Directors would be subject to Special Shareholder approval.

The Chief Executive, Paula Vennells, and the Chief Financial Officer, Chris Day, were appointed to their roles prior to 1 April 2012, the date at which the Post Office began operating independently from Royal Mail Group. While the responsibilities of the Chief Executive and Chief Financial Officer have increased significantly, their remuneration framework remains unchanged.

For the financial year ended 31 March 2013, the committee was satisfied that there had been a clear link between the 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 on pages 53-54.

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.

Directors' remuneration report continued

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 (pages 49-55) have been approved by the Remuneration Committee and the Board.

Neil McCausland

Chair, Remuneration Committee,
Post Office Limited

16 July 2013

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; and
- providing a transparent approach to the disclosure of pay.

Remuneration policy summary

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

The remuneration framework for the Executive Directors requires consent from the Special Shareholder each year. The Board is recommending that the framework remains the same for 2013-14 as it was in 2012-13, with the exception of the STIP design for the Chief Financial Officer.

Remuneration policy table

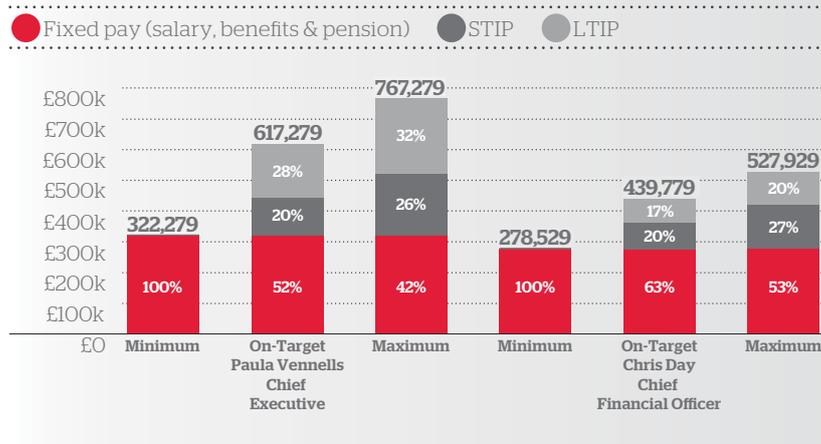
Element	Link to strategy	Operation	Performance period	Maximum values
Base salary	<p>Determined by reference to the skills and responsibilities of the individual.</p> <p>Consideration is given to pay and employment conditions elsewhere in the Post Office when determining base salary increases, and to market data on comparable roles.</p>	Directors' salaries are reviewed annually in July of each year.	-	<p>The current salaries for the Executive Directors are:</p> <p>Chief Executive £250,000</p> <p>Chief Financial Officer £215,000</p>
Benefits	Participation in life and health assurance schemes, company car and private medical schemes are part of Post Office-wide benefit programmes.	The value of the benefits package is monitored by the Remuneration Committee and benchmarked against comparator organisations.	-	The total value of the benefits package for 2012-13 was £9,779.
Pension	Pension provision is provided by the Post Office and is available to all employees to help them meet their retirement needs and provide a competitive remuneration package. Executive Directors receive a salary supplement in lieu of pension scheme membership.	A salary contribution in lieu of pension is paid as a cash supplement to the Chief Executive and Chief Financial Officer.	-	25% of salary
Short Term Incentive Plan (STIP)	<p>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.</p> <p>STIP awards are also linked to the achievement of personal performance objectives.</p>	<p>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.</p> <p>The STIP metrics are a mixture of financial (45%), customer (20%), modernisation (25%) and employee engagement (10%) measures which link directly to the overall strategy.</p> <p>80% of the STIP award is based on the balanced scorecard and 20% is based on individual performance objectives, which are agreed with the Board and will require approval by the Special Shareholder.</p>	One year	<p>The maximum STIP opportunity for the Chief Executive is 80% of salary (with 48% of salary being payable for on-target performance).</p> <p>The STIP arrangements for the Chief Financial Officer are currently under review with the intention of aligning them with the Chief Executive's STIP framework. The Special Shareholder's consent will be required for any changes.</p>
Long Term Incentive Plan (LTIP)	<p>The LTIP is designed to reward and retain key executives and senior managers and to incentivise the achievement of longer-term performance goals.</p> <p>The payout of the award is based on the achievement of strategic targets linked to the longer-term development growth of a sustainable business.</p>	<p>Performance measures for the LTIP are drawn from the Post Office Strategic Plan agreed with the Special Shareholder.</p> <p>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 a profit measure target.</p>	Three financial years	<p>70% of salary for the Chief Executive and 35% of salary for the Chief Financial Officer is payable at target performance.</p> <p>Up to 98% of salary for the Chief Executive and up to 49% of salary for the Chief Financial Officer is payable at maximum performance.</p>

Directors' remuneration report continued

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 (fixed pay only), on-target performance (STIP and LTIP paying out at a target level), and maximum performance (full payout of STIP and LTIP).

Performance scenarios 2013-14



For the Chief Financial Officer, the above values are indicative, as the proposed changes to the Chief Financial Officer's STIP are still subject to the agreement of the Special Shareholder.

