POL00030888

Post Office Board Agenda

Date	
24th May 2016	
Start Time	**Finish Time**
11.30hrs	15.00hrs
Location	
Room 1.16 Wakefield	

Present	In Attendance	Apologies
• Tim Parker (Chairman) • Richard Callard • Tim Franklin • Virginia Holmes • Carla Stent • Paula Vennells • Alisdair Cameron	• Alwen Lyons • Mark Davies • Jane MacLeod • Jane Hill • POAC Guest • Nick Kennett • Steve Ashton • Kevin Gilliland • Neil Hayward • Natasha Wilson	• Ken McCall

	Agenda Item	Action Needed	Purpose	Lead
1.	**Minutes of previous Board and Committee meetings including Status Report**	Decision	Minutes formally agreed	Alwen Lyons
2.	**CEO Report** Including IR updates	CEO report noted	CEO to update the Board on the report.	CEO
3.	**Annual Report & Accounts**	Decision	Annual Report and accounts approved as recommended by the ARC	Mark Davies/ CFO
4.	**Approval of STIP performance conditions**	Decision	Approval of STiP performance conditions for recommendation to UKGI (Paper to be walked in)	Chairman
5.	**Items for noting :**			
	5.1 Sparrow	Noting	Board aware of the litigation and response to the Letter of Claim. General Counsel to join the meeting and update.	General Counsel
	5.2 Sealings		Board aware of the affixing of the seal;	Company Secretary
	5.3 Ratifications		Board Decisions ratified: Paddington;	General Counsel
	5.4 Modern Slavery		Board note paper on Modern Slavery.	General Counsel
	LUNCH			
6.	**POAC**		Update on POAC from the Chairman and a member of the council	Tim Franklin/ Jane Hill

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Post Office Board Agenda

Agenda Item		Action Needed	Purpose	Lead
7.	**Peregrine Phase 1**	Progress noted	Update the Board on Phase 1 of Peregrine, negotiation with the Bank of Ireland	Nick Kennett
8.	**POMS – Steve Ashton POMS Chairman invited**	Progress noted	Presentation of POMS strategy, milestones and risks by the POMS Chairman & CEO	Steve Ashton/ Nick Kennett
9.	**Crown and Network Strategy**	Discussion	To update the Board on the Crown & Network strategy	Kevin Gilliland
10.	**Any Other Business**			
	CLOSE			

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POLB 16(2nd)
POLB 16/13 – 16/15

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

Minutes of a Board meeting held at 12.00 noon on 09 February 2016
at 20 Finsbury Street, London EC2Y 9AQ and by telephone conference

Present:

Tim Parker	Chairman
Richard Callard	Non-Executive Director (by telephone)
Alisdair Cameron	Chief Financial Officer
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive (by telephone)

In Attendance:

Alwen Lyons	Company Secretary
Jane MacLeod	General Counsel (GC)
Piero D'Agostino	Head of Legal Commercial
Alison Jaap	Head of Design

Apologies:

Tim Franklin	Non-Executive Director

POLB 16/13 **INTRODUCTION**

(a) A quorum being present, the Chairman opened the meeting.

(b) The directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's articles of association

POLB 16/14 **PROJECT TRINITY**

(a) The CEO thanked the team for the work undertaken on project Trinity and acknowledged the complexity involved in addressing the issues arising from the Front Office IT plans.

(b) The CFO explained that four key questions had been considered before recommending the Trinity changes to the Board:

1. Would this be the right option commercially and operationally for Post Office?
2. Would the extension of the Fujitsu (FJ) contract on the terms described be in the best interests of Post Office?
3. Could the change be made in a legally compliant way?
4. Would it deliver a long term cost effective relationship with FJ?

(c) The Board discussed the options available and asked for more detail on the termination of the IBM contract.

(d) The GC explained that the IBM contract specifically permitted termination for convenience and set out a formulaic calculation of amounts payable in the case of exercise. In the current circumstances this resulted in a payment of c£13 million to IBM plus the cost of the work already completed. The Board asked if the £13m could be reduced and the GC advised that this would be difficult to achieve, although the amounts payable for work undertaken to date would need to be negotiated.

(e) The Board asked which companies might challenge the procurement process. The CFO advised that both Accenture or CSC would be aggrieved by the decision and that they represented the greatest risk. The numbers contained in the business case included provision for a challenge.

(f) The Board discussed the length of the proposed contract with FJ. The GC explained that Post Office had proposed an extension to the FJ contract of 4 years with 2 further one year extensions.. However FJ had suggested a 6 year term, with the ability to terminate after 4 years. The GC explained that the risk of a successful challenge would increase if there was a material extension to the term, as a longer term may not be considered a 'modification' of the existing contract, but rather the award of a new contract, in which case the Regulation 72 exemption would not apply. The CEO noted that this risk needed to be considered in light of the benefits that would be obtained from a longer contract.

ACTION: GC

(g) **The GC was asked to test the impact of a longer term contract period on regulation 72 of the Public Contract Regulations 2015.**

ACTION: CFO

(h) **The Board asked the CFO to consider whether, and if so, how the termination costs would be disclosed in the Accounts.**

ACTION: GC

(i) **The GC was asked to consider whether the termination costs would need to be disclosed under an FIO request.**

(j) The Chairman requested the GC to provide an update on the risk of an action for misfeasance in public office. The GC explained that a complainant, who has suffered a loss, could bring an action for the tort of misfeasance in public office. However there were a number of elements of the tort which would need to be established, one of which was to establish that the Company and/or the Board had acted with malice or bad faith, causing deliberate injury to the complainant. Accordingly, the GC noted that if the Board believed in good faith that a change of contractor was not possible for the economic and technical reasons set out in the Board papers, and that a change would cause significant inconvenience and/or substantial duplication of costs, then it would be more difficult to establish that Post Office or the Board had acted with malice or in bad faith.

(k) The Board considered the decision to terminate the IBM contract and agreed that it was in the best interests of the Company and although the £13m termination cost was high, it was a contractual obligation and could be defended if required.

ACTION: CFO/GC

(l) **The CEO proposed that a review would be undertaken of the initial procurement processes leading up to the decision to award the contract to IBM, to ensure that any lessons from that review were captured. The findings from that review would be reported at the ARC.**

(m) The CFO stressed that Trinity enabled the Business to remain within its funding plan to March 2018, explaining that the funding post 2018 was still to be agreed.

ACTION: CFO

(n) **The Board asked, as part of the presentation of the 3 year plan in March, to be provided with a list of projects, their value and the committed spend.**

(o) After careful consideration, the Board:

Noted the proposal for the termination of the IBM contract and the extension of the Fujitsu contract for Horizon.

Noted the risks and issues arising around delivery and legal and procurement.

Approved the termination of the IBM contract.

Approved the extension of the Horizon contract with Fujitsu on the terms set out in the paper.

Approved the on-off costs of £39.1m and the operating costs of £107.3m for the committed minimum contract of 4 years.

Authorised each of the Group Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) to:

- finalise the necessary contractual documentation (including the Notice to Terminate and all ancillary documentation) to terminate the IBM contract;
- finalise the necessary contractual documentation to extend the Fujitsu Horizon contract and any ancillary documentation; and
- authorise the execution of all such documentation.

POLB 16/15 **CLOSE**

(a) There being no further business, the Chairman declared the meeting close.

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Chairman **Date**

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POLB 16(3rd)
POLB 16/16 – 16/25

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

Minutes of a Board meeting held at 9.00am on 21 March 2016
at 20 Finsbury Street, London EC2Y 9AQ.

Present:

Tim Parker	Chairman (*Minutes POLB 16/19-16/25*)
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive

In Attendance:

Alwen Lyons	Company Secretary
Martin Edwards	Director of Strategy (*Minute POLB 16/19 only*)
Dave Carter	Group Financial Controller (*Minute POLB 16/19 only*)
Mark Ellis	Supply Chain Director (*Minute POLB 16/20 only*)
Nick Kennett	Financial Services Director (*Minute POLB 16/22 only*)

POLB 16/16 **INTRODUCTION**

(a) In the absence of the Chairman Ken McCall, Senior Independent Director took the Chair, noted that a quorum was present and opened the meeting.

(b) Each Director confirmed that they had no conflicts of interest in relation to the business to be considered at the meeting.

POLB 16/17 **MINUTES OF THE PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT**

Minutes

(a) The minutes of the meeting of the Board held on 22nd January 2015 were approved as accurate records and the Chairman was authorised to sign them.

(b) The minutes of the Audit, Risk and Compliance Committee meeting held on 10th November 2015 were noted.

Status Report

(c) POLB 16/10 (c) – The Board noted the options set out in the Prosecutions Policy paper and endorsed the publication of the policy on the Post Office's website.

(d) POLB 15/102 (d) – The Board noted the paper provided. The CFO said that the approach to suppliers covered cyber security as a whole and not purely Distributed Denial of Service (DDoS) risk.

ACTION: CFO **Provide a list of the Top 20 suppliers to the ARC**

ACTION: CFO **The CEO proposed that a supplier strategy be presented at a future ARC covering the Top 20 Supplier relationships and Supplier compliance.**

(e) The Board noted the Status Report dated 14/03/2016.

POLB 16/18 **CEO REPORT**

CEO Report

(a) The CEO introduced the CEO Report, focusing on the following key points:

Scorecard performance

(b) The CEO believed that the Business was now well placed to hit the financial target for the year and that the 6000th transformed branch would be opened before the Easter break.

ACTION: CEO **The Board asked the CEO to pass on their congratulations to Kevin Gilliland and the Network Transformation team for the excellent result.**

Project Paddington

(c) The CEO explained that Project Paddington, the proposal to continue the relationship with IRRELEVANT IRRELEVANT would need email approval by the Board within the next three weeks. The CEO assured the Board that this was a IRRELEVANT IRRELEVANT

Project Pathfinder

(d) The CEO explained that the IRRELEVANT had been extended by a month to take account of a request for more time from individuals affected; the timing of IRRELEVANT IRRELEVANT and to enable a considered view on the effect of any IRRELEVANT announcement.

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(e) The CFO clarified that the IRRELEVANT IRRELEVANT IRRELEVANT He explained that the Business needed to be sure that the IRRELEVANT IRRELEVANT did not have a significant effect on the consultation. The Board acknowledged that the timing was complex and asked IRRELEVANT to review IRRELEVANT in light of IRRELEVANT and to opine on how the IRRELEVANT is likely to respond.

ACTION: NH IRRELEVANT

Ministerial Meeting.

(f) Richard Callard reported that the Minister had recently met Brian Scott, Unite, and that they had discussed both franchising and pensions. The Minister had taken the line that these were commercial decisions for the Board and the Executive.

(g) Transformation Report
The CEO explained that the transformation plans were being rebased after the Trinity project. It was agreed that the IT strategy would be presented at the July Board.

ACTION: CFO **The IT Strategy would be a topic for discussion at the July Board meeting.**

(f) The Board noted the CEO report.

POLB 16/19 **APPROVAL OF ONE YEAR OPERATING PLAN AND BUDGET 2016/17, THREE YEAR PLAN AND APPROVAL OF RELEASE OF BUDGET INFORMATION TO SHEX FOR FUNDING OBLIGATION**

(a) The Chairman welcomed Martin Edwards, Director of Strategy, and Dave Carter, Group Financial Controller, to the meeting.

Period 11 Financial Results

(b) The CFO introduced the Period 11 Financial Results. The Board acknowledged the EBITDAS performance for 2015/16, recognised that this had been driven by cost reduction and asked whether this delivered the necessary growth and run rate for 2016/17. The CFO explained that over the next two years he expected slight income decline during a period of right sizing the cost base, but that the year-end run rate for 2015/16 was consistent with the budget for 2016/17.

(c) The Board noted the Period 11 Financial Results.

2016/17 Budget and 3 Year Plan

(d) The CFO introduced the 2016/17 budget and 3 year plan.

(e) The proposed budget and year 2 of the three year plan were aligned with the rebased funding targets agreed with ShEx, being an EBITDAS targets of -£10m in 2016/17 and +£28m in 2017/18. Year 3 of the plan was outside of the existing funding agreement.

(f) Tim Parker joined the meeting.

(g) The Board questioned the shape of the income in the 3 year plan which remained flat for 2 years and then showed significant Financial Services (FS) growth. Martin Edwards explained that year 3 of the plan included £15m FS income from the buyout of Junction.

(h) The CFO explained that the next 2 years were the main focus of the plan as these years aligned to the current Government funding agreement. The Executive and ShEx would start to consider the next funding agreement in the summer after the Board strategy day.

(i) The CFO noted that there was considerable risk in achieving the -£10m target in 2016/17 and therefore the Group Executive was in the final stage of agreeing more stretching cost targets to mitigate that risk.

(j) The Board approved the 2016/17 budget.

(k) The Board approved the 3 year plan and noted that the plan would be overlaid by the new Strategic Plan.

(l) The Board discussed the 2016/17 scorecard and the proposal to have EBITDAS as the only target aligned to the STIP (Short Term Incentive Payment). The CFO explained that the GE had discussed this proposal and agreed that it should be recommended to the Board as a 1 year proposal to support the rightsizing of the cost base.

(m) The CEO assured the Board that she and the Executive recognised the need for a balanced scorecard including customer, people and operations targets and that GE personal objectives for 2016/17 would also include attestation for the areas of risk for which they are accountable.

(n) Richard Callard reminded the Board that the Government had to approve STIP measures and targets and that they

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may prefer to continue with a Network Transformation element as this related directly to the funding.

(o) The Board approved the 2016/17 scorecard and noted that the bonus structure, thresholds and targets would be discussed at the Remuneration Committee on 12th April.

Release of Budget information to ShEx to fulfil the funding obligation

(p) The Board approved the release of the 2016/17 budget information submission to ShEx in order to release the Government funding.

(q) Martin Edwards and Dave Carter left the meeting.

(r) Tim Parker took over the role of Chair.

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POLB 16/21 **ITEMS FOR NOTING**

Cash and Working Capital

(a) The CFO introduced the Cash, Working Capital and Headroom paper. The Board discussed the paper and agreed that more focus would be required on cash in the future with the possibility of it becoming a bonus worthy objective as headroom tightened.

(b) The Board <u>noted</u> the paper.

Trinity Contract

(c) The CFO introduced the project Trinity paper and updated the Board on a FOI request received from a legal firm. The

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GC would lead on the response to the request ensuring any commercial information was redacted.

(d) The Board noted the progress made.

Sealings

(e) The Board resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1379 to 1399 inclusive in the seal register is hereby confirmed.

POLB 16/22 ITEMS FOR RATIFICATION

IRRELEVANT Contract Extension

(a) The CFO introduced the IRRELEVANT Contract Extension paper and explained the rationale behind extending the IRRELEVANT contract for two years.

(b) The Board approved the award of a two year contract extension to IRRELEVANT at a cost of IRRELEVANT delegating authority to the CEO or the CFO to sign the contract.

IRRELEVANT Contract

(c) The Board approved a new contract with a maximum term of five years and a maximum cost of IRRELEVANT and delegated authority to the CEO and CFO to sign a contract within these parameters.

IRRELEVANT Contract

(d) The Chairman welcomed Nick Kennett, Financial Services Director to the meeting.

(e) Nick Kennett explained the short term agreement negotiated with the IRRELEVANT which is targeting to generate an additional IRRELEVANT income to Post Office in 2016/17; in receiving this payment, Post Office will support IRRELEVANT reduce the size and cost of its liability balance sheet. The additional income is included in the 2016/17 AOP.

(f) The agreement also included an extension from two to four years of the run-off processes in the IRRELEVANT contract if Post Office were to advise IRRELEVANT from 2021 that it is exiting Financial Services. This extension supports IRRELEVANT manage the risks associated with Post Office exiting, with the impact on Post Office being negligible as it pre-supposes that Post Office had made the strategic decision to exit the personal financial services market. Post Office would receive income over four, rather than two, years.

(g) Nick Kennett also assured the Board that this agreement did not affect any negotiation regarding IRRELEVANT or the wider IRRELEVANT he confirmed that the core exit/termination provisions, were Post Office to remain in Financial Services, are unchanged.

(h) The Board approved the proposed agreement with IRRELEVANT and authorised the CFO and Director of Financial Services to finalise the terms of the arrangement with IRRELEVANT approve the form of legal agreement to give effect to the arrangement and sign any such agreement(s) in accordance with Post Office's usual procedures.

(j) Nick Kennett left the meeting

IRRELEVANT Articles

(k) The Board approved the specified amendments to the IRRELEVANT articles as set out in Appendix A of the paper.

POLB 16/23 VERBAL UPDATES FROM BOARD COMMITTEE CHAIRS

Remuneration Committee (RemCo) Update

(a) Ken McCall gave a verbal update from the RemCo meeting held on the 9th February 2016.

The main areas the meeting covered were:

- The letter to the Minister regarding bonus claw-back for the Postmaster Compensation provision error.
- Directors' remuneration report and key trends in the market.
- LTIP trends in the market place and design principles.
- The need to recalibrate the LTIP to provide meaningful incentives.

The Board noted the update.

Nomination Committee (NomCo) Update

(b) The Chairman gave a verbal update from the NomCo meetings of 25th November 2015 and 9th February 2016.

The main areas the meetings covered were:

- Appointment of two new NEDs.
- Confirmation of Board Committee membership.
- Recruitment of a Digital Director and Sales Director.
- Changes to the senior leadership population and introduction of the L300 group.

The Board noted the update.

Audit, Risk and Compliance Committee (ARC) Update

(c) Carla Stent gave a verbal update from the ARC meeting held on the 17th March 2016.

The main areas the meeting covered were:

- Update from the POMS ARC Chair and the relationship with POMS.

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- Risk & Controls framework update. Two new risks were included; Health & Safely and Pensions.
- Report & Accounts corporate governance statement agreed.
- Approved the internal audit plan including a cyber-security audit.
- Year end audit discussed with Ernst & Young (EY) and the audit partner challenged to explain how the audit would be more effective this year.

The Board asked what Health & Safety issues had moved the risk to Amber on the risk register. The CFO explained that the new Director of Property was putting new processes in place to manage 3rd parties, the issues raised by these processes had been included on the agenda of the Executive Health & Safety Committee. Until this was complete the risk should remain as Amber.

The Board noted the update.

Post Office Advisory Council (POAC) Update

(d) Tim Franklin gave a verbal update from the POAC meeting help on the 17th March 2016.
The main areas the meeting covered were:

- The network branch proposition was debated with input from the Business, Onestop and an independent postmaster.
- Input from the Council on customer and retailer proposition.
- Review of Council membership – everyone has asked to stay on the Council – they are invaluable source of feedback.

ACTION: CoSec **Circulate the POAC minutes to the Board**

The Board noted the update and that POAC is an agenda item at the next Board meeting.

POLB 16/24 **ANY OTHER BUSINESS**

Sale of IRRELEVANT

(a) The CFO explained the opportunity to sell IRRELEVANT of Post Office IRRELEVANT which would generate IRRELEVANT of income. This was the limit which could be sold under IRRELEVANT IRRELEVANT

(b) The Board approved the sales of IRRELEVANT

POLB 16/25 **CLOSE**

(a) There being no further business, the Chairman declared the meeting close.

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Chairman **Date**

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POLARC 16(1st)
POL ARC 16/01 – 16/09

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE
held at 9.30am on 22 January 2016
at 20 Finsbury Street, London EC2Y 9AQ

Present:

Carla Stent	Chairman (Chair)
Tim Franklin	Non-Executive Director (TF)
Ken McCall	Non-Executive Director (KM)
Richard Callard	Non-Executive Director (RC)

In Attendance:

Paula Vennells	Chief Executive (CEO)
Alisdair Cameron	Chief Financial Officer (CFO)
Garry Hooton	Audit Manager (GH)
Alwen Lyons	Company Secretary (AL)
Jane MacLeod	General Counsel (GC)
Mike Morley-Fletcher	Head of Risk and Assurance, Corporate Services, (MMF)
Angus Grant	Ernst & Young, (AG)
Mounia Mukina	Ernst & Young, (MM)
Amanda Bowe	Post Office Management Services Limited Non-Executive Director & Chair of ARC (AB) (Minute 16/07 only by phone)

POLARC 16/01 INTRODUCTION

(a) A quorum being present, the Chairman opened the meeting.

(b) Each Director confirmed that they had no conflict of interest in relation to the business to be considered at the meeting.

POLARC 16/02 MINUTES OF THE MEETING HELD ON 10 NOVEMBER 2015, STATUS REPORT AND MATTERS ARISING

(a) The minutes of the meeting held on 10 November 2015 were approved as presented and the attendant Committee member was authorised to sign them as a true record.

(b) The Committee noted the action list dated 1st December 2015.

(c) The CFO explained that Audit fee for 2015/16 had yet to be finalised as the focus had been on completion of the subpostmasters' compensation issue.

ACTION: CFO **Report back on the on the finalisation of the Audit fees.**

(d) The Committee asked how the Executive were dealing with the issue of inappropriate expenses claims. The GC explained that the

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issue, relating to confusion over LIW/Homebase categorisation, was being addressed by the introduction of an annual reconciliation. The ARC asked for an update on the implementation of the recommendations from the Financial Crime audit at the March meeting.

ACTION: GC — **Report back on the implementation of the recommendations from the Financial Crime audit at the March ARC.**

(e) The Committee noted that at the last meeting the CEO had requested a review to give assurance regarding the security of customer data (minute POLARC 15/44 (e)). The GC was asked to circulate the outcome of the review to the Committee

ACTION: GC — **Circulate the report on security of customer data to the ARC.**

ACTION:GC — **The Chair asked the GC to review the Internal Audit timetable to include cyber risks.**

POLARC 16/03 RISK UPDATE

(a) MMF introduced the Risk Update and undated the Committee with the progress made to date on the Risk Management Project Plan.

(b) MMF explained the new <u>Group Risk Profile</u> which identified and evaluated the (GE) Group Executive's proposed top risks for the Business. The Committee discussed the Risk Profile and challenged whether Industrial Relations was the highest risk. They asked the Business to consider whether:

- failure to achieve cost reduction targets;
- IRRELEVANT nd
- cyber security attacks which disrupt systems – for example, those affecting payments to POCA customers;

should be identified as higher risks.

ACTION:MMF — **Reconsider the Top Risks and whether they should include failure to achieve cost reduction targets; IRRELEVANT IRRELEVANT and cyber security attacks which disrupt systems – for example, attacks which affect payments to POCA customers.**

(c) The Chair asked that the Risk Profile be amended to clearly show GE accountability for managing each risk. KM suggested that the sign off by the GE owner should be included in any year end attestation process.

ACTION:MMF — **Ensure the Risk Profile shows clearly which GE member is accountable for managing each risk. Include GE signoff, for the individual risks for which they are accountable, as part of the new yearend attestation process for year ending March 2017.**

(d) MMF explained that general controls had been identified and collected into a "Framework", so that the GE could ensure that the

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controls in place were at the right standard, and have the right effect enabling them to be evidenced for yearend attestation (year ending March 2017). The Committee asked if the Group Executive would have personal objectives aligned to the Framework. The CEO assured the Committee that personal objectives for GE members would be aligned to the General Control Framework.

ACTION: CEO **The CEO agreed to ensure that all areas in the General Control Framework were assigned to Group Executive members as part of their personal objectives**

(e) The Committee discussed the 'Tone from the Top' and agreed it needed more clarity as the project progressed. It was agreed that this would be the key messages, behaviours and communication that the CEO and GE demonstrated at all times. These needed to be aligned and to exemplify the values of the Post Office.

(f) The CFO explained the alignment with the Financial Controls project which was building systems to enable attestation that financial controls were working. He noted that this was work in progress.

(g) The Committee discussed the frequency of attestation and reporting and AG explained that in the Financial Services industry quarterly reporting would be expected. The CFO proposed the introduction of six monthly reporting to align with the external reporting calendar. The Chair noted that it took time to embed attestations and recommended that the Executive have "dry runs" prior to the year end attestation (year end March 2017).

ACTION: GC/CFO **The CFO/GC to ensure that the areas in the General Controls Framework are understood and that the Group Executive recognised their accountabilities to attest to the controls being in place in time to support the Directors' statement in the 2016/17 Report & Accounts.**

(h) The Committee asked for an update on the Control Framework at the next ARC with more details of controls, GE owners and subject matter experts, plus a timetable for when the ARC will receive assurance.

ACTION: MMF **Produce a statement including more details of controls, GE owners and subject matter experts, plus a timetable for when the ARC will receive assurance**.

(i) MMF updated the Committee on the progress in the Policy Framework project, explaining that the 'strawman' included in the paper was likely to change, and that the approach was being tested using the policies owned by the GC. The Committee asked for dates and timelines for establishing the succinct set of Key Policies, setting out what can be expected over the next quarters.

ACTION:MMF **Include dates and timelines in the Policy Framework document, with detail as to what the amalgamated policies include.**

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(j) The CFO highlighted the challenge in articulating a pricing policy across the wide range of products sold by the Business. The complexity was acknowledged and it was accepted that the policy, if required, may need to be restricted to a set of principles.

(k) The Committee asked Ernst & Young (EY) to provide a list of the key policies which they would expect to see in a market median company, to act as a benchmark.

(l) MMF introduced the Business Continuity project and explained the aim of the Business to benchmark against the measurable ISO22301 business continuity standard.

(m) The Committee were perturbed by the findings to date. The CEO was disappointed by the language in the report and challenged the extent to which the 'business continuity & crisis management is deficient, unpractised and not embedded within the organisation's culture'. The CEO gave examples of the recent flood crisis where offices had been given support and reopened because people were very aware of how to manage the network in a crisis. The CEO believed that, since separation from RMG, more could have been done to document and test the procedures in place.

(n) The Committee asked the GE sponsor of the paper to update the ARC on the progress being made. Including a list of top suppliers and whether they have contingencies in place; specifically before the next meeting.

ACTION:GC

Continue to update the ARC on the progress being made to improve Business Continuity. Including a list of top suppliers and whether they have Business Continuity contingencies plans in place before the next meeting.

(o) MMF gave a progress update on Incident Reporting processes. The Committee asked for an explanation as to what constitutes a P1, P2 or P3 incidents how they are monitored and the SLA in place to report and deal with them. The Committee also asked how the Executive remediate the root cause of problems and challenge suppliers to change processes.

ACTION:MMF

At the next update, provide a report to define P1, P2 or P3 incidents and the SLA in place to report and deal with them. . Include how the Executive remediate the root cause of problems and challenge suppliers to change processes.

(p) The Committee discussed the statement made in the Annual Report & Accounts that the Business complied with the 'spirit' of the UK Corporate Governance Code (Code) and the implications of changes in the Code. AG recognised that the Business was not legally caught by the Code and that significant work would need to be done to continue to state a compliance with the 'spirit' of the code. The key areas where the Business does not comply with the Code are those concerned with reporting and risk management

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maturity, particularly providing evidence of the review of the internal controls.

(q) The Committee agreed that the Executive should focus on improving risk management before any public benchmarking statement. The Committee asked the Executive to work with the external auditors to set out what a three year roadmap to benchmark against the Code would look like.

ACTION: GC **The Executive to work with the external auditors to set out what a three year roadmap to benchmark against the UK Corporate Governance Code would look like.**

(r) The GC supported the decision to withdraw from making a statement in the Report & Accounts but recognised the importance of benchmarking against the best practice of the Code albeit designed for public companies.

(s) The Committee agreed that the Business should pull back from a reference to the Code in the Report & Accounts but agreed that a statement was necessary to explain the Business was still maintaining high standards.

ACTION: GC/CFO **The Executive would discuss how it would reference the Corporate Governance Code in the Report & Accounts, and revert to the Committee by email before discussing with the Board Chairman**

(t) After providing feedback on its elements, the Committee noted the Risk Update.

POLARC 16/04 **INTERNAL AUDIT UPDATE**

(a) GH introduced the Internal Audit Update focussing on the following key points:

Contract Management. Significant progress has been made with 50% of actions now complete and the other 50% on track for completion by the end of March. A further report would be provided at the March ARC.

Property and Health & Safety compliance. Good progress with a new Head of Property Compliance now in place and although there are still actions to complete GH believed the controls were improving.

Open Actions. A detailed revised report would be provided for the March ARC. The Committee recognised the number of internal audits and reports due in the last quarter and asked for assurance that the internal audit team had enough resource to complete the work. GH gave assurance that the plan would be delivered. The Chair asked for reports to include feedback on closure of high rated actions.

Included post audit assurance in the ARC report in relation to audit actions rated as high.

ACTION: GH

(b) GH circulated a paper detailing the Internal Audit Planning Process and the Draft Audit plan proposed for 2016/17. The Committee were asked to feedback any comments to GH who would collate and share with the Chair in February before returning to the Committee with a final proposal

ACTION: Committee members

Committee members to feedback to GH on the audit plan proposal

(c) Committee members agreed that all audit reports with a red report rating would be circulated in full the Committee as soon as the report was available. Audit reports with an amber or green report rating would be summarised and reported at the subsequent ARC meeting.

ACTION: GH

GH to ensure that all reports with a red rating are circulated to the Committee and to the Chair of the POL Board.

(d) Having taken all the discussion points into consideration, the Committee noted the outcomes of the recent audits and reviews and further noted the current and upcoming work.

POLARC 16/05 **FINANCIAL CONTROLS PROGRESS REPORT**

(a) The CFO introduced the Financial Controls Progress Report and recognised the importance of the work to give the Executive and the Board the confidence to sign the 2015/16 Accounts. He explained that the project had started by testing its methodology by checking the fixed assets, as this was a relatively easy task. The next reconciliation would be the income numbers, as this was the most complex area and material to the accounts. The CFO explained the interfaces between the systems involved which complicated the reporting process. He did not believe that systematic errors existed as these would lead to complaints from customers and clients, but could not yet prove this was the case.

(b) The Chair asked the CFO to focus on ensuring the systems were secure and providing the correct information, with a plan to automate as soon as possible.

(c) The Chair asked for progress reports at every ARC and for Financial Reporting to be flagged in the risk reports.

ACTION:CFO

Provide Financial Reporting progress reports at every ARC and include in the risk reports.

(d) Having taken all the discussion points into consideration, the Committee noted the Financial Controls Progress Report.

POLARC 16/06 **POSTMASTER COMPENSATION ISSUE / SIGNING OF INTERIM ACCOUNTS**

(a) **Postmaster compensation**

The CFO introduced the Provisions for Compensation paper and explained the background to the understatement of the provision. The error had arisen because agreements with subpostmasters had not been captured accurately, and the provisions based on this information had been wrongly calculated. After significant work the provisions had been increased by £67m in September 2014 and £87m in March 2015. Adjustments to both accounts were supported by EY.

(b) The CFO stressed that there were no implications for payments to subpostmasters or adjustments to the EBITDAS in the reports.

(c) The Post Office Interim Reports and Accounts for September 2015 and the Post Office Holdings Company Report & Accounts could now be signed and published.

(d) The Chair asked why the mistake had not been discovered sooner by the Business or EY, and if both the CFO and AG were now absolutely sure of the accuracy.

(e) The CFO stressed that the compensation provision would always by its nature be an estimate as individual branch details change, but that he was now comfortable that the provision was prudent and would cover the right level of compensation. AG agreed and emphasised that the provision was an estimate as individual contracts changed during the process. The Chair pointed out that the recording and aggregating of information had been completed incorrectly and asked for assurance from AG that the provision was now accurate. AG explained that the auditors had checked the last nine months of actual payments and that a lot of work had been done to check the manual processes with a branch by branch analysis, and that they were now comfortable with the provision as restated.

(f) The Committee asked why EY had not identified the problem during the original External Audit. AG explained that they had done limited testing and with hindsight should have focussed more on the manual processes. This was being addressed in this year's external audit plan.

(g) The Committee asked what other provisions were made in the Balance sheet and how they were tested.

ACTION: CFO — **The CFO was asked to provide the next meeting with an analysis and assurance of the provisions on the balance sheet.**

ACTION: CFO/AG — **The CFO to agree with EY the audit approach for each financial statement area.**

(h) Having taken all the discussion points into consideration, the Committee noted the progress and the next steps.

Interim Report

(i) The Interim Report for the six months ended 27 September 2015, had been circulated to the Committee.

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(j) The Committee challenged whether the provision was a true 'timing error' as reported in the narrative to the interim report. The CEO promised to check the narrative before the accounts were signed on Monday 25th January.

ACTION: CEO

The CEO promised to provide a briefing pack including; the interim report; the press statement; and Qs & As to the Board before publication of the interim accounts.

(k) The Committee asked for clarification about a second restatement in the accounts concerning cash and debtors. The CFO explained that this was a technical classification which EY had requested at the end of 2014/15, and was not a new issue. The Committee asked for this issue to be included in the Qs & As circulated as it would be easy to conflate the two issues.

(l) Richard Callard explained that the mistake had knocked the Minister's confidence in the Business and its reporting.

(m) Having taken all the discussion points into consideration, the Committee noted the Interim Report.

POLARC 16/07 **REPORT FROM POMS ARC**

(a) The Chair welcomed Amanda Bowe, Post Office Management Services Limited Non-Executive Director and Chair of ARC, to the meeting by conference call.

(b) AB introduced the Report from Post Office Management Services ARC and explained that work was underway to establish a risk framework and risk appetite for POMS.

(c) AB highlighted two key risks:
- the role of Post Office as the Appointed Representative of POMS, and
- POMS oversight of branch compliance.

(d) AB stressed the importance and risks to both Post Office and POMS of poor branch compliance and its mitigation through 1st and 2nd line oversight arrangements.

(e) AB acknowledged that POMS was at an evolutionary stage in its development and had resource and capacity risk especially in its Risk and Compliance function.

(f) AB explained that she was meeting the External Auditors in February and currently waiting to agree the POMS audit plan.

ACTION: GH

It was agreed that the POL and POMS audit plans should be aligned.

(g) The Committee thanked AB for the POMS ARC report, which contained the right level of detail from the wholly owned subsidiary

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(h) The Committee noted the report.

(i) AB left the meeting.

POLARC 16/08 **ANY OTHER BUSINESS**

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

POLARC 16/09 **DATE OF THE NEXT MEETING**

(a) It was noted that the next meeting of the Committee would be 17th March 2016.