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 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 a contract with the Post Office.

Key terms of the contract

Notice period	12 months to be given by the Post Office and six months by the Director.
Remuneration-related provisions	Salary and benefits including health cover, a company car or car allowance, life and health insurance and cash allowance in lieu of pension equivalent to 25% of base salary.

Clawback provision

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

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.

The fees paid to the Chairman and Non-Executive Directors are not pensionable and they receive no other benefits.

Non-Executive Directors' letters of appointment are described in the Corporate governance statement on page 43.

Statement of consideration of Shareholder's views

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

Implementation report

Remuneration for each Director (audited)

Name	Annualised salary/fees	Actual salary/fees 2012-2013	Benefits	Cash in lieu of pension	STIP	LTIP	Total
Non-Executive Directors							
Tim Franklin	£35,000	£18,667	-	-	-	-	£18,667
Virginia Holmes	£35,000	£34,708	-	-	-	-	£34,708
Alasdair Marnoch	£45,000	£38,589	-	-	-	-	£38,589
Neil McCausland	£50,000	£50,000	-	-	-	-	£50,000
Alice Perkins	£100,000	£100,000	-	-	-	-	£100,000
Susannah Storey ^[1]	-	£0	-	-	-	-	£0
Executive Directors^[2]							
Paula Vennells	£250,000	£250,000	£9,779	£62,500	£157,936	£217,508	£697,723
Chris Day	£215,000	£215,000	£9,779	£53,750	£129,053	-	£407,582
		£706,964	£19,558	£116,250	£286,989	£217,508	£1,347,269

^[1] Susannah Storey was an employee of the Shareholder Executive of the Department for Business, Innovation and Skills. In March 2013 she moved to the Department of Energy and Climate Change. She receives no Director's fee.

^[2] The salaries for Paula Vennells and Chris Day remain unchanged. There is no planned increase for the review in July 2013.

Pay at risk paid to Executive Directors in 2012-13 (audited)

a) Short Term Incentive Plan 2012-13

The STIP is based on the Post Office balanced 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 to the modernisation programme (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, excluding Network Subsidy Payment, of £1.02 billion, which was between target and stretch performance. This growth in revenue, coupled with cost control, meant that operating profit of £94.2 million 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

The STIP payable to the Chief Executive is based on the balanced scorecard (80%) and personal performance (20%). The balanced scorecard element paid out 55.5% of salary, out of a maximum of 64% of salary. For the personal element, following a review of the achievements of the personal objectives by the Chairman, the Remuneration Committee judged that the Chief Executive had achieved 80% of her individual objectives, leading to a bonus for this element of 7.7% of salary. Taking account of both the financial and personal elements, the total STIP awarded to the Chief Executive for 2012-13 was 63% of salary.

Chief Financial Officer

The STIP payable to the Chief Financial Officer for 2012-13 was based on the balanced scorecard, with a multiplier applied based on personal performance within the plan year. His bonus based on the balanced scorecard was 40% of salary. The multiplier that was applied resulted in an increase by a factor of 1.5. Taking account of both financial and personal elements, the total STIP awarded to the Chief Financial Officer for 2012-13 was 60% of salary.

As shown in the policy section above, the intention is to harmonise the STIP design for the Chief Financial Officer with that of the Chief Executive and remove the multiplier. These changes will be subject to Special Shareholder approval.

Directors' remuneration report continued

b) Long Term Incentive Plan awards 2010-2013

The LTIP award to pay out this year is based on the three-year performance period ended 31 March 2013. The award value for the Chief Executive was 70% of salary, with a maximum stretch value of 1.4 times the target award (98% of salary). No award was made to the Chief Financial Officer because he had not commenced employment with the Post Office on the award date. The primary performance condition for the 2010 award was operating profit (sliding scale of targets).

Operating profit for the year ended 31 March 2013 (£94.2 million) was between the target and stretch level. The resulting payout under the 2010 LTIP was 87% of salary for the Chief Executive. Other Post Office employees also participated in this scheme, receiving awards of between 25% and 43% of salary.

Outstanding Long Term Incentive awards

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

	Target award	Stretch award	Performance period
Paula Vennells, Chief Executive Officer			
2011 LTIP	£175,000	£245,000	Three years to 31 March 2014
2012 LTIP	£175,000	£245,000	Three years to 31 March 2015
Chris Day, Chief Financial Officer			
2011 LTIP	£50,167*	£70,234	Three years to 31 March 2014
2012 LTIP	£75,250	£105,350	Three years to 31 March 2015

* LTIP award pro-rated because Chief Financial Officer commenced employment 1 August 2011.

Both the 2011 and 2012 LTIP awards are subject to challenging financial and strategic performance conditions based on business profitability and the maintenance of the network in line with the Shareholder's objectives.

Total pension entitlements (audited)

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

Paula Vennells accrued benefits under the Royal Mail Senior Executives Pension Plan (an HMRC-approved defined benefit occupational pension scheme) until 5 April 2012, when she left the scheme.

Age at year end: 54	Accrued benefit at 25 March 2012 or date of appointment to the Board if later pa	Accrued benefit at 31 March 2013 or date of leaving if earlier pa	Increase in accrued benefits during the period (net of inflation) pa	Transfer value of increase before inflation less Director's contributions pa
Paula Vennells	£14,721	£15,225	£180	£3,340

	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 Director's contributions
Paula Vennells	£283,759	£314,926	-	£204	£30,963

Relative importance of the spend on pay (audited)

Total people costs at Post Office Limited (excluding exceptional items) for the year ended 31 March 2013 were £259 million, of which £1.35 million related to Directors' pay. This compares to total revenue excluding Network Subsidiary Payment 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 received a fee of £6,000 in respect of the year ended 31 March 2013.

Financial statements



Financial statements 56-110

- 58 Statement of Directors' responsibilities
- 59 Independent auditor's report to the members of Post Office Limited
- 60 Consolidated income statement
- 61 Consolidated statement of comprehensive income
- 62 Consolidated statement of cash flows
- 63 Consolidated balance sheet
- 64 Consolidated statement of changes in equity
- 65 Notes to the consolidated financial statements
- 92 Independent auditor's report to the members of the parent Company, Post Office Limited
- 93 Balance sheet of the Company
- 94 Statement of total recognised gains and losses
- 95 Reconciliation of movements in Shareholder's funds
- 96 Notes to the Company financial statements
- 111 Corporate information



Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and 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 (IFRSs) 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; and
- 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.

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 58, 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 matters 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.

Angus Grant (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
16 July 2013

Notes:

1. The maintenance and integrity of the Post Office Limited's website 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 website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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)
Other operating costs		(913)	(876)
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	11	(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 £59 million 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.

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

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:		63	24
(Increase)/decrease in trade and other receivables		(138)	13
Increase in trade and other payables		199	14
Increase in inventories		(2)	(1)
Increase/(decrease) in non-exceptional provisions		4	(2)
Pension operating costs paid		(26)	(27)
Cash receipts/(payments) in respect of operating exceptional items:		133	(27)
Government grant		200	-
Restructuring costs		(52)	(27)
Other		(15)	-
Net cash inflow from operating activities		257	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 non-current assets		(58)	(33)
Net cash (outflow)/inflow from investing activities		(24)	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

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	-	-
Trade and other receivables	12	10	-	-
Total non-current assets		178	100	108
Current assets				
Inventories		8	6	5
Trade and other receivables	12	352	226	241
Cash and cash equivalents	13	971	820	782
Financial assets - derivatives	17/18	1	-	-
Total current assets		1,332	1,052	1,028
Total assets		1,510	1,152	1,136
Current liabilities				
Trade and other payables	14	(874)	(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		(1,187)	(964)	(958)
Non-current liabilities				
Financial liabilities - obligations under finance leases	22	(4)	(6)	(9)
Other payables	14	(24)	(2)	(5)
Provisions	16	(7)	(14)	(26)
Retirement benefit obligation	19	-	(206)	(316)
Total non-current liabilities		(35)	(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 60 to 90 were approved by the Board of Directors on 16 July 2013 and signed on its behalf by:

P A Vennells
Chief Executive

C M Day
Chief Financial Officer

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 £47 million comprised £2 million relating to First Rate Exchange Services Holdings Limited, the joint venture entity, and £45 million 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 £45 million 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)

Notes to the consolidated 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 60 to 90 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, Post Office Limited (the Company) 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 (comprising the Company and its subsidiary undertaking) 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 European Union) at the balance sheet date:

- Annual improvements to IFRS 2009-2011 Cycle
- IFRS 7 (amended) Offsetting Financial Assets and Financial Liabilities
- 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
- IAS 1 (amended) Presentation of Items of Other Comprehensive Income
- IAS 19 (revised) Employee Benefits
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IAS 32 (amended) Offsetting Financial Assets and Liabilities

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

Fundamental accounting concept - going concern

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

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

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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

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

Critical accounting estimates and judgements in applying accounting policies

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

Pension assumptions

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

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

Provisions

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

Impairment of non-current assets

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

Revenue

Turnover from government, financial, mails and telecoms 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 telecoms services is recognised evenly over the period to which the charges relate

and revenue from calls is recognised at the time the call is made. Turnover from all other transactions is recognised when the transaction is completed. All turnover is derived wholly from within the United Kingdom.

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

Net revenue

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

Operating exceptional items

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

Intangible assets

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

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

Software	1 to 6 years
----------	--------------

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

Property, plant and equipment

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

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

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

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

Impairment reviews

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

Leases

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

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

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

Investments in joint ventures and associates

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

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.

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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Borrowing costs

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

Government grants

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

Provisions

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

Financial instruments

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

Financial assets

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

Financial liabilities - interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost.

Financial liabilities - obligations under finance leases

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

Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates. Such derivative financial instruments are stated at fair value.

Hedge accounting has not been claimed for foreign exchange derivative instruments.

Fair value measurement of financial instruments

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

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

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

Derecognition of financial instruments

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

Cash and cash equivalents

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

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

2. Segmental reporting

In accordance with IFRS 8 'Operating segments,' an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision maker (CODM) and for which discrete information is available. The Group's CODM is the Executive Committee as defined in the Corporate Governance section on page 45.