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Chair **Date**

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Post Office Limited Board

Status Report as at: 16/05/2016

REFERENCE	**ACTION**	**Action Owner (GE Member)**	**Due Date**	**STATUS**	**Open/Closed**
January 2016 POLB 16/2 (c)	<u>CEO Report and Transformation Update</u> How should the Business recognise exceptional contribution by individuals. Consideration to be given to Chairman's awards or best Post Office awards.	**CEO**	September Board Meeting		Open
January 2016 POLB 16/14 (l)	<u>Project Trinity</u> To undertake a review of the initial procurement process leading up to the decision to award the contract to IBM, to ensure that any lessons from that review were captured. The findings of the review are to be reported to the ARC.	**General Counsel**	July Board		Open
January 2016 POLB 16/2 (g)	<u>CEO Report and Transformation Update</u> To provide a paper explaining the rationale behind the NFSP funding and the move to a trade association to assist new Board members.	**Neil Hayward**	May Board	Action point closed, noting paper provided and appended to status report.	Closed
March 2016 POLB 16/17 (d)	<u>Status Report</u> The CEO proposed that a supplier strategy be presented at a future ARC covering the Top 20 Supplier relationships and Supplier compliance.	**CFO**	July	This should be covered as part of the IT Strategy.	Open
March 2016 POLB 16/23 (d)	<u>Post Office Advisory Council (POAC Update)</u> To circulate the POAC minutes to the Board	**Company Secretary**	Ongoing		Closed
March 2016 16/20 (i)	<u>Project Iris</u> To include the IRRELEVANT in the Iris stakeholder plan.	**Mark Ellis**		IRRELEVANT undertaken by Mark Ellis and Chris Doutney.	Closed
March 2016 POLB 16/18 (b)	<u>CEO Report</u> The Board asked the CEO to pass on their congratulations to Kevin Gililland and the Network Transformation team for the excellent result.	**CEO**	May Board Meeting	Completed	Closed

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March 2016 POLB 16/18 (g)	<u>CEO Report</u> The IT Strategy would be presented as a topic for discussion at the July Board meeting.	**CFO**	July Board	IT strategy on July Board.	Open
March 2016 POLB 16/18 (e)	<u>CEO Report</u> Neil Hayward to consult Virginia Holmes on Pathfinder in light of Iris, and to opine on how the Trustee is likely to respond.	**Neil Hayward**		VH and Natasha Wilson caught up and NW explained process and rationale.	Closed
March 2016 POLB 16/17 (d)	<u>Status Report</u> Provide a list of the Top 20 suppliers to the ARC	**CFO**		Done.	Closed

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NFSP Grant Agreement update

Author: Nick Beal Sponsor: Neil Hayward Meeting date: 24 May 2016

Executive Summary

Context

The Grant Agreement with NFSP, which funds the NFSP's day to day operation, grants for support projects (value p.a. £1.5m +£1m) and their transition to a Trade Association, was approved by the board in June 2015. In advance of the end of the first year of the agreement, this paper is an update on how the agreement is working, key areas that have benefitted from NFSP support and a summary of the background to the agreement.

Questions addressed in this report

1. What progress NFSP have made in their transition to a Trade Association?
2. What activity in Post Office has benefited from NFSP support?
3. What was the rationale in establishing the agreement?

Conclusion

Progress since establishing the agreement has been good but there have inevitably been occasional tensions that have meant that NFSP have been challenged to reconcile the reality of being funded by Post Office vs their traditional role that they have yet to fully move away from.

But the agreement is a strong basis for both organisations working together and we will expect an approach over the next 12 months that will reinforce this opportunity and see some very different initiatives between us.

The Report

What progress NFSP have made in their transition to a Trade Association?
What activity in Post Office has benefited from NFSP support?

Looking Back

WHAT HAS GONE WELL?

1. NFSP have transitioned to a company limited by guarantee and therefore legally adopted the framework of a Trade Association.
2. All postmasters are entitled to free membership and subscriptions have ceased
   → NFSP are therefore fully dependent upon the funding from Post Office
3. NFSP have widened their focus on supporting postmasters' retail business
   → NFSP are having to (and are beginning to) improve their expertise in this area and the structure of the recent annual conference was much more weighted towards retail than in previous years – both in terms of the content of the conference sessions and the seminars run by Post Office teams
4. As well as the retail focus, the NFSP conference (8th to 11th May) demonstrated good progress in their transition.
   → Overall conference format
   → Small but growing number of younger & newer postmasters attending
   → Presence of external retail industry experts
   → Overall messaging that a Post Office is a great asset to a retail business and that, when retail and post office is run well together, can be very successful
5. There have been a number of key initiatives in Post Office that have benefited from the support of NFSP
   → the successful deployment of the final phase of NT
   → the increased response rate to the engagement survey
   → internalisation of challenges made relating to remuneration reductions (i.e. we have kept our differences out of the public domain)
   → development of the Apprenticeship Programme

WHAT HAS NOT GONE WELL?

6. The leadership still occasionally displays behaviours which reflect the historical role
   → This has given rise to some tensions between the organisations where decisions and changes made by Post Office (particularly related to remuneration) have not been accepted (but challenge to this has been had behind closed doors rather than in the public domain)
7. Linked to above, NFSP continue to face challenges from some members (and external agitators e.g. CWU) relating to their future direction whereby they have been challenged to reconcile the reality of being funded by Post Office vs their traditional role that they have yet to fully move away from
   → There remains an attitude that occasionally they need to "win" something from the Post Office

Looking Ahead

OPPORTUNITIES?

8. Supported by the grant project funding, NFSP will continue to develop their role in supporting postmasters' retail
   → This should improve the viability of branches and make them less dependent upon revenue from the Post Office
9. NFSP can support Post Office in improving our engagement with postmasters
   → Postmasters will perform better
10. We will work closely on developing other initiatives e.g. using our resource to support retail development (funded by the project grants), developing a wider range of support services to improve other areas of the postmaster lifecycle e.g. business planning
   → Outcomes will have a better chance of buy in by postmasters and our investment challenges can be supported by the grant funding

RISKS OR CONCERNS?

11. The sensitivity of very difficult future changes e.g. remuneration/network re-structuring, will challenge NFSP's ability to accept change within the framework of the agreement
   → NFSP reaction causes the agreement to be breached and terminated
12. New/young/retail orientated members fail to exert enough influence to rapidly change the organisation further
   → NFSP's focus remains weighted disproportionality to Post Office "issues" rather than growth and retail

In Conclusion

CONFIDENCE?

13. My confidence in the plan overall is medium. I remain convinced that restructured NFSP have a role to play in supporting our network – our mutual challenge will be to maintain a good, productive relationship when some business changes that impact postmasters are not well received and NFSP reactions to this are in conflict with our expectations.

IMPLICATIONS?

14. I will be looking to develop the relationship further, funded by the project grants, supported by external, neutral facilitation to ensure a better understanding of the role NFSP can play, both within Post Office and the NFSP itself.

Appendix

1. What was the rationale in establishing the agreement

Context
Post Office wishes to ensure that there is effective engagement between its branch operators and the management structures within the organisation – it is a very large, complex organisation made up of more than 8,000 separate businesses.

We believe a transformed NFSP can support this - a strong and credible body that is the voice of the UK's Post Office branch operators which can reflect views that add value to the overall Post Office customer proposition through effective challenge, contribution to business/operational/product development and also provide a range of benefits to operators.

Post Office's view is that supporting, via grant payments, the NFSP to transform itself and securing a future will be commercially beneficial to both Post Office and operators, by helping to drive the development of products and services which are more attractive and relevant to our customers and identifying opportunities to do things more efficiently and effectively.

Background
The current activity re-structuring the network (and the last decade's closures) has had a major impact on the NFSP – for many new operators, membership of what has been seen as a quasi-trade union is not particularly important. For many branches, the post office aspect will not be the prime part of their business, unlike for the majority of traditional subpostmasters, and therefore their inclination to view paid membership of NFSP as value for money will be lowered and membership was predicted to decline.

NFSP recognised this was a threat to the future of their organisation and in the main accepted that their traditional role would not exist in the future. They were therefore looking to move from a quasi-Trade Union role to a Trade Association type of organisation - representing the totality of the agency network and also have role in the wider retail interest of members rather than just the post office aspects.

Developing the Grant Agreement
Tied primarily to their agreement to a revised Network Transformation approach that includes mandated change for some aspects (the previous programme being voluntary), Post Office agreed to develop a approach with them that would provide long term funding and hence stability.

This has evolved into the completion of the Grant Agreement between Post Office and NFSP (see below for a summary of features) – the provision of annual and project grant payments to support the operation and development of NFSP whilst providing free membership for all postmasters.

Whilst in the past they have asserted a fairly typical trade union position of trying to negotiate as much as possible for their individual members without really recognising the bigger picture of the business as a whole, the Grant Agreement is seen as a significant opportunity for both organisations to introduce a new type of relationship - although this will not happen overnight and current ways of working can still be unpredictable

- The Grant Agreement was formally approved by the Board in June 2015 and signed in July 2015
- Free membership for postmasters on the new models was launched in October 2015 and to all postmasters from April 2016
- First payments for the Annual Plan were made in January 2016

Key Features

- The GA is based upon the principles brought to and endorsed by the Board initially in October 2013.
- This provides a 15 year funding arrangement (£1.5m pa annual grant + discretionary £1m pa project specific grants) for the NFSP and commits them to supporting Network Transformation, including acceleration of the final phase of Network Transformation. The project specific grants can only be accessed via business cases submitted against existing POL processes i.e. funding is not guaranteed.
- The annual grant enables the provision of free membership to all postmasters
- The agreement sets out specific activities NFSP can and cannot undertake, defining clear activities that would represent a breach of the GA which Post Office could then, if it chose, seek to rely on to terminate. This includes, amongst other things, any public activity which may prevent Post Office from implementing any of its initiatives, policies or strategies or other activities which may be materially detrimental to Post Office.
- It also ensures that the NFSP must become representative of the whole network – they must achieve and maintain a minimum membership of 50% of each operating model (Main, Local etc).
- In line with the original principles, the 15 year term does not have a "for convenience" break clause. However, the specific detail of termination events and the detailed definition of the last phase of NT built into the agreement are based on the principles brought to the board in October 2013 and the level of detail achieved through negotiation has strengthened Post Office's position. The agreement can be terminated in the event of the NFSP breaching the clear criteria as defined above.
- Therefore, whilst we envisage a 15 year agreement, we can and will terminate it against the specific requirements we've defined as termination events if it's not working – the 15 years is not guaranteed and expenditure beyond the annual grant will only be made on a case by case basis.
- The GA is intended to assist the NFSP on their journey from a trade union to trade association and enables a relationship between the organisations that supports the engagement, development and growth of thousands of small businesses.

CEO's Report

Author: Paula Vennells Meeting date: May 2016

Executive Summary

Context

Our goal for 2016–17 is to achieve EBITDAS of (£10m).

Our 3 year goals are:

1. To establish the foundations of a successful independent business.
2. To accelerate the transformation of Post Office and reach breakeven.
3. To secure commercial sustainability for the long term.

In summary, our strategy is to stabilise our income in mails and grow in financial services by focusing on the customer, moving up the value chain where suitable; modernise our physical and digital channels; streamline our support services; build a simpler, more cost effective operating model; alongside improving our colleague and network engagement.

Questions this paper addresses

1. What is on my mind? *(successes, challenges, opportunities and risks)*
2. What are the implications for our outlook and plans?

Conclusion

1. Building on a strong year end, we have had an encouraging start to this financial year with EBITDAS and income ahead of target.
2. Our transformation is on track and we have delivered some significant milestones in recent weeks, including completing separation from Royal Mail and opening our 6000th modernised branch.
3. We are entering a critical period in the restructuring of Post Office Ltd with multiple, associated industrial relations challenges.

Input Sought

The Board is invited to note the report and highlight any issues where a future discussion would be welcome.

The Report

Looking Back

WHAT HAS GONE WELL?

- Financial Performance – P1
  - → EBITDAS in P1 is £2.5m favourable driven by income from Financial Services and Government Services. It is £5m higher than a year ago.
  - → Performance was particularly strong in P1 on Credit Card and Home Insurance. Life Insurance, Banking, Identity and Passports also performed well.
  - → Total Expenditure was in line with budget, with Postmaster costs being £(1.1)m adverse (simply the flow down of improved income), offset by non-staff costs (£0.5m favourable) and Project Opex (£0.6m favourable).
  - → As it is P1, we have not provided a full financial report. A summary of P1 performance is attached at annex A. Al Cameron will provide an update at the Board meeting.

- Transformation
  - → As highlighted in the Transformation Update accompanying this report, we completed technical and contractual IT separation from Royal Mail Group at the end of March.
  - → There was some minor disruption but nothing significant or ongoing.
  - → This represents the conclusion of four years of hard work and collaboration across both businesses and major investment in the Post Office infrastructure.
  - → In addition, I accompanied Tim Parker to open our 6000th transformed branch in Nyetimber, West Sussex in early April. An outstanding achievement by the Network Transformation Team.

- NFSP Conference
  - → Last week Tim and I attended the NFSP's annual conference, along with other colleagues from Post Office Limited.
  - → The event was well-attended and the debate was lively; with a strong theme of creating a sustainable proposition for agents based on Post Office within a retail environment coming through.
  - → Feedback was very positive and the conference represented a significant milestone in the transformation that the NFSP is going through alongside POL.

WHAT HAS NOT GONE WELL?

- Financial Performance - P1
  - → Despite a strong overall performance in Financial Services, Mortgage, Savings, Travel Money and Travel Insurance were all below target for P1.
  - → Telecoms and Lottery were also behind target.
  - → Marketing plans are in place for Mortgage, Travel and Telecoms. We have also launched new mortgage products with some market-leading rates.

- Horizon
  - → As reported last week, we were subject to a significant incident with Horizon on 9th May.
  - → Between 8.55 am and 10.15 am, approximately 65% of transactions on Horizon failed to complete as the system began to degrade owing to memory issues. The system was brought back to full trading capacity by 10:30.
  - → This incident occurred following a week's live proving of the secondary system and following transfer back to the primary system which, with no changes to configuration, had run without incident for a year. It had also run on low volumes on the Sunday without incident.
  - → The incident was wholly unacceptable and has been the subject of a formal, contractual escalation with Fujitsu, who are working through the root cause.
  - → There was some media coverage on the day itself and the following day but this was relatively low-key and short-lived.
  - → A configuration change enabled the system to start operating effectively and no further issues have been experienced. However, we do not yet understand why that change had the impact it did and until we do we will not be switching between primary and secondary servers.
  - → We will revert to the ARC with a full root cause analysis and steps undertaken when our work is complete.

Looking Ahead

OPPORTUNITIES?

- Strategy
  - → The Group Executive and I dedicated two days earlier this month to discussing the future strategy for Post Office.
  - → These were highly productive discussions centred on how we become a consistently profitable business so we can invest from a position of strength; cement our position as the number one retailer of letters and parcels; continue to grow our financial services business; complete the restructuring of

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POL to be a much smaller, lower cost business that is aligned to the needs of retailers in our agency network.
→ Further work is now underway to prepare for the Board's strategy days next month.

- Project Paddington
  → Further to signing the Paddington deal with IRRELEVANT IRRELEVANT we have now finalised the detailed business case for the deal which is in line with the outline case signed off by the Board.
  → The business case payback period remains at 2.8 years although there have been small movements in investment costs and benefits.
  → Costs are now IRRELEVANT on the pre-contract signature assumption. This arises from updated branch build and redundancy costs following detailed costing work. The total EBITDAS benefits now stand at IRRELEVANT - an improvement of IRRELEVANT owing to IRRELEVANT IRRELEVANT

RISKS OR CONCERNS?

- Industrial Relations
  → We have entered into a critical period in delivering our restructuring with the associated challenges in industrial relations across the Crown network, Supply Chain, Customer Support Centres, pay and pensions.
  → We continue to have discussions with both CWU and Unite but the risk of industrial action across the business remains significant.

- Reorganisation
  → Last week we briefed the trade unions and colleagues in Finsbury Dials Customer Support Centre and Financial Services Sales teams about a number of proposed changes across the business.
  → These entail 105 redundancies alongside the removal of a significant number of vacancies.

- Iris
  → Following discussions with the trade unions yesterday, we informed colleagues today of our decision to withdraw from the external market and refocus Supply Chain on serving the needs of post offices.
  → This entails 594 redundancies and the closure of 9 operational units.
  → At the time of writing, it had received limited media coverage; we are monitoring this closely and will keep the Board informed.

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- Pathfinder
  - → The consultation on closing the defined benefit pension scheme to future accrual continues until the end of the month.
  - → Colleagues continue to appear to understand the business rationale for the proposed changes but are naturally concerned about the impact on them as individuals.
  - → There is a briefing for the Board and GE on this issue on 24 May.

In Conclusion

CONFIDENCE?	IMPLICATIONS?
It is too early in P1 to give a sense of confidence for the year but the start in terms of business performance and transformation is very encouraging, especially given the industrial relations climate.	Significant challenges still lie ahead in achieving our financial targets and most notably, in managing our industrial relations. Although the rationale for change is clear, the impact on colleagues affected is hard. We will provide them with as much support and guidance as we can going forward.

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Annex A

Period 1 – Financial Performance

	P1		
£m	**Actual**	**Budget**	**Variance**
TOTAL GROSS INCOME	**90.4**	**88.1**	**2.3**
Cost of Sales	(10.6)	(10.8)	0.2
TOTAL NET INCOME	**79.8**	**77.3**	**2.5**
Staff Costs	(21.4)	(21.5)	0.0
Postmaster Costs	(37.2)	(36.1)	(1.1)
Non-Staff Costs	(27.3)	(27.8)	0.5
Total Expenditure (pre Project OpEx)	**(86.0)**	**(85.4)**	**(0.6)**
FRES - Share Of Operating Profits	3.6	3.6	(0.0)
EBITDAS - BAU	**(2.6)**	**(4.5)**	**1.9**
Project OpEx	0.0	(0.6)	0.6
EBITDAS	**(2.6)**	**(5.1)**	**2.5**
Depreciation	(0.0)	(0.1)	0.0
Network Payment	7.7	7.7	0.0
EBIT pre exceptionals items	**5.1**	**2.5**	**2.6**

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Transformation Update

Author: Michael Brown Sponsor: David Hussey Meeting date: 24th May 2016

Executive Summary

Context

The Post Office is undertaking a complex transformation programme, designed to modernise our network and IT infrastructure, simplify our cost base and create the platform for customer-led growth. The core objective is to create a commercially sustainable business equipped to cope with lower levels of government funding after March 2018.

Questions this paper addresses

1. Overall, are we on track to deliver our key Transformation programmes?
2. What are the implications of any variance, for our outlook and plans?

Conclusion

1. Following a strong finish to 2015-16 we are on track to deliver our transformation plans:
   - We achieved key Transformation year end targets including modernising 1,904 branches, Crown Break-even, separation from Royal Mail and delivery of £63m of benefits vs a target of £51m, including and £54m of cost efficiencies.
   - The risk profile has improved and remains stable following conclusion of Trinity.
   - Automation of Post Office Card Account transactions in the Crown network is delayed.

2. The latest view of costs and benefits have been included in the three year plan.
   - We are on track to deliver Transformation financial benefits that are included in the three year plan.
   - The delay to automation of the Post Office Card Account transactions in Crown branches creates a £1.5m gap in the programme's benefits in 2016-17. Options to accelerate Crown Network Change activity to close the gap are being considered.

Input Sought

The Board are asked to note the progress made, key challenges faced and actions taken to address them.

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The Report

Looking Back

WHAT HAS GONE WELL (SINCE LAST PROGRESS REPORT IN MARCH)?

- Network Transformation
    - In 2015-16 we opened 1,904 modernised branches against a target of 1,850.
    - As at 9thMay we have 6,155 modernised branches open (3,009 Local and 3,146 Mains).
    - From our modernised network we have:
        - Contributed an extra 192,150 hours in the network which is the equivalent of 4,177 extra Post Offices operating core hours.
        - Reducing fixed pay to postmasters by £23m in 2015/16 and are forecast to save £31m in 2016/17.

- Crown Network Development
    - Subject to audit, the Crown network is forecast to exceed the break even target.
    - IRRELEVANT
    - These are key milestones in achieving our ambition of a Crown network going from break-even to a £10m profit run-rate by March 2018.

- Point-of-Sale Software (Trinity)
    - There have been no legal challenges following the termination of the Front Office contract with IBM and the extension of the Fujitsu contract for provision of the Horizon Point-of-Sale system.

- Separation
    - The programme to technically and contractually separate Post Office Ltd from Royal Mail has successfully completed.

- Delivery of Benefits
    - Transformation initiatives have delivered £63m of benefits in 2015-16 against a target of £51m.
        - £53.9m from cost efficiency savings including Crown and IT savings
        - £4.8m from project Hawk.
        - £4.6m from Network Transformation

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- Support Services Transformation
  - The new Call Centre in Chesterfield has been operational from 25th April, delivered 8 days early.
  - Delivery of benefits on track to start in July 2016, which enables delivery of annualised savings of £3.3m benefits in 2016/17 in line with the business case.

WHAT HAS NOT GONE WELL (SINCE LAST PROGRESS REPORT IN MARCH)?

- Crown Network Development
  - IRRELEVANT
  - This is due to issues with the technical interfaces between suppliers to verify the POCA PIN number. Resolving the issue requires significant development.
  - Options to accelerate Crown Network Change activity to close the gap are being considered with the Industrial Relations Steering Group.

Looking Ahead

UPCOMING ACTIVITY

- Support Services Transformation
  - Chesterfield Call Centre to increase operational capacity from 20 desks to 95 by the end May.
  - Closure of St Helens and Leeds sites with the work transferring to Chesterfield due at the end May.
  - One third of colleagues will transfer from the existing call centre in Dearne, and two thirds will be newly recruited and trained.

- Defined Benefit Pension Scheme
  - The consultation period has been extended to 31^{st} May to allow employees and their representatives to take the potential for redundancies into account when responding to the proposed changes to pensions.
  - Group Executive session on 24^{th} May will review progress with consultation.

- Project IRIS (Supply Chain Transformation)
  - Plans for Supply Chain will be communicated to colleagues on 17^{th} May
  - The programme plans are subject to consultation. Timelines and business case are currently on track.

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- Simple To Run Network
  - This programme's objective is to deliver an attractive retail proposition which is commercially sustainable for the Post Office.
  - A hypothesis to achieve this objective has been presented to the Group Executive and further detailed analysis is being undertaken ahead of the June Board.

- Transforming Agents Proposition
  - This programme has an objective to complete an integrated strategic review of our commercial model and relationship with our Agents.
  - The programme is currently in a design phase.

CONCERNS & RISKS

- Currently, we are not reporting any 'red' risks and are confident that delivery risks continue to be tightly controlled and managed.

- Risks are regularly reviewed within and across Transformation programmes, clear mitigation actions are agreed and broken down into manageable deliverables ensuring we are regularly reducing the probability and impact of these risks.

- There are three Transformation Programmes (Iris, Paddington and Pathfinder) which are entering a phase which will significantly increase the likelihood of industrial action. The IR Risk is well documented and managed by P&E, who work closely with the IR Steering Group to ensure this is managed, controlled and the impact is minimised.

In Conclusion

CONFIDENCE IN DELIVERING TRANSFORMATION?	IMPLICATIONS?
Our confidence in delivering Transformation continues to increase due to: 1, Achievement of key Transformation year end targets. 2, The risk profile remaining stable following conclusion of Trinity. 3, Progress across Transformation programmes is in line with plans.	We are on track to deliver Transformational financial benefits that are included in the three year plan. We need to continue to closely manage and mitigate risks in line with risk appetite.

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Risks do exist across the portfolio and there is an increased risk of industrial action as a result of Transformation activity.

Appendix – Programme Dashboard

PROGRAMME	RAG	EXPLANATION FOR RAG STATUS
Network Transformation	G	Delivered 2015-16 targets, on track for 2016-17 targets.
Crown Network Development	A	Subject to audit, the Crown network is forecast to exceed the break even target. IRRELEVANT IRRELEVANT
EUC Branch	A	The project remains at Amber status whilst we work through the commercials and confirm the end state support model for the Simple To Run Network environment.
Point of Sale Software	A	Good progress is being made against the delivery schedule for release 1 of Horizon improvements. Amber status pending baselining of plan and business case.
Back Office IT Transition	A	On track for delivery in September 2016. Amber status due to delays in agreeing exit plans with incumbent vendors.
Support Services Transformation	G	On track to deliver a rationalised, consolidated Support Services operation into Chesterfield by the end of July 2016 and annualised savings of £3.3m.
Simple To Run Network	A	Further detailed analysis required ahead of the June Board.
Transforming Agents Proposition	G	On track.
Defined Benefit Pension	A	Project will remain on amber until the outcome of the consultation period is known.

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The Post Office Advisory Council

Author: Jane Hill   Sponsor: Mark Davies   Meeting date: 24 May 2016

Executive Summary

Context

The Post Office Advisory Council (the Council) has been in existence for two years.

This paper is to update the Board on the background to its formation, the benefits it has brought and its future purpose.

Questions addressed in this report

This paper seeks to address the question: why is the Council important to the Post Office? The answer is twofold:

- it has developed and matured into a forum that makes a positive contribution.
- it symbolises a shift to more mutual ways of working by the Post Office. As the potential for mutual ownership of the Post Office is still part of the legislative framework in which we operate, the continuation of the Council supports this strand of public policy.

Conclusion

The Council is an essential conduit between the Board and its key stakeholders, providing a ready forum for engagement, feedback and discussion around key policy changes and future plans.

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The Report

What is the opportunity?

The Post Office Advisory Council (the Council) was established in March 2014 to provide a mechanism for the Post Office to engage stakeholders and to provide advice and feedback on business issues. (It is not part of the formal governance arrangements for the Post Office.) Terms of reference are in Annex 1.

Membership comprises employees, postmasters, representatives from the unions the NFSP and other businesses including Google and Unilever. Short biographies of members are in Annex 2. Members are not paid. The Council meets three times a year - in March, July and November - and is chaired by Non-Executive Director Tim Franklin.

The Public Affairs team acts as secretariat and also provide strategic oversight and delivery. Our approach during the first year was to bring all members up to the same level of knowledge about the Post Office, our strategy and the challenges we face. During the Council's second year we have moved to a more output-focussed approach, seeking input and insights from members on current issues. The Council is now starting to make a valuable contribution.

Business rationale for the Council

Two years on and seven meetings in, the Council has developed and matured into a forum that has the potential to make a positive contribution to the Post Office at an important time in its evolution. It acts as a critical friend, without being dominated by the interests of either the unions or the NFSP, while bringing the customer perspective as well as insights and experience from other sectors. The Council has become a useful sounding board on current business issues and for testing emerging thinking. Furthermore, members are an engaged and increasingly trusted group. They are also keen to continue with their roles.

Public policy rationale for the Council

The Council was established during the 2010-15 Coalition Government when mutualising the Post Office was a policy objective of Liberal Democrat ministers. A "path to mutualisation" was set out in the Government's response to a public consultation in 2012 – *Building a Mutual Post Office*. A number of pre-requisites were identified, the most important being "*achieving commercial sustainability*" and "*building a mutual culture*"[1]. On the latter, "*the input of those with an interest in the Post Office will be an essential ingredient in that cultural shift*"[2]. The creation of the

[1] Building a Mutual Post Office: The Government's response, July 2012 p.31
[2] Building a Mutual Post Office: The Government's response, July 2012 p.31

Post Office Advisory Council was to be a mechanism for achieving this cultural shift and there was an initial emphasis on the Council's stakeholder engagement role.

While mutualisation of the Post Office has slipped down the Government's agenda, the potential for mutual ownership is still part of the legislative framework in which we operate. The 2011 Postal Services Act provides for only two ownership models: to remain in government ownership or to become a mutual. Today the Council remains the biggest symbol of this mutualism strand of policy in which policymakers have a residual interest. Disbanding the Council at this point in time could be seen as a deliberate move against this strand of public policy.

Our current approach

Experience from recent meetings tells us that the Council adds most value when there is a clear live issue, or work in progress, on which we are asking for input, and the relevant business lead participates in the session. Over the past year we have aimed to have at least one such item on the agenda at each meeting.

Recent examples of these sessions have been:

Post Office Vision (March 2015): Council members challenged the purpose and clarity of an early draft, presented by the Communications Team, leading to a review of the purpose and content of the Vision.

Social purpose of the Post Office (November 2015): the Council was asked to consider how the social purpose of the Post Office should evolve in a commercially sustainable way, to help inform the businesses approach to negotiations with Government on future funding and strategy. Discussions during the session highlighted the importance of the economics for the agent – with differing perspectives from both the multiple represented on the Council, as well as independent postmasters. The session also underlined the role of agents as guardians of our social purpose, and the need for a more joined-up approach with their own initiatives to be part of their local communities.

Future approach to network design (March 2016): the Council was asked to consider how the Post Office could become a more attractive proposition for agents, to inform development of the Simpler to Run Network. The session provided some very clear areas for the Network team to focus on. For example, the need to simplify our products and operation, integrate better with a retailer, align online and store, and do more to promote opening hours.

Through its membership, the Council has also allowed us to foster closer links with, and to learn from, other businesses and sectors. Last year colleagues from People & Engagement were invited by Andrew Moys to attend the John Lewis Partnership Council, the organisation's main democratic body which represents partners and ensures the business is run on their behalf.

We have also benefitted from Google's membership of the Council with Google organising a workshop for Post Office colleagues to look at the opportunity for harnessing the benefits of technology.

Individual Council members have also supported commercial teams, with both their professional expertise and perspective as customers. For example, Marcus Buck, who joined Unilever as a marketing management graduate trainee and is now responsible for one of their global brands, has been working with the Post Office Head of Brand. And Rebecca Glenapp, who runs a successful e-Commerce business, took part in some consultation work that has helped us refine our offer to SMEs.

What do we need to do next to progress?

We intend to develop our approach to the Council, utilising the skills and experience of members to benefit the business.

Each Council meeting agenda will have at least one "work in progress" item, on which we ask for input, with the relevant business lead participating in the session. We will do so by working with the Strategy team to set each agenda, and with the business lead for each agenda item setting clear objectives for the session.

The Council's Terms of Reference set out that, in addition to the Chairman, a second Non-Executive Director would become a member. Neil McCausland took on this role until he stood down from the Post Office last year. Rather than replace him, we propose to invite non-executive members of the Board to attend Council meetings on a rotating basis instead. A list of future Council meeting dates is at Annex 3.

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Appendix

1. Terms of Reference
2. Members' biographies
3. Future Council meeting dates

1. Terms of Reference

PURPOSE

The Post Office Advisory Council (Council) exists to provide a forum for Post Office stakeholders and other experts to discuss issues of interest and importance that impact on customers, stakeholders and their communities.
The Post Office Board of Directors provides the primary governance of Post Office Limited (Post Office).

ROLE

The role of the Council is to:

- provide a two-way channel of communications between the Post Office and its stakeholders
- provide a mechanism for stakeholders and experts to offer views and advice to Post Office Board and the Group Executive on subjects brought to it
- increase understanding and strengthen relationships between Post Office, its stakeholders and wider interest groups
- provide a community for advocacy and communication of Post Office issues

The Council

- is not part of the formal governance arrangements of the Post Office
- is not a representative body
- has no decision-making authority
- may provide advice and views on matters brought before it but neither the Post Office Board nor the Group Executive is required to act on that advice or those views

MEMBERSHIP

The Chairman will be appointed by the Post Office Board and will be one of the Board Non-Executive Directors.

There shall be about twenty members plus two Non-Executive Directors of Post Office. Other attendees will be members of the Group Executive (as required by the agenda), and guests as may be invited from time to time at the discretion of the Chairman.

In the absence of the Chairman, a Council meeting may be chaired by any Post Office Non-Executive Director in attendance who is appointed to act as Chair by the members.

Members will be selected to provide a diverse and balanced mix of skills, experience and stakeholder representation. Selection will be through a mix of invitations for nominations from key stakeholder groups and advertised competition, with interviews to ensure the membership has a strong mix of skills, and fully reflects the geographical, stakeholder, social, community and commercial interests. The aim is to ensure members represent views from the following broad categorisation of areas.

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

Initial appointments will be for periods of two, three or four years to ensure continuity of membership. Thereafter members will generally be appointed for a term of four years, renewable upon application for further terms of one year at the discretion of the Chairman.

There is no right to renew membership and renewal may be refused on any reasonable grounds including the need to refresh membership in order to stimulate fresh debate.

Membership will be terminated if a member misses two meetings within the term of their appointment.

CONDUCT OF MEETINGS

All members will be given reasonable written notice of meetings.

Meetings will be held three times a year, and will last a full morning.

Members cannot send deputies except in the case of corporate members whose attending member is unavailable. No deputy shall be allowed to attend unless approved in writing in advance by the Post Office.

Members cannot bring guests unless approved in writing in advance by the Post Office.

All meetings shall be treated as confidential unless otherwise specified.

Recording of meetings on any form of media is not permitted.

Any member may be requested to leave a meeting if in the absolute discretion of the Chairman he believes the member's conduct is or is likely to be detrimental to the purpose of the Council and the overriding objective of a constructive exchange of views and debate.

The Chairman will feed back the views of the Post Office Board and Group Executive at each meeting.

Following each Council meeting, the Chairman will provide feedback to the Post Office Board and Group Executive as appropriate.

EXPENSES

Members will not be paid, but will be reimbursed reasonable out of pocket expenses for attending meetings upon production of written receipts for the expenses incurred. If there is any dispute as to the extent of any expenses to be recovered, the Chairman's decision will be final and binding.

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GOVERNANCE

The Post Office Secretariat will attend all meetings, and take a note of proceedings and discussions at meetings.

Agendas and a summary of minutes of Council meetings will be published, redacted where appropriate to protect confidential information and circulated to members.

The agenda will be set by the Post Office. Requests for items to be included on the agenda should be made to the Chairman in writing (including email). The Chairman is not obliged to accept any item on to the agenda.

If the Chairman does accept an agenda item, he may request that the point under discussion be supplemented or supported by an accompanying document or documents. Failure to supply any supporting documents reasonably requested by the deadline given will lead to withdrawal of the item from the agenda.

February 2015

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2. Members' biographies

Elizabeth Armstrong

Elizabeth has a background in customer services for Nationwide Building Society where she was also National Executive Officer and Individual Cases Officer for the Nationwide Group Staff Union. Now retired Elizabeth is involved in local politics and is a parish councillor. Not only does she bring a background of working in the financial services area she also has a keen interest in enhancing services for rural communities.

Theo Bertram

Theo Bertram is Head of Public Policy and Government Relations at Google UK. Prior to joining Google in 2011, Theo was Head of Public Affairs at Telefonica O2. Between 2006 and 2010, he was a Special Adviser to the Prime Minister for both Tony Blair and Gordon Brown and was Head of the Research and Information Unit at 10 Downing Street.

Marcus Buck

Marcus was born and grew up in Liverpool. After graduating from Cambridge University with a degree in History he worked for a large advertising agency on campaigns for Radox, Santander and Boots. He then joined Unilever as a graduate trainee in their Marketing function, he has also been the Brand Manager for Dove Men+Care.

Andy Burrows

Andy Burrows is the Head of Post Office Policy for CITA. He leads the organisation's work to promote the consumer interest in all aspects of Post Office services, including the quality, accessibility and sustainability of the branch network. His work programme also explores potential new services which could be offered through the Post Office, including government services, credit unions and banking solutions for low-income consumers.

Andy previously worked for a predecessor body, Postwatch, managing its consumer scrutiny and research programme; and before that undertook research projects for think tanks.

Tim Coomer

Tim has a background in rural retailing and has worked for a FMCG wholesaler before spending some time working for Community First where his work involved managing successful support, advisory and training programmes tailored for rural retailers and postmasters across the south west. Tim has a wide range of experience with both independent and community retail coupled with an extensive knowledge of issues faced by both rural communities.

Pardeep Duggal

Pardeep is Head of Digital Marketing at E.ON. Pardeep's team manage the E.ON website, mobile app and email campaigns, as well as digital marketing including social, paid activity and working with third parties.

Prior to joining E.ON, Pardeep worked in retail and financial services, always in marketing, and moved into digital during its infancy.