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

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

Assets and liabilities as recognised on the Group balance sheet are not considered to be segmental assets or liabilities but rather are managed by the Group's central functions. The information reviewed by the CODM does not include assets or liabilities split by segment. A description of the activities of the business segments is included from page 12 of the Operational review.

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

	2012		
	Revenue £m	Directly attributable costs £m	Net revenue £m
Mails & Retail	392	(4)	388
Financial Services	264	(3)	261
Government Services	164	(28)	136
Telecoms	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:

	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	(47)	(38)
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	(4)	(7)
Finance income	1	1
Net pensions interest	2	2
Profit before taxation	18	20

Notes to the consolidated financial statements continued

3. Staff costs and numbers

Employment and related costs were as follows:

	2013 £m	2012 £m
People costs excluding restructuring costs:		
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

Total employee numbers can be categorised as follows:

	2013	2012
Administration	1,345	1,290
Crown Offices	4,511	4,833
Supply Chain	1,585	1,581
Network and Crown transformation programmes	445	94
Total	7,886	7,798

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
Subpostmasters' fees	478	483
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	103	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)

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

6. Directors' emoluments

The Directors received the following emoluments:

	2013 £000	2012 £000
Emoluments, excluding pension contributions and LTIP but including cash supplements received in lieu of pension	1,129	904
Contributions to pension schemes	1	58
Amounts receivable under Long Term Incentive Plans	218	-

Directors accruing pension entitlements during the period under:

	2013 Number	2012 Number
Defined benefit schemes	0	2
Defined contribution schemes	-	-

The highest paid Director received the following emoluments:

	2013 £000	2012 £000
Emoluments and LTIP, excluding pension contributions but including cash supplements received in lieu of pension	698	463
Company contributions to pension schemes	1	47
Transfer value of accrued pension benefits	315	284

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 credit relating to the origin and reversal of temporary differences	(21)	-
Income tax credit reported in the consolidated income statement	(31)	(10)

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

Notes to the consolidated financial statements continued

8. Taxation continued

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 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)

(c) Deferred tax

Deferred tax assets relate to the following:

	Balance sheet		Income statement	
	2013 £m	2012 £m	2013 £m	2012 £m
Pensions temporary differences	(21)	-	-	-
Losses available for offset against future taxable income	21	-	21	-
Total deferred tax asset	-	-	-	-
Income statement			21	-

(d) Factors that may affect future tax charges

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

Finance Act 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 £25 million.

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 £175 million. The unrecognised losses carried forward disclosed above are stated net of this amount.

(e) 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 Holdings Group.

9. Intangible assets

	2013 £m	2012 £m	2011 £m
Cost			
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.

10. Property, plant and equipment

	Land and buildings						Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	
Cost							
At 28 March 2011	78	17	113	34	1	696	939
Additions	4	-	-	1	-	13	18
Disposals	(4)	-	-	(1)	-	-	(5)
Transfers from Royal Mail Group Limited	1	-	1	-	-	-	2
At 25 March 2012	79	17	114	34	1	709	954
Reclassification	-	1	(1)	-	-	-	-
Additions	9	-	1	9	-	22	41
Disposals	(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	(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	(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 £3 million (2012-£3 million) 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.

Notes to the consolidated financial statements continued

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 £32 million. Proceeds of £2 million were received giving a loss on disposal of £30 million 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 £m	Total £m	Joint venture £m	Associate £m	Total £m	Joint venture £m	Associate £m	Total £m
Share of assets and liabilities:								
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/(loss) after tax	33	33	32	(1)	31	29	(4)	25

12. Trade and other receivables

	2013 £m	2012 £m	2011 £m
Current:			
Trade receivables	32	39	45
Prepayments and accrued income	71	39	27
Client receivables	240	138	158
Other receivables	9	10	11
Total	352	226	241
Non-current:			
Prepayments and accrued income	10	-	-

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

As at 31 March 2013 trade and other receivables of £7 million (2012-£5 million) were impaired and fully provided for. During the year £2 million (2012-£4 million) of the provision has been utilised and an additional £4 million (2012-£2 million) has been provided for. Trade and other receivables of £8 million (2012-£7 million) were past due but not impaired. The ageing 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 within 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.

Notes to the consolidated financial statements continued

14. Trade and other payables

	2013 £m	2012 £m	2011 £m
Current:			
Trade payables	43	32	36
Accruals and deferred income	110	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	874	583	579
Non-current:			
Other payables	24	2	5

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

15. Financial liabilities - interest bearing loans and borrowings

	2013 £m	2012 £m	2011 £m
Department of Business, Innovation & Skills 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 £859 million (2012-£773 million). 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.

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 £9 million (2012-£5 million) include property contracts, 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 £m	Non- current £m	Total £m	Current £m	Non- current £m	Total £m	Current £m	Non- current £m	Total £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 and are disclosed further in notes 12 and 14.

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

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

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 £291 million (2012-£377 million) 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 2016. The total interest bearing financial assets of the Group of £92 million (2012-£62 million) are at short-dated fixed or variable interest rates.

Notes to the consolidated financial statements continued

17. Financial assets and liabilities continued

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 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Short-term bank deposits	0.5	6	-	-	-	6
BIS loan	1.0	(291)	-	-	-	(291)
Obligations under finance leases	10.0	(3)	(4)	-	-	(7)
Floating rate						
Money market fund investments	0.5	86	-	-	-	86
Non-interest bearing						
Cash in Post Office network	-	879	-	-	-	879
Derivative assets	-	1	-	-	-	1
Net total financial assets/(liabilities)		678	(4)	-	-	674

Financial year ended 31 March 2012

	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Short-term bank deposits	0.7	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

Foreign currency risk

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

Credit risk

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

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

Business credit risk is monitored centrally. The individual relationships and the contracts attached to them are managed by dedicated teams and procedures are in place to monitor any concentrations of credit risk. The level of bad debt incurred for the Group is less than 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 Group's capital levels the Board and the Executive Committee regularly monitor the level of debt in the Group, the working capital requirements and the forecast cash flows. The Board and Executive Committee plan accordingly following this review process in order to meet the Group's capital management objectives.

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 £859 million (2012-£773 million) 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.

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.

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

	2012		
Amounts falling due in:	BIS loan £m	Finance lease £m	Total £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

	2011		
Amounts falling due in:	BIS loan £m	Finance lease £m	Total £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

Notes to the consolidated financial statements continued

18. Hedging programmes

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

Fair value of derivative financial instruments:	2013 Assets £m	2012 Assets £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 £1 million 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 derivatives 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 reduces to zero as the derivative approaches maturity. The Group's hedging transactions are settled net.

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 Post Office Limited employees were transferred to be directly employed by Post Office Limited on the same date.

Royal Mail Group Limited is the principal employer in the 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 Limited 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 on full adoption of IAS 19 by Royal Mail Holdings plc, based on employee numbers over 12 years which 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. 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 show how the value of the assets and liabilities have been calculated at the balance sheet date.

The Group participates in pension schemes as detailed below.

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

Defined contribution

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

Defined benefit

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

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

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

The changes 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;
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age at 55, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached; and
- RMSEPP was closed to future accrual on 31 December 2012.

Payment of £23 million (2012-£23 million) was made by the Group during the year in respect of regular future service contributions, nearly all relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1% (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 £2 million (2012 less than £1 million) 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 £1 million 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 £2 million (2012-£3 million) 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 members transferred from Section A or B of RMPP	3.3	3.3	3.5
Rate of pension increases - RMSEPP all other members	3.2	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.

Notes to the consolidated financial statements continued

19. Pensions continued

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:

	2013 £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)

Comparative information in relation to the potential impact of changes in key assumptions has not been included as this would represent Post Office Limited's share of the combined RMPP scheme and the above 31 March 2013 information is in relation to the sectionalised RMPP scheme and therefore comparison would not be meaningful.

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:

	Market value 2013 £m	Long-term expected rate of return 2013 % pa
Sectionalised RMPP		
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 before IFRIC 14 adjustment	99	
Less IFRIC 14 adjustment	(3)	
Surplus in plan after IFRIC 14 adjustment	96	

	Market value 2013 £m	Long-term expected rate of return 2013 % pa
Share of RMSEPP		
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 £97 million is disclosed on the balance sheet, representing the surplus in plans of £99 million and £1 million for RMPP and RMSEPP respectively, net of tax of £3 million at a rate of 35% on the element of the surplus which is recoverable through a refund from the 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
Combined plans				
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.

c) Movement in plans' assets and liabilities

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

	Sectionalised RMPP 2013 £m
Assets	
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)	46
Benefits paid to members	(2)
Assets in sectionalised RMPP at end of period	243

Notes to the consolidated financial statements continued

19. Pensions continued

	Share of RMSEPP 2013 £m
Assets	
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

	2012 £m	2011 £m
Assets combined plans		
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:

	Sectionalised RMPP 2013 £m
Liabilities	
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)

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

	2012 £m	2011 £m
Liabilities combined plans		
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 (loss)/gain (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 income statement are recognised on a consistent basis with the associated compensation costs. Estimates of both are included, for example, in any redundancy provisions raised. The curtailment costs above represent the costs associated with those people paid compensation in respect of redundancy during the accounting period. Such payments may occur in an accounting period subsequent to the recognition of costs in the income statement.

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 on 28 March 2011 is a gain of £122 million as recognised in the consolidated statement of comprehensive income.