Chris Feliciello

Chris is an Area Manager for a high street chain and has worked for them for over 20 years, holding a variety of positions in Yorkshire, Greater Manchester and North Wales. Chris sits on Community Pharmacy Wales, supporting the interests of community pharmacies in Wales.

Tim Franklin (Chair)

Tim Franklin joined the Board of Post Office Limited as a Non-Executive Director on 19 September 2012. He has 30 years experience working at board level in a variety of financial services businesses in both the mutual and private sectors.

David Foley

David is the Chief Executive of three Chambers of Commerce, an Industrial Professor at East Kent College and a Director of Academy FM, Dover People's Port Trust and Thames Capital Ltd. He sits on the board of a variety of community organisations and private companies in different sectors of the economy.

Rebecca Glenapp

Rebecca Glenapp launched LUX FIX with Alice Hastings-Bass in the summer of 2012. Rebecca started her career in strategy consulting before leaving to work in business development for digital start-ups for several years. The aim behind LUX FIX was to build a business that offered an alternative to mass-market brands, working with independent designers who provide the quality in materials and design without the normal "designer" price tag. They now have over 150 designers on the site and have launched e-shops for the Telegraph, Independent and Evening Standard fashion teams.

Farida Iqbal

Farida has been working with Post Office Ltd for 18 years in a variety of different roles and has seen the business adapt to the changing needs of its customers. Farida's experience includes working as a counter clerk at Crown branches, supporting teams in the agency network, working with payment services on tenders for energy and water utilities and she now works on the Network Transformation Programme.

Nilesh Joshi

Nilesh Joshi, is the National Executive Officer of the National Federation of Subpostmasters. He has been an active member of the Federation for the last 15 years and joined the executive team after taking various roles at branch and regional level.

In November 1990, Nilesh became the postmaster of the Forest Hill Road branch in East Dulwich, which he still runs. In 2009 the branch won the Asian Trader Independent Retailer of the year.

Marc Kidson

Marc is the Chair of the British Youth Council, a national youth campaigning charity, and has been a researcher at the Institute for Government, a cross-party think tank helping to improve the effectiveness of government. He served on the Post Office's Stakeholder Forum from October 2011 to December 2013, looking at how the Post Office defines its public purpose as an organisation.

Ben Lucas

Ben Lucas has a background as Chair of Public Services at the RSA. He is a public policy and communications entrepreneur and has worked at the heart of the public policy world for over three decades. He was previously founding Director of the 2020

Public Services Trust. He began his working life as the research officer for the construction union, UCATT; before becoming Jack Straw's adviser during the mid-1990s. Following this, he co-founded and became Managing Director of LLM Communications, which became the leading independent public affairs advisory firm in the UK. Ben is a founding Trustee of the think tank, New Local Government Network, and an adviser to the Joseph Rowntree Foundation.

Ismail Loonat

Ismail has around twenty years' experience as a postmaster and over the years has built a strong rapport with the local community and businesses. Ismail's efforts were acknowledged when he was one of finalist for the Royal Mail Chair excellence award in 2009.

More recently, his Post Office obtained funding from the Post Office Community Enterprise Fund. Ismail is an active community worker and has been a volunteer for numerous charities.

Andrews Moys

Andrew has recently moved on from his role of Director of Communications at John Lewis Partnership. He managed the Partnership's communications team of 25 with responsibility for government and media relations, internal communications including the Partnership's weekly magazine, The Gazette and the John Lewis Partnership website.

Andrew started his career in management consultancy, before specialising in corporate communications working for BAA, the world's largest airports company, and then at Cadbury, the global confectionery brand.

Brian Scott

Brian Scott is the Unite Officer for the CMA Sector of Unite. His responsibilities are for all Unite members in the postal sector. Other areas for which Brian is responsible are the European Social Dialogue and the Uni-Europa Postal Committee.

Brian has been a member of the Labour Party for over 30 years and is currently chair of the Tywford branch. He joined the Post Office in 1974 and worked in BT for a number of years before taking on his current role. He was a member of the CMA Executive Council from 1984 to 1991 and held the position of National Vice-Chair for three years and was Chairman of the Telecom Executive Committee for 4 years during this period. He was made a National Honorary Member of the CMA in 1992.

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Lynn Simpson

Lynn is a full time union representative for the Communication Workers Union. This year she was elected onto the Postal Executive of the CWU, the first woman from Post Office to hold this position

Other positions she has held include Area Health and Safety, Industrial Relations, Area Representative and Territorial Chair of the Southern Territory. She has been involved in various joint working programmes including several National Duty reviews and a new way of working trial which had staff engagement, customer satisfaction and increased income at the heart of the pilot.

Nicholas Stuart

Nicholas is an NHS Consultant Cancer Specialist working in North Wales as a Professor of Cancer Studies at the University of Bangor. Nicholas has worked in North Wales for the past 21 years having previously trained in Southampton, Birmingham and Oxford. Previously Nicholas has been Lead Cancer Clinician for North Wales Cancer Network and Chair of the Welsh Forum of Local Negotiating Committees. He is involved with a number of charitable groups including those that raise funds to help local cancer services in North Wales and with the Northwest Cancer Research Fund based in Liverpool.

Kevin Twynholm

Kevin is a lifelong retailer with a passion for innovation and meeting the ever-changing needs of customers. He currently works for One Stop Stores Ltd overseeing Retail Projects, Store Productivity and Services.

He has been involved with the Post Office Network Transformation programme since the days of Post Office Essentials and has led the conversion of over 100 branches to the new Local and Mains models.

Donna Underhill

Donna joined the Post Office in 2004 as a counter clerk and has worked in various roles in the Crown Network before becoming Branch Manager 6 years ago. Previously Donna has worked with First Friday and has been influential on all aspects of the Crown Leadership Excellence Programme which has underpinned the whole vision strategy.

3. Future Council Meeting Dates

6th July 2016

2nd November 2016

15th March 2017

5th July 2017

8th November 2017

POMS Update to Post Office Board

Author: Nick Kennett Meeting date: May 2016

Executive Summary

Context

Post Office Management Services (POMS) was established in late 2014 as a wholly owned subsidiary of the Post Office Limited, to develop the consumer insurance business. POMS launched a travel insurance proposition in early 2015 and became directly regulated by the FCA as an insurance intermediary in June; in October 2015 POMS acquired the Post Office insurance business from Post Office Limited, which had acquired it from the Bank of Ireland (UK) plc (BoI).

At its IRRELEVANT meeting, the IRRELEVANT board approved a five business strategy. It is proposed that a summary of this strategy is presented to the Post Office Board in July.

Questions this paper addresses

1. What progress was made in 2015/16 towards delivering the strategic objectives?
2. What return on investment will IRRELEVANT achieve?
3. What is the strategic plan for IRRELEVANT and will this deliver the long term growth anticipated in the FS strategy plan?
4. What are the key risks to the delivery of the Plan and what is the level of confidence for its delivery?

Conclusion

1. In 2015/16 IRRELEVANT completed many of the key building blocks as anticipated in the long term strategy and the value opportunity from the business model is being realised; core board, risk and governance structures are operational.
2. After a slow start, with IRRELEVANT completing later than originally budgeted, 2015/16 EBITDA (excluding exceptional costs) was IRRELEVANT exceeding Q2 forecast by IRRELEVANT IRRELEVANT paid Post Office Limited commissions of IRRELEVANT in the year. The 2016/17 budget targets a IRRELEVANT
3. The near term focus is to IRRELEVANT

IRRELEVANT

4. The key financial risk to the current plan is IRRELEVANT

IRRELEVANT

IRRELEVANT

Input Sought

The Board is asked to note the progress made and confirm support to the strategic direction and business intent set out.

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The Report

Looking Back

1. The overarching strategy and rationale in establishing IRRELEVANT is to:
   a.
   b. IRRELEVANT
   c.
   d.

2. Overview of 2015/16

WHAT HAS GONE WELL?

1. EBITDA (before exceptional costs) in 2015/16 was IRRELEVANT; this was below the annual plan of IRRELEVANT mainly due to a IRRELEVANT IRRELEVANT completing later than originally budgeted. However, the position exceeds the Q2 EBITDA forecast following a strong focus on income recovery and cost control.

2. Following the establishment of IRRELEVANT in 2014 and its management of the IRRELEVANT IRRELEVANT delivered a number of the core building blocks for the long term FS strategy in 2015/16, including:
   → POMS became authorised and regulated by the FCA in June 2015;
   → POMS and Post Office signed sales and distribution, brand and services agreements, with Post Office becoming the Appointed Representative (AR) of POMS, under POMS' principal status;
   → IRRELEVANT
   → IRRELEVANT
   →

3. In particular following IRRELEVANT, POMS has established clear organisational and governance processes and controls, including:
   → Organisation structure complete, integrating existing Post Office POI IRRELEVANT and selected recruits (in particular risk, strategy and product) into a single, focused team;
   → Board structure complete with the addition of a second INED, as Chair of the POMS Audit, Risk and Compliance Committee;

→ Executive management structures in place in accordance with FCA principals, with Executive, Risk & Compliance and Product Committees operational;
→ Operational processes established with Post Office to drive sales, marketing, digital and service activities; IRRELEVANT IRRELEVANT

4. Projects to build IRRELEVANT capability to deliver the long term strategy are well advanced and will deliver in 2016/17:

→ IRRELEVANT
→ IRRELEVANT

5. In Q3 and Q4 General Insurance sales have been strong, with Home Insurance generating record annual sales and life having strong year-end momentum:
→ Sales momentum has continued into P1.
→ As at March 2016 IRRELEVANT had sufficient capital and funding to meet its operational and regulatory requirements. As at March 2016, the regulatory capital was IRRELEVANT

6. In conclusion, IRRELEVANT is well established to deliver the opportunities forecast in the original business plan:
→ Financial and operational momentum are established;
→ Management and governance processes are in place;
→ IRRELEVANT is gaining control of customer proposition and process design from third parties;
→ Initial capability acquired to deliver long term strategic objectives.

WHAT HAS NOT GONE WELL?

1. In 2015/16 IRRELEVANT
→ Net commission income in 2015/16 was IRRELEVANT as a result of lower branch sales and delays launching on aggregator websites;
→ IRRELEVANT and Post Office are IRRELEVANT IRRELEVANT

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→ IRRELEVANT

2. 2015/16 operating costs were IRRELEVANT from higher contact centre costs and IRRELEVANT being dependent on consultants and contractors ahead of IRRELEVANT
   - → Contact centre costs have been brought down and we are working with our provider (WebHelp) to bring this down further;
   - → Consultancy costs have been cut, in particular for compliance services, as third party team have been replaced by specialist IRRELEVANT staff.

Looking Ahead

STRATEGY OVERVIEW & OPPORTUNITY

1. The 2016/17 budget targets an EBITDA of IRRELEVANT with income IRRELEVANT
   IRRELEVANT

2. IRRELEVANT has updated its business strategy[1] targeting to build a sustainable competitive advantage and grow market share by;
   - →
   - →
   - →

   IRRELEVANT

3. In 2016/17 we will continue to build the capabilities required to realise IRRELEVANT potential:
   - → IRRELEVANT

[1] The strategy is being discussed for approval at the May 2016 IRRELEVANT Board meeting.

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4. IRRELEVANT

5. IRRELEVANT

6.

RISKS ON DELIVERY

There are a number of risks that need to be reviewed and managed accordingly, including:

1. IRRELEVANT

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IRRELEVANT

IRRELEVANT

3. The next stage of IRRELEVANT development is dependent on IRRELEVANT

IRRELEVANT

4. IRRELEVANT could under-estimate the complexity and capabilities required to take on the responsibilities undertaken by IRRELEVANT

5. IRRELEVANT

In Conclusion

CONFIDENCE?	IMPLICATIONS?
Overal IRRELEVANT s well positioned to deliver on the long term growth plan. Key strategic deliverables in 2016/17 are critical and will provide the structure for the future.	Failure to deliver will impac IRRELEVANT financial growth and return on investment. IRRELEVANT is focused on working with Post Office to build confidence that is it able

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IRRELEVANT is very dependent on Post Office delivery and IRRELEVANT IRRELEVANT remain a concern.
My overall confidence that IRRELEVANT will deliver 2016/17 plan is **good** and on the long term plan is **balanced**.

to deliver in-branch sales targets compliantly, effective marketing support and digital capability.

Nicholas Kennett
CEO, POMS
May 2016

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Data Dashboard

2016/17 Plan

The proposed 2016/17 Plan is for net income of IRRELEVANT
IRRELEVANT

IRRELEVANT 16/17 vs 15/16	15/16 Q3 Forecast	16/17 Plan	Var	15/16 Forecast Re-stated onto Annualised Basis	Var to 16/17 Plan	
	£m	£m	£m	£m	£m	%
Gross Income	IRRELEVANT					
Cost of Sales						
Net Income						
Staff Costs						
Non-staff Costs						
POL Commission						
Total Expenditure						
EBITDA						
EBT						

The mid-year 2015/16 acquisition of the IRRELEVANT business from IRRELEVANT has a distorting effect on year-on-year comparisons. To remove that distortion, a restated 2015/16 comparator has been calculated on a current run rate basis, excluding any unique one-offs, to give a like-for-like view.

Against this restated comparator, IRRELEVANT with IRRELEVANT growth more than offsetting a decline in IRRELEVANT The Plan for total operating costs is flat at IRRELEVANT with savings in operating costs off-setting increased staff costs (reflecting the expansion of the IRRELEVANT team headcount) and increased POL commissions due to increased net income. Together these result in an EBITDA of IRRELEVANT IRRELEVANT than the latest Q3 2015/16 forecast and IRRELEVANT than the post IRRELEVANT adjusted forecast. However, planned EBITDA continues to include an unallocated income stretch of IRRELEVANT (actions have been identified in order to deliver the cost stretch).

The plan profit increase IRRELEVANT excess capital.

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IRRELEVANT Update to Post Office Board

Author: Nick Kennett Meeting date: May 2016

Executive Summary

Context

Post Office Management Services IRRELEVANT

IRRELEVANT

At its IRRELEVANT meeting, the IRRELEVANT Board approved a five year business strategy. It is proposed that a summary of this strategy is presented to the Post Office Board in July.

Questions this paper addresses

1. What progress was made in 2015/16 towards delivering the strategic objectives?
2. What return on investment will IRRELEVANT achieve?
3. What is the strategic plan for and will this deliver the long term growth anticipated in the FS strategy plan?
4. What are the key risks to the delivery of the Plan and what is the level of confidence for its delivery?

Conclusion

1. In 2015/16 IRRELEVANT completed many of the key building blocks as anticipated in the long term strategy and the value opportunity from the business model is being realised; core board, risk and governance structures are operational.
2. After a slow start, with IRRELEVANT completing later than originally budgeted, 2015/16 EBITDA (excluding exceptional costs) was IRRELEVANT exceeding Q2 forecast by IRRELEVANT IRRELEVANT paid Post Office Limited commissions of IRRELEVANT in the year. The 2016/17 budget targets a IRRELEVANT growth in IRRELEVANT income and a IRRELEVANT growth in EBITDA.
3. The near term focus is to continu IRRELEVANT

   IRRELEVANT
4. The key financial risk to the current plan is the IRRELEVANT

   IRRELEVANT

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Input Sought

The Board is asked to note the progress made and confirm support to the strategic direction and business intent set out.

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The Report

Looking Back

1. The overarching strategy and rationale in establishing IRRELEVANT is to:
    a.
    b.
    c.
    d.

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2. Overview of 2015/16

WHAT HAS GONE WELL?

1. EBITDA (before exceptional costs) in 2015/16 was IRRELEVANT this was below the annual plan of IRRELEVANT mainly due to IRRELEVANT IRRELEVANT completing later than originally budgeted. However, the position exceeds the Q2 EBITDA forecast following a strong focus on income recovery and cost control.

2. Following the establishment of IRRELEVANT in 2014 and its management of the IRRELEVANT IRRELEVANT delivered a number of the core building blocks for the long term FS strategy in 2015/16, including:
    →
    →
    →
    →
    →

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3. In particular following IRRELEVANT has established clear organisational and governance processes and controls, including:
    → Organisation structure complete, integrating existing IRRELEVANT and selected recruits (in particular risk, strategy and product) into a single, focused team;
    → Board structure complete with the addition of a IRRELEVANT IRRELEVANT
    → Executive management structures in place in accordance with FCA principals, with Executive, Risk & Compliance and Product Committees operational;

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→ Operational processes established with Post Office to drive sales, marketing, digital and service activities; IRRELEVANT IRRELEVANT

4. Projects to build IRRELEVANT capability to deliver the long term strategy are well advanced and will deliver in 2016/17:

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5. In Q3 and Q4 General Insurance sales have been strong, with Home Insurance generating record annual sales and life having strong year-end momentum:
   → Sales momentum has continued into P1.
   → As at March 2016 IRRELEVANT had sufficient capital and funding to meet its operational and regulatory requirements. As at March 2016, the regulatory capital was IRRELEVANT

6. In conclusion, IRRELEVANT is well established to deliver the opportunities forecast in the original business plan:
   → Financial and operational momentum are established;
   → Management and governance processes are in place;
   → IRRELEVANT is gaining control of customer proposition and process design from third parties;
   → Initial capability acquired to deliver long term strategic objectives.

WHAT HAS NOT GONE WELL?

1. In 2015/16 IRRELEVANT
   → Net commission income in 2015/16 was IRRELEVANT as a result of lower branch sales and delays launching on aggregator websites;
   → IRRELEVANT and Post Office are IRRELEVANT
   → IRRELEVANT

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2. 2015/16 operating costs were IRRELEVANT from higher contact centre costs and IRRELEVANT being dependent on consultants and contractors ahead of IRRELEVANT
   → Contact centre costs have been brought down and we are working with our provider (WebHelp) to bring this down further;
   → Consultancy costs have been cut, in particular for compliance services, as third party team have been replaced by specialist IRRELEVANT staff.

Looking Ahead

STRATEGY OVERVIEW & OPPORTUNITY

1. The 2016/17 budget targets an EBITDA of IRRELEVANT with income IRRELEVANT IRRELEVANT

2. IRRELEVANT has updated its business strategy[1] targeting to build a sustainable competitive advantage and grow market share by;
   → IRRELEVANT
   →
   →

3. In 2016/17 we will continue to build the capabilities required to realise IRRELEVANT potential:
   → IRRELEVANT

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[1] The strategy is being discussed for approval at the May 201 IRRELEVANT ard meeting.

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RISKS ON DELIVERY

There are a number of risks that need to be reviewed and managed accordingly, including:

1.

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2.

3. The next stage of IRRELEVANT development is dependent on IRRELEVANT

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4. IRRELEVANT could under-estimate the complexity and capabilities required to take on the responsibilities undertaken by IRRELEVANT

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5.

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In Conclusion

CONFIDENCE?	IMPLICATIONS?
Overall IRRELEVANT is well positioned to deliver long term growth plan. Key strategic deliverables in 2016/17 are critical and will provide the structure for the future. IRRELEVANT is very dependent on Post Office delivery and IRRELEVANT IRRELEVANT remain a concern. My overall confidence that IRRELEVANT will deliver 2016/17 plan is **good** and on the long term plan is **balanced**.	Failure to deliver will impac IRRELEVANT financial growth and return on investment. IRRELEVANT s focused on working with Post Office to build confidence that is it able to deliver in-branch sales targets compliantly, effective marketing support and digital capability.

Nicholas Kennett
CEO, POMS
May 2016

Data Dashboard

2016/17 Plan

The proposed 2016/17 Plan is for net income of IRRELEVANT IRRELEVANT

IRRELEVANT 16/17 vs 15/16	15/16 Q3 Forecast	16/17 Plan	Var	15/16 Forecast Re-stated onto Annualised Basis	Var to 16/17 Plan	
	£m	£m	£m	£m	£m	%
Gross Income	IRRELEVANT					
Cost of Sales						
Net Income						
Staff Costs						
Non-staff Costs						
POL Commission						
Total Expenditure						
EBITDA						
EBT						

The mid-year 2015/16 acquisition of the IRRELEVANT business from IRRELEVANT has a distorting effect on year-on-year comparisons. To remove that distortion, a restated 2015/16 comparator has been calculated on a current run rate basis, excluding any unique one-offs, to give a like-for-like view.

Against this restated comparator, IRRELEVANT with IRRELEVANT growth more than offsetting a decline in IRRELEVANT The Plan for total operating costs is flat at IRRELEVANT with savings in operating costs off-setting increased staff costs (reflecting the expansion of the IRRELEVANT team headcount) and increased POL commissions due to increased net income. Together these result in an EBITDA of IRRELEVANT IRRELEVANT than the latest Q3 2015/16 forecast and IRRELEVANT than the post IRRELEVANT adjusted forecast. However, planned EBITDA continues to include an unallocated income stretch of IRRELEVANT (actions have been identified in order to deliver the cost stretch).

The plan profit increases IRRELEVANT excess capital.

Annual Report and Accounts 2015/16

Author: Dave Carter Sponsor: Alisdair Cameron Date: May 2016

Executive Summary

Context

1. The draft 2015/16 Annual Report and Accounts (ARA) is presented to the Board for review.

2. POL usually signs and publishes its ARA at the end of June or the first week of July. This timetable has been maintained, giving an extended post balance sheet review period to provide further assurance over the completeness and accuracy of the results.

3. The papers comprise a draft ARA, a briefing book setting out details of the financial results and a report from Ernst & Young on their findings to date.

4. This draft of the ARA has been slightly updated for individual comments from the version sent to the ARC but has not benefited from the debate at the ARC which meets on 19th. It is proposed that the Chairman of the ARC presents a verbal update for the Board summarising the ARC's discussions. However, if there are material re-writes proposed, we will let you know.

5. The Board is being asked to delegate authority to the ARC to approve the ARA on its behalf. It is proposed that a short ARC call is arranged for the end of June to confirm the completion of the work, review any findings and agree that the ARA can be signed and published, within the Board's delegated authority.

Questions

6. The following questions are addressed:
   - In summary, what were POL's financial results for 2015/16?
   - What is the status of the work to support the ARA?
   - What issues are we drawing to the Board's attention in their review?

The Main Report

Financial Results

7. Post Office made an operating profit of £105m and an EBITDAS loss of £24m in 2015/16. This represented a significant improvement in EBITDAS from a loss of £57m in the previous year. Commercial turnover was broadly flat at £981m, with total revenue declining with the planned reduction in the Network Support Payment. Progress towards break-even has been made by reducing net costs, especially through the impact of Network Transformation on agents' pay and in spite of higher pensions and bonus costs.

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8. Overall, in line with our plans and budgets, POL is in a temporary period when we are spending more on transformation than we receive through the declining Government Grant. As a result, we uses more of our facility with government, increasing borrowings by £155m to £465m, against a limit of £950m.

Audit Status

9. As previously discussed with the ARC, given the need to strengthen the financial control environment, additional accounting and audit procedures are being carried out. The bulk of this work is finished.

10. No significant issues have been identified in the work to date. Internal POL reviews have identified a number of small adjustments, netting at a £1.2m reduction in EBITDAS, which have been adjusted for in this draft of the ARA. The ARA also reflects some judgemental adjustments agreed with EY and summarised in their report: these net to a £0.1m reduction in profit, with no impact on EBITDAS.

11. As agreed with the ARC, procedures will be completed during the next few weeks and updated with ongoing reviews of post year end transactions.

Matters for the Board's attention

Basis of preparation

12. The financial statements have been prepared on a basis that is consistent with prior years, including the assumption that POL is a going concern. The logic underpinning this assumption is set out in section 12 of the Briefing Book.

13. Nonetheless, the Board has recognised that the longer term financial stability of POL is uncertain, with no funding or facilities guaranteed after March 2018. We have therefore continued to impair the bulk of our capital expenditure and intangible assets in the year in which it is incurred. The amount written off in 2015-16 was £136m (2014-15 £140m) and further details are set out in section 19 of the Briefing Book.

14. The exceptions to this policy have been freehold property and long leasehold property and land, reflecting their long term economic value independent from business activities.

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Restatement

16. As disclosed in the Interim report and accounts, the comparative figures for the year ended 29 March 2015 have been restated. The provision for postmasters' compensation, included in Network Transformation, has now been fully recognised in the results for the year ended 29 March 2015. The restatement affects exceptional costs, provisions and retained earnings as set out in the table below. Within this report, the comparative income statement, statement of comprehensive income, balance sheet and statement of changes in equity for the year ended 29 March 2015 have been restated. There has been no effect on the cash flow statement.

	As previously reported	Restatement	29 March 2015 Restated
Total provisions	(63)	(87)	(150)
Shareholders' funds (retained earnings)	(72)	(87)	(159)
Profit/(loss) for the year	(54)	(87)	(141)

Discontinued Operation

17. Prior to the year end the business took the decision to discontinue the Mobile telephony operation. In consultation with EY, this has been treated as a Discontinued Operation in the financial statements, reported below EBITDAS and Operating Profit.

18. The net impact is a £2.8m increase in 2015-16 EBITDAS (2014/15: £3m) as operating costs of £3m and income of £0.16m are removed. Within Discontinued Operations, the total impact is a £10m cost, additionally reflecting £3.7m of balance sheet write-offs (2014/15: £1m) and £3.5m of provisions relating to estimates of exit and termination costs.

Disclosures

19. In the draft ARA, we have made some reductions in the amount of disclosure. The ARC previously took the view that we should no longer be seeking to comply with the Combined Code as an objective in itself, given the associated costs and bureaucracy. As a result, some disclosures are optional.

20. In summary, we have removed the segmental reporting note as the key information is already stated in the Financial and Business Review. We have retained a section on Risks. We have removed the very detailed report on Directors' Remuneration. However, on the advice of our shareholder, we have put more disclosure around directors' remuneration in the notes to the accounts than is required by legislation, including a table of individual earnings and a brief explanation of the incentive plans.

21. In the note on Commitments (Note 19 to the Group Financial Statements), we have included a general statement headed "Contingent Liabilities", noting that from time to time we may face legal claims and concluding that "The Directors do not consider the outcome of any current claim or action will have a material adverse impact on the consolidated position of the Group."

22. We have been notified by a law firm of a claim on behalf of a group of 91 Postmasters. The claim has been filed in the High Court, but has not been formally served on us. Among the claimants are individuals who we believe may not participate in a class action, either because they are time limited, have criminal convictions or have previously reached a full and final settlement with us. The claim is not valued and no new information has been provided.

23. Clearly, no provision has been raised as we think the chances of making a payment that we can reliably estimate is remote. In addition, we have concluded that to disclose the existence of the claim would give it a spurious importance. EY are keen that the ARC and the Board debate this point and have recommended it is disclosed. Potential, additional wording might be: *"A High Court Claim has been issued on behalf of a number of Sub-postmasters against Post Office in relation to various legal, technical and operational matters. Full Particulars of Claim have not yet been received by Post Office."*

Input Sought

24. The Board is requested:

- to review and comment on the draft Annual Report and Financial Statements for 2015-16;
- give delegated authority to the ARC to approve the Annual Report and Financial Statements; and
- give delegated authority to the Chairman, the Chief Executive and the Chief Financial Officer to sign the Annual Report and Financial Statements following approval by the ARC.

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Draft to Board – IN STRICTEST CONFIDENCE –17 May 2016

The Post Office

2015/16 Annual Report and Financial Statements

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Chairman's Foreword

I was delighted to be appointed Chairman of the Post Office in September 2015, and I have very much enjoyed getting to know the business over the last few months. In the first place the job of the Post Office is to provide some essential services to our customers, and we are very conscious of our obligation to ensure that 90 per cent of the population has a post office within a mile of where they live. This amounts to operating the largest retail network in the UK with over 11,600 branches dedicated to meeting the needs of a myriad of different communities throughout the country. I am proud to be part of this long tradition of service to the public. But we are also a commercial business, and in this report we have sought to provide a clear view of how we are performing, and the challenges that lie ahead. For many years the Post Office has relied on a subsidy from the Government and has also received a considerable amount of investment from public sources to modernise the network. As a result of this investment, and thanks to the efforts of postmasters and our staff to improve our business in many areas, the public subsidy has declined steadily and EBITDAS, our key measure of performance before subsidy, has improved from a loss of £57m last year to a loss of £24m in 2015/16.* Considering that the EBITDAS three years ago was a loss of £116m, this demonstrates the substantial progress made in recent years. During 2015/16 the actual Network Subsidy Payment received from the government reduced from £160m to £130m.

In a time of straightened public finances, we cannot expect to call on the taxpayer indefinitely, and the time has come for the Post Office to take on the challenge of becoming a fully sustainable profitable business, whilst at the same time maintaining its public service obligations. If we are to be successful over the medium term, we need to be capable of generating sufficient resources internally so that we can invest in business development and growth in the future. The Post Office is a national brand, trusted by consumers across a range of activities: postal services, cash transactions, financial services and telecoms. Whilst we may need a small element of Government funding over the medium term to maintain 3,000 or so community branches, there is no reason why we cannot achieve positive financial results from the rest of our business. In particular the Post Office has significant potential in the financial services market, but that will require substantial investment behind our brand in what is a competitive marketplace.

Over the last few years there has been significant investment in the Network Transformation Programme, and this is now bearing fruit in terms of a business model that is more flexible and meets the needs of our customers. I was very pleased to open the 6000th branch to be modernised in Nyetimber in West Sussex earlier this year. Now operating from a bright refurbished local convenience store, it is open an extra 25 hours a week, including Sunday. It seemed to me that the postmaster, Than Thevarajah, epitomises the energy, entrepreneurial spirit and customer focus that lies at the heart of the modern Post Office. Whilst maintaining a comprehensive service offer, the post office till fits well into a thriving retail business, creating footfall, and an opportunity to enhance a personal service to customers.

At the same time as we have invested in our sub post offices, we have also made good progress with our own operated post offices: self service kiosks have proved popular, and have helped to reduce queues at peak times. To operate post offices in expensive prime retail town centre locations with limited commercial add-on activity, can be a financial challenge, although considerable progress has been made on stemming the losses in this area.

* Please see the Financial and Business Review on Page 7 for the calculation of EBITDAS.

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As Paula's report explains, several of the markets we operate are experiencing some turbulence, but it can be done; the post office can still be a very attractive business proposition in an appropriate retail setting.

This year has seen some changes to our Board. I would like to thank three of our members who retired last year for their contribution to the revitalisation of the Post Office: Alice Perkins, my predecessor, Neil McCausland and Alastair Marnoch. I very pleased to welcome two new members of the Board – Carla Stent who is chairing our Audit and Risk Committee, and Ken McCall, who is chairing our Remuneration Committee. I would also like to acknowledge the supportive role of our shareholder, the Department of Business, Innovation and Skills, in the continuing development of the Post Office. Similarly, I would like to record my appreciation of the work done by our Post Office Advisory Group, chaired by Tim Franklin.

I have been struck by the diversity of our branches around the country, and yet there is a common thread: they are places where all people and businesses can, and do, use a range of services that are important to them in their everyday lives. This combination of commercial focus and community involvement is exemplified by local postmasters such as Bryan Hewson at Amble in Northumberland. Bryan has fully modified his branch which contains a community hub where people can come in and use computers and get online. He is actively expanding his business and is a key part of the community that won the coastal town section of the Great British High Street awards this year.

Bryan and his team are great examples – but they are not unique. So most of all, I would like to pay tribute to everyone looking after our customers in the front line or in support, for their hard work and their dedication to the highest service standards. All of these men and women make a difference every day of the week to the lives of the many people who depend on the Post Office: thank you.

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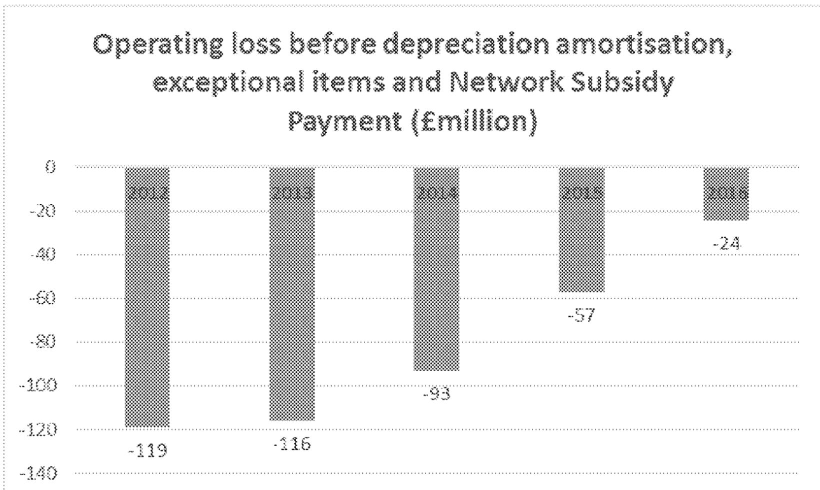
Chief Executive's Statement

The Post Office results for 2015/16 show continued progress towards commercial sustainability and reduction in reliance upon Government. In 2015/16 we have reduced our operating loss before subsidy by £33 million and financial support from Government by £50 million.

I am pleased we have increased our commercial turnover from £976 million to £981 million, in the face of very challenging market conditions. We have grown revenue in our Financial Services and Telecoms markets and maintained our Mails market position; our Government Services revenue has declined. We have also delivered a £28 million reduction in cost across the business.

In 2015/16 we posted a loss of £24 million in our key EBITDAS measure maintaining a trend of steady improvement:



The cash position of the company continues to be sound. It operates well within its facilities to meet its own trading needs as well as enabling its network of Post Offices to pay and receive money on behalf of the range of partners with whom we operate.

Our strategy is to build profitability whilst at the same time reducing year on year funding from Government, thereby creating the potential to re-invest to secure the future of our nationwide network. This enables around 60,000 of our Post Office colleagues in 11,600 communities to undertake around a billion transactions a year on behalf of our customers – increasingly essential services to local communities as banks and other businesses withdraw.

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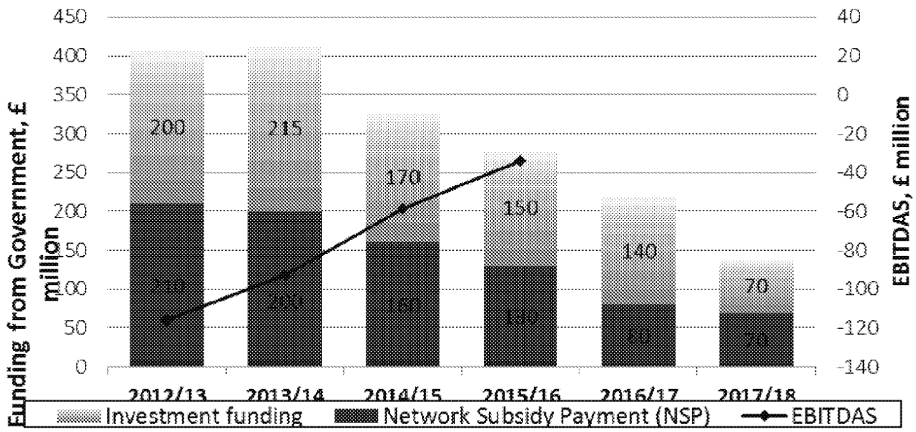
The implementation of this strategy is reflected in our performance;



To continue this progress, the Post Office needs to enhance its competitiveness and customer service in the fast changing Mails, Financial Services, Government Services and Telecoms markets in which we operate. And our central and support services need to become simpler - and cheaper - to run, thus creating the conditions for postmasters to trade profitably and sustainably.