	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

Notes to the consolidated financial statements continued

19. Pensions continued

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
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 changes in equity	
Transfer of pension liabilities to government	2,239
Transfer of pension assets to government	(1,953)
Gain on transfer to government	286
Total gains recognised in the statement of changes in equity	286
Analysis of amounts recognised in the statement of comprehensive income	
Actual return on plan assets	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	14

	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
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 assets	38
Less: expected return on plan assets	(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 the statement of comprehensive income in the Royal Mail Holdings Group financial statements	2
Share of actuarial gains/(losses) recognised in the statement of comprehensive income (at approximately 7%)	-

Notes to the consolidated financial statements continued

19. Pensions continued

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
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 the statement of comprehensive income in the Royal Mail Holdings	1,544	3,424
Group financial statements	1,544	3,424
Share of actuarial gains recognised in the 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

21. Commitments

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

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 1 year	16	16	16	15	16	16
Between 1 and 5 years	42	44	43	-	-	-
Beyond 5 years	38	43	45	-	-	-
Total	96	103	104	15	16	16

22. Finance lease liabilities

	2013		2012		2011	
	Minimum payments £m	Present value of minimum lease payments £m	Minimum payments £m	Present value of minimum lease payments £m	Minimum payments £m	Present value of minimum lease payments £m
Within 1 year	4	3	4	4	4	4
Between 1 and 5 years	4	4	8	6	12	9
Beyond 5 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.

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.

Notes to the consolidated financial statements continued

23. Related party disclosures continued

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 were transferred to government (note 19);
- the Group has received a government grant of £200 million, £98 million of which was recognised through the income statement (note 5) and £102 million 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

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 £415 million of funding on 2 April 2013.

On 21 June 2013, Post Office Limited launched a consultation with members of the Royal Mail Pension Plan, on a proposal to change the terms of the plan, which will conclude on 25 August 2013. Post Office Limited will consider the feedback before making its final decision and communicating it to colleagues.

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 Holdings plc, a company registered in the United Kingdom. Royal Mail Holdings plc financial statements can be obtained from the company website, www.royalmailgroup.com.

Financial statements

Post Office Limited

Parent Company Financial Statements 2012-13

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 31 March 2013 which comprise the Company balance sheet, the Company statement of total recognised gains and losses, the Company reconciliation of movements in Shareholder's funds and the related notes 1 to 18. 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 58, 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.

Angus Grant (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
16 July 2013

Notes:

1. The maintenance and integrity of the Post Office Limited's website 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 website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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
Investment in subsidiaries	4	-	-
Investments in joint ventures and associates	5	1	5
Retirement benefit surplus	13	100	-
Debtors - receivable after more than one year	6	10	-
Total non-current assets		122	16
Current assets			
Stocks		8	6
Debtors - receivable within one year	6	352	226
Financial assets - investments	7	92	62
Financial assets - derivatives		1	-
Cash at bank and in hand	8	879	758
		1,332	1,052
Current liabilities			
Creditors - amounts falling due within one year	9	(877)	(587)
Financial liabilities - interest bearing loans and borrowings	10	(291)	(377)
Net current assets		164	88
Total assets less current liabilities		286	104
Creditors - amounts falling due after more than one year	11	(28)	(8)
Provisions for liabilities	12	(26)	(14)
Retirement benefit obligation	13	-	(206)
Net assets/(liabilities)		232	(124)
Capital and reserves			
Called up share capital	14	-	-
Share premium	15	465	465
Profit and loss account	15	(233)	(589)
Shareholder's surplus/(deficit)		232	(124)

The financial statements on pages 93 to 110 were approved by the Board of Directors on 16 July 2013 and signed on its behalf by:

P A Vennells
Chief Executive

C M Day
Chief Financial Officer

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	15	76	37
Actuarial gains on defined benefit pension schemes	13	17	108
Taxation on items taken directly to equity		(23)	-
Total recognised gains for the financial year		70	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	15	(124)	(269)
Total recognised gains for the financial year		70	145
Transfer of pension deficit to government	13	286	-
Closing Shareholder's surplus/(deficit)		232	(124)

Notes to the Company 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 93 to 110 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 £76 million profit (2012-£37 million 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.

In making an assessment of the Company's ability to continue as a going concern, the Directors have considered the going concern assessments made in relation to the Group (see note 1 on page 65) and are of the view that it is appropriate that these financial statements have been prepared on a going concern basis.

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
----------	--------------

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

Tangible fixed assets

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

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

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

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

Impairment reviews

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

Leases

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

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

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

Investments in joint ventures and associates

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

Investments in subsidiaries

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

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 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 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. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Debtors

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

Financial assets - investments (current assets)

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

Financial liabilities - interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost.

Financial liabilities - obligations under finance leases

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

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.

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.

Notes to the Company financial statements continued

1. Accounting policies continued

Derecognition of financial instruments

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

Government grants

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

Auditor's remuneration

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

Directors' emoluments

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

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.

3. Tangible fixed assets

	Land and buildings						Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	
Cost							
At 26 March 2012	79	17	114	34	1	709	954
Reclassification	-	1	(1)	-	-	-	-
Additions	9	-	1	9	-	22	41
Disposals	(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	9	1	-	9	-	22	41
Disposals	(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 £3 million (2012-£3 million) 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.

4. Investment in subsidiaries

The carrying value of £1 relates solely to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company.

5. 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 £0.6 million (2012-£0.6 million), whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom.

Associates

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 £4.6 million, whose principal activity is the provision of personal financial products. This investment was disposed of during the year ended 31 March 2013.

6. Debtors

	2013 £m	2012 £m
Receivable within one year:		
Trade debtors	32	39
Prepayments and accrued income	71	39
Client debtors	240	138
Other receivables	9	10
Total	352	226
Receivable after more than one year:		
Prepayments and accrued income	10	-

7. Current financial assets - investments

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

8. Cash at bank and in hand

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

9. Creditors - amounts falling due within one year

	2013 £m	2012 £m
Trade creditors and accruals	153	172
Advance customer payments	50	48
Social security	10	9
Client creditors	528	332
Obligations under finance leases	3	4
Amount due to other companies within the Royal Mail Holdings Group	6	9
Capital creditors	18	10
Business transformation payments	7	3
Government grant	102	-
Total	877	587

Notes to the Company financial statements continued

10. Financial liabilities - interest bearing loans and borrowings

	2013 £m	2012 £m
Department of Business, Innovation & Skills 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 £859 million (2012-£773 million). 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.

11. Creditors - amounts falling due after more than one year

	2013 £m	2012 £m
Obligations under finance leases	4	6
Other payables	24	2
Total	28	8

12. 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 £9 million (2012-£5 million) include property contracts, 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.

13. 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 Post Office Limited employees were transferred to be directly employed by Post Office Limited on the same date.

Royal Mail Group Limited is the principal employer in the 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 Limited 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 on full adoption of FRS 17 based on employee numbers over 12 years which 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. 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 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 £1 million (2012-£1 million) during the year. A new defined contribution plan (RMDCP) was launched in April 2009. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Company for a year.

Defined benefit

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

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to members of Section A who chose to receive Section B benefits; and
- 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;
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age at 55, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached; and
- RMSEPP was closed to future accrual on 31 December 2012.

Payment of £23 million (2012-£23 million) was made by the Company during the year in respect of regular future service contributions, nearly all relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1% (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 £2 million (2012 less than £1 million) 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 £1 million 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 £2 million (2012-£3 million) 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:

Notes to the Company financial statements continued

13. Pensions continued

a) Major long-term assumptions

The size of the RMPP pension surplus, which is large in the context of the Company and its finances, is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on the surplus and overall profit and loss charge. The major long-term assumptions 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 members transferred from Section A or B of RMPP	3.3	3.3	3.5
Rate of pension increases - RMSEPP all other members	3.2	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	4.9	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 following table shows the potential impact on the RMPP assets and pension surplus of changes in key assumptions:

	2013 £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)

Comparative information in relation to the potential impact of changes in key assumptions has not been included as this would represent Post Office Limited's share of the combined RMPP scheme and the above 31 March 2013 information is in relation to the sectionalised RMPP scheme and therefore comparison would not be meaningful.

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:

	Market value 2013 £m	Long-term expected rate of return 2013 % pa
Sectionalised RMPP		
Equities	29	7.2
Bonds	205	4.3
Property	-	6.7
Other assets	9	7.2
Fair value of RMPP assets	243	
Present value of RMPP liabilities	(144)	
Surplus in plan	99	

	Market value 2013 £m	Long-term expected rate of return 2013 % pa
Share of RMSEPP		
Equities	146	6.9
Bonds	193	3.9
Property	19	6.7
Other assets	3	3.3
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	

The expected return on assets makes allowances for the agreed investment strategies of the arrangements.

Under United Kingdom Generally Accepted Accounting Practice the Company has recognised a deferred tax liability through the statement of total recognised gains and losses of £23 million as the entire asset recorded on the balance sheet has been deemed recoverable through reductions in future contributions. This is offset by the recognition through the profit and loss account of a deferred tax asset of £23 million in respect of tax losses.

	Market value 2012 £m	Market value 2011 £m	Long-term expected rate of return 2012 % pa	Long-term expected rate of return 2011 % pa
Combined plans				
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.

Notes to the Company financial statements continued

13. Pensions continued

c) Movement in plans' assets and liabilities

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

	Sectionalised RMPP 2013 £m
Assets	
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)	46
Benefits paid to members	(2)
Assets in sectionalised RMPP at end of period	243

	Share of RMSEPP 2013 £m
Assets	
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

	2012 £m	2011 £m
Assets combined plans		
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:

	Sectionalised RMPP 2013 £m
Liabilities	
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	(29)
Benefits paid	2
Liabilities in sectionalised RMPP at end of period	(144)

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

	2012 £m	2011 £m
Liabilities combined plans		
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 (loss)/gain	(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 profit and loss account.

Notes to the Company financial statements continued

13. Pensions continued

d) History of experience gains and losses

The cumulative amount of actuarial gains and losses recognised since transition to FRS 17 at 29 March 2004 in the statement of total recognised gains and losses is £49 million gain (2012 a gain of £32 million). The Directors are unable to determine how much of the pension scheme deficit recognised in transition to FRS 17 is attributable to actuarial gains and losses since inception of the pension schemes. Consequently, the Directors are unable to determine the cumulative amount of actuarial gains and losses that would have been recognised in the statement of total recognised gains and losses between inception of the pension schemes and transition to FRS 17.