This requires:

- continued investment in the transformation of the branch network, and in IT and digital capabilities to promote convenience to customers and flexibility in meeting their needs.
- A greater focus on simplifying our central and support functions, enabling a more ambitious reduction in costs
- ongoing development of profitable own brand products in Financial Services and continued effective long term relationships with both the Royal Mail and others for whom we are a trusted distributor.

In 2015/16 we have made progress in each of these areas. Working with postmasters across the UK, we have passed the milestone of modernising 6000 branches, adding 190,000 extra opening hours and improving adjacent retail/convenience offers too. I'm delighted these postmasters and their staff have achieved over 95% customer satisfaction. We have started to restore the financial position of our larger branches where we faced particularly high operating costs: my thanks to colleagues in the Crown Post Offices who over a four year period have moved from a £46 million annual loss to a breakeven position. We have completed the separation of our IT infrastructure from that of Royal Mail Group. We have made our first acquisition, buying our joint insurance business from the Bank of Ireland. We have commenced the restructuring and simplification of our central support functions and service centres that support our branch network and its service to our customers.

These are important milestones and, combined with our improving financial results, they provide confidence in our capabilities for the future. I am grateful to all those who work in Post Offices and

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those who support them in various centres across the UK for their huge commitment, their professionalism and their delight in serving customers.

Looking forward, I am in no doubt that the Post Office has a bright future. But at present our reality is that we still make a loss. Some of our product markets are in structural decline – particularly in Government Services where the shift online has reduced turnover by 9.2%. And where we have identified significant potential growth in areas such as Financial Services and Telecoms, these markets are intensely competitive with well established incumbents. The mails market is evolving rapidly and success will demand ongoing innovation and flexibility. Our Government funding is only in place until 2018 and is reducing significantly.

Our overriding objective is to support a sustainable and thriving network of Post Offices, from a low cost support structure. There remains further work to do before we make enough money in competitive and changing markets to reinvest sufficiently and sustainably in our systems, branches and customer propositions. That means continuing to ask the hard questions of ourselves and being resolute in implementing the answers.

To that end we have launched consultations with our people on closing our defined benefit pension scheme to future accrual and [on reducing the operating cost of providing cash to Post Offices]. Further changes will follow but I am determined that, as we implement change, we stay true to our values. The trust in the Post Office brand is built on its people; and especially as we go through change we will take care to ensure everyone is treated with respect.

The prospect of further and potentially difficult change can be a hard message on the back of the real progress that has been made during 2015/16. But it is the right thing to do and the only way we can ensure that Post Offices remain open in every community and have a bright future serving our customers and delivering our public purpose, ensuring services are available across the UK for another generation.

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Financial and Business Review

Summary results

The Post Office has maintained its commercial turnover with growth in Financial Services and Telecoms offsetting a planned decline in the Royal Mail fixed fee in Mails and decreases in Government Services and lottery turnover.

Our total revenue decreased by £25 million (2.2%) because of the planned reduction in the Network Subsidy Payment (NSP) from Government. In spite of that, cost reduction and the benefits accruing from continued high levels of investment enabled operating profit before exceptional items to increase by 1.9%. Moreover, the critical measure of EBITDAS (operating loss before interest, taxation, depreciation, amortisation, subsidy and exceptional items) which strips out the Network Subsidy Payment showed significant improvement reducing the loss from £57 million to £24 million.

Key Financial Performance Indicators

	2016	2015 Restated	Change
Turnover	£981m	£976m	£5m
Operating profit before exceptional items	£105m	£103m	£2m
Operating loss before, depreciation, amortisation, exceptional items and Network Subsidy Payment (EBITDAS)	(£24m)	(£57m)	£33m
Net cashflow	(£109m)	£184m	(£293m)

Profit and Loss Summary

	2016 £m	2015 Restated £m	Variance £m	Variance %
Turnover	981	976	5	0.5
Network Subsidy Payment	130	160	(30)	(18.8)
Revenue	**1,111**	**1,136**	**(25)**	**(2.2)**
People costs	(233)	(238)	5	2.1
Other operating costs	(808)	(831)	23	2.8
Total costs	**(1,041)**	**(1,069)**	**28**	**2.6**
Share of profit from joint ventures and associates	35	36	(1)	(2.8)
Operating profit before exceptional items from continuing operations	**105**	**103**	**2**	**1.9**
Add: Depreciation	1	**0**	1	
Less: Network Subsidy Payment	(130)	(160)	30	(18.8)
EBITDAS	**(24)**	**(57)**	**33**	**57.9**

Revenue

The Post Office's total revenue decreased by £25 million (2.2%) to £1,111 million due to a decrease of £30 million in the Network Subsidy Payment (government grant revenue put towards the costs of maintaining the Post Office network). The Post Office segments income into four pillars: Mails and Retail, Financial Services, Government Services, and Telecoms. This commercial turnover increased by £5 million to £981 million. The pillars and their performance are detailed on the next pages:

	2016 £m	2015 Restated £m	Variance £m	Variance %
Mails and Retail	380	388	(8)	(2.1)
Financial Services	303	290	13	4.5
Government Services	128	141	(13)	(9.2)
Telecoms	130	120	10	8.3
Other income	40	37	3	8.1
Turnover	981	976	5	0.5
Network Subsidy Payment	130	160	(30)	(18.8)
Revenue	**1,111**	**1,136**	**(25)**	**(2.2)**

Mails and Retail

Mails and Retail includes the sale of parcels and other Mails products provided by Royal Mail and Parcelforce. It also includes Lottery and Retail services such as sales of collectibles as well as packaging and stationery. Revenue decreased in the year by £8 million (2.1%) whilst transactional volumes in mails increased slightly.

	2016 £m	2015 £m	Variance %
Mails services	334	340	(1.8)
Retail and Lottery	46	48	(4.2)
Mails and retail	**380**	**388**	(2.1)

Overall mails services revenue reduced by £6 million (1.8%) to £334 million. IRRELEVANT IRRELEVANT IRRELEVANT Product sales improved slightly by £1 million in the year. This position was underpinned by a good sales and service performance over the Christmas peak period (year on year trading income was 3.6% higher) and by growth in areas related to online shopping (Home shopping returns grew by 25%). The mails market remains competitive and fast changing as it continues to shift towards package related activity and premium tracked products like Special Delivery.

The £2 million reduction in turnover from Retail and Lottery services was primarily driven by a reduction in Lottery sales due to fewer rollovers and lower prizes.

Financial Services

The Financial Services pillar includes Post Office Money personal financial services products such as mortgages, credit cards, insurance, savings, ATMs and travel products as well as traditional services such as bill payment and over-the-counter banking transactions.

On 30 September 2015, Post Office Limited acquired from Bank of Ireland UK plc the business and assets of our joint insurance business. Immediately following acquisition, Post Office Limited transferred the business to its subsidiary Post Office Management Services Limited, a FCA regulated entity, which operates the business alongside its existing travel insurance activities.

	2016	2015	Variance
	£m	£m	%
Personal Financial Services	152	127	19.7
Bill payment, banking and other financial services	151	163	(7.4)
Financial Services	**303**	**290**	4.5

Across Financial Services in aggregate, turnover increased by £13 million to £303 million (2015: £290 million), a 4.5% rise. This performance was the aggregate of strong growth in personal financial services such as insurances and mortgages and a decline in more traditional services such as bill payments.

Personal Financial Services turnover increased by £25 million (19.7%). This was primarily driven by increased turnover from new insurance intermediation activities undertaken by Post Office Management Services Limited, and through growth in savings and International money transfers.

Turnover from traditional Financial Services products declined by £12 million. Bill payment turnover fell by £4 million reflecting a continuing shift from paper-based to electronically-delivered products and the increasing use of alternative payment methods. NS&I premium bonds turnover fell and ceased to be available from Post Offices from 1 August 2015.

Offsetting this reduction within traditional products was an increase in banking revenue of £3 million with a 10% growth in banking transactions. Enhanced agreements with Barclays and HSBC to add business customers were made during the year. 95 % of all personal bank accounts in the UK are now accessible via post offices as work continues with the banks to secure an overall framework for universal access. In an era of closures by the major banks, the Post Office network maintains its position as the provider of a national infrastructure which meets community banking needs across the UK.

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Telecoms

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

	2016 £m	2015 £m	Variance %
HomePhone and Broadband	126	115	9.6
E top-ups and phonecards	4	5	(20.0)
Telecoms	**130**	**120**	8.3

Telecoms turnover of £130 million (2015: £120 million) increased by £10 million. This was driven by a strong performance in our Homephone and Broadband services with a £11 million (9.6%) increase in annual revenue to £126 million. E top ups and phonecard revenue fell by £1 million in a generally declining market.

In the competitive Telecoms market an increase of 36,000 additions to the broadband customer base were achieved and pricing adjustments in November 2015 improved revenue per customer whilst maintaining our position as one of the best value providers in the market.

Our approach is characterised by tight management and effective margin control enabling strong performance against market incumbents. Development of this business however needs to be managed carefully to maintain these characteristics and in March 2016 Post Office made the decision to withdraw from the development and roll out of a proposed mobile offer in order to focus on its Homephone and Broadband activities.

Other income

Other income increased by £3 million to £40 million largely due to a change in the amortisation of a historical agreement. Other income is generated primarily from the Supply Chain business that manages and distributes cash for Post Offices and for third parties. The revenue generated by the Supply Chain business has fallen by £3 million as the relatively high cost base made it difficult to attract and retain external revenue.

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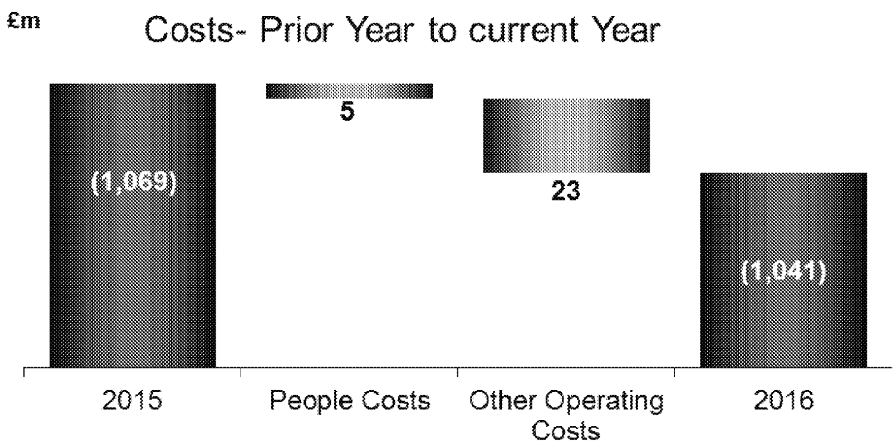
Costs

Total costs decreased by £28 million to £1,041 million (2015: £1,069 million).



People costs of £233 million (2015: £238 million) decreased by £5 million net of an increase to pension costs of £2 million reflecting efficiency savings. Other operating costs decreased by £23 million to £808 million largely due to postmaster remuneration costs being lowered by £22 million arising from the Network Transformation programme. The fixed element of postmaster remuneration cost has fallen by £20 million in the year in addition to a reduction in indirect tax of £2 million. The variable element has remained flat year on year.

Joint venture

Post Office Limited has a joint venture with the IRRELEVANT IRRELEVANT whose principal activity is th IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT

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Discontinued operations

The decision to withdraw from the development and roll out of a mobile offer has been disclosed in the Financial statements as a discontinued operation, showing a loss for the financial year after tax from discontinued operations on the consolidated income statement of £10 million.

Exceptional Items

Exceptional items are shown below:

	2016 £m	2015 Restated £m
Operating exceptional items:		
Restructuring costs including postmasters' compensation	(283)	(301)
Impairment of intangible assets, property, plant and equipment	(136)	(140)
Government grant	150	170
Net exceptional items	**(269)**	**(271)**

Operating exceptional items include the costs of delivery of major change and the impairment of non-current assets. These are offset by Government grant funding, received towards the transformation programmes and recognised to match the associated costs. The Government grant funding for 2015-16 of £150 million (2014: £170 million) was received on 1 April 2015 and was fully recognised in the year.

As disclosed in our Interim Report for the six months ended September 2015, an error was identified in the calculation for postmasters' compensation within the Network Transformation programme on the balance sheet and exceptional items charged in the 2014/15 half year and full year. The March 2015 exceptional charge has been restated by £87 million. This was a timing error related to recognition of the liability. It has not impacted payments to postmasters or the overall cost of the programme.

Restructuring costs

Restructuring costs are shown below:

	2016 £m	2015 Restated £m
Network Transformation programme		
-Postmasters' compensation	102	154
-Programme costs	75	73
Crown Transformation programme	23	10
IT Transformation programme	30	16
Business Transformation programme	9	12
Redundancy costs	29	25
Business Transformation payments	4	1
Other exceptional items	11	10
Restructuring costs	**283**	**301**

Impairment

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 nil.

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. Goodwill is tested for impairment annually as well as when there are any indicators of impairment. As noted above Goodwill relates to the business combination and there are no indicators of Goodwill impairment at the balance sheet date.

Government grants

In addition to the Network Subsidy Payment, the Post Office receives Government grant funding towards the transformation programme. Government grant funding of £150 million was received in the year (2015: £170 million). The additional government grant funding is included within operating exceptional items to match the associated costs.

The grant was allocated to cover £31 million capital expenditure (2015: £59 million), £66 million network transformation related postmasters' compensation (2015: £43 million) and £53 million network and IT transformation programme costs (2015: £68 million).

The level of grants will continue to reduce as set out in the current funding agreement with the Government. State Aid approval for the funding from 2015/16 to 2017/18 was received on 19 March 2015.

Cash Flow and Net Debt

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

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

The cash and cash equivalents amounted to £712 million (2015: £821 million) at the year end. There was a net cash outflow during the year of £109 million (2015: inflow £184 million). Net debt (excluding cash in the Post Office network) increased by £209 million year on year as shown in the table below. As planned, Government Grants, which are not expected to cover all of the costs of Transformation, were received ahead of the associated spend. As a result we are in a period of net expenditure.

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	2016 £m	2015 £m
Net cash (outflow)/inflow from operating activities	(123)	(15)
Income tax recovered	9	11
Net cash outflow from investing activities	(145)	(116)
Net cash (outflow)/inflow before financing activities	**(259)**	**(120)**
Add/(deduct) movement in cash in the network included in net cash inflow	55	(51)
Finance costs paid	(5)	(3)
Net (increase)/decrease in net debt	**(209)**	**(174)**
Net debt brought forward at the beginning of the year	(197)	(23)
Total net debt carried forward at the end of the year	(406)	(197)

Post Office Limited's borrowing facility from the Government and the associated Framework Agreement imposes constraints on the availability of external borrowing and limits the purposes for which the facility can be used to fund the cash and near cash items held within the Post Office Limited network.

Post Office Limited's treasury policy is to minimise the amount drawn down on the loan in order to reduce its interest cost. The facility is limited to a maximum of £950 million, the unused but available facility at the end of the year was £485 million. The maximum drawn down under the facility during the year was £509 million on 6 January 2016. The facility is available at two days' notice and has an end date of 31 March 2018.

Pensions

Post Office Limited is a participating employer within the Post Office Section of the Royal Mail Pension Plan (RMPP), and until 31 March 2015 was a participating employer within the Royal Mail Defined Contribution Plan (RMDCP).

Royal Mail plc 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. The Post Office operates a Defined Contribution Scheme – the Post Office Pension Plan.

On 1 April 2012 – after the granting of state aid by the European Commission on 21 March 2012 – almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP), built up until 31 March 2012, were transferred to HM Government.

On this date, the RMPP was also sectionalised, with Royal Mail plc and Post Office Limited each responsible for their own sections from that point. 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 moved from an asset of £205 million at March 2015 to an asset of £196 million at March 2016. The movement in the surplus is primarily due to an increase in the long term liability partly offset by an improvement in the asset values.

Valuation of the RMPP scheme is carried out triennially with the next valuation being performed as at 1 April 2015. The valuation has not yet been completed due to the current consultation on proposals to close the RMPP scheme to future accrual.

Both defined benefit plans closed to new members in March 2008, and RMSEPP closed to future accrual on 31 December 2012. New employees were offered membership of the RMDCP following this date. With effect from 1 April 2015 new employees were offered membership of the Post Office Pension Plan, previous to this they were offered membership of the RMDCP.

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The future funding of ongoing pension contributions into RMPP and deficit payments into RMSEPP was agreed with the respective pension trustees during the year and payments were made in accordance with the agreements. The net cash payments made are detailed below:

	2016 £m	2015 £m
Regular pension contributions	(20)	(22)
Funding of the pension deficit - RMSEPP	(1)	(1)
Payments relating to redundancy	(3)	(2)
Net cash payments	**(24)**	**(25)**

The income statement charge for the year was £3 million (2015: £3 million) in relation to the defined contribution scheme and £27 million (2015: £25 million) in relation to the defined benefit scheme.

The regular future service contributions cash rate for RMPP expressed as a percentage of pensionable pay remained at 17.1% (2015: 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 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £220 million of funding on 1 April 2016, £80 million of which was the Network Subsidy Payment and £140 million other Government Grant funding towards the transformation programme.

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Corporate Governance

Good corporate governance continues to support Post Office's journey

Legal Ownership Structure

Post Office is a wholly owned subsidiary of Postal Services Holding Company Limited. The Secretary of State for Business, Innovation and Skills (BIS) holds a special share in Post Office and the rights attached to that special share are enshrined within Post Office Articles of Association.

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

Insert Corporate Structure chart

Corporate Governance Overview 2015/16

At Post Office we maintain standards of corporate governance appropriate for our ownership structure, our commitment to social purpose and our strategy to achieve commercial sustainability. We regularly review these standards to ensure they continue to deliver at the appropriate level for our developing business needs and relevant legal and regulatory advances. As a Government-owned entity we are committed to acting in accordance with the Nolan Principles of Public Life, namely: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The Board is mindful of these principles both in its decision making and in its responsibility for organisational culture.

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Rationalisation of Committee Structure

During 2015/16 the Board reviewed its committee structure. The proposals resulting from this review were to dissolve two committees: Financial Services; and Pensions.

Following dissolution, financial services and pensions risk is now considered by the ARC as part of a consolidated risk approach. In considering the implementation of these changes, the Board reviewed and revised the ARC's terms of reference and membership to ensure that members had sufficient expertise and experience, particularly in financial services. A formal arrangement was also put in place for the POMS ARC to report into the Post Office ARC.

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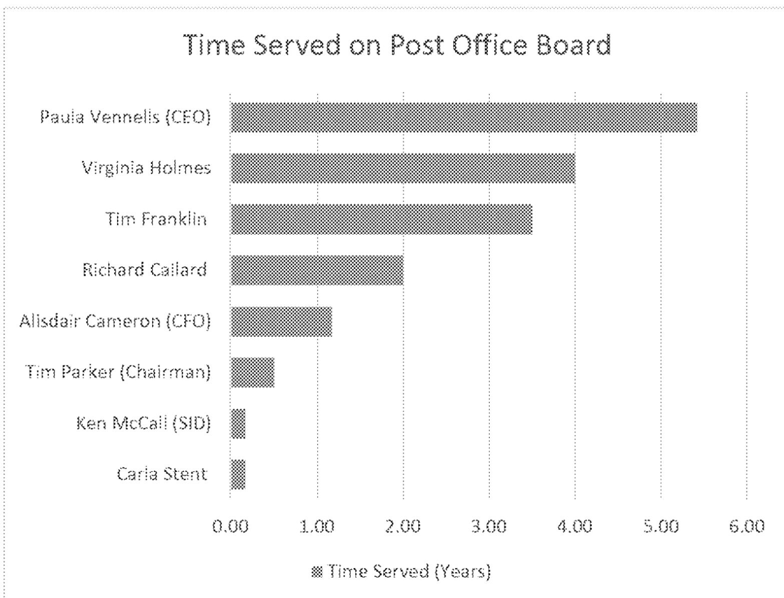
Board of Directors (as at 27 March 2016)

The Board is responsible for setting the business' strategic aims, putting in place the leadership to deliver them, supervising the management of the business and reporting to the Shareholder and determining the Post Office vision, values and organisational culture.

During 2015/16 there was a 50 per cent change in non-executive Board membership but gender diversity was maintained with 37.5 per cent women. This figure is in excess of Lord Davies' recommendation for FTSE Boards of 25 per cent women and significantly ahead of the 19.6 per cent on FTSE 250 boards, as stated in Lord Davies' five year review published in October 2015.

Diversity in terms of time served is important for good succession planning and to maintain an effective level of corporate knowledge and understanding. An appropriate spread of time served ensures freshness of approach combines with knowledge and experience to deliver the most effective strategic leadership for Post Office.



The Board is comprised of an independent Non-Executive Chairman, the Chief Executive, the Chief Financial Officer, five Non-Executive Directors (one of whom is designated the Senior Independent Director) and the Company Secretary. Further information on the Board roles and responsibilities can be found on page XX. Non-Executive Directors are not employees of Post Office but provide services under the terms of an individual letter or appointment, signed at the commencement of their directorship.

Directors' statutory duties are set out in the Companies Act 2006. The primary duty of the directors is to promote the success of Post Office Limited as a Company for the benefit of its Government shareholder and the wider stakeholder community.

Three new Non-Executive Directors were appointed to the Board in 2015/16 and the process followed for their recruitment is set out in more detail in the Nominations Committee report on pages XX. Post Office seeks the most suitable candidates as directors and considers diversity in its

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appointments, including diversity of skills and experience. This is in keeping with the belief of Post Office that a varied balance of backgrounds, experience and insights and a culture of inclusivity across the entire workforce is in the best long-term interests of Post Office and should reflect the communities it serves. In April 2015, Post Office was included in The Times' top 50 employers for women.

Tim Parker Independent Chairman Joined the Board 1 October 2015 PHOTO	Ken McCall Senior Independent Director Joined the Board 21 January 2016 PHOTO	Paula Vennells Chief Executive Joined the Board 18 October 2010 PHOTO

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Richard Callard Non-Executive Director Joined the Board 26 March 2014 PHOTO	Alisdair Cameron Chief Financial Officer Joined the Board 28 January 2015 PHOTO	Tim Franklin Non-Executive Director Joined the Board 19 September 2012 PHOTO
Virginia Holmes Non-Executive Director Joined the Board 4 April 2012 PHOTO	Carla Stent Non-Executive Director Joined the Board 21 January 2016 PHOTO	Alwen Lyons Company Secretary Appointed as Company Secretary 4 July 2011 PHOTO

Post Office would like to thank the following previous members of the Board who served as Non-Executive Directors during the year 2015/16: Alice Perkins who stood down as Chairman on 31 July 2015; Neil McCausland who stood down as Senior Independent Director on 30 September 2015; and Alasdair Marnoch who stood down on 31 July 2015.

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Group Executive (as at 27 March 2016)

The Group Executive is the most senior management body and is comprised of the Chief Executive, each of her direct reports and the Company Secretary

Membership
The Group Executive is chaired by Paula Vennells, Chief Executive and the other members are:

Alisdair Cameron	Chief Financial Officer
Martin George	Commercial Director
Kevin Gilliland	Network and Sales Director
Neil Hayward	Group People Director
David Hussey	Business Transformation Director
Nick Kennett	Financial Services Director
Alwen Lyons	Company Secretary
Jane MacLeod	General Counsel

Other members of the Group Executive during 2015/16 were:

David Ryan	Group Business Transformation Director (left the Post Office in May 2015)

Role of the Group Executive
The Group Executive implements the strategy agreed by the Board and monitors business performance and development at a day to day level. It meets regularly to discuss latest developments, to discuss proposals for new business development, to receive financial and other performance reports and to monitor business transformation and commercial development. It will also address any urgent issues that have arisen within the business and which 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 the Company Secretary also attend meetings of the Board which facilitates and strengthens the communication channels between the senior leadership, the Board and its Committees.

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Board

Role and responsibilities

The Board is accountable to the Secretary of State for BIS for the performance of Post Office and is required to notify the Shareholder of certain actions, as set out in the Articles of Association.

The Board is also responsible for ensuring compliance with all legal and regulatory requirements, supervising the management of the business, providing constructive challenge to the Group Executive and communicating with the Shareholder. It has a schedule of matters reserved for its decision and has approved terms of reference for its committees which are provided on the Post Office website.

The Board approves the annual budget and business plan each year and did so last in March 2016. The Board regularly reviews reports on performance against that Plan, together with receiving periodic business reports from senior management. Directors are briefed on matters to be discussed at Board and Committee meetings by papers distributed in advance, as well as by management presentations.

In setting the risk appetite for Post Office and establishing a framework to manage and mitigate risk, the Board takes guidance from its Audit, Risk and Compliance Committee, to which it delegates oversight of risk management. This committee receives reports from the Group's Head of Risk and from the internal and external audit teams. Further detailed information on the management of risk within Post Office, together with identification of principal risks, their impacts and mitigation can be found in the Management of risk section on pages XX to YY.

Accountability

The Board is accountable to its Shareholder and to the large and diverse group of stakeholders of the Post Office.

Key focus and achievements in 2015/16

During the year to 27 March 2016 the Board oversaw further significant progress in network transformation, with another 1,904 branches modernised, bringing the total so far to 6,001 and delivering a better service to customers. The Board also considered the development of the financial services strategy including the approval to acquire the business and assets of our joint insurance business from Bank of Ireland (UK) plc. Owning 100 per cent of the insurance business, through the subsidiary Post Office Management Services Limited, was a significant development contributing to the 19.7 per cent growth in personal financial services to £152m in 2015/16.

In 2015/16 the Board went through a period of transition with a change in 50 per cent of its Non-Executive Directors. This refreshed Board will focus in 2016/17 on driving forwards efficiency and ensuring that all support services are optimised to deliver the ongoing transformation journey towards a sustainable and thriving network of Post Offices.

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Non-Executive Directors' Terms of Office at 27 March 2016

Non-Executive Director	**Date of appointment**	**Term of office**	**Unexpired term at 27 March 2016**	**Committee memberships**
Tim Parker	1 October 2015	3 years	2 years 6 months 5 days	Nominations (*Chairman*) Remuneration
Richard Callard	26 March 2014	Until removal	N/A	Audit, Risk and Compliance
Tim Franklin[1]	19 September 2012	4 years	5 months, 23 days	Audit, Risk and Compliance
Virginia Holmes	4 April 2012	3 years[2]	2 years, 8 days[2]	Nominations Remuneration
Ken McCall	21 January 2016	3 years	2 years, 9 months, 25	Remuneration (*Chairman*) Audit, Risk and Compliance Nominations
Carla Stent	21 January 2016	3 years	2 years, 9 months, 25	Audit, Risk and Compliance (*Chairman*)

1. Tim Franklin is also Chairman of the Post Office Advisory Council
2. Virginia Holmes began a second three year term on 2 April 2015

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Board Meetings

During 2015/16 the Board met ten times (including extraordinary meetings in person or by telephone for time critical issues). A record of Directors' attendance is set out in the table below.

COMMITTEE ATTENDENCE TO BE INCLUDED IN THIS TABLE.

Director	Meetings *(attended/eligible to attend)*	Extraordinary Meetings *(attended/eligible to attend)*
Alice Perkins[1]	2/2	2/2
Tim Parker[2]	4/4	1/1
Richard Callard	7/7	3/3
Tim Franklin	7/7	3/3
Virginia Holmes	7/7	1/3
Alasdair Marnoch[3]	2/2	1/2
Neil McCausland[4]	3/3	2/2
Paula Vennells	7/7	3/3
Alisdair Cameron	7/7	3/3
Carla Stent[5]	2/2	0/0
Ken McCall[6]	2/2	0/0

1. Alice Perkins resigned 31 July 2015
2. Tim Parker was appointed to the Board 1 October 2015
3. Alasdair Marnoch resigned 31 July 2015
4. Neil McCausland served as interim Chairman from 1 August 2015 until his resignation on 30 September 2015
5. Carla Stent was appointed to the Board 21 January 2016
6. Ken McCall was appointed to the Board 21 January 2016

Conflicts of Interest and Independence

The Board may, in the furtherance of its duties, seek independent professional advice at the expense of Post Office. During the period, no director sought independent professional advice. The Articles give the directors power to authorise conflicts of interest. The Board has adopted a procedure by which situations giving rise to potential conflicts of interest are identified to the Board, considered for authorisation and recorded.

During the period, none of the directors had a material interest in any contract of significance with Post Office or any of its subsidiaries. There was careful management of any potential conflicts of interest for Alisdair Cameron during the period up to 30 October 2015 when he served as a Non-Executive Director on the Board of Post Office Management Services Limited.

At all times during the periods of their appointments in 2015/16, the independent directors met the criteria for independence set by the Board .

Post Office has arranged appropriate insurance cover in respect of legal action against directors of Post Office and its subsidiaries.

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Committees

To assist in the execution of its corporate governance responsibilities, the Board has established a governance structure of three committees which deal with specific topics requiring independent oversight, specifically: audit, risk and compliance; nominations; and remuneration. Each committee is chaired by a Non-Executive Director and the Board delegates certain authorities to these committees which operate within their own agreed, documented Terms of Reference.

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Nominations Committee

Tim Parker

Chaiman of the Nominations Committee since 1 October 2015

(Alice Perkins was the Committee Chairman prior to her standing down)

2015/16 Priorities

- Managing the recruitment and appointment process for three new Non-Executive Directors.
- Reviewing the composition of and the skills matrix for the Board.
- Progressed Post Office's consideration of talent management and succession planning at both the executive and non-executive levels.

2016/17 Forward Focus

- Review succession plans for senior executive team.
- Ensure appropriate talent pipelines are in place to meet the needs of the transforming organisation.

Introduction from the Committee Chairman

During 2015/16 the Committee has been key in bringing new capability to the Board to ensure the right talent is in place to support the Post Office during its ongoing transformation. To do so we have used a combination of external search capability coupled with internal resourcing to ensure that we are able to access specialist expertise relevant to each role. The Committee is mindful of the value which diversity brings to the Board and considers this when making any proposals for appointments.

While the focus in 2015/16 has been on external appointments, going forward the Committee will focus on ensuring that we begin to build a strong internal talent pipeline to create a sustainable organisation.

Tim Parker

Membership and Attendance

The Committee is chaired by Tim Parker, Chairman and the other members are Virginia Holmes and Ken McCall, the Senior Independent Director. During 2015/16 Tim Parker and Ken McCall joined the Committee, replacing Alice Perkins and Neil McCausland who stood down from the Board.

The Committee operates in accordance with its Terms of Reference, which were last approved by the Board in March 2015and reviewed in November 2015.

The Committee' key responsibilities are to:

- keep under review the structure, size and complexity of the Board, together with the balance of skills, experience and diversity available within the Board and each of its committees;
- make recommendations to the Board regarding any changes in Board membership;
- manage the process for recruiting and replacing Board Directors (excluding the non-executive director nominated by the Shareholder as their representative), members of the Group Executive, the Company Secretary and Directors of Post Office Management Services Limited;
- actively manage succession planning for the Board and the Group Executive;
- review the process for the engagement of external search agents for senior appointments;
- ensure Directors' appropriate disclosures of other business interests and any potential conflicts of interest; and
- oversee the process for Board and Committee performance evaluation.

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Work carried out by the Committee in 2015/16

During the period the Committee oversaw the recruitment and appointment process for three new Non-Executive Directors. Using a skills matrix the Committee ensured the Board was comprised of Members with the requisite skills and experience, including: PLC Board experience; non-executive experience; financial services exposure; retail exposure; public sector and government exposure; IT and digital knowledge; business transformation expertise; and experience of mails and logistics. The use of this matrix was key in ensuring that all skills were represented, securing a strong and effective Board for the future. The Committee also oversaw the process to appoint to the Board of Post Office Management Services Limited an independent Non-Executive Director to chair its Audit, Risk and Compliance Committee.

The Committee used the services of Russell Reynolds Associates to undertake market searches for executive and non-executive appointments and to advise on succession planning. This firm did not have any other connection with Post Office.

In 2015/16 the Committee also made recommendations to the Board for membership of its committees and considered succession planning (in particular for the Group Executive) and talent management. The Committee noted the formation of the L300, a forum for the top 300 leaders of Post Office, to foster senior accountability and to develop the internal talent pipeline.

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Ken McCall

Chaiman of the Remuneration Committee since 21 January 2016

(Neil McCausland was the prior Committee Chairman)

2015/16 Priorities

- Reviewing the remuneration for senior executives and the fees paid to Non-Executive Directors
- Reviewing the rules of the long term incentive plan
- Review of the Remuneration Policy for Post Office Management Services Limited

2016/17 Forward Focus

- Ensuring the long term incentive plan focus on EBITDAS and customers' UK-wide access to our network
- Ensuring the short term incentive plan focus on EBITDAS as the business moves towards commercial sustainability

Remuneration Committee

Introduction from the Committee Chairman

Having joined the Post Office Board as Senior Independent Director and Chairman of the Remuneration Committee in January 2016, I would like to thank my predecessor, Neil McCausland, for his chairmanship.

In 2015/16 the Committee has effectively delivered against its objectives to provide oversight for senior level remuneration across Post Office Group and to use benchmarking as one measure to ensure the appropriateness of this remuneration. It has also provided oversight of the short term and long term incentive plans.

Two of the three Committee members have changed during the year. I am grateful for the consistency Virginia Holmes' continued membership brings and am confident that the refreshed Committee will discharge its duties effectively in the coming year and with fairness and transparency.

Ken McCall

Membership and Attendance

The Committee is chaired by Ken McCall, Senior Independent Director and the other members are Tim Parker, Chairman, and Virginia Holmes. During 2015/16 Tim Parker and Ken McCall joined the Committee, replacing Alice Perkins and Neil McCausland who stood down from the Board.

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 Group Executive. However, the Committee is careful to recognise and manage any potential conflicts of interest when receiving views from the Group Executive and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

The Committee operates in accordance with its Terms of Reference, which were last approved by the Board in March 2015 and reviewed in November 2015.

Any changes in remuneration for directors of Post Office must be approved in advance by the Shareholder, while the remuneration of the Chairman and of the Non-Executive Directors is set by the Shareholder. Also, no material changes can be made to Directors' base salaries, benefits or incentives without Special Shareholder consent.

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Work carried out by the Committee in 2015/16

During the year, the Committee reviewed and made recommendations for the 2014/15 payments against the short and long term incentive plans and the targets, scorecard measures (including stretch targets) and objectives for 2015/16.

The Committee also reviewed the rules of the long term incentive plan, the remuneration for the Chief Executive and the Chief Financial Officer and the fees paid to Non-Executive Directors.

Prior to the acquisition in October 2015 of the insurance arm of Post Office via its wholly owned subsidiary Post Office Management Services Limited, the Committee reviewed, and recommended for approval, the Remuneration Policy for the subsidiary.