	Sectionalised	Share of	7% share of combined plans			
	RMPP	RMSEPP	2012	2011	2010	2009
	2013	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m	£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

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 profit and loss account	
Analysis of amounts charged to operating profit before exceptional items:	
Current service cost	24
Analysis of amounts charged to operating exceptional items:	
Loss due to curtailments (within provision - note 12)	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 profit and loss account before deduction for tax	24
Analysis of amounts recognised in the reconciliation of movements in Shareholder's funds	
Transfer of pension liabilities to government	2,239
Transfer of pension assets to government	(1,953)
Gain on transfer to government	286
Total gains recognised in the reconciliation of movements in Shareholder's funds	286
Analysis of amounts recognised in the statement of total recognised gains and losses	
Actual return on plan assets	57
Less: expected return on plan assets	(11)
Actuarial gains on assets (all experience adjustments)	46
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 total recognised gains and losses	17

Notes to the Company financial statements continued

13. Pensions continued

	2013 share of RMSEPP £m
Analysis of amounts recognised in the profit and loss account	
Analysis of amounts charged to operating profit before exceptional items:	
Current service cost	1
Analysis of amounts charged to operating exceptional items:	
Loss due to curtailments (within provision - note 12)	-
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 profit and loss account 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 assets	38
Less: expected return on plan assets	(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 the statement of comprehensive income in the Royal Mail Holdings Group financial statements	2
Share of actuarial gains/(losses) recognised in the statement of total recognised gains and losses (at approximately 7%)	-

	2012 £m	2011 £m
Combined plans		
Analysis of amounts recognised in the profit and loss account		
Analysis of amounts charged to operating profit before exceptional items:		
Current service cost	23	25
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments (within provision - note 12)	-	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 profit and loss account 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 the statement of comprehensive income in the Royal Mail Holdings		
Group financial statements	1,544	3,424
Share of actuarial gains recognised in the statement of total recognised gains and losses (at approximately 7%)	108	240

14. 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

15. Reserves

	Share premium £m	Retained earnings £m	2013 Total £m
Balance at 26 March 2012	465	(589)	(124)
Profit for the financial year	-	76	76
Actuarial gains on defined benefit pension schemes	-	17	17
Taxation on items taken directly to equity	-	(23)	(23)
Transfer of pension deficit to government	-	286	286
At 31 March 2013	465	(233)	232

Notes to the Company financial statements continued

16. Related party disclosures

Details of transactions with related parties are disclosed in the Group financial statements (note 23).

17. 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 £415 million of funding on 2 April 2013.

On 21 June 2013, Post Office Limited launched a consultation with members of the Royal Mail Pension Plan, on a proposal to change the terms of the plan, which will conclude on 25 August 2013. Post Office Limited will consider the feedback before making its final decision and communicating it to colleagues.

18. 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 Holdings plc, a company registered in the United Kingdom. Royal Mail Holdings plc financial statements can be obtained from the company website, www.royalmailgroup.com.

Corporate information

Registered Office

Post Office Limited
148 Old Street
LONDON
EC1V 9HQ

Auditor

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

Actuary

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

Solicitor

Linklaters LLP
One Silk Street
LONDON
EC2Y 8HQ



Thank you

The Post Office is a unique part of our society and is grateful to all those stakeholders who work so hard to support our work as a commercial business with a public purpose. In particular, we would like to thank:

- the three government ministers with whom we worked with during 2012-13 - Edward Davey, Norman Lamb and Jo Swinson - and all those at the Shareholder Executive at the Department for Business, Industry and Skills;
- the National Federation of Subpostmasters, in particular George Thomson (General Secretary) and Mervyn Jones (Commercial Director), and its Executive Committee;
- Communication and Managers' Association (CMA) sector of Unite, in particular Brian Scott (Assistant National Secretary);
- Communication Workers Union (CWU), in particular Andy Furey (Assistant Secretary) and Dave Ward (Deputy General Secretary).
- Our colleagues at Royal Mail Group Limited, in particular Chairman Donald Brydon and Chief Executive Moya Greene;
- All the members of the Stakeholder Forum who are working to help us define the public purpose of the Post Office;
- The consumer, business organisations and public interest groups with whom we work, including Consumer Futures, Age UK and Citizens Advice; and
- All the business partners and suppliers with whom we work, including Bank of Ireland (UK) plc, Fujitsu, government departments and agencies and many others.

But most of all, we'd like to thank our subpostmasters, their teams and all our colleagues who work for the Post Office - those directly serving communities across the UK and those who support this great business.

Notes

A series of horizontal dotted lines for writing notes.

Designed and produced by MerchantCantos, www.merchantcantos.com.

Printed by Linney Group Limited.

The Post Office Annual Report has been printed on Regency Satin paper which contains material sourced from responsibly managed forests, certified in accordance with the FSC (Forest Stewardship Council). Regency Satin is made from 10% recovered fibre, using an ECF (Elemental Chlorine Free) bleaching process and is manufactured under strict environmental management systems, in adherence to the international ISO 14001 standard, EMAS (Eco-Management & Audit Scheme) and the IPPC (Integrated Pollution Prevention and Control) regulation.





Post Office Limited is registered in England and Wales. Registered number 2154540. Registered Office is 148 Old Street, London EC1V 9HQ.
The Post Office, Post Office and the Post Office logo are registered trademarks of Post Office Limited.