The Committee is permitted to engage external consultants and in the year under review, advice was primarily obtained from New Bridge Street Consultants on market practice and benchmark development. New Bridge Street Consultants is part of the Aon Consulting Group that, under its Aon Hewitt brand, acts as investment adviser to the Post Office section on the Royal Mail Pension Plan. Post Office is satisfied that these two provisions of advice, from different parts of the Aon Consulting Group are managed separately and therefore present no compromise of independence.

The Committee' key responsibilities are to:

- make recommendations to the Board on the remuneration strategy and any changes to individual elements of the remuneration package for Executive Directors; members of the Group Executive who report directly to the Chief Executive; and other senior level appointments with comparable remuneration;
- provide an oversight function for the remuneration of the Directors of Post Office Management Services Limited;
- obtain information on salary levels across the business and within external organisations of comparable size, in order to set remuneration levels within an appropriate context, while being mindful that any remuneration increases should correspond with corporate and individual performance improvements; and
- have oversight of, approve and make recommendations to the Board in respect of remuneration levels for new senior executive appointments. In doing so, it liaises and works closely with the Nominations Committee.

Directors' Remuneration Report

Statement by the Chair of the Remuneration Committee

This is my first statement on behalf of the Remuneration Committee. The executive remuneration strategy and framework within Post Office Ltd is structured to support improvement in profitability and reduction in reliance upon Government funding and subsidy. This is to create a sustainable business which can deliver its public purpose.

During 2015/16 progress has been made in these areas despite challenging market conditions. Most of the targets for progress in the year have been achieved but it remains clear that the Post Office is still only part way through its corporate transition. Targets will continue to be stretching in recognition of the challenges ahead.

The bonus performance outturn in 2015/16 reflects the progress made in reducing our EBITDAS loss, pace and extent of transformation of the network, high levels of customer service and significant financial improvement in the performance of our Crown branches.

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For 2016/17 our long term incentive plan will continue the focus on significant and sustained EBITDAS improvement and the maintenance of the unique access that people across the United Kingdom have to Post Office branches.

The short-term incentive plan will continue to focus on financial improvements in a challenging commercial environment in line with our business strategy and transformation objectives.

The Remuneration Committee is confident that the current policy maintains the strong link between reward and demonstrable performance against the measures which drive the financial and structural transformation of the Post Office to become a sustainable commercial business able to deliver its public purpose.

The Remuneration Committee will continue to monitor and benchmark external best practice and apply the highest standards of governance.

Details of directors' remuneration can be found at XX

Ken McCall

Chair, Remuneration Committee

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Audit, Risk and Compliance Committee

Carla Stent

Chairman of the Audit, Risk and Compliance Committee since 21 January 2016

Non-Executive Directors who also chaired this Committee during 2015/16: Alasdair Marnoch (until 31 July 2015), Neil McCausland (1 August until 30 September 2015) and Tim Parker (28 October 2015 until 20 January 2016)

2015/16 Priorities

- Supporting and overseeing the further development of the Group-wide Risk Management Framework
- Following the required restatement of the accounts, providing oversight of the review of financial controls and the development of the General Controls Framework
- Reviewing oversight of risk to ensure the Committee has a more streamlined and robust overview of risk across the Group

2016/17 Forward Focus

- Further progress towards full implementation of the Group-wide Risk Management Framework including consideration of an additional form or self assessment for management
- Increased consideration of financial services risk to support the development of the financial services strategy

Introduction from the Committee Chairman

Having joined the Post Office Board as Chairman of the Audit, Risk and Compliance Committee near the end of 2015/16 I would like to thank my predecessors for their chairmanship of the Committee.

In addition to its regular cycle of business, during the year the Committee has also supported the further development of the Group-wide Risk Management and the General Controls Frameworks. Reviewing Group-wide risk oversight has been an important development, ensuring that risk is appropriately managed as the organisation undergoes transformation.

Looking forwards to 2016/17, the Committee will continue to build on the good work of 2015/16 and will particularly ensure appropriate oversight of financial services risk and the consideration of any impact of prospective regulatory changes on this developing area for Post Office.

I am confident that the revised membership of the Committee encompasses a strong set of relevant skills and experience and will

Membership and Attendance

The Committee is chaired by Carla Stent, and the other members are Ken McCall, the Senior Independent Director, Richard Callard and Tim Franklin, both Non-Executive Directors. During 2015/16 Richard Callard, Ken McCall, Tim Parker (until 20 January 2016) and Carla Stent joined the Committee, with Alasdair Marnoch and Neil McCausland both leaving as they stood down from the Board.

The Head of Internal Audit attended all meetings of the Committee and also met the Committee Chairman, as required, through the year. The external auditor was also invited to attend meetings of the Committee as appropriate.

The Board considers that the Committee's members have broad commercial knowledge and extensive business leadership experience and that this constitutes a broad and suitable mix of business and financial experience and expertise.

The Committee operates in accordance with its Terms of Reference, which were last reviewed by the Committee and approved by the Board in September 2015.

Further detailed information on the management of risk within Post Office, together with identification of principal risks, their impacts and mitigation, can be found in the Management of Risk section on pages XX.

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Work carried out by the Committee in 2015/16

During the year, the Committee reviewed and recommended that the Board approve the annual report and financial statements for 2014/15 and the interim report for 2015/16, including consideration of principal and strategic risks. It also approved the annual audit plans for both the internal audit function and the external auditors, Ernst & Young LLP.

The Committee reviewed the work carried out by internal audit and by the external auditor, further details of which can be found below.

As part of an holistic review of risk management and internal controls, the Committee supported and provided guidance on the further improvement of the Risk Management Framework and clarification of our general controls. This work included the development of a framework of key policies, reviewing business continuity procedures and increasing the clarity and robustness of accountabilities. The Committee's review of cyber risk during the year will continue into 2016/17.

The Committee' additional responsibilities are to:

- provide governance of the auditing services, which includes reviewing and making recommendations to the Board on the nomination or discharge of the external auditors;
- review and agree the annual audit plans for both internal and external audit;
- ensure the appropriateness of the Post Office relationship with the external auditor is managed, including consideration of the external auditor's independence and endorsement of its remuneration and terms of engagement for approval by the Chief Financial Officer;
- review the provision of any non-audit services provided by either internal or external audit;
- devote specific time to the consideration and overview of risks relating to the financial services businesses of the Group and to any risk relating to existing and new pension schemes; and
- consider the impact of any new legislative, regulatory, market or other developments which could materially or adversely affect Post Office and its subsidiaries.

Following the rationalisation of the committee structure to ensure comprehensive oversight of Group-wide risk at the Committee, there was a formalisation of the reporting procedures between the Committee and the equivalent committee for Post Office Management Services Limited. The Committee also scheduled regular deep dives on financial services and pensions risk. In the year, financial conduct risk was considered and a review was carried out on the Anti-Money Laundering and Counter Terrorist Financing Framework on which the Committee will receive regular follow up reports.

Internal Audit

The Committee received assurance from Internal Audit over Post Office's key risk areas. To maintain independence, the Head of Internal Audit reports functionally to the Chairman of the Committee and operationally to the General Counsel. Assurance is achieved through a mixture of in-house auditors, with skills and experience relevant to Post Office operations, supplemented by a co-sourcing arrangement currently with PwC for more specialist, one-off expertise and Deloitte LLP for business transformation assurance.

The annual plan is developed by Internal Audit across the risk universe with input from management. It is approved by the Committee and may be updated, with the Committee's consent. Updates and findings are provided by the Head of Internal Audit at each meeting of the Committee. Any significant findings or identified risks are closely examined so that appropriate action can be taken.

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During the year, Internal Audit conducted 11 mainstream reviews, two financial services reviews and facilitated a further seven on Business Transformation.

Business Area	Audits Conducted
Mainstream	Treasury Operational Risk, Social Media, Contract Management, Financial Crime, Common Digital Platform, Agents Remuneration, Data Protection, Mobile Proposition, Drop and Go, Property Regulatory Compliance, Travel Expenses
Financial Services	FS Conduct Risk, POMS Regulatory Readiness
Business Transformation	Portfolio Design, End to End Financial Management, Benefits Management Framework, Cross Towers Governance Structure, Programme Assurance Authority, End User Computing, IT Separation from Royal Mail

At the end of the year, Internal Audit conducted a self assessment of compliance with the Internal Audit Charter, which was reviewed by the Committee. Next year, this process will incorporate feedback from auditees and Committee members on Internal Audit's effectiveness.

External Audit

The external auditors are engaged to express an opinion on the financial statements. They review and test the systems of internal financial control and the data contained in the financial statements to the extent necessary to express their audit opinion. They discuss with management the reporting of operational results and the financial condition of the Post Office and present their findings to the Committee.

During the year the external auditors met once with the Committee in the absence of the executive. The Committee agreed the external audit fee and considered the external auditors to have an appropriate level of independence. Prior to the end of year a change in the external audit partner provided enhanced levels of independence.

During the year XX% of the total fees paid to Ernst & Young were for non-audit services, an increase/decrease on the 29% paid in 2014/15.

Annual Assessment

During the year, the Committee reviewed and recommended that the Board approve the effectiveness of the:

- risk management framework, by reviewing evidence of risk assessment activity and the summary of the material risks and action plans, via the Group Risk Profile
- systems of internal control, primarily through agreeing the scope of the internal audit plan and reviewing its findings, but also from reports from Management and external advisors
- preparation of the annual and interim financial statements and a review of the nature and scope of the external audit.

In consequence, the Board, through the Committee, confirmed that there is a regularly reviewed ongoing process of identifying, evaluating and managing the principal risks faced by Post Office and their related controls. The process is continuing to evolve, but has been in place for the year under review and up to the date of approval of the annual report and financial statements. The Board has reviewed its effectiveness.

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Subject to acknowledgement of the reinstatement referred to on page XXX, the Board considers the risk management, internal control systems and processes appropriate for Post Office activities and designed to manage rather than eliminate the risk of failure to achieve Post Office strategic objectives, protect our reputation and comply with regulatory standards. They provide reasonable, but not absolute assurance, against material misstatement or loss.

Management of Risks

Our Approach to Risk

We define risk as anything that can adversely affect our ability to meet the Post Office's objectives, maintain its reputation and comply with regulatory standards. Risk is an inherent part of how the PO seeks to grow and create value. We seek to understand and harness risk in the pursuit of our aims and business plan objectives. As we progress, our aim is to operate within an acceptable level of risk taking, in accordance with risk appetite parameters set by the Board. All staff are expected to be aware of risks in their areas of responsibility and manage those risk intelligently in their day-to-day activities.

Risk Management Governance

The Board is accountable for the risk management and internal control systems in the Post Office, for reviewing their effectiveness and for determining the nature and extent of the principal risks. Responsibility for day-to-day operations rests with members of the Group Executive. The Risk and Compliance Committee, on behalf of the Group Executive, reviews the operation of the risk management process and management of the principal risks. The committee is chaired by the General Counsel, membership includes all of the Group Executive and the output is reported to the Audit, Risk & Compliance Committee (ARC).

Assurance for the Board over the effectiveness of our risk management and internal controls is provided by the Audit, Risk and Compliance Committee, through review of reports from Management, particularly the Risk & Compliance Committee (RCC), Internal Audit, external advisers and External Audit.

Our Risk Management Framework

To improve our ability to consistently identify, manage and monitor risks, and take advantage of opportunities we might otherwise miss, we have developed a structured framework for assessing, managing and communicating risk. The framework identifies roles and responsibilities, the policies for how risks are managed, the tools and processes used, a risk appetite statement and the reporting outputs to inform both Management and the ARC.

Material risks are identified by business areas (bottom up analysis) for their own risk management; Group Executive members review these and add further strategic and external perspectives (top down review). The scope of risks to consider is facilitated by a Risk Universe. Impact and likelihood is assessed for evaluating each risk, after consideration of the controls we have in place. Where the resultant "net" risk profile is considered in excess of our risk appetite, consideration will be given as to how the risk could be brought back within an acceptable level of risk taking. For other risks we may want to introduce monitoring procedures. Details of our Principal Risks are included on page ZZZ.

Our Control Framework

Our risk management efforts are underpinned by our internal control framework. The Board has put in place an organisational structure with formally defined lines of responsibility and delegation of authority. Executive Management have established procedures for setting our direction, planning and controlling the operation of our business, and reviewing and monitoring our performance and conduct. These include:

- communication of the Group's strategy, objectives and targets
- expectations of standards of conduct by our colleagues as set out in our Code of Business Standards
- definition and review of our social purpose
- annual and three-year operating and capital plans which are reviewed by the Board. This includes the identification and assessment of risks compared to our appetite
- monthly comparisons actual financial performance with budget by operating divisions, with consideration by the Board of year end forecasts
- an organisational structure with lines of responsibility and appropriate segregation of duties
- change management approach, resources and governance are used to manage significant projects

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- formally defined delegations of authority, including capital investment limits and a treasury policy
- appointment of employees of the necessary calibre to fulfil their allocated responsibilities, with formal personal development and appraisal procedures
- senior management remuneration designed to align personal and business objectives, as well as to discourage dishonest, illegal or unethical acts
- a framework of operating, financial and IT policies
- a whistleblowing procedure for colleagues to raise concerns in confidence and if required, anonymously; a complaints procedure is available to customers and third parties.

Progress during the year and plans for next year

During the year, we have continued to develop our risk management capability. Highlights of what's been achieved and what is planned for next year include:

Risk assessment: during 2015/ 16, there has been more regular use of the risk management framework in business areas and by RCC, with greater focus on defining further actions required to manage risks and the introduction of longer term horizon scanning	**Risk assessment:** for 2016/ 17, we plan to focus our incident reporting process to provide lessons learnt on our risk assessments and operationalise our risk appetite further
Control environment: during 2015/ 16, we have reviewed the appropriateness of our Internal Control Framework and our key policies and identified appropriate remediations	**Control environment:** for 2016/ 17, we plan to formalise our monitoring mechanisms for both our Internal Control Framework and our key policies

Our Principal Risks and Mitigations

These are our principal risks, detailed with their potential consequences if they were to crystallise and how the Post Office manages them. Any of these risks could have a material impact on our results, condition and prospects. However, these risks should not be regarded as a complete and comprehensive statement of all potential risks; some risks are not yet known and some that are not considered material could later turn out to be material.

Potential risks	Consequences	Key Mitigations
STRATEGIC RISKS		
A) Competitive threat Post Office faces both opportunities for and threats to income from our competitive market place. - The Mails and parcels market remains intensely competitive. - Government Services are impacted by increased use of digital channels and reduced public spending. - Financial Services is a challenging market where responding quickly to different strategies, business models, and products is essential to growth.	Crystallisation of these risks could result in not achieving our growth objectives, losing market share and revenues.	• Customer perceptions and competitor behaviour are key inputs to decision making. • Our strategy focuses on customer requirements, market trends and competitor behaviour, working with partners where appropriate, to offer customer centric propositions, supported by a clear distribution strategy. • Each product proposition developed in the context of a customer strategy which describes target market, channel of distribution and completing attributes.
B) Dependency on strategic relationships Post Office has strategic relationships which are key to its product offering and growth, for instance with Royal Mail Group and Bank of Ireland (UK) plc. Misalignment of the strategic direction or focus with the strategic partner could result in products that do not support our growth strategy or meet our customer or market requirements.	This could result in not achieving our growth objectives, losing revenue and market share.	• Close working relationships established with our strategic relationships. • Interactions scheduled with our strategic partners to improve the product offering and service to drive growth and profitability for both parties. • Contractual arrangements monitored and managed to ensure that they are aligned with commercial objectives and that relationships deliver to expectations.
TRANSFORMATION RISKS		
C) Benefits from business transformation not realised Budgeted savings from our transformation programme may be delayed or not achieved, or overall service compromised, due to pressures on capability, capacity and the scale of change.	This could result in not achieving our growth objectives, loss of revenue and cost savings, reduced customer satisfaction and damage to reputation with stakeholders.	• Programme management office established, with assurance oversight. • Detailed plans in place to manage the transformation, and identify risks to ensure transformation activities are delivered within budget and on time. • Flexible resource augmentation model implemented to ensure supply of people with the right capabilities, skills and experience. • Benefits tracked from inception to delivery and into business as usual operations through formalised reviews during the lifecycle.
D) IT transformation not delivered in full Our programme of IT transformation may not be delivered in full due to the level of complexity of replacing legacy IT and simultaneously implementing new integrated service model	This could result in systems and infrastructure that are not fit for purpose, may add costs and lead to business interruption.	• Strategy and Integrated Service model developed and monitored. • Programme teams and operational business teams work closely to ensure that the objectives of the strategy are delivered. • Business and Technology Transformation governance, assurance and oversight plan in place and operational.
E) Industrial action The withdrawal of support from staff or postmasters to the ongoing implementation of Post Office transformation has the potential to damage the business in terms of both reputation and financial performance particularly if industrial action takes place.	This could result in business disruption leading to loss of revenue, reduced customer satisfaction and brand damage.	• Well defined agreements with relevant unions. • Comprehensive engagement programme in place with staff, unions and postmasters so as to ensure that there is alignment with our vision and strategy around transformation. • Contingency planning in place to minimise the impact of potential industrial action.

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OPERATIONAL RISKS		
F) Lack of appropriate capability The Post Office is dependent on its dedicated work force to meet the expectations of its customers and stakeholders. Continuing to attract, motivate, develop and retain people is key to its success.	This could result in not achieving our strategic objectives and loss of staff engagement.	• Continual review of our organisational structure to ensure it evolves and supports our requirements. • Key capabilities for our current and future state needs identified with a capability heatmap. • Investment in developing our people.
G) Decline in customer experience If we are unable to deliver an attractive customer experience, via our products, service and channels, we risk losing the support of our customers.	This could result in reduced customer satisfaction and brand reputation, with consequential loss of market share and revenues.	• Customer strategy continually monitored to ensure that it meets changing customer product and service expectations and reflects current market and competitor trends. • Channel strategy ensures we meet the changing customer requirements for access and utilises available and emerging technology to reflect changing customer needs.
H) Unattractive network proposition As we transform, there is a risk that the Post Office may not be able to retain, or attract sufficient new, retail partners because of the complexity of our network proposition and relative value to the retail partner particularly compared to other categories.	As well as loss of revenue, this could result in shrinkage to our network and breach our public purpose commitment.	• New branch model being developed to provide retailers with an attractive proposition relative to other categories. • New branch model also ensures that we use modern technology to drive simplicity of operations, efficiency and cost reduction for the retailer, as well as a better customer experience. • Branch model continually reviewed and updated to respond to ongoing competitive threat and market conditions.
I) Business interruption and cyber threat Post Office is dependent on the continued availability of its information systems and associated infrastructure. These could be threatened, either due to internal issues, external events or cyber attack.	This could result in disruption of service leading to negative customer experience, breach of contractual obligations and brand damage.	• Business continuity plans updated through review, testing and enhancements. • New contracts have provisions covering the security, resilience and availability of our IT systems and infrastructure. • Information Security policies in place. • Penetration testing schedule to assess and improve the security of our systems.
J) Dependency on third parties Post Office works in partnership with a number of third parties to deliver high quality services. We need to successfully select, contract and monitor our key in-source or out-source relationships and avoid any unintentional breaches of contractual terms.	This could lead to business interruption and additional costs through failure to meet contractual obligations.	• Contract management framework to monitor our contracts and suppliers. • Assessment of risks and monitoring of mitigating actions. • Defined key policies that we require our suppliers to comply with and attest compliance.
FINANCIAL RISKS		
K) Stakeholder funding The cost of delivering the public purpose of the Post Office and meet the expectations of stakeholders may exceed current forecasts.	This could result in not achieving our growth objectives, failing to meet our public purpose commitment and damaging our reputation with stakeholders.	• Proactive engagement with stakeholders to ensure there is full understanding of, and alignment with, the strategic goals and the investment case required to deliver them. • Annual and three-year operating and capital plans developed and risk assessed. • Scheduled feedback to stakeholders and review.
L) Financial reporting and controls failure Our financial controls are fundamental to delivering our fiduciary responsibilities, management	This could result in loss of revenue, increased costs, financial misstatement and	• Defined and structured delegation of authority which is reviewed and approved by the Board. • A Financial and Accounting manual and a framework of supporting general controls – see our General

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information, financial reporting and compliance with accounting and governance standards. These may not operate effectively if they are not documented, reviewed and monitored regularly.	damage to reputation with stakeholders.	Controls Framework on page XXX. • Documented financial controls, with additional assurance to be provided from a Control Self-Assessment process.
M) Pension cost increases The cost of servicing the current Defined Benefits scheme could become unbearably onerous as a result of the prolonged low interest rate environment, resulting in substantially increased contributions.	This could result in material increases in required contributions, adversely affecting our ability to achieve commercial sustainability.	• Valuation assumptions and pension funding strategy have regular external and internal monitoring and review. • Options being developed to minimise the impact of an adverse valuation, with assistance from professional advisors. • Consultation process initiated on options for the future of the Defined Benefit plan.
LEGAL & REGULATORY RISKS		
N) Financial regulatory breach The Post Office operates under an extensive regulatory environment, covering areas such as financial and postal services, telecoms, procurement, competition law and data security. This environment continues to evolve, particularly in the financial services arena, and we need to ensure that the changing requirements continue to be identified and met.	This could result in regulatory censure, fines, litigation or curtailment of trading, which could impact income and/ or damage our reputation with customers and suppliers.	• New regulatory obligations monitored by relevant business owners, with support from Corporate Services. • On-going training to our staff on legal and regulatory matters. • Regular compliance tests and monitoring are conducted. • Internal and external assurance programmes are in place (including by our regulatory principals) to ensure that we meet financial services regulatory requirements, including sales practices and conduct, customer experience and product experience and delivery.

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Directors' Report

The Directors present the Group Annual Report and Financial Statements for the year ended 27 March 2016.

Expected future developments

Expected future developments are detailed in pages XX to XX.

Results and dividends

The loss after taxation for the year was £XXm (2015: profit £XXm). The directors do not recommend the payment of a dividend (2015: £nil dividend).

Political contributions

No political contributions were made in the year (2015: £nil).

Research and development

There was no research and development expenditure during the year (2015: £nil).

Directors and their interests

The following served as Directors during the year:

R J Callard

A C J Cameron

T A Franklin

V A Holmes

A Marnoch (resigned 31 July 2015)

K S McCall (appointed 21 January 2016)

N W McCausland (resigned 30 September 2015)

T C Parker (appointed 1 October 2015)

A Perkins CB (resigned 31 July 2015)

C R Stent (appointed 21 January 2016)

P A Vennells

No director has a beneficial interest in the share capital of Post Office. The emoluments of Directors are set out in the Directors' Remuneration Report which appears on pages XX to XX.

People

Our goal is to ensure that everyone associated with our business – employees and postmasters – are engaged and involved in the business and are aligned and equipped to meet our shared objectives.

We conduct regular employee surveys, which provide employees and postmasters the opportunity to express their views and opinions on important issues. This two way communication encourages all our people to contribute towards improving the business and delivering our strategic objectives.

To engender greater engagement, Post Office has structured and systematic communication channels in place, ensuring employees and postmasters are informed on matters which impact them.

As part of our commitment to drive better service for customers we continue to focus on improving the quality of our leadership, ensuring we have the right skills for today and tomorrow, and

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achieving greater involvement from employees, postmasters and their representative bodies.

We have launched a Learning Academy which provides high quality learning for all employees and postmasters. We will continue to invest in developing the best talent to support our vibrant, sustainable business, including graduate recruitment and active participation in the new apprenticeship programme.

Underpinning all of this, is a need for dignity and respect in the workplace, where everybody feels valued, is treated fairly and equally, and all our people play a full part in helping the business to achieve its goals.

Corporate responsibility

Details of Post Office corporate responsibility activities are contained within a separate report on page XX.

Disabled employees

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

Post balance sheet events

In accordance with the funding agreement with government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £220m of funding on 1 April 2016. **TBC**

Going concern

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

Financial instrument risk

The exposure of the Group to market risk, credit risk and liquidity risk has been disclosed in note X of the annual report on pages XX-XX.

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware, that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

The auditor, Ernst & Young LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

By Order of the Board

Alwen Lyons
Secretary

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Post Office Limited
(Company Number 2154540)
Finsbury Dials
20 Finsbury Street
London
EC2Y 9AQ

X June 2016

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Post Office Limited

Registered Number 2154540

Post Office Limited

Financial Statements

2015-2016

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Post Office Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report, which includes the Directors' Report, Remuneration Report and Corporate Governance Statement, and the Group and Parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. 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 ("EU"). The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company, and of the profit or loss of the Group and Parent Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the EU, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group's financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Directors are responsible for preparing the Directors' report and the Corporate Governance report in accordance with the Companies Act 2006 and applicable regulations.
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 Parent Company financial statements prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework", give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The management report contained in this report includes a fair view of the development and performance of the business and the position of the Group as a whole and of the Company, together with a description of the principal risks and uncertainties they face.

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Independent auditor's report to the members of Post Office
We have audited the consolidated financial statements of Post Office Limited for the 52-week period ended 27 March 2016 which comprise the Group Income Statement, the Group Balance Sheet, the Group Statement of Comprehensive Income, the Group Statement of Cash Flows, the Group Statements of Changes in Equity, the Parent Company Statement of Comprehensive Income, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page [xx], the directors are responsible for the preparation of the 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 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 and 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 and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 27 March 2016 and of the group's loss for the 52-week period then ended;
- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the Group and Parent Company financial statements 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 Financial Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the 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.

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Post Office Limited

Other matters

- The maintenance and integrity of the Post Office Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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Post Office Limited

Consolidated income statement
for the 52 weeks ended 27 March 2016 and 29 March 2015

	Notes	**2016** £m	2015 (Restated) £m
Continuing operations:			
Turnover		**981**	976
Network Subsidy Payment		**130**	160
Revenue		**1,111**	1,136
People costs excluding restructuring costs	2	**(233)**	(238)
Other operating costs		**(808)**	(831)
Share of post tax profit from joint ventures	10	**35**	36
Operating profit before exceptional items for continuing operations	3	**105**	103
Operating exceptional items	4	**(269)**	(271)
- government grant		**150**	170
- restructuring costs		**(283)**	(301)
- impairment		**(136)**	(140)
Operating loss from continuing operations		**(164)**	(168)
Profit on disposal of property, plant and equipment		**-**	-
Loss before financing and taxation from continuing operations		**(164)**	(168)
Finance costs	6	**(5)**	(3)
Finance income	6	**-**	1
Net financing income relating to pensions	17	**8**	7
Loss before taxation from continuing operations		**(161)**	(163)
Taxation credit	7	**4**	26
Loss for the financial year from continuing operations		**(157)**	(137)
Discontinued operations:			
Loss for the financial year after tax from discontinued operations	22	**(10)**	(4)
Loss for the financial year		**(167)**	(141)

Post Office Limited

Consolidated statement of comprehensive income
for the 52 weeks ended 27 March 2016 and 29 March 2015

	Notes	2016 £m	2015 (Restated) £m
Loss for the financial year from continuing operations		**(157)**	(137)
Loss for the financial year from discontinued operations	22	**(10)**	(4)
Loss for the financial year		**(167)**	(141)
Other comprehensive income not to be reclassified to profit or loss in			
Future periods			
Remeasurements on defined benefit surpluses	17	**(9)**	54
Income tax effect	7	**5**	(9)
Total comprehensive income for the year		**(171)**	(96)

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

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Consolidated statement of cash flows
for the 52 weeks ended 27 March 2016 and 29 March 2015

	Notes	**2016** **£m**	2015 £m
Cash flows from operating activities			
Operating profit before exceptional items from continuing operations		**105**	103
Operating loss from discontinued operations	22	**(10)**	(4)
Total profit before exceptional items		**95**	99
Adjustment for:			
Share of profit from joint ventures	10	**(35)**	(36)
Pension operating costs	2	**30**	28
Working capital movements:		**(81)**	(17)
Increase in trade and other receivables		**(14)**	(34)
(Decrease)/Increase in trade and other payables		**(61)**	10
Increase in provisions for discontinued operations	22	**3**	-
(Decrease)/increase/ in non-exceptional provisions	15	**(9)**	7
Pension operating costs paid		**(23)**	(23)
Cash payments in respect of operating exceptional items:		**(109)**	(66)
Government grant		**150**	170
Restructuring costs		**(253)**	(224)
Other		**(6)**	(12)
Net cash outflow from operating activities		**(123)**	(15)
Income tax recovered	7	**9**	11
Cash flows from investing activities			
Dividends received from joint ventures	10	**35**	30
Finance income received		**-**	1
Acquisition of insurance business	21	**(44)**	-
Purchase of fixed and intangible assets		**(136)**	(147)
Net cash outflow from investing activities		**(145)**	(116)
Net cash (outflow)/inflow before financing activities		**(259)**	(120)
Cash flows from financing activities			
Finance costs paid		**(5)**	(3)
Payments to finance lease creditors		**-**	(3)
Proceeds of borrowings from BIS	14	**155**	310
Net cash inflow from financing activities		**150**	304
Net (decrease)/increase in cash and cash equivalents		**(109)**	184
Cash and cash equivalents at the beginning of the year	12	**821**	637
Cash and cash equivalents at the end of the year	12	**712**	821

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Consolidated balance sheet
at 27 March 2016 and 29 March 2015

	Notes	2016 £m	2015 (Restated) £m
Non-current assets			
Intangible assets	8	**44**	-
Property, plant and equipment	9	**9**	10
Investments in joint ventures	10	**67**	67
Retirement benefit surplus	17	**196**	205
Trade and other receivables	11	**12**	10
Total non-current assets		**328**	292
Current assets			
Inventories		**6**	6
Trade and other receivables	11	**409**	397
Cash and cash equivalents	12	**712**	821
Total current assets		**1,127**	1,224
Total assets		**1,455**	1,516
Current liabilities			
Trade and other payables	13	**(653)**	(718)
Financial liabilities - interest bearing loans and borrowings	14	**(465)**	(310)
- obligations under finance leases	20	**(8)**	-
Provisions	15	**(151)**	(144)
Total current liabilities		**(1,277)**	(1,172)
Non-current liabilities			
Other payables	13	**(25)**	(30)
Provisions	15	**(16)**	(6)
Total non- current liabilities		**(41)**	(36)
Net assets		**137**	308
Equity			
Share capital	18	**-**	-
Share premium	18	**465**	465
Retained earnings		**(330)**	(159)
Other Reserves	18	**2**	2
Total equity		**137**	308

The financial statements on pages XX to XX were approved by the Board of Directors on XXX 2016 and signed on its behalf by:

P A Vennells
Chief Executive

A Cameron
Chief Financial Officer

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Consolidated statement of changes in equity
for the 52 weeks ended 27 March 2016 and 29 March 2015

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	**Total equity £m**
At 30 March 2015 (restated)		465	(159)	2	**308**
Loss for the year		-	(167)	-	**(167)**
Remeasurements on defined benefit surplus	17	-	(9)	-	**(9)**
Income tax effect	7	-	5	-	**5**
At 27 March 2016		**465**	**(330)**	**2**	**137**

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 31 March 2014		465	(63)	2	404
Loss for the year (restated)		-	(141)	-	(141)
Remeasurements on defined benefit surplus	17	-	54	-	54
Income tax effect	7	-	(9)	-	(9)
At 29 March 2015 (restated)		465	(159)	2	308

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Notes to the financial statements

1. Accounting Policies

Financial year

The financial year ends on the last Sunday in March and for this reason these financial statements are made up for the 52 weeks ended 27 March 2016 (2015: 52 weeks ended 29 March 2015).

Basis of preparation

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

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 £million except where otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertaking as at 27 March 2016. 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 such control ceases. A dormant set of financial statements for Post Office Management Services Limited (subsidiary) were prepared to 30 November 2014. The subsidiary began trading in January 2015 and the first set of financial statements have been prepared for the 16 month period to 27th March 2016. The year end date is in line with the Company. The subsidiary uses consistent accounting policies where appropriate and a its results have been consolidated into the group financial statements. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions are eliminated in full.

New standards, amendments and interpretations issued not yet effective for the current year

The following standards and interpretations, which have been issued by the IASB and are relevant for the Group, subject to EU ratification, become effective after the current year–end and have not been early adopted by the Group:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was first issued in November 2009 and had since been amended several times. A complete version of the standard was issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model and a new expected credit loss model for calculating impairment. The new standard becomes effective for annual periods beginning on or after 1 January 2018, subject to EU adoption expected in first half of 2016. It is anticipated that the application of this amendment will have no significant impact on the Group's income statement or balance sheet.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from contracts with customers in May 2014. The new standard provides a single, five–step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when control of goods or services is transferred to the customer. It replaces all existing revenue recognition guidance under current IFRS and becomes effective for annual periods beginning on or after 1 January 2018, subject to EU adoption expected in 2016. The Group is currently considering the impact of IFRS 15 on its consolidated results and financial position.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group is currently considering the impact of these amendments on its consolidated results and financial position.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group is currently considering the impact of these amendments on its consolidated results and financial position.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

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IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group is currently considering the impact of these amendments on its consolidated results and financial position.

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Fundamental accounting concept – going concern

The Group has net assets of £137 million at 27 March 2016 (2015: £308 million). A funding agreement with Government was announced on 27 November 2013 which provided for:

- Funding of £280 million for 2015/16
- Funding of £220 million for 2016/17
- Funding of £140 million for 2017/18
- Extension of the existing working capital facility with the Department for Business, Innovation & Skills (BIS) with a limit of £950 million from 30 March 2015 up to 31 March 2018 (it was previously £1.15 billion)

At 27 March 2016 £485 million of the working capital facility was undrawn (2015: £840 million).

State Aid approval for the funding from 2015/16 to 2017/18 was received on 19 March 2015.

This funding takes the form of a Government Grant, enabling 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 which could not support a commercial retail outlet. New main and local branches are currently being rolled out across the United Kingdom. Customers are benefitting from a much better retail experience including very significantly extended opening hours. This programme is designed to make the Post Office network more self-sustaining and, over time, less dependent on direct subsidy. This is a modernisation programme and not a branch closure programme.

The Directors are satisfied with the continued progress made towards modernisation during 2015/16 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 and is not without risk.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office Limited will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the

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Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Prior year restatement

In preparing the financial statements for the current year, the comparative figures for the year ended 29 March 2015 have been restated. The provision for Postmasters' Compensation, included in network transformation, had not been fully recognised in the financial statements for the year ended 29 March 2015. The nature of the provision is described in more detail in the accounting policies on page XX. The restatement affects exceptional costs, provisions and retained earnings due to the loss in the year changing as a result of a restatement to the exceptional charge. This represents an acceleration of an expected cost and there has been no impact on the Group's funding position or on payments to Postmasters'. Within this report, the comparative income statement, statement of comprehensive income, balance sheet and statement of changes in equity for the year ended 29 March 2015 have been restated. There has been no effect on the cash flow statement.

	As previously reported	Restatement	29 March 2015 Restated
Total provisions	(63)	(87)	(150)
Shareholders' funds (retained earnings)	(72)	(87)	(159)
Operating exceptional items - restructuring costs	(214)	(87)	(301)
Profit/(loss) for the year	(54)	(87)	(141)

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 17.

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

Provisions

The Group has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. Postmasters' compensation provisions are recognised when either Postmaster's agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for Postmasters' compensation at the yearend date represents management's best estimate of the future obligation. 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.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate the risks specific to that liability.

Impairment of non-current assets

The Group assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. 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. Due to on-going operational losses (excluding the Network Subsidy Payment) the carrying value of some assets are impaired to zero on acquisition. Each asset category is described below:

Property, plant and equipment excluding freehold property, long leasehold property and land:

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and due to on-going

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operational losses (excluding Network Subsidy payment) they are impaired to zero on acquisition. If they were not impaired they would be depreciated on a straight-line basis over the following useful lives:

	Range of asset lives
Plant and Machinery	3 – 15 years
Motor vehicles and trailers	2 – 12 years
Fixtures and equipment	2 – 15 years

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value, therefore these assets are not impaired on acquisition but would be considered for impairment if indicators existed in line with Group policy noted above. They are instead depreciated on a straight-line basis over the following useful lives:

	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

The remaining useful lives of freehold buildings are reviewed periodically and adjusted where applicable on a prospective basis.

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. These assets are impaired to zero for the reasons noted above. If they were not impaired they would be amortised on a straight line bases via a charge to income statement over the following period:

Software	1 to 6 years

Intangible assets arising on acquisition or with an indefinite useful life:

These assets are considered for impairment individually in line with Group policy noted above but are not automatically impaired. Goodwill is considered separately below.

Goodwill

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. Goodwill is tested for impairment annually as well as when there are any indicators of impairment.

Non-current assets within subsidiaries

Subsidiaries are considered separate cash generating units and the need for impairment of assets is considered within the subsidiary and is dependent on whether indicators of impairment exist within that subsidiary. At a Group level the impairment is adjusted on consolidation to be in line with Group policy.

Revenue

Turnover from Government Services, Financial Services, Mails and Retail and Telecoms comprises the value of services provided from the Group's principle activities in providing a whole range of services through its physical and digital channels. Turnover from Financial Services and some Retail services comprises the commission received. 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.

Turnover within the subsidiary Post Office Management Services Limited comprises the value of commissions received from providing insurance intermediary services.

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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.

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 and in comparison to prior years. Items classified within here will be material either because of size or nature and relate to the transformation of the business rather than ordinary trading. This separate reporting of exceptional items helps to provide a better picture of the Company's underlying performance.

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
Investments in joint ventures 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 less any impairment in value. The income statement reflects the Group's share of post-tax profits from the joint venture.

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

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

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

- initial recognition of goodwill

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

- taxable temporary differences associated with investments in subsidiaries 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 statement, 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.

Pensions and other post-retirement benefits
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

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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. When the calculation at the balance sheet date results in net assets to the Group, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling).

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 (£).

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss.

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

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

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

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

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

Financial assets
Financial assets are measured at fair value at the balance sheet date. They are classified into the following categories loans and receivables or available for sale as appropriate based on the purpose for which they were required. Financial liabilities are measured at either fair value at the balance sheet date 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.

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.

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.

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All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, including cash in the Post Office network 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. Cash equivalents are classified as loans and receivable financial instruments.

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.
The subsidiary Post Office Management Services Limited holds some fiduciary cash balances, there are held on trust on behalf of insurance third parties, see note 12 for details.

2. Staff costs and numbers
Employment and related costs were as follows:

People costs excluding restructuring costs:	**2016 £m**	2015 £m
Wages and salaries	**184**	191
Social security costs	**19**	19
Pension costs (note 17)	**30**	28
Total	**233**	238

	Period end employees		Average employees	
	2016	2015	**2016**	2015
Total employees	**6,605**	6,876	**6,667**	7,281

Total employee numbers can be categorised as follows:

	2016	2015
Administration	**1,261**	1,324
Crown Offices	**3,344**	3,406
Supply Chain	**1,360**	1,524
Network and Crown transformation programmes	**640**	622
Total	**6,605**	6,876

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

	2016 £m	2015 £m
Postmasters' fees	**413**	435
Bureau de Change foreign currency exchange losses	**-**	1
Depreciation	**1**	-
Cost of inventories recognised as an expense	**3**	4
Operating lease charges – Land and buildings	**17**	20
Fees payable to the group's auditors for audit and other services:	**£000**	£000
- parent company and group audit	**346**	391
-audit of subsidiary	**70**	-
-audit related assurance services	**40**	40
-other non-audit services	**106**	173

4. Operating exceptional items

	2016 £m	2015 (Restated) £m
Government Grant	**150**	170
Restructuring:		
Business transformation*	**(13)**	(13)
Network transformation including Postmasters' compensation (note 15)	**(177)**	(227)
Crown transformation	**(23)**	(10)
IT transformation	**(30)**	(17)
Restructuring – severance	**(29)**	(25)
- other	**(11)**	(9)
Total restructuring	**(283)**	(301)
Impairment:		
Impairment of intangible assets (note 8)	**(93)**	(56)
Impairment of property, plant and equipment (note 9)	**(43)**	(84)
Total impairment	**(136)**	(140)
Total operating exceptional items	**(269)**	(271)

Restructuring:

Restructuring costs are those incurred in order to implement the major transformation programmes primarily the Crown and Network programmes which are discussed further in the Financial Review on page XX. Network transformation includes the costs of Postmasters' compensation (2016: £102 million, 2015: £154 million) which are payments made to Postmasters' as a result of the ongoing programme.

*Business transformation costs include £2 million of acquisition costs, see note 21 for further details on this acquisition.

Impairment:

See the accounting policies on page XX for details.

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5. Directors' emoluments
The Directors received the following emoluments:

	2016 £000	2015 £000
Emoluments, excluding pension contributions and LTIP*	**TBC**	1,234
Contributions to pension schemes	**TBC**	-
Amounts receivable under Long-Term Incentive Plans	**TBC**	157

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

Directors accruing pension entitlements during the period under:	**2016 Number**	2015 Number
Defined benefit schemes	**-**	-
Defined contribution schemes	**-**	-

The highest paid Director received the following emoluments:

	2016 £000	2015 £000
Emoluments and LTIP, excluding pension contributions but including cash supplements received in lieu of pensions	**TBC**	522
Company contributions to pension schemes	**-**	-

Remuneration for each director for the financial year 2015/16

Name	Annualised salary/fees 2015/16 (note 1)	Actual salary/fees 2015/16	Benefits 2015/16	Cash in lieu of pension 2015/16	STIP 2015/16	LTIP 2015/16	Total 2015/16	Total 2014/15
Non Executive Directors								
Tim Franklin	40,000	40,000	-	-	-	-	40,000	40,000
Virginia Holmes	40,000	40,000	-	-	-	-	40,000	40,000
Alasdair Marnoch (note 2)	45,000	15,000	-	-	-	-	15,000	45,000
Ken McCall (note 3)	50,000	12,500	-	-	-	-	12,500	N/A
Neil McCausland (note 4)	50,000	25,000	-	-	-	-	25,000	50,000
Tim Parker (note 5)	75,000	37,500	-	-	-	-	37,500	N/A

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Alice Perkins (note 6)	100,000	33,333	-	-	-	-	33,333	100,000
Carla Stent (note 7)	45,000	8,831	-	-	-	-	8,831	N/A
Richard Callard (note 8)	0	0	-	-	-	-	0	0
Executive Directors								
Paula Vennells	250,000	250,000	9,900	62,500	TBC	143,500	TBC	521,987
Alisdair Cameron (note 9)	240,000	240,000	13,919	56,189	125,002 +75,000	-	510,110	90,124

Note 1: The annualised fees are shown as at 27th March 2016 or at the date of leaving.

Note 2: Alasdair Marnoch resigned from the Board and left on 31st July 2015

Note 3: Ken McCall was appointed to the Board on 21st January 2016

Note 4: Neil McCausland resigned from the Board and left on 30th September 2015

Note 5: Tim Parker was appointed to the Board on 1st October 2015. Mr. Parker donates the after tax value of his Board fees to charity.

Note 7: Alice Perkins resigned from the Board and left on 31st July 2015

Note 7: Carla Stent was appointed to the Board on 21st January 2016

Note 8: Richard Callard is an employee of the Shareholder Executive of the Department for Business, Innovation, and Skills.

Note 9: Alisdair Cameron received a bonus of £75,000 in October 2015; this is shown separately in the STIP column. This was compensation for the variable pay which Alisdair gave up to join Post Office and was payable after six months' service depending upon performance conditions being met. The inclusion of this amount in Alisdair's contract and its payment against the performance conditions were agreed by the Remuneration Committee and the Special Shareholder.

Remuneration Policy Summary

The table describes the STIP and LTIP available for the Executive Director's.
The remuneration framework for the Executive Directors requires consent from the Special Shareholder each year.

Short-Term Incentive Plan (STIP)	The STIP drives and rewards performance over the single financial year against a key financial and operational targets taken from the business scorecard. Metrics and targets are determined and set each year according to business priorities. 80% of the STIP plan is determined by business targets, with the remaining 20% linked to the achievement of personal performance

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	objectives. The target opportunities for the Chief Executive and Chief Financial Officer are 48% and 40% respectively.
Long-Term Incentive Plan (LTIP)	The LTIP is designed to reward and retain key executives and senior managers on the achievement of strategic longer term targets linked to the development and growth of a sustainable business. The specific performance targets are determined for each LTIP cycle with reference to the three-year plan which is agreed with the Special Shareholder. The target opportunities for the Chief Executive and Chief Financial Officer are 70% and 50% respectively.

Differences in remuneration policy for the Executive Directors and employees generally

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

Claw-back provision

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

6. Net finance costs

	2016 £m	2015 £m
Interest receivable	**-**	1
Interest payable on loans	**(2)**	(1)
Finance charges	**(3)**	(2)
Total	**(5)**	(2)

7. Taxation

(a) Taxation gains recognised in the year

	2016 £m	2015 £m
Corporation tax credit for year	**(9)**	(10)
Tax under provided in previous years	**-**	(7)
Current tax	**(9)**	(17)
Deferred tax credit relating to the origin and reversal of temporary differences	**2**	(9)
Effect of change in tax rate	**3**	-
Income tax credit reported in the consolidated income statement	**(4)**	(26)

Deferred income tax of £5 million (2015: £9 million) has been credited (2015: debited) to other comprehensive income relating to actuarial movements in the retirement benefit surplus. This offsets the deferred tax debit of £5 million (2015 (credit): £9 million) that has been reported in the consolidated income statement.

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

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	2016 £m	2015 Restated £m
Loss on ordinary activities before tax from continuing operations	**(161)**	(163)
Loss on ordinary activities before tax from discontinued operations	**(10)**	(4)
Accounting loss before taxation	**(171)**	(167)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 21%)	**(34)**	(35)
Net decrease in tax charge as a result of recognition of deferred tax assets	**8**	(16)
Expenditure disallowable for tax	**1**	2
Adjustment in respect of prior period	**-**	(7)
Effect of unutilised losses carried forward	**28**	36
Joint venture profit after tax included in Group pre-tax profit	**(7)**	(6)
Total current tax (see above)	**(4)**	(26)

(c) Deferred tax

Deferred tax assets relate to the following:

	Balance sheet		Income statement	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Pensions temporary differences	**(25)**	(30)	**(5)**	9
Losses available for offset against future taxable income	**25**	30	**-**	-
Total deferred tax asset	**-**	-	**(5)**	9
Income statement			**(5)**	9

(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £166 million (2015: £141 million), comprising £78 million (2015: £74 million) relating mainly to fixed asset timing differences, £1 million (2015: £1 million) relating to timing differences on provisions and £87 million (2015: £66 million) relating to tax losses that are available to offset against future taxable profits. The Group has rolled over capital gains of £2 million (2015: £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.

The Finance Act 2013 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2018. Following these changes, deferred tax balances were reduced from 20% to 18%. The impact of this change on deferred tax balances is included in these financial statements.

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8. Intangible assets

	Software		Goodwill		Total	
	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m
Cost						
At 30 March 2015, 31 March 2014	297	243	-	-	297	243
Reclassifications	-	(3)	-	-	-	(3)
Additions	93	57	44	-	137	57
Disposals	(1)	-	-	-	(1)	-
At 27 March 2016, 29 March 2015	**389**	**297**	**44**	**-**	**433**	**297**
Amortisation and impairment						
At 30 March 2015, 31 March 2014	297	243	-	-	297	243
Reclassifications	-	(3)	-	-	-	(3)
Amortisation and impairment (see note 4)	93	57	-	-	93	57
Disposals	(1)	-	-	-	(1)	-
At 27 March 2016, 29 March 2015	**389**	**297**	**-**	**-**	**389**	**297**
Net book value						
At 27 March 2016, 29 March 2015	**-**	**-**	**44**	**-**	**44**	**-**

Goodwill relates to the acquisition from Bank of Ireland of the business and assets of the joint insurance business. The goodwill sits within Post Office Management Services Limited. See note 21.

The impairment figure for intangible assets in 2015 includes £1 million for discontinued operations, see note 22 for details. Note 4 only includes figures for continuing operations which explains the £1 million difference. These assets were disposed of in the current year as shown above.

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9. Property, plant and equipment

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor Vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 31 March 2014	100	17	113	44	1	739	1,014
Reclassification*	(31)	26	6	-	-	2	3
Additions	16	12	-	1	-	55	84
Disposals	(2)	-	(4)	(5)	-	(13)	(24)
At 29 March 2015	83	55	115	40	1	783	1,077
Reclassification*	(6)	3	(22)	-	-	25	-
Additions	1	-	-	4	-	38	43
Disposals	(1)	-	(3)	(1)	-	(3)	(8)
At 27 March 2016	**77**	**58**	**90**	**43**	**1**	**843**	**1,112**
Depreciation and impairment							
At 31 March 2014	91	16	113	44	1	739	1,004
Reclassification*	(31)	26	6	-	-	2	3
Depreciation and impairment	16	12	-	1	-	55	84
Disposals	(2)	-	(4)	(5)	-	(13)	(24)
At 29 March 2015	74	54	115	40	1	783	1,067
Reclassification	(6)	3	(22)	-	-	25	-
Depreciation and impairment (see note 3 and 4)	2	-	-	4	-	38	44
Disposals	(1)	-	(3)	(1)	-	(3)	(8)
At 27 March 2016	**69**	**57**	**90**	**43**	**1**	**843**	**1,103**
Net book value							
At 27 March 2016	**8**	**1**	**-**	**-**	**-**	**-**	**9**
At 29 March 2015	9	1	-	-	-	-	10

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £3 million (2015: £3 million) of the total cost of properties.

* Reclassifications have been done in the year between freehold, long leasehold, short leasehold and fixtures and equipment in relation to Postmaster's branches. Reclassification between freehold, long leasehold and short leasehold asset categories is due to the fact that all land and building assets are classified as freehold whilst they are an asset under construction, then once works are complete and lease contracts are confirmed, the asset is moved into the correct respective category.

10. Investments in joint ventures

The following entity has been included in the consolidated financial statements using the equity method:

Joint ventures

During 2015/16 and 2014/15, 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. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road,

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Brentford, Middlesex, TW8 9DF. The financial statements of the joint venture are prepared for the same reporting period as the Group.

	2016 Joint venture £m	2015 Joint venture £m
Share of net assets		
Total net investment at 30 March 2015, 31 March 2014	**67**	**61**
Share of post tax pre dividend profit	**35**	**36**
Dividend	**(35)**	**(30)**
Total net investment at 27 March 2016, 29 March 20	**67**	**67**

	2016 Joint venture	2015 Joint venture
Share of assets and liabilities:	**£m**	£m
Current assets	**205**	191
Non-current assets	**6**	6
Share of gross assets	**211**	197
Current liabilities	**(144)**	(130)
Share of net assets	**67**	67
Share of revenue and profit:		
Revenue	**79**	82
Profit after tax	**35**	36

11. Trade and other receivables

	2016 £m	2015 £m
Current:		
Trade receivables	**93**	101
Prepayments and accrued income	**73**	106
Client receivables	**229**	162
Other receivables	**14**	28
Total	**409**	397
Non-current:		
Prepayments	**12**	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 13).

As at 27 March 2016 trade receivables of £16 million (2015: £14 million) were impaired and fully provided for. During the year £4 million (2015: £6 million) of the provision has been utilised and an additional £6 million (2015: £3 million) has been provided for. Trade receivables of £21 million (2015: £21 million) were past due but not impaired. The aging analysis of the trade receivables are as follows:

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	2016 **£m**	2015 £m
Not yet overdue	**72**	80
Past due not more than one month	**12**	8
Past due more than one month and not more than two months	**3**	3
Past due more than two months	**6**	10
Total	**93**	101

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

12. Cash and cash equivalents

	2016 **£m**	2015 £m
Cash in the Post Office Limited network	**653**	708
Short-term bank deposits	**57**	93
Fiduciary cash balances held on behalf of insurance third parties	**2**	-
Money market fund investments	**-**	20
Total cash and cash equivalents	**712**	821

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.
The fiduciary cash balances are held within Post Office Management Services Limited and are held on trust on behalf of insurance third parties and cannot be called upon should the Company become insolvent.

13. Trade and other payables

	2016 **£m**	2015 £m
Current:		
Trade payables	**51**	30
Accruals	**161**	160
Deferred income	**39**	29
Social security	**8**	9
Client payables	**375**	454
Capital payables	**16**	25
Other payables	**3**	11
Total	**653**	718
Non-current:		
Other payables	**25**	30

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

14. Financial liabilities – interest bearing loan and borrowings

	2016 **£m**	2015 £m
Department of Business, Innovation & Skills loan drawn down	**465**	310

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The loan under the facility is short dated on a programme of liquidity management and matures on average 1 day after the year end (2015: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2018. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £485 million (2015: £840 million). The average interest rate on the drawn down loans is 1.0% (2015: 1.0%).

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

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

15. Provisions

	Network Transformation £m	Other £m	Total £m
At 29 March 2015 (restated)	127	23	150
Acquired through the business combination (note 21)*	-	1	1
Charged in operating exceptional items	123	54	177
Charged in operating costs	-	6	6
Charged for discontinued operation	-	3	3
Utilisation	(95)	(47)	(142)
Unused amounts in the year – operating exceptionals	(21)	(5)	(26)
Unused amounts in the year – operating costs	-	(2)	(2)
At 27 March 2016	**134**	**33**	**167**
Disclosed as:			
At 27 March 2016			
Current	**132**	**19**	**151**
Non – current	**2**	**14**	**16**
	134	**33**	**167**
At 29 March 2015			
Current	126	18	144
Non-current	1	5	6
	127	23	150

The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page XX for further details of this provision..

Other provisions of £33 million (2015: £23 million) include £30 million for continuing operations, this includes £19 million onerous lease obligations, £3 million severance and £8 million of smaller provisions including £1 million for personal injury claims and £1 million which sits within the subsidiary Post Office Management Services Limited and relates to the repayment of commission received in the event of the cancellation of insurance policies. It also includes £3 million in relation to the discontinued operation as disclosed in note 22.

*A provision was acquired as part of the acquisition from Bank of Ireland of the business and assets of the joint insurance business, see note 21.

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16. Financial assets and liabilities

a. Financial assets and liabilities by category

The breakdown of the Group's financial instruments at 27 March 2016 and 29 March 2015 is shown below:

	2016			2015		
	Current	**Non current**	**Total**	Current	Non Current	Total
	£m	**£m**	**£m**		£m	£m
Financial assets						
Trade and other receivables	**394**	**-**	**394**	378	-	378
Cash and cash equivalents	**712**	**-**	**712**	821	-	821
Financial liabilities						
Trade and other payables	**(606)**	**(4)**	**(610)**	(680)	(2)	(682)
BIS loan	**(465)**	**-**	**(465)**	(310)	-	(310)
Finance leases obligations	**(8)**	**-**	**(8)**	-	-	-
Total financial assets/ (liabilities)	**27**	**(4)**	**23**	209	(2)	207

Except for prepayments, social security and deferred income, which have been excluded from the table above, all of the Group's financial assets and liabilities by nature and classification for measurement purposes are considered loans and receivables.

The fair value of the Group's financial assets and liabilities approximate their carrying value due to the short term maturities of these instruments. The fair value of financial assets and liabilities is defined as the amount at which the Group would expect to receive upon selling an asset or pay to transfer a liability in a transaction between market participants at the measurement date.

The nature of the inputs used in determining the values of the financial assets and liabilities is quoted prices (unadjusted) in active markets for identical assets and liabilities. All of the Group's financial assets and liabilities are therefore considered as Level 1 in the fair value hierarchy.

The Group has no Level 2 and Level 3 financial instruments and there have been no transfers between the levels of fair value hierarchy during the period.

b. Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and aims to minimise potential adverse effects on the Group's financial performance.

Interest rate risk

The Group is exposed to changes in interest rate on floating rate debt, cash deposits and money market fund investments. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been a £5m favourable impact on the Group's equity and income statement. A 50 basis point decrease would have resulted in a £5m adverse impact on the Group's equity and income statement.

Foreign currency risk

The Group is exposed to foreign currency risk resulting from balances held to operate Bureau de Change services.

The currencies which these transactions are primarily denominated are the US dollar and Euro. 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 hedges its foreign currency risk principally through external forward foreign currency contracts to cover near-term future revenues with a number of providers including First Rate Exchange Services Holdings Limited.

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The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar and Euro exchange rates, assuming they are unhedged and with all other variables held constant, on profit/(loss) before tax and equity.

	Strengthening / (weakening) in US dollar rate	Effect on profit before tax	Effect on equity	Strengthening / (weakening) in euro rate	Effect on profit before tax	Effect on equity
	per cent	£m	£m	per cent	£m	£m
	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)
2016	**10**	**2**	**2**	**10**	**4**	**4**
	(10)	**(2)**	**(2)**	**(10)**	**(4)**	**(4)**
2015	10	1	1	10	3	3
	(10)	(1)	(1)	(10)	(3)	(3)

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 commission 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. The maximum exposure to credit risk is limited to the carrying value of each class of asset summarised in note 11.

Business credit risk is monitored centrally. The level of bad debt provision is less than 2% (2015: less than 2%) 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 Group Executive regularly monitor the level of debt in the Group, the working capital requirements and the forecast cash flows. The Board and Group Executive 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 short term bank deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The Group has adequate cash reserve to meet operating requirements in the next 12 months.

At 27 March 2016 the Group has unused facility of £485 million (2014: £840 million). The facility expires in 2018.

The tables below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest, where applicable.

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At 27 March 2016	12 Months	1-2 Years	2-5 Years	> 5 Years	**Total** **£m**
Financial assets					
Trade and other receivables	394	-	-	-	**394**
Cash and cash equivalents	712	-	-	-	**712**
Financial liabilities					
Trade and other Payables	(614)	(4)	-	-	**(618)**
Interest bearing loan	(465)	-	-	-	**(465)**
Finance leases obligations	(8)	-	-	-	**(8)**
Total financial assets/ (liabilities)	**19**	**(4)**	**-**	**-**	**15**

At 29 March 2015	12 Months	1-2 Years	2-5 Years	> 5 Years	Total £m
Financial Assets					
Trade and other receivables	378	-	-	-	378
Cash and cash equivalents	821	-	-	-	821
Financial Liabilities					
Trade and other Payables	(689)	(2)	-	-	(691)
Bank overdraft	-	-	-	-	-
Interest bearing loan	(310)	-	-	-	(310)
Finance leases obligations	-	-	-	-	-
Total financial assets/ (liabilities)	200	(2)	-	-	198

17. Pensions

The disclosures in this note reflect the two defined benefit schemes: Post Office Limited sectionalised RMPP scheme which is independently operated by the Group and the 7% share of the RMSEPP scheme. Royal Mail Group Limited is the principal employer in Royal Mail Senior Executive Pension Plan (RMSEPP) and Post Office Limited became a participating employer with effect from 1 April 2012. It also includes the defined contribution scheme Post Office Pension Plan.

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

The Group participates in pension schemes as detailed below.

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

*From 1 April 2015 the Post Office Pension plan replaced the Royal Mail Defined Contribution Plan.

Defined Contribution
The charge in the income statement for the defined contribution schemes and the Group contributions to these schemes was £3 million (2015: £3 million) during the year. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Group for a year.

Defined Benefit
Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds. The latest full actuarial funding valuation of RMPP was carried out as at 1 April 2012 using the projected unit method. For RMPP, this valuation was concluded at £135 million surplus. The latest full actuarial funding valuation of RMSEPP was carried out as at 31 March 2012 using the projected unit method. For 100% of the RMSEPP plan, the valuation was concluded at £83 million deficit. Valuations are carried out triennially and the next one is being performed as at 1 April 2015. The valuation has not yet been completed due to the current consultation on proposals to closing the scheme to future accrual. RMPP includes sections A, B and C each with different terms and conditions:

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

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

The changes encompassed:

- the Plans closed to new members from 31 March 2008;
- all pensions and benefits earned before 1 April 2008 are linked to final pensionable salary, but defined benefits built up from 1 April 2008 are earned on a "career average pensionable salary" basis;
- from 1 April 2014, pensionable salary was amended to the amount in force at that date, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases. This change resulted in a one-off exceptional gain of £102 million for the 2013/14 financial year;
- employees can continue to take their pension on reaching 60 but the normal retirement age increased to 65 for benefits earned from 1 April 2010;
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age at 55, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached; and
- RMSEPP was closed to future accruals on 31 December 2012.

Payment of £17 million (2015: £19 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% (2015: 17.1%), effective from April 2010. This rate is not expected to change materially during 2016/17. However, in February 2016, Post Office went out to formal consultation with active members (and their representatives) of the Post Office section of the Royal Mail Pension Plan regards to the potential closure of the RMPP to future accrual with effect from 1 September 2016. The closure is subject to the outcome of the pensions consultation and no final decision will be until the formal consultation has been completed. The proposed closure will also require consent of the Trustee of the RMPP. This closure if it occurs could affect the rate paid in 2016/17.

The Group pays 7% of the total deficit payment required to fund the deficit in RMSEPP and a payment of £1 million (2015: £1 million) was made by the Group during the year. No RMPP deficit payments were made during 2014/15 or 2015/16. For RMSEPP, deficit recovery payments will be £1 million per annum, from 1 April 2010 to 31 January 2024.

A current liability of £nil (2015: £1 million) has been recognised for payments to the pension schemes relating to redundancy. During the year, payments of £3 million (2015: £2 million) relating to redundancy were made.

The weighted average duration of the RMPP fund is 26 years, and for the RMSEPP fund is 21 years. Over the next financial reporting period to 27 March 2016 it is expected that employer contributions to the plans will be £17 million and £1 million for RMPP and RMSEPP respectively.

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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 in relation to both RMPP and RMSEPP were:

	At 27 March 2016 **% pa**	At 29 March 2015 % pa
Rate of increase in salaries	**2.8**	2.8
Rate of pension increases – RMPP sections A/B	**1.8**	1.9
Rate of pension increases – RMPP section C	**2.8**	2.8
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of pension increases – RMSEPP all other members	**2.8**	2.8
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of increase for deferred pensions	**1.8**	1.9
Discount rate	**3.5**	3.5
Inflation assumption (RPI) – RMPP & RMSEPP	**2.9**	3.0
Inflation assumption (CPI) – RMPP & RMSEPP	**1.8**	1.9

The ultimate cost of the RMPP plan to the Group will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets, for example Corporate Bonds, which mitigates the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes pensionable pay in RMPP, which was amended with effect from 1 April 2014. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this will be partially offset by an increase in the value of the bond holdings and, to some extent, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would increase because pensions would be paid for a longer time.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were transferred to the Royal Mail Statutory Pension Scheme. These liabilities are substantially no longer an obligation of the Group and consequently the transfer resulted in a significant removal of pension risk from the Group.

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

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	2016 £m	2015 £m
Changes in RPI and CPI inflation of +0.1% pa	**(5)**	(4)
Changes in discount rate of +0.1%pa	**5**	4
Changes in real salary growth of +0.1% pa	**(2)**	(1)
Changes in CPI assumptions of +0.1% pa	**(1)**	(1)
An additional 1 year life expectancy	**(6)**	(5)

The sensitivity analysis has been prepared using projected benefit cashflows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cashflows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

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

Average expected life expectancy from age 60:	2016	2015
For a current 60 year old male RMPP member	**27 years**	27 years
For a current 60 year old female RMPP member	**30 years**	30 years
For a current 40 year old male RMPP member	**29 years**	29 years
For a current 40 year old female RMPP member	**32 years**	32 years

b) Plans' assets

The assets in the plans for the Group were:

Sectionalised RMPP	Market value 2016 £m	Market value 2015 £m
UK equities	**-**	1
Overseas equities	**-**	10
Corporate bonds*	**233**	217
Property	**11**	8
Private Equity	**10**	12
Cash and cash equivalents	**41**	6
Bond/fixed interest funds	**41**	50
Index-linked funds	**-**	10
Other loan/debt funds	**28**	20
Alternative asset funds	**43**	11
Equity funds	**-**	34
Fair value of RMPP assets	**407**	379
Present value of RMPP liabilities	**(184)**	(150)
Surplus in plan before asset ceiling adjustment	**223**	229
Less effect of asset ceiling	**(29)**	(27)
Surplus in plan after asset ceiling adjustment	**194**	202

*£15 million relates to UK Government Bonds. £215 million to an LDI investment containing UK Government Bonds, it is a liability driven investment and £3 million to an infrastructure debt holding which is EUR denominated and fixed interest.

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Share of RMSEPP	**Market value 2016 £m**	Market value 2015 £m
UK equities	**1**	1
Overseas equities	**10**	11
Government bonds	**15**	16
Alternative asset funds	**2**	-
Property	**2**	2
Other assets	**-**	1
Fair value of share in plan assets for RMSEPP	**30**	31
Present value of share in plan liabilities for RMSEPP	**(27)**	(26)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**3**	5
Less effect of asset ceiling	**(1)**	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**2**	3

A retirement benefit surplus of £196 million is disclosed on the balance sheet, representing the surplus in plans of £223 million and £3 million for RMPP and RMSEPP respectively, and net of tax of £30 million at a rate of 35% on the element of the surplus which is recoverable through a refund from the plans.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. All RMPP and RMSEPP assets are securities with a quoted price in an active market.

c) Movement in plans' assets and liabilities

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

Assets	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Assets in sectionalised RMPP at beginning of period	**379**	260
Contributions paid	**19**	21
Employee contributions paid	**6**	7
Finance income	**14**	12
Actuarial (losses)/gains	**(8)**	81
Benefits paid to members	**(3)**	(2)
Assets in sectionalised RMPP at end of period	**407**	379

Assets	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of assets in RMSEPP at beginning of period	**31**	26
Contributions paid	**1**	1
Finance income	**1**	1
Actuarial (losses)/gains	**(2)**	4
Benefits paid to members	**(1)**	(1)
Share of assets in RMSEPP at end of period	**30**	31

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

Liabilities	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Liabilities in sectionalised RMPP at beginning of period	**(150)**	(90)
Current service cost	**(27)**	(25)
Curtailment costs*	**(1)**	(1)
Finance cost	**(6)**	(5)
Employee contributions	**(6)**	(7)
Actuarial loss	**-**	(23)
Experience adjustments on liabilities	**3**	(1)
Benefits paid	**3**	2
Liabilities in sectionalised RMPP at end of period	**(184)**	(150)

Liabilities	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of liabilities in RMSEPP plans at beginning of period	**(26)**	(24)
Finance cost	**(1)**	(1)
Actuarial loss	**(1)**	(2)
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(27)**	(26)

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

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

	Sectionalised RMPP 2016 £m	Sectionalised RMPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptioı items:		
Current service cost	**27**	25
Total charge to operating profit before exceptional items	**27**	25
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments	**1**	1
Total charge to operating profit	**28**	26
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**6**	5
Interest income on plan assets	**(14)**	(12)
Net pensions credit to financing	**(8)**	(7)
Net charge to the income statement before deduction for tax	**20**	19
Analysis of amounts recognised in the statement of comprehens income:		
Actual return on plan assets	**6**	93
Less: expected interest income on plan assets	**(14)**	(12)
Less: taxation on surplus recoverable through plan refunds	**(2)**	(4)
Actuarial (losses)/gains on assets (all experience adjustments)	**(10)**	77
Experience adjustments on liabilities	**3**	(1)
Effects of changes in actuarial assumptions on liabilities	**-**	(23)
Actuarial losses on liabilities	**3**	(24)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(7)**	53

	Share of RMSEPP 2016 £m	Share of RMSEPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to net pensions interest:		
Interest on plan liabilities	**1**	1
Interest income on plan assets	**(1)**	(1)
Net pensions credit to financing	**-**	-
Net charge to the income statement before deduction for tax	**-**	-
Analysis of amounts recognised in the statement of comprehensi income:		
Actual return on plan assets	**(1)**	5
Less: expected interest income on plan assets	**(1)**	(1)
Less: taxation on surplus recoverable through plan refunds	**1**	(1)
Actuarial (losses)/gains on assets (all experience adjustments)	**(1)**	3
Experience adjustments on liabilities		-
Effects of changes in actuarial assumptions on liabilities	**(1)**	(2)
Actuarial losses on liabilities	**(1)**	(2)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(2)**	1

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18. Equity:

Called up share capital:

	2016	2015
	£	£
Authorised		
Ordinary shares of £1 each	**51,000**	51,000
Total	**51,000**	51,000
Allotted and issued and fully paid		
Ordinary shares of £1 each	**50,003**	50,003
Total	**50,003**	50,003

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Share premium:

On 7 August 2007 1,000 ordinary shares of £1 each were issue in return for £313 million cash paid by the the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Innovations and Skills Reform. A share premium of £151,999,998 resulted from this subscription.

19. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £62 million (2015: £96 million).

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

	Land and buildings	
	2016	2015
	£m	£m
Within one year	**14**	17
Between one and five years	**35**	43
Beyond five years	**29**	27
Total	**78**	87

Contingent liabilities: As a large, nationwide retailer operating in dynamic and competitive markets, we may be subject to regulatory investigations and may face damage to our reputation and legal claims.

From time to time, we may be named as a defendant in legal claims or be required to respond to regulatory actions in connection with our activities. This may include claims for substantial or indeterminate amounts of damages from customers, employees, consultants and contractors, or may result in penalties, fines, or other results adverse to us. Like any large company, we may also be subject to the risk of potential employee or agent misconduct, including non-compliance with policies and improper use or disclosure of our assets or confidential information.

The Directors do not consider the outcome of any current claim or action will have a material adverse impact on the consolidated position of the Group.

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20. Finance lease liabilities

	2016		2015	
	Minimum payments	**Present value of minimum lease payments**	Minimum payments	Present value of minimum lease payments
	£m	**£m**	£m	£m
Within one year	**8**	**8**	-	-
Between one and five years	**-**	**-**	-	-
Total minimum lease payments	**8**	**8**	-	-
Less amounts representing finance charges	**-**	**-**	-	-
Present value of minimum lease payments			-	-
Of which:				
Current	**8**	**8**	-	-
Non-current	**-**	**-**	-	-

The aggregate finance charges allocated for the period in respect of finance leases was £nil (2015: £211,078). The fair value of finance lease liabilities is not materially different from the carrying value.

The Group has finance lease contracts for equipment.

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22. Discontinued Operation

In March 2016 the Group decided to discontinue its mobile operation. The results of this operation are disclosed below:

	2016 **£m**	2015 £m
Revenue	**-**	-
Expenses	**(10)**	(4)
Loss before taxation	**(10)**	(4)
Taxation	**-**	-
Loss for the year from discontinued operation	**(10)**	(4)

Balances on the balance sheet at year end for project closure costs and termination charges are as follows:

	2016 **£m**	2015 £m
Provisions	**3**	-
Total Liabilities (note 15)	**3**	-

Write down of intangible assets and prepayments

Intangible assets for mobile amounted to £2 million in the year (£1 million in prior year) and these were impaired at acquisition in line with Group policy so no further write down was required on closure of the operation. The impairment is included in the £10 million above (£4 million above prior year). There were prepayments on the balance sheet of £2 million prior to the decision to discontinue this operation and these have been written down to £nil as the costs included in the £10 million expenses noted above.

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Separately:

- the Group has certain loan facilities with Government (note 14);
- the Group has received a Government Grant of £150 million, all of which was recognised through the income statement; and
- the Group has received the Network Subsidy Payment from Government (note 1).

Key management comprises Executive and Non-Executive Directors of the Post Office Limited Board and the members of the Group Executive at 27 March 2016. The aggregate remuneration of the key management personnel of the Post Office Group is set out below:

	2016 **£000**	2015 £000
Short-term employee benefits*	**TBC**	3,380
Post-employment benefits	**TBC**	68
Other long-term benefits	**TBC**	307
Total	**TBC**	3,755

*Payment in lieu of notice has been included in short-term employee benefits. Please refer to the Director's Remuneration Report on page XX for further details.

24. Post balance sheet events
In accordance with the funding agreement with government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £220 million of funding on 1 April 2016.

25. Immediate and ultimate parent company
At 27 March 2016, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company. The largest group to consolidate the results of the company is Postal Services Holding Company Limited, a company registered in the United Kingdom. Postal Services Holding Company Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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Parent Company Financial Statements

2015-2016

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Company statement of comprehensive income
At 27 March 2016

	Notes	2016 £m	2015 Restated £m
Loss for the financial year from continuing operations		**(157)**	(143)
Loss for the financial year from discontinued operations		**(10)**	(4)
Loss for the financial year		**(167)**	(147)
Other comprehensive income not to be reclassified to profit or loss in future periods			
Remeasurements on defined benefit surplus	11	**(9)**	54
Income tax effect		**5**	(9)
Total comprehensive income for the year		**(171)**	(102)

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

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Company balance sheet
at 27 March 2016

	Notes	2016 £m	2015 (Restated) £m
Non-current asset			
Intangible assets	2	**-**	-
Property, plant and equipment	3	**9**	10
Investment in subsidiaries	4	**50**	-
Investments in joint ventures	5	**1**	1
Retirement benefit surplus	11	**196**	205
Trade and other receivables	6	**12**	10
Total non-current assets		**268**	226
Current assets			
Inventories		**6**	6
Trade and other receivables	6	**411**	399
Cash and cash equivalents	7	**698**	817
Total current assets		**1,115**	1,222
Total assets		**1,383**	1,448
Current liabilities			
Trade and other payables	8	**(648)**	(716)
Financial liabilities - interest bearing loans and borrowings	9	**(465)**	(310)
- obligations under finance leases	13	**(8)**	-
Provisions	10	**(150)**	(144)
Total current liabilities		**(1,271)**	(1,170)
Non-current liabilities			
Other payables	8	**(25)**	(30)
Provisions	10	**(16)**	(6)
Total non-current liabilities		**(41)**	(36)
Net assets		**71**	242
Equity			
Share capital	12	**-**	-
Share premium	12	**465**	465
Retained earnings		**(394)**	(223)
Total equity		**71**	242

The financial statements on pages XX to XX were approved by the Board of Directors on XXX 2015 and signed on its behalf by:

P A Vennells
Chief Executive

A Cameron
Chief Financial Officer

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Company statement of changes in equity
at 27 March 2016

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 30 March 2015 (restated)		**465**	**(223)**	**242**
Loss for the year		**-**	**(167)**	**(167)**
Remeasurements on defined benefit surplus	11	**-**	**(9)**	**(9)**
Income tax effect		**-**	**5**	**5**
At 27 March 2016		**465**	**(394)**	**71**

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 31 March 2014		465	(121)	344
Loss for the year (restated)		-	(147)	(147)
Remeasurements on defined benefit surplus	11	-	54	54
Income tax effect		-	(9)	(9)
At 29 March 2015 (restated)		465	(223)	242

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Notes to the financial statements

1. Accounting Policies
The accounting policies which follow set out those which apply in preparing the financial statements for the year ended 27 March 2016.

Financial year
The financial year ends on the last Sunday in March and accordingly, these financial statements are made up to the 52 weeks ended 27 March 2016 (2015: 52 weeks ended 29 March 2015).

Authorisation of financial statements
The parent company financial statements of Post Office Limited (the 'Company') for the year ended 27 March 2016 were authorised for issue by the Board of Directors on XX xxx 2016 and the balance sheet was signed on the Board's behalf by P A Vennells and A Cameron. Post Office Limited is a limited company incorporated and domiciled in England and Wales.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Theses financial statements are prepared under the historical cost convention.

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own income statement. The result dealt with in the accounts of the company amounted to £167 million loss (2015 (restated): £60 million loss).

The results of Post Office Limited are included in the consolidated financial statements of Post Office Group which are available from Companies House.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IFRS 7 Financial Instruments: Disclosures
(b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
(c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
   i. paragraph 73(e) of IAS 16 Property, Plant and Equipment
   ii. paragraph 118(e) of IAS 38 Intangible Assets
(d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 'Presentation of Financial Statements'
(e) the requirements of IAS 7 Statement of Cash Flows
(f) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
(g) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'
(h) the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Fundamental accounting concept – going concern

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 XX) and are of the view that it is appropriate that these financial statements have been prepared on a going concern basis.

Prior year restatements

In preparing the financial statements for the current year, the comparative figures for the year ended 29 March 2015 have been restated. The provision for postmasters' compensation, included within network transformation had not been fully recognised in the financial statements for the year ended 29 March 2015. The nature of the provision is described in more detail in the accounting policies. The restatement affects exceptional costs, provisions and retained earnings due to the loss in the year changing as a result of a restatement to the exceptional charge. This represents an acceleration of an expected cost and there has been no impact on the Group's funding position or on payments to Postmasters'. Within this report, the comparative statement of comprehensive income, balance sheet and statement of changes in equity for the year ended 29 March 2015 have been restated. There has been no effect on the cash flow statement.

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	As previously reported	Restatement	29 March 2015 Restated
Total provisions	(63)	(87)	(150)
Operating exceptional items - restructuring costs	(214)	(87)	(301)
Shareholders' funds (retained earnings)	(136)	(87)	(223)
Profit/(loss) for the year	(60)	(87)	(147)

Critical accounting estimates and judgements in applying accounting policies

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

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Company are determined using methods relying on actuarial estimates and assumptions. These pension figures are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Company 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 11.

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

Provisions

The Company has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. Postmasters' compensation provisions are recognised when either Postmaster's agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for Postmasters' compensation at the yearend date represents management's best estimate of the future obligation. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate the risks specific to that liability.*Impairment of non-current assets*
The Group assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. 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. Due to on-going operational losses (excluding the Network Subsidy Payment) the carrying value of some assets are impaired to zero on acquisition. Each asset category is described below:

Property, plant and equipment excluding freehold property, long leasehold property and land:

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and due to on-going operational losses (excluding Network Subsidy payment) they are impaired to zero on acquisition. If they were not impaired they would be depreciated on a straight-line basis over the following useful lives:

	Range of asset lives
Plant and Machinery	3 – 15 years
Motor vehicles and trailers	2 – 12 years
Fixtures and equipment	2 – 15 years

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value, therefore these assets are not impaired on acquisition but would be considered for impairment if

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indicators existed in line with Group policy noted above. They are instead depreciated on a straight-line basis over the following useful lives:

	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

The remaining useful lives of freehold buildings are reviewed periodically and adjusted where applicable on a prospective basis.

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. These assets are impaired to zero for the reasons noted above. If they were not impaired they would be amortised on a straight line bases via a charge to income statement over the following period:

Software	1 to 6 years

Intangible assets arising on acquisition or with an indefinite useful life:

These assets are considered for impairment individually in line with Group policy noted above but are not automatically impaired. Goodwill is considered separately below.

Goodwill

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. Goodwill is tested for impairment annually as well as when there are any indicators of impairment.

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 income statement over the lease term. The aggregate benefits of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

Investments in joint ventures

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

Investments in subsidiaries

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

Inventories

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.

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

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- 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 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.

Pensions and other post-retirement benefits
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. When the calculation at the balance sheet date results in net assets to the Company, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling).

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

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

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

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

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

Provisions
Provisions are recognised when the Company 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.

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Financial instruments
Financial assets

Financial assets are measured at fair value at the balance sheet date. They are classified into the following categories as appropriate loans and receivables or available for sale as appropriate based on the purpose for which they were required. Financial liabilities are measured at either fair value at the balance sheet date 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.

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.

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 Company uses Money Market funds as a readily available source of cash, and these funds are also categorised as cash equivalents.

Auditor's remuneration
The remuneration paid to auditors is disclosed in the Group financial statements (note 3).

Director's emoluments
The emoluments paid to Directors are disclosed in the Group financial statements (note 5).

2. Intangible assets

Cost	**2016 £m**	2015 £m
At 30 March 2015, 31 March 2014	297	243
Reclassifications	-	(3)
Additions	91	57
Disposals	-	-
At 27 March 2016, 29 March 2015	388	297
Impairment		
At 30 March 2015, 31 March 2014	297	243
Reclassifications	-	(3)
Impairment (see note 5 in the Group financial statements)	91	57
Disposals	-	-
At 27 March 2016, 29 March 2015	388	297
Net book value		
At 27 March 2016, 29 March 2015	-	-

The above intangible assets relate to software.

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3. Property, plant and equipment

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor Vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 31 March 2014	100	17	113	44	1	739	1,014
Reclassification*	(31)	26	6	-	-	2	3
Additions	16	12	-	1	-	55	84
Disposals	(2)	-	(4)	(5)	-	(13)	(24)
At 29 March 2015	83	55	115	40	1	783	1,077
Reclassification*	(6)	3	(22)	-	-	25	-
Additions	1	-	-	4	-	38	43
Disposals	(1)	-	(3)	(1)	-	(3)	(8)
At 27 March 2016	**77**	**58**	**90**	**43**	**1**	**843**	**1,112**
Depreciation and impairment							
At 31 March 2014	91	16	113	44	1	739	1,004
Reclassification*	(31)	26	6	-	-	2	3
Depreciation and impairment	16	12	-	1	-	55	84
Disposals	(2)	-	(4)	(5)	-	(13)	(24)
At 29 March 2015	74	54	115	40	1	783	1,067
Reclassification	(6)	3	(22)	-	-	25	-
Depreciation and impairment	2	-	-	4	-	38	44
Disposals	(1)	-	(3)	(1)	-	(3)	(8)
At 27 March 2016	**69**	**57**	**90**	**43**	**1**	**843**	**1,103**
Net book value							
At 27 March 2016	**8**	**1**	**-**	**-**	**-**	**-**	**9**
At 29 March 2015	9	1	-	-	-	-	10

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £3 million (2015: £3 million) of the total cost of properties.

* Some reclassifications have been done in the year between freehold, long leasehold, short leasehold and fixtures and equipment in relation to Postmasters' branches.Reclassification between freehold, long leasehold and short leasehold asset categories is due to the fact that all land and building assets are classified as freehold whilst they are an asset under construction, then once works are complete and lease contracts are confirmed, the asset is moved into the correct respective category.

4. Investment in subsidiaries

The carrying value of £50,000,100 relates solely to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company. It relates to 50,000,000 shares with a nominal value of £1 and 1 share with a nominal value of £100. The registered address of Post Office Management Services Limited is Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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5. Investments in joint ventures

	2016 £m	2015 £m
Investment in joint ventures	**1**	1

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6. Trade and other receivables

	2016 £m	2015 £m
Current:		
Trade receivables	**93**	101
Amounts owed by group undertakings	**6**	2
Prepayments and accrued income	**68**	106
Client receivables	**229**	162
Other receivables	**15**	28
Total	**411**	399
Non-current:		
Prepayments and accrued income	**12**	10

7. Cash and cash equivalents

	2016 £m	2015 £m
Cash in the Post Office Limited Network	**653**	708
Short-term Bank Deposits	**45**	89
Money market fund investments	**-**	20
Total	**698**	817

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8. Trade and other payables

	2016 £m	2015 £m
Current:		
Trade payables	**51**	29
Accruals	**157**	159
Deferred income	**39**	29
Social security	**8**	9
Client payables	**375**	454
Capital payables	**16**	25
Other payables	**2**	11
Total	**648**	716
Non-current:		
Other payables	**25**	30

9. Financial liabilities – interest bearing loans and borrowings

	2016 £m	2015 £m
Department of Business, Innovation & Skills loan drawn down	**465**	310

The loan under the facility is short dated on a programme of liquidity management and matures on average 1 day after the year end (2015: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2018. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £485 million (2015: £840 million). The average interest rate on the drawn down loans is 1.0% (2015: 1.0%).

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

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

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10. Provisions

	Network Transformation £m	Other £m	Total £m
At 29 March 2015 (restated)	127	23	150
Charged in operating exceptional items	123	54	177
Charged in operating costs	-	5	5
Charged for discontinued operation	-	3	3
Utilisation	(95)	(46)	(141)
Unused amounts in the year – operating exceptionals	(21)	(5)	(26)
Unused amounts in the year – operating costs	-	(2)	(2)
At 27 March 2016	**134**	**32**	**166**
Disclosed as:			
Current	**132**	**18**	**150**
Non - current	**2**	**14**	**16**
	134	**32**	**166**

The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page XX for further details of this provision..

Other provisions of £32 million (2015: £23 million) include £29 million for continuing operations, this includes £19 million onerous lease obligations, £3 million severance and £7 million of smaller provisions including £1 million for personal injury claims. It also includes £3m in relation to the discontinued operation as disclosed in note 19.

11. Pensions

The disclosures in this note reflect the two defined benefit schemes: Post Office Limited sectionalised RMPP scheme which is independently operated by the Company and the 7% share of the RMSEPP scheme. Royal Mail Group Limited is the principal employer in Royal Mail Senior Executive Pension Plan (RMSEPP) and Post Office Limited became a participating employer with effect from 1 April 2012. It also includes the defined contribution scheme Post Office Pension Plan.

The disclosures in this note show how the value of the assets and liabilities has 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
Post Office Pension Plan*	UK employees	Defined contribution

*From 1 April 2015 the Post Office Pension plan replaced the Royal Mail Defined Contribution Plan.

Defined Contribution
The charge in the income statement for the defined contribution schemes and the Company contributions to these schemes was £3 million (2015: £3 million) during the year. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Company for a year.

Defined Benefit
Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds. The latest full actuarial funding valuation of RMPP was carried out as at 1 April 2012 using the projected unit method. For RMPP, this valuation was concluded at £135 million surplus. The latest full actuarial funding valuation of RMSEPP was carried out as at 31 March 2012 using the projected unit method. For 100% of the RMSEPP plan, the

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valuation was concluded at £83 million deficit. Valuations are carried out triennially and the next one is being performed as at 1 April 2015. The valuation has not yet been completed due to the current consultation on proposals to close the scheme to future accrual. RMPP includes sections A, B and C each with different terms and conditions:

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

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

The changes encompassed:

- the Plans closed to new members from 31 March 2008;
- all pensions and benefits earned before 1 April 2008 are linked to final pensionable salary, but defined benefits built up from 1 April 2008 are earned on a "career average pensionable salary" basis;
- from 1 April 2014, pensionable salary was amended to the amount in force at that date, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases. This change resulted in a one-off exceptional gain of £102 million for the 2013/14 financial year;
- employees can continue to take their pension on reaching 60 but the normal retirement age increased to 65 for benefits earned from 1 April 2010;
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age at 55, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached; and
- RMSEPP was closed to future accruals on 31 December 2012.

Payment of £17 million (2015: £19 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% (2015: 17.1%), effective from April 2010. However, in February 2016, Post Office went out to formal consultation with active members (and their representatives) of the Post Office section of the Royal Mail Pension Plan regards to the potential closure of the RMPP to future accrual with effect from 1 September 2016. The closure is subject to the outcome of the pensions consultation and no final decision will be until the formal consultation has been completed. The proposed closure will also require consent of the Trustee of the RMPP. This closure if it occurs could affect the rate paid in 2016/17.

The Company pays 7% of the total deficit payment required to fund the deficit in RMSEPP and a payment of £1 million (2015: £1 million) was made by the Company during the year. No RMPP deficit payments were made during 2014/15 or 2015/16. For RMSEPP, deficit recovery payments will be £1 million per annum, from 1 April 2010 to 31 January 2024.

A current liability of £nil (2015: £1 million) has been recognised for payments to the pension schemes relating to redundancy. During the year, payments of £3 million (2015: £2 million) relating to redundancy were made.

The weighted average duration of the RMPP fund is 26 years, and for the RMSEPP fund is 21 years. Over the next financial reporting period to 27 March 2016 it is expected that employer contributions to the plans will be £17 million and £1 million for RMPP and RMSEPP respectively.

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

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b) Major long-term assumptions

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

	At 27 March 2016 % pa	At 29 March 2015 % pa
Rate of increase in salaries	**2.8**	2.8
Rate of pension increases – RMPP sections A/B	**1.8**	1.9
Rate of pension increases – RMPP section C	**2.8**	2.8
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of pension increases – RMSEPP all other members	**2.8**	2.8
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of increase for deferred pensions	**1.8**	1.9
Discount rate	**3.5**	3.5
Inflation assumption (RPI) – RMPP and RMSEPP	**2.9**	3.0
Inflation assumption (CPI) – RMPP and RMSEPP	**1.8**	1.9

The ultimate cost of the RMPP plan to the Company will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets, for example Corporate Bonds, which mitigates the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes pensionable pay in RMPP, which was amended with effect from 1 April 2014. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this will be partially offset by an increase in the value of the bond holdings and, to some extent, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would increase because pensions would be paid for a longer time.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were transferred to the Royal Mail Statutory Pension Scheme. These liabilities are no longer an obligation of the Company and consequently the transfer resulted in a significant removal of pension risk from the Company.

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

	2016 £m	2015 £m
Changes in RPI and CPI inflation of +0.1% pa	**(5)**	(4)
Changes in discount rate of +0.1%pa	**5**	4
Changes in real salary growth of +0.1% pa	**(2)**	(1)
Changes in CPI assumptions of +0.1% pa	**(1)**	(1)
An additional 1 year life expectancy	**(6)**	(5)

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The sensitivity analysis has been prepared using projected benefit cashflows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cashflows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

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

Average expected life expectancy from age 60:	**2016**	2015
For a current 60 year old male RMPP member	**27 years**	27 years
For a current 60 year old female RMPP member	**30 years**	30 years
For a current 40 year old male RMPP member	**29 years**	29 years
For a current 40 year old female RMPP member	**32 years**	32 years

b) Plans' assets

The assets in the plans for the Company were:

Sectionalised RMPP	**Market value 2016 £m**	Market value 2015 £m
UK equities	**-**	1
Overseas equities	**-**	10
Corporate bonds*	**233**	217
Property	**11**	8
Private Equity	**10**	12
Cash and cash equivalents	**41**	6
Bond/fixed interest funds	**41**	50
Index-linked funds	**-**	10
Other loan/debt funds	**28**	20
Alternative asset funds	**43**	11
Equity funds	**-**	34
Fair value of RMPP assets	**407**	379
Present value of RMPP liabilities	**(184)**	(150)
Surplus in plan before asset ceiling adjustment	**223**	229
Less effect of asset ceiling	**(29)**	(27)
Surplus in plan after asset ceiling adjustment	**194**	202

*£15 million relates to UK Government Bonds. £215 million to an LDI investment containing UK Government Bonds, it is a liability driven investment and £3 million to an infrastructure debt holding which is EUR denominated and fixed interest.

Share of RMSEPP	**Market value 2016 £m**	Market value 2015 £m
UK equities	**1**	1
Overseas equities	**10**	11
Government bonds	**15**	16
Alternative asset funds	**2**	-
Property	**2**	2
Other assets	**-**	1
Fair value of share in plan assets for RMSEPP	**30**	31
Present value of share in plan liabilities for RMSEPP	**(27)**	(26)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**3**	5
Less effect of asset ceiling	**(1)**	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**2**	3

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A retirement benefit surplus of £196 million is disclosed on the balance sheet, representing the surplus in plans of £223 million and £3 million for RMPP and RMSEPP respectively, and net of tax of £30 million at a rate of 35% on the element of the surplus which is recoverable through a refund from the plans.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. All RMPP and RMSEPP assets are securities with a quoted price in an active market.

c) Movement in plans' assets and liabilities

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

Assets	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Assets in sectionalised RMPP at beginning of period	**379**	260
Contributions paid	**19**	21
Employee contributions paid	**6**	7
Finance income	**14**	12
Actuarial (losses)/gains	**(8)**	81
Benefits paid to members	**(3)**	(2)
Assets in sectionalised RMPP at end of period	**407**	379

Assets	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of assets in RMSEPP at beginning of period	**31**	26
Contributions paid	**1**	1
Finance income	**1**	1
Actuarial (losses)/gains	**(2)**	4
Benefits paid to members	**(1)**	(1)
Share of assets in RMSEPP at end of period	**30**	31

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

Liabilities	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Liabilities in sectionalised RMPP at beginning of period	**(150)**	(90)
Current service cost	**(27)**	(25)
Curtailment costs*	**(1)**	(1)
Finance cost	**(6)**	(5)
Employee contributions	**(6)**	(7)
Actuarial loss	**-**	(23)
Experience adjustments on liabilities	**3**	(1)
Benefits paid	**3**	2
Liabilities in sectionalised RMPP at end of period	**(184)**	(150)

Liabilities	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of liabilities in RMSEPP plans at beginning of period	**(26)**	(24)
Finance cost	**(1)**	(1)
Actuarial loss	**(1)**	(2)
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(27)**	(26)

*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

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

	Sectionalised RMPP 2016 £m	Sectionalised RMPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptioı items:		
Current service cost	**27**	25
Total charge to operating profit before exceptional items	**27**	25
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments	**1**	1
Total charge to operating profit	**28**	26
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**6**	5
Interest income on plan assets	**(14)**	(12)
Net pensions credit to financing	**(8)**	(7)
Net charge to the income statement before deduction for tax	**20**	19
Analysis of amounts recognised in the statement of comprehensive income:		
Actual return on plan assets	**6**	93
Less: expected interest income on plan assets	**(14)**	(12)
Less: taxation on surplus recoverable through plan refunds	**(2)**	(4)
Actuarial (losses)/gains on assets (all experience adjustments)	**(10)**	77
Experience adjustments on liabilities	**3**	(1)
Effects of changes in actuarial assumptions on liabilities	**-**	(23)
Actuarial losses on liabilities	**3**	(24)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(7)**	53

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	Share of RMSEPP 2016 £m	Share of RMSEPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**1**	1
Interest income on plan assets	**(1)**	(1)
Net pensions credit to financing	**-**	-
Net charge to the income statement before deduction for tax	**-**	-
Analysis of amounts recognised in the statement of comprehensi income:		
Actual return on plan assets	**(1)**	5
Less: expected interest income on plan assets	**(1)**	(1)
Less: taxation on surplus recoverable through plan refunds	**1**	(1)
Actuarial (losses)/gains on assets (all experience adjustments)	**(1)**	3
Experience adjustments on liabilities		-
Effects of changes in actuarial assumptions on liabilities	**(1)**	(2)
Actuarial losses on liabilities	**(1)**	(2)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(2)**	1

12. Equity

Called up share capital:

	2016 £	2015 £
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

Share premium:

On 7 August 2007 1,000 ordinary shares of £1 each were issue in return for £313 million cash paid by the the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Innovations and Skills Reform. A share premium of £151,999,998 resulted from this subscription.

13. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £62 million (2015: £96 million).

Details of the Company commitments under non-cancellable operating leases are disclosed in the Group financial statements (note 19).

14. Finance lease liabilities

Details of the Company's finance lease liabilities are disclosed in the Group financial statements (note 20).

15. Related party disclosures

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

16. Operating exceptional items

Details of operating exceptional items are disclosed in the Group financial statements (note 4).

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17. Taxation
Details of the taxation gains recognised in the year are disclosed in the Group financial statements (note 7a).

18. Business combinations
Details of the business combination which arose in the year is included in note 21 in the Group financial statements.

19. Discontinued operations
Details of the discontinued operation are included in note 22 in the Group financial statements.

20. Post balance sheet events
In accordance with the funding agreement with government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £220 million of funding on 1 April 2016.

21. Immediate and ultimate parent company

At 27 March 2016, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company. The largest group to consolidate the results of the Company is Postal Services Holding Company Limited, a company registered in the United Kingdom. Postal Services Holding Company Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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Corporate information

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Post Office Limited

Audit, Risk and Compliance Board Sub-Committee

Year ended 27 March 2016

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1. Glossary

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

Abbreviation	Meaning
AEI	Application, Enrolment & Identity
ATM	Automated Teller Machine
BACS	Bankers' Automated Clearing Services
BAU	Business As Usual
BIS	Department for Business, Innovation & Skills
BOI	Bank of Ireland
CPI	Consumer Price Index
DVLA	Driver & Vehicle Licensing Authority
DWP	Department of Work & Pensions
Eagle	Deal in August 2012 to sell Post Office Financial Services (POFS) to the Bank of Ireland, restructure commission rates for personal financial services and extend the contract to 2023
EU BRP	European Union Biometric Residents' Permit
FRES	First Rate Exchange Services
Gamma	A contract variation made in 2007 with POFS generating £100m cash and income over a number of years in return for a series of commitments through to 2020
GRNI	Goods Received Not Invoiced
HPBB	Homephone and Broadband
Horizon	Horizon Next Generation- IT Counter system in branches
NBV	Net Book Value
NS&I	National Savings & Investments
NSP	Network Subsidy Payment
POCA	Post Office Card Account
PFS	Personal Finance Services
POFS	Post Office Financial Services
RMPP	Royal Mail Pension Plan
RMSEPP	Royal Mail Senior Executive Pension Plan
RMDCP	Royal Mail Defined Contribution Plan
RBS	Royal Bank of Scotland
RPI	Retail Price Index
SGEI	Services of General Economic Interest

2. Introduction

This Briefing Book has been prepared to explain the Post Office Limited results for the year ended 27 March 2016. It is a summary of the key data, trends and analyses which readers may find useful to further their own understanding of the results for 2015-16. It is to be read in conjunction with the Report & Accounts.

Most of the analysis is based on the comparison of 2015-16's actual results to those of the prior year.

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

3. Accounting Policies

Post Office Limited Group report its results under International Financial Reporting Standards (IFRS). Post Office Limited Company and Post Office Management Services Limited report under Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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4. Primary Statements

4.1 Consolidated Income Statement

	2016	2015 (Restated)
	£m	£m
Continuing operations:		
Turnover	**981**	976
Network Subsidy Payment	**130**	160
Revenue	**1,111**	1,136
People costs excluding restructuring costs	**(233)**	(238)
Other operating costs	**(808)**	(831)
Share of post-tax profit from joint ventures	**35**	36
Operating profit before exceptional items for continuing operations	**105**	103
Operating exceptional items	**(269)**	(271)
- government grant	**150**	170
- restructuring costs	**(283)**	(301)
- impairment	**(136)**	(140)
Operating loss from continuing operations	**(164)**	(168)
Profit on disposal of property, plant and equipment	**-**	-
Loss before financing and taxation from continuing operations	**(164)**	(168)
Finance costs	**(5)**	(3)
Finance income	**-**	1
Net financing income relating to pensions	**8**	7
Loss before taxation from continuing operations	**(161)**	(163)
Taxation credit	**4**	26
Loss for the financial year from continuing operations	**(157)**	(137)
Discontinued operations:		
Loss for the financial year after tax from discontinued operations	**(10)**	(4)
Loss for the financial year	**(167)**	(141)

4.2 Consolidated statement of cash flows

	2016	2015
	£m	£m
Cash flows from operating activities		
Operating profit before exceptional items from continuing operations	**105**	103
Operating loss from discontinued operations	**(10)**	(4)
Total profit before exceptional items	**95**	99
Adjustment for:		
Share of profit from joint ventures	**(35)**	(36)
Pension operating costs	**30**	28
Working capital movements:	**(81)**	(17)
Increase in trade and other receivables	**(14)**	(34)
(Decrease)/Increase in trade and other payables	**(61)**	10
Increase in provisions for discontinued operations	**3**	-
(Decrease)/increase/ in non-exceptional provisions	**(9)**	7
Pension operating costs paid	**(23)**	(23)
Cash payments in respect of operating exceptional items:	**(109)**	(66)
Government grant	**150**	170
Restructuring costs	**(253)**	(224)
Other	**(6)**	(12)
Net cash outflow from operating activities	**(123)**	(15)
Income tax recovered	**9**	11
Cash flows from investing activities		
Dividends received from joint ventures	**35**	30
Finance income received	**-**	1
Purchase of business combination	**(44)**	
Purchase of fixed and intangible assets	**(136)**	(147)
Net cash outflow from investing activities	**(145)**	(116)
Net cash (outflow)/inflow before financing activities	**(259)**	(120)
Cash flows from financing activities		
Finance costs paid	**(5)**	(3)
Payments to finance lease creditors	**-**	(3)
Proceeds of borrowings from BIS	**155**	310
Net cash inflow from financing activities	**150**	304
Net (decrease)/increase in cash and cash equivalents	**(109)**	184
Cash and cash equivalents at the beginning of the year	**821**	637
Cash and cash equivalents at the end of the year	**712**	821

4.3 Consolidated balance sheet

	2016 £m	2015 (Restated) £m
Non-current assets		
Intangible assets	**44**	-
Property, plant and equipment	**9**	10
Investments in joint ventures	**67**	67
Retirement benefit surplus	**196**	205
Trade and other receivables	**12**	10
Total non-current assets	**328**	292
Current assets		
Inventories	**6**	6
Trade and other receivables	**409**	397
Cash and cash equivalents	**712**	821
Total current assets	**1,127**	1,224
Total assets	**1,455**	1,516
Current liabilities		
Trade and other payables	**(653)**	(718)
Financial liabilities - interest bearing loans and borrowings	**(465)**	(310)
- obligations under finance leases	**(8)**	-
Provisions	**(151)**	(144)
Total current liabilities	**(1,277)**	(1,172)
Non-current liabilities		
Other payables	**(25)**	(30)
Provisions	**(16)**	(6)
Total non- current liabilities	**(41)**	(36)
Net assets	**137**	308
Equity		
Share capital	**-**	-
Share premium	**465**	465
Retained earnings	**(330)**	(159)
Other Reserves	**2**	2
Total equity	**137**	308

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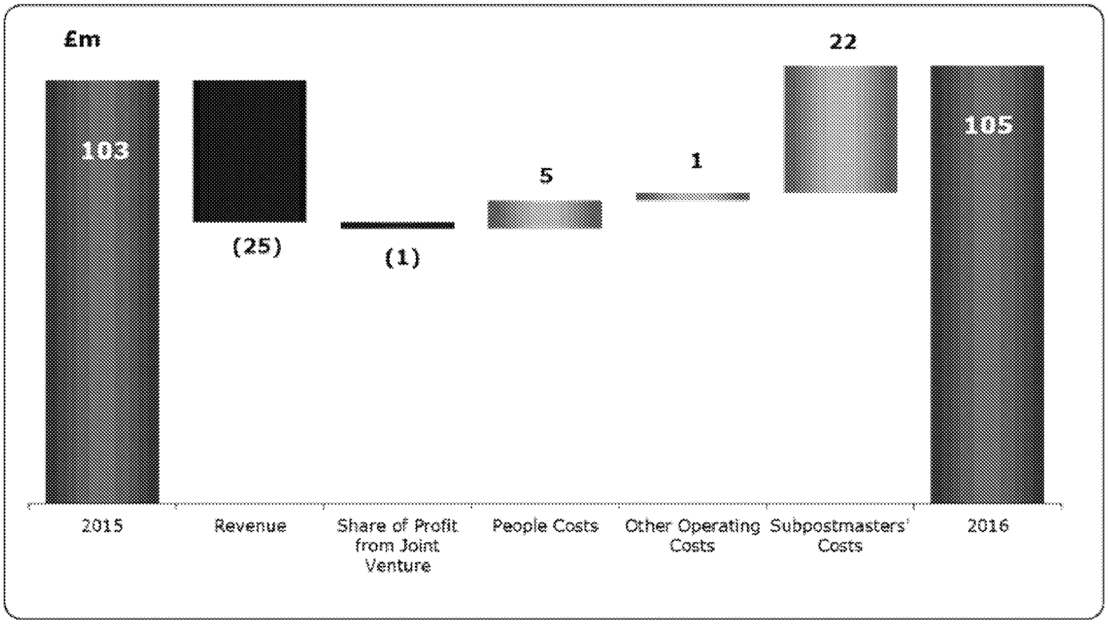
5. Operating Profit before exceptional items.

5.1 Operating profit bridge analysis



5.2 Explanations for key movements are as follows:

- Revenue - section 6
- People costs – section 7.2
- Postmasters costs – section 7.3
- Other Operating Costs – section 7.4

6. Revenue

	27 March 2016 £m	29 March 2015 £m	Variance £m
Mails	**334**	340	(6)
Retail & Lottery	**46**	48	(2)
Financial Services	**303**	290	13
Government Services	**128**	141	(13)
Telecoms	**130**	120	10
Other	**40**	37	3
Turnover	**981**	976	5
Network Subsidy Payment	**130**	160	(30)
Revenue	**1,111**	1,136	(25)

The decrease in year on year total revenue of £25m (2.2%) to £1,111m (2015 £1,136m) is driven by the £30m decrease in the Network Subsidy Payment, partially offset by an increase of £5m in turnover.

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

6.1.1 Mails

A summary of the £5.5m (2%) decrease in Mails turnover is set out below. After adjusting for a planned decrease in the fixed fee and an element of back billing the underlying trading variance shows a decrease of £1m.

	£m
Total reduction	(5.5)
Less: planned decrease fixed fee	6.4
Add: one off (back billing)	(1.9)
Underlying trading variance	(1.0)

The key movements within the underlying trading variance are:

- £1.3m reduction in stamps and labels income (1%)
- £1.7m reduction in special mails including international (2%)
- £0.5m net decrease in other products

Offset by

- £2.5m increase in Home Shopping Returns (27%)

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6.1.2 Retail & Lottery

Retail and Lottery turnover has decreased by £2.4m:

- Lottery is £1.7m lower than last year, £1.6m of the fall is due to Camelot income and the remainder to Health lottery. This is a combination of a poorly performing games and a shift online and represents a trend expected to continue into 2016-17.
- Retail is £0.7m lower than prior year as a result of smaller retail square footage post refurbishments.

6.1.3 Financial Services

Financial Services income has increased by £13.2m year on year. Overall PFS (MoneyGram, Post Office savings, insurance, travel, lending and current accounts) is up by £24.4m (19.7%) year on year. Revenue from traditional products has declined by £11.2m.

By product the main drivers of the PFS £24.4m increase are:

- £4.4m increase in Savings products.

IRRELEVANT

  - £5.5m increase in Travel Insurance revenues driven by the new POMS subsidiary and £0.2m for Travel money card, offset by
  - £1.5m decrease in Bureau income due to the travel sector having seen a general decline and the supermarkets expanding their networks and marketing investment.
- £4.1m increase from Moneygram as we have gained market share. Transfers to certain Eastern European countries is up 50% and we have increased our network access fees

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- £0.6m increase in Lending revenue from:
  - £0.8m increase in credit cards
  - £0.2m decrease from mortgages and personal loans

Other Financial Services revenue decreased by £11.2m:

- A £6.1m decrease in Postal Order income. This is due to a prior year change in policy resulting in write back to revenue of uncashed postal orders over 12 months old (a change from 24 months previously).
- A £1.9m decline from bill payments resulting from a warmer winter, as well as utilities and other bill payment clients continuing to migrate customers to other payment methods such as direct debit and online. We have also lost clients such as Derby City Council to Paypoint and travel ticketing clients such as West Yorkshire ticketing scheme.
- £2.5m decrease in Payment services due to a declining market.
- £4.0m decrease in NS&I as the product ceased in June 2015.

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The above decreases were partially offset by:

- £1.1m increase in ATM revenue driven by the increased volumes as machines reach maturity
- £2.7m net increase in Banking
  - an increase of £3.6m in personal banking because of higher volumes, specifically cash withdrawals and the impact of other banks closing their branches, offset by
  - a £0.8m decrease in business banking revenues due to a fall in corporate deposit rates from the Santander contract.

6.1.4

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6.1.5 Telecoms

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

Telecoms Services revenue of £130.0m (2015 £119.8m) has increased by £10.2m. This has been driven by the line rental price increase of £2 introduced in January 2015 and a further increase of £1 in November 15.

Income from mobile top-ups was £0.7m below prior year, as transaction volumes declined due to the mobile networks actively migrating customers away from pre-pay and also reducing their transaction fees.

HPBB	**2015/16**	**2014/15**	**Variance**
Average customer base	459,356	452,094	7,262
ARPU	£22.85	£21.23	£1.62

In March 2016 the decisions was taken to withdraw from the development and roll out of a proposed mobile offer in order to focus on its core Telecoms activities. The income and expenditure in relation to mobile has been disclosed as a discontinued operation on the consolidated income statement and is a loss of £10m (2015 £4m).

	2016	**2015**
Gross Income	0.2	
Operating Expenses	(3.0)	(2.9)
EBITDAS Impact	**(2.8)**	**(2.9)**
Supplier Termination Costs	(2.5)	
Project Shutdown Costs	(1.1)	
Balance Sheet - Capex	(1.7)	(1.0)
Balance Sheet - Prepayment	(2.0)	
Discontinued Operations	**(10)**	**(4)**

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7. Costs and People

This section discusses expenditure, excluding exceptionals.

7.1 Total Costs Analysis (excluding exceptionals)

The following provides a breakdown of costs for the full year ending 27 March 2016 compared to the full year ending 29 March 2015

		2016	2015	Variance	
		£m	£m	£m	
Expenditure - (pre- exceptional)	Notes				
Wages & Salaries		**(154)**	(167)	12	8%
Pensions		**(31)**	(29)	(2)	(7%)
Overtime		**(8)**	(10)	2	20%
Bonus & Productivity		**(15)**	(7)	(8)	(114%)
Employers' NI		**(19)**	(19)	0	0%
Temporary Resource		**(6)**	(6)	0	0%
PEOPLE COSTS	7.2	**(233)**	(238)	(5)	2%
Postmasters' costs	7.3	**(413)**	(435)	22	5%
Legal Costs	7.4.1	**(5)**	(3)	(2)	(67%)
Staff & Agent Related Costs		**(10)**	(10)	0	0%
Consultancy & Advisory Services		**(4)**	(3)	(1)	(33%)
Brand & Marketing	7.4.2	**(25)**	(34)	9	26%
Property & Facilities Management	7.4.3	**(53)**	(61)	8	13%
IT Infrastructure & IT Services	7.4.4	**(102)**	(92)	(10)	(11%)
Finance & Losses	7.4.5	**(25)**	(4)	(21)	(525%)
Cost Of Sales	7.4.6	**(110)**	(106)	(4)	(4%)
Other Operating Costs	7.4.7	**(56)**	(76)	20	26%
Vehicles		**(5)**	(7)	2	29%
Total Other Operating Costs	7.4	**(395)**	(396)	1	0%
TOTAL EXPENDITURE (Pre Exceptionals)		**(1,041)**	(1,069)	28	3%

7.2 People Costs (2016 £233m vs 2015 £238m)

7.2.1 People costs (2016 £233m vs 2015 £238m)

People costs have decreased by £4.8m (2.0%) to £233.1m, representing 22.3% (2015 22.2%) of the cost base.

The number of people employed also decreased, by 271 net to 6,605 at 27 March 2016 (2015 6,876), primarily due to redundancies arising from the Crown and Transformation Programmes.

The people cost movement comprises:

- Wages and Salaries have decreased by £11.9m (7.1.%), a £10.1m reduction in basic pay driven by fewer people and cost control and £1.8m relating to reduced staff project costs
- Pension costs have increased by £2.2m (8.1%), reflecting an increase in the RMPP IAS19 service cost rate to 28.5% (2015:23.0%)
- Productivity costs have increased by £7.9m (114.1%), due to increase in management bonus accrual to 87% reflecting current performance levels compared to 50% bonus booked in prior year, and the release of over accrual of 13/14 in the prior year.
- Overtime has decreased by £2.0m (20.5%).

7.2.2 People Numbers

The People numbers were as follows:

	Period end employees		Average employees	
	2016	2015	**2016**	2015
Total employees	**6,605**	6,876	**6,667**	7,281
CT & NTP	**640**	622	**616**	609
Average Employees (excl. CTP & NT)			**6,051**	6,672
Staff Cost (excl. overtime & temporary resource)			**(£219,191)**	(£221,331)
Average Cost per employee			**(£36,225)**	(£33,175)

7.2.3 Average Cost per Employee

The average number of employees for year ending 27 March 2016 was 6,667 (2015 7,281). The average annual cost per employee, (excluding exceptional costs and exceptional heads: CT & NTP), has increased by £3,050 (9.2%) to £36,225 (2015 £33,175). This is largely due to the prior year bonus accrual which anticipated 50% bonus pay out compared to current year bonus anticipation of 87% bonus pay out.

7.3 Postmaster costs (2016 £413m vs 2015 £435m)

7.3.1 Total postmasters costs decreased by £21.9m (5.0%). This reduction was largely made up of £19.7m reduced fixed costs as a result of Network Transformation and £2.1m lower National Insurance as postmasters move to new contracts. Variable costs were flat with the prior year.

The average annual cost per postmaster branch (excluding VAT and NI) is £39,952 (2015 £41,713). This is a 4.2% decrease on the prior year. The decrease is as a result of the reduced fixed income payments through the Network Transformation Programme.

	2016	2015
Agency Branches (incl. Mains and Locals)	**10,127**	10,172
Outreach	**1,175**	1,136
Crown	**316**	326
Total Branches	**11,618**	11,634

7.4 Other Operating Costs (2016 £395m vs 2015 £396m)

7.4.1 Legal Costs have increased by £2.0m, £1.2m is driven by legal support of strategic projects, primarily Sparrow and £0.5m is due to risk and compliance related work. The remaining £0.3m is due to other smaller legal costs.

7.4.2 Brand & Marketing Costs have decreased by £9.4m (26%) year on year. £8.5m in relation to reduced creative agency fees, £3.9m to decreased market research costs and £1.2m reduced corporate communication. These savings are offset by £3.9m increase in advertising costs.

7.4.3 IRRELEVANT

7.4.4 IT Infrastructure & IT Services costs have increased by £10m (10%) mainly due to £16.2m of increased Computer Infrastructure costs for licences on separation from the Royal Mail IT systems IRRELEVANT IRRELEVANT IRRELEVANT These were offset by reduced Horizon terminal services of £15.4m.

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7.4.5 Finance costs have increased by £20.7m, mainly driven by a one off lump sum of £15.6m VAT rebate in the prior year, which also covered prior years. Current year central rebate figure is £1.8m with most of the VAT recovery now appearing against the individual cost lines. Credit and debit card processing charges have increased by £1.5m and Telecoms losses were £1.3m higher than last year, customer bad debt increased by £3.7m partially offset with other smaller favourable movements.

7.4.6 Cost of Sales has decreased by £4m (4%), detailed below:

	2016 £m	2015 £m	Variance £m	Variance %	Comments
Mails & Retail	**(3)**	(4)	1	15%	Decrease due to decision to restrict product range to higher margin items
Financial Services	**(4)**	(1)	(3)	(270%)	Increase is due to POMS
Government Services	**(29)**	(28)	(1)	(3%)	Increase of £0.8m is due to £2m related to Verify service offset by £1.2m lower POCA volumes
Telecoms	**(74)**	(73)	(1)	(2%)	Increase of £1.5m due impact of higher customer numbers
Total	**(110)**	(106)	(4)	(4%)	

7.4.7 Other Operating costs have decreased by £19.5m. The prior year included £10.8m for client compensation relating to the historical overcharges relating to 'death notified accounts IRRELEVANT and £10.4m for project expenditure as all was recorded against this line in the old finance system, (project expenditure is now recorded across the relevant categories above). The remaining variance is driven by lower managed service costs IRRELEVANT and telecommunication cost reductions.

7.4.8 Project expenditure is now reported within the appropriate cost categories and has decreased by £11.3m to £12.0m and is detailed below:

2015-16 Project Expenditure	**£m**
Eagle – contractual commitment to £4m pa sales capability investment	(4.0)
Mobile (Wave)	(0.7)
Invest to Grow FS	(0.4)
Sparrow	(2.8)
Other Invest to Grow	(3.4)
People & Organisation	(0.5)
Digital	(0.2)
Grand Total	**(12.0)**

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8. Quality of Earnings

As in previous years, we look at the impact of any one-off items in EBITDAS as set out in the table below. We do not believe that these items change the users' understanding of the accounts or require additional presentation.

	2016 £m	2015 £m	Change £m	Change %
Post Office Limited (consolidated)				
Reported profit before other exceptional items				
Network Subsidy Payment				
Add back depreciation				
Reported EBITDAS				
Gamma one-off income release*				
Billing corrections re 2014-15				
Back-billing to RM for Certificates of Posting work				
Fujitsu compensation for poor service in 2013-14		IRRELEVANT		
Change in Telecoms bad debt policy				
Client compensation relating to prior years				
ATM rates provision release				
Bonus outturn lower in 2013-14 than accrued				
Bank of Ireland cost recovery debt provision				
VAT and NI recovery re earlier years				
Total adjustments				
Total				

* *Individually disclosed*

Each item in the table is explained further below:

8.1 IRRELEVANT

8.2 Billing corrections and back-billing

Corrections of £0.8m were made to year end revenue estimates early in 2015-16 relating to 2014-15. £1m of additional cost was recognised in the year which related to overbilling in previous years. In September 2015, Royal Mail were back-billed £2m for Certificates of Posting services in prior years and not previously invoiced.

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8.3 Fujitsu compensation
Compensation of IRRELEVANT was received in 2015-16 relating to poor service during the migration of the Telecoms service from BT to Fujitsu in 2013.

8.4 Telecoms bad debt policy
During the year the bad debt policy was revised in two ways which in aggregate led to a one-off increase in cost. Firstly it was amended to provide for all debt over 90 days from a policy of providing for all debt over 60 days. Secondly the policy is now to provide for the gross amounts owed rather than net of customers who have made early payments.

8.5 Client compensation
An error was identified that has led to a client being overcharged for approximately 5 years and a provision was booked for compensation for the overcharges in 2014-15.

8.6 VAT and NI recovery re earlier years
In 2014-15 there were additional VAT recoveries relating to earlier years when the recovery rates were confirmed with HMRC, in addition NI recovery was recognised in 2014-15 relating to the decision by HMRC that the new postmaster contracts for Mains were subject to VAT rather than NI.

9. Pensions

9.1 Background

The Post Office participates in pensions schemes and detailed below:

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

* From 1 April 2015 the Post Office Pension plan replaced the Royal Mail Defined Contribution Plan. Royal Mail Pensions Trustees Limited manages the main defined benefit scheme Royal Mail Pension Plan (RMPP) which has circa 3,503 Post Office active members.

9.2 Assumptions

IAS 19 revised requires a number of assumptions. The choice of assumptions used for the calculations is the responsibility of the Directors, based upon advice given by an independent actuary. The key assumptions for the year to 27 March 2016 are set out in the table below.

Towers Watson has confirmed that the assumptions have been determined in a manner consistent with those used for the disclosures at 29 March 2015 and 27 September 2015.

% pa RMPP Post Office Section	**March 2016**	March 2015
Inflation (RPI)	**2.9**	3.0
Inflation (CPI)	**1.8**	1.9
Discount rate (i.e. bond rate)	**3.5**	3.5
Rate of increase in Pensionable salaries	**2.8**	2.8
Rate of pension increases – RMPP A/B	**1.8**	1.9
Rate of pension increases – RMPP C	**2.8**	2.8
Rate of increases in deferred pensions	**1.8**	1.9

Demographic assumptions, for example mortality, remain aligned with the assumptions used for the actuarial valuation and unchanged from those made in March 2015.

9.3 Movements in the defined benefit surplus

The movement in the RMPP defined benefit surplus during the year to 27 March 2016 is detailed below. Scheme assets are assessed at fair value at the balance sheet date. For example, quoted equities are valued at the latest 'bid' price. Scheme liabilities are discounted using a high quality corporate bond rate. The IAS 19R surplus/deficit is usually therefore different to the cash funding surplus/deficit (the "actuarial" valuation) assessed by the Trustees, for which the scheme liabilities are discounted using the expected returns available on scheme assets.

	Year ended 27 March 2016 £m	Year ended 29 March 2015 £m
Opening sectionalised RMPP net retirement bene surplus	**229**	170
Current service cost	**(27)**	(25)
Curtailment costs	**(1)**	(1)
Net financing credit	**8**	7
Employers contributions	**19**	21
Actuarial gains/(losses)	**(5)**	57
Closing RMPP net retirement benefit surplus	**223**	229
RMSEPP surplus	**3**	5
Total net retirement benefit surplus	**226**	234
Effect of asset ceiling	**(30)**	(29)
Closing net retirement benefit surplus	**196**	205

The current service cost is intended to represent the amount by which the liabilities will increase due to employing active members for one more year. The 2015-16 service cost, expressed as a percentage of pensionable pay is 28.5% for RMPP (March 2015 – 23%). Payments of £17m were made in respect of RMPP future service contributions at a rate of 17.1% (March 2015 - 17.1%) and £2m was paid in relation to 2015/16 in respect of enhancements on redundancy in early retirement (a further £1m was paid in respect of a balance accrued at the end of 2014/15). There has been a reduction in the surplus due to a £10m difference between the service cost and payments made in respect of RMPP future service contributions.

The net financing credit of £8m, a non-cash item, is reported under finance income and reassessed annually.

Actuarial gains and losses are recorded directly in the statement of changes in equity (and not the income statement). The actuarial loss of £5m during the year arose primarily due to a decrease in the value of assets which resulted in an actuarial loss of £8m; this was as a result of changes in market conditions. This actuarial loss was partially offset by an actuarial gain on the Defined Benefit Obligation of £3m, has been caused by an 'experience adjustment of liabilities' due to early leavers and lower than expected benefit increases.

The RMSEPP surplus has decreased to £3m due to actuarial losses of £3m (£2m loss on assets, £1m loss on liabilities) offset by contributions paid of £1m.

The charge in the income statement and cash contributions for the defined contribution scheme were £3m in the year to 27 March 2016.

9.4 Assessment of recoverability of surplus under IFRIC 14

In order to recognise a surplus it is necessary to prove that the Post Office could recover the surplus either through lower future contributions or through a refund. Royal Mail took legal advice both before and after sectionalisation. This confirmed that Post Office Limited and Royal Mail Plc have absolute rights to the assets left over in their individual sections after benefits have been secured if the RMPP terminates. There is no trigger for termination in the Trust Deed but that does not mean that the RMPP cannot terminate. It would be wound up by the courts, or the Regulator, or when the last beneficiary dies.

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Towers Watson has calculated that Post Office Limited would be able to recover £139m of the £223m surplus in RMPP through lower contributions and the remaining £84m could therefore be recovered through a refund together with the £3m surplus in RMSEPP. The element of surplus that is recoverable through a refund would be subject to a 35% withholding tax charge. Therefore the overall surplus on the balance sheet, (made up of a £223m surplus for RMPP and £3m surplus for RMSEPP), has been reduced by £30m to £196m. The element that is recoverable through lower contributions has resulted in a reduction to the deferred tax balance from £30m at 29 March 2015 to £25m at 27 March 2016. This has resulted in a credit directly to equity of £5m offset by a debit of £5m reported in the consolidated income statement.

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10. Exceptional Items and Provisions

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

10.1 Exceptional items summary

The following exceptional items were recognised in the consolidated income statement for the years ended 27 March 2016 and 29 March 2015.

Exceptional items	**2015-16 £m**	2014-15 £m
Government Grants	**150**	170
Restructuring costs including postmasters' compensation	**(283)**	(301)
Impairments	**(136)**	(141)
Total operating exceptionals	**(269)**	(272)
Non-operating exceptionals:		
Profit on disposal of property	**-**	-
Net Exceptional gain/ (loss)	**(269)**	(272)

10.2 Government Grants – In April 2015 the Post Office received grants totalling £150m from the Government, (April 2014 £170m) to fund capital projects and transformation. The larger amounts utilised in the full year to March 2016 are: £66m against postmasters' compensation, £31m against capital spend and £53m against network transformation and IT transformation programme costs.

10.3 Restructuring costs - £200m of restructuring costs relate to Network and Crown Transformation. These programmes are being implemented to achieve a major change in the network. They include the introduction of new style agency offices and seek to improve the profitability of the Crown network. The overall figure includes £82m (broken down in the table below) - Network Transformation and Crown Transformation programme costs, £16m onerous property lease costs and £102m postmasters' compensation.

Redundancy costs for the full year amount to £29m and include £16m admin ("Wave") severance costs, £8m Crown severance and £5m Supply Chain severance costs.

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IRRELEVANT The remaining costs relate to finalising the IT infrastructure and are now decreasing due to the programme reaching the next phase where most related costs are being capitalised.

£10m of exceptional costs relate to the business separation programme, costs incurred in the current year are due to the set-up of new support services and short term support contracts. IRRELEVANT

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Network and Crown Transformation costs (other than Postmasters' compensation) to March 2016 were made up as follows:

Network Transformation	**£m**
Programme Costs	22
Investments (e.g. enabling works)	22
Fixtures and equipment, non-capital	25
Other (Legal, Communications, consultation, IT projects)	6
Total Network Transformation	**75**
Crown Transformation	**7**
Total	**82**

11. Interest, Cash, Debt, Funding and Hedging

11.1 Net finance costs March 2016 £5m vs March 2015 £3m

Finance costs & investment income	**26 March 2016 £m**	29 March 2015 £m
Interest received on investments – UK	**-**	1
Total finance income	**-**	-
Interest charged on Government borrowings	**(2)**	(1)
Other finance costs	**(3)**	(2)
Total finance costs	**(5)**	(3)
Net finance cost	**(5)**	(2)

Interest payable on the BIS Loan has increased year on year (2015/16 £2m, 2014/15 £1m) due to higher draw-down.

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

11.2 Cash, cash equivalents and debt within the balance sheet

Net cash/debt analysis	Section	**26 March 2016 £m**	29 March 2015 £m
Cash in the Post Office Limited network	11.3	**653**	708
Short term bank deposits		**59**	93
Money market fund investments		**-**	20
Total cash and cash equivalents		**712**	821
Loans, repayable on demand or less than 1 year	11.4	**(465)**	(310)
Total		**247**	511

11.3 Cash within the Post Office Limited network (March 2016 £653m vs March 2015 £708m)

The decrease in Post Office network cash from March 2015 levels can be chiefly attributed to the cessation of NS&I products, and associated lower holdings of both cheques and debit card transactions.

11.4 Loans and borrowings (March 2016 £465m vs March 2015 £310m)

Total cash and cash equivalents decreased by £109m which, ceteris paribus, would have decreased the loan by that amount. This decrease is made up of a reduction in network cash of £55m (see above) and decrease in cash at bank and Money Market Funds of £54m due to more efficient treasury function.

Government funding of £280m was received on April 1st 2015 which would further offset the loan.

However both these factors were more than offset by Capital Expenditure of £(138)m and Exceptional spend of £(276)m due to the transformational projects, so the loan increased as outlined above. The remaining difference is working capital movements and miscellaneous.

11.5 Loan facilities

At the year end the Post Office had external borrowings of £465m.

12. Going concern

Post Office Limited has net cash and cash equivalents of £712m and a borrowing facility of £950m of which £465m was drawn down at 27 March 2016.

12.1 Background

On 27 November 2013, a funding agreement was announced providing:

- Funding of £280m for 2015-16 (received 1 April 2015)
- Funding of £220m for 2016-17 (received on 1 April 2016)
- Funding of £140m for 2017-18
- Extension of the existing working capital facility with BIS up to 31 March 2018 but at a reduced level of up to £950m.

State Aid approval for the funding for 2015-16 to 2017-18 was received on 19 March 2015.

On 28 March 2012 it was recognised that the working capital facility was no longer deemed State Aid.

The going concern analysis is based on the recent three year plan.

12.2 Assessment for the Post Office

The Post Office posted an operating profit before exceptional items for the first time for a number of years in 2008-09 and has continued to do so. The 2011-15 plan reversed the trend of an increasing Network Subsidy Payment (NSP) and the 2020 Strategy continues on the path to a sustainable Post Office supported by a much lower subsidy.

The 2016-17 budget and three year plan financials have been shown in Table 1, and show that Post Office has sufficient cash headroom to continue to trade. The available facility has been defined to include network cash, ATM cash, ATM debtor, POCA debtor and SGEI cheques in the past but has now been extended, as it has always been allowed under the Working Capital Facility agreement, to include uncleared debit/credit card payments, short term bank deposits and money market fund investments which also meet the definition. Downside scenarios have been overlaid reflecting the lower cash flows if the three year operating plan does not materialise. The working capital facility was deemed not to be State Aid in 2012 so does not require further clearance and is now available (at the reduced level of £950m) through to March 2018.

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

12.3 Summary conclusion

Based on the analysis, there is available borrowing headroom until March 2019. Royal Mail Plc is a key trading partner with Post Office Limited and, in arriving at the conclusion that Post Office Limited is a going concern, the assumption is made that Royal Mail Plc is a going concern or that an alternative mails provider would work similarly with Post Office Limited providing a similar level of income. Post Office Ltd and

Royal Mail entered into a ten year agreement (Mails Distribution Agreement) in 2012 for the provision of mails products through post offices.

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

Post Office Limited Funding Analysis

Table 1: March 2016

£m (cumulative apart from free cash flow)	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Opening Funds	(197)	(406)	(526)	(548)
Borrowing facilities	950	950	950	950
Restriction due to level of network cash and other security	(100)	(100)	(100)	(100)
Borrowings from other sources - finance leases, bank overdraft etc				
Latest plan free cashflow before assumed non NSP grant injection	(359)	(260)	(92)	9
Non NSP grant injection per October 2013 plan	150	140	70	
Closing Funds Headroom	**444**	**324**	**302**	**311**
Remove NSP beyond 2018 funding agreement				(60)
Adjusted Headroom pre risk	**444**	**324**	**302**	**251**

Table 2: Risks, with management actions

£m (cumulative)	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Headroom pre risk (as above)	**444**	**324**	**302**	**251**
Risks				
Income growth in 3 year plan does not materialise		(20)	(64)	(148)
Cost savings from income shortfalls (at 50% assumed)		10	32	74
Cost savings don't materialise		(29)	(79)	(63)
Income decline 100% faster than plan		(22)	(63)	(121)
Cost savings from income shortfalls (at 50% assumed)		11	32	61
Headroom post risks pre management actions	**444**	**274**	**160**	**54**
Management actions		**59**	**92**	**100**
Sell Corporation tax losses to FRES		9	17	
Reduce or postpone investment and discretionary opex		50	75	100
Headroom post risk and management actions	**444**	**333**	**252**	**154**

Table 1

This table shows the budget and plan projections for 2016-17 and beyond. It demonstrates positive headroom throughout the plan period.

Table 2

This table sets out the impact of theoretical downside scenarios if the plan does not generate the income streams anticipated or the anticipated cost savings do not materialise.
There are further actions that could be taken but are not required. These include the sale of property.

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

13.1 Net Book Values

The net book value (NBV) of land and buildings, plant and fixtures and intangible fixed assets at March 2016 was £53m (March 2015 £10m). All assets are impaired on acquisition except land and buildings and POMS assets. Movements during the year were as follows:

Movement in NBV	Land and buildings £m	Vehicles, plant and fixtures £m	Intangible fixed assets £m	Total £m
NBV at 29 March 2015	10	-	-	10
Add capital expenditure	1	41	137	179
Less disposals	-	-	-	-
Less depreciation	(1)	-	-	(1)
Less impairment	(1)	(41)	(93)	(135)
NBV at 29 March 2016	9	-	44	53

Intangible fixed assets includes £44m goodwill in connection with the acquisition during the year of the general insurance business from the IRRELEVANT

13.2 Capital expenditure

The table below summarises the larger capital items by category:

	£m
Hawk insurance business	44
EUC programmes	39
IT Risk & Resilience	29
Network Transformation	20
Front Office IT	17
IT Networks	6
Digital	4
Separation	3
Other	17
Total	179

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14. Goodwill, investments and intangibles

14.1 Investments in joint ventures and associates

	27 March 2016 £m	29 March 2015 £m
Investment in joint ventures	**67**	67

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15. Working capital

15.1 Inventories (March 2016 £6m vs March 2015 £6m)

	27 March 2016 £m	29 March 2015 £m
Scratchcards	**4**	4
Retail	**2**	2
Total	**6**	6

15.1.1 Inventory written off

The provision for stock write downs and discrepancies is £0.6m (March 2015 £0.5m). Shrinkage and obsolete stock written off at year end was £0.4m.

15.2 Trade receivables (Current)

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

Receivables

	Section	**27 March 2016 £m**	29 March 2015 £m
Trade receivables	15.2.1	**93**	101
Client receivables	15.2.2	**229**	162
Prepayments and accrued income	15.2.3	**73**	106
Other receivables	15.2.4	**14**	28
Total		**409**	397

15.2.1 Trade receivables: Current (due within one year)

Trade receivables

	27 March 2016 £m	29 March 2015 £m
Sales ledger	**35**	22
Homephone debtors	**8**	6
Postmaster debt	**5**	7
Uncleared debit, credit cards	**35**	53
IRRELEVANT cost recovery	**8**	12
Other	**2**	1
Total	**93**	101

The largest decrease relates to uncleared debit and credit card receivables which have been reclassified from Cash into receivables for both the current and prior years. This balance has decreased on account of the cessation of NS&I products.

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A profile of the sales ledger within trade receivables is as follows:

Trade receivables

	27 March 2016	29 March 2015
	£m	£m
IRRELEVANT	**18**	8
Bill payment partners	**7**	4
Others	**10**	10
Total	**35**	22

Ageing of Trade receivables:

Debtors over 60 days overdue: March 2016 £nil (March 2015: £nil).

The Post Office does not have a general risk in relation to bad debts due to the agency and business partner nature of our client base.

15.2.2 Client receivables

Analysis of client balances at year end is as follows:

Client receivables

	27 March 2016	29 March 2015
	£m	£m
ATM (Bank of Ireland)	**128**	100
Card Account (JP Morgan)	**62**	28
Partner banks	**32**	25
Others	**7**	9
Total	**229**	162

The main increases year on year are within Card account and ATM balances. The increase in ATMs is due to period end coinciding with Easter weekend, increasing banking activity. Card account increased as customers were able to claim a week's withdrawals in advance due to the bank holiday.

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15.2.3 Prepayments and accrued income at 27 March 2016 total £74m (March 2015 £106m)

Prepayments and accrued income

	27 March 2016	29 March 2015
	£m	£m
Accrued income	**58**	87
Prepayments	**15**	19
Total	**73**	106

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Prepayments of £15m represent the remainder of the £74m total. The prepayment of telephony take-on costs with Fujitsu is IRRELEVANT, and IRRELEVANT). Also at March 2016 there is £4m of property cost prepayments, (March 2015 £5m) and other prepayments of £3m (March 2015 £3m).

15.2.4 Other receivables at 27 March 2016 total £14m (March 2015 £28m)

IRRELEVANT

IRRELEVANT the £3.8m debtor for NI paid in respect of agency offices transferring to VAT-based contracts was received, and the £7m "Ultra" debtor was released and offsets an equivalent release in payables.

Remaining at March 2016 is: tax debtor for losses to be sold to FRES £10m and VAT recoverable £4m.

15.2.5 Non-current receivables at IRRELEVANT

This represents prepayments in respect of telephony contracts with Fujitsu.

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

A summary of payables categories is:	Section	**27 March 2016 £m**	29 March 2015 £m
Trade payables	15.3.1	**51**	30
Accruals and deferred income	15.3.1	**161**	160
Client payables	15.3.2	**375**	454
Advance customer payments		**39**	29
Capital payables	15.3.1	**16**	25
Social security		**8**	9
Government grant deferred income (NSP)	15.3.4	**-**	-
Other payables		**3**	11
Total		**653**	718

15.3.1 Trade payables and accruals

Trade payables and general, capital accruals

	27 March 2016 £m	29 March 2015 £m
Trade payables	**51**	30
Accruals, GRNI	**86**	89
Postmaster, employee pay balances	**53**	53
Productivity, bonus schemes	**15**	12
Others	**7**	6
Accruals and deferred income	**161**	160
Capital accruals	**16**	25
Total Trade payables and accruals	**228**	215

The increase in Trade payables is driven by an adjustment for uncleared BACS payments of £14m which is transferred from Client payables (March 15 £22m, not transferred from Client).

The remaining Trade payables amount comprises of supplier invoices awaiting payment, the largest of which was Fujitsu £4m (March 15 £1m).

Postmaster and employee pay balances are stable and remain at £53m.

General expense accruals, GRNI (goods received, not invoiced) and capital accruals typically reflects project throughput of the business. Always a significant amount, GRNI accounts for £36m (March 15 £37m) of the total. Finally the reduction in capital accruals reflects the slower pace of capital additions in 15/16.

15.3.2 IRRELEVANT

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The remainder of the BACS reduction is due to £14m of the BACS adjustment being included in trade creditors at the half year and a general reduction in Client Payables.

The decrease in the DVLA balance represents the decline in payments to the DVLA in branch. Customers are increasingly moving towards purchasing directly from the DVLA online.

The increase in the Santander balance reflects Easter customer transactions, in particular business banking.

15.3.3 Advanced customer payments

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

Advanced customer payments

	27 March 2016 £m	29 March 2015 £m
Advanced customer payments	**7**	1
Postal order liability	**11**	12
Drop and Go	**1**	1
Gamma	**4**	4
Telephony credit balances	**4**	4
Homephone line rental advance payments	**10**	7
Other	**2**	-
Total	**39**	29

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The largest movement in advanced customer payments (£5m) relates to an increase in Bill payments driven by the timing of invoicing to customers and correction of Transcash invoices. Additionally Homephone Line rental advance payments have increased by £3m due to higher customer numbers, price increases and re-phasing of billing.

The Postal order liability reflects a creditor for uncashed Postal orders. Postal orders are valid for 6 months but the liability has been retained at 12 months reflecting that they would normally be honoured up to this date.

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

Payables due after one year	**27 March 2016**	29 March 2015
	£m	£m
Rent-free incentives	**4**	2
IRRELEVANT	**21**	28
Total	**25**	30

The rent free incentive creditor relates to buildings with an initial rent free period where the cost are over the life of the lease is spread evenly. Over half of the balance relates to Finsbury Dials (£1.6m).

IRRELEVANT deferred income concludes in financial year 2022-23 and is recognised in line with an agreed amortisation schedule. The final instalment of £2m was received early in 2015/16.

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16. Provisions

Provisions (March 2016: £163m vs March 2015: £150m)

	Crown Conversion Vacant/ Onerous leases £m	Network Transformation £m	Other £m	Total £m
At 29 March 2015	7	127	16	150
Transferred			1	1
Charged/ (released) in operating exceptional items	16	102	33	151
Charged as discontinued operation			3	3
Charged/ (released) in operating costs			4	4
Utilisation	(5)	(95)	(42)	(142)
At 27 March 2016	18	134	15	167
Disclosed as: Current				151
Disclosed as: Non-current				16

The Network Transformation provision relates to compensation payments due to postmasters' who have signed up to the new contract terms or for a termination payment. However due to an error being identified in the calculation the opening provision was restated to £127m (formerly £40m).

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POL's mobile product was treated as a discontinued operation and a provision in respect of supplier termination and project closure costs was charged exceptionally at £3m.

Finally the total for Other provisions includes £1m for a legacy dilapidations liability (March 2015: £1m). The main reason for the balance being down on opening is due to the provision for DWP historical overpayment of £11m being settled in full in the year.

17. Litigation and Claims- Potential Claims regarding Horizon

Background

17.1 Post Office Ltd has received various claims from postmasters (PMs) alleging defects in the Horizon system and Post Office's internal processes.

17.2 Following discussions with James Arbuthnot MP and the "Justice for Subpostmasters Alliance" (JFSA), in July 2012 independent investigator Second Sight Support Services Ltd (Second Sight) was appointed to carry out a review of these claims.

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

17.4 Following Second Sight's July 2013 Report, on 27 August 2013 Post Office launched a Complaint Review and Mediation Scheme aimed at understanding and resolving individual complaints made about Horizon.

Mediation Scheme

17.5 The Scheme received 150 applications, 136 of which were investigated in detail (the remainder being either ineligible or swiftly resolved). The cases have now all progressed through the Scheme, which was formally closed on 31 March 2016.

Political Activity

17.6 The Scheme and allegations concerning Horizon have been the subject of Parliamentary debate, most notably the Westminster Hall Debate on 17 December 2014 and BIS Select Committee hearing on 3 February 2015.

17.7 There has been no recent significant political activity. Post Office teams continue to work closely with BIS officials and ministers to keep them appraised of developments.

Legal Activity

17.8 A Claim Form in *Bates & 90 Others v. Post Office Limited*, Claim No. HQ16X01238, was issued the in the High Court, Queen's Bench Division on 11 April 2016. The first named Claimant is Alan Bates of the JFSA.

17.9 Post Office is not yet required to take any action in response – the Claim Form has not been served on Post Office, and no Particulars of Claim have been provided. The Claimants have until 11 August 2016 to serve the Claim Form.

17.10 The Claim Form sets out the name of the 91 Claimants and brief details of the claims. Beyond asserting multiple legal causes of action and that the Claimants "expect to recover more than £200,000", very little information has been provided about the:

- factual basis for the claims;
- purported commonality between the claimants; or
- damages sought and how they are to be quantified.

17.11 Further detail of the claims have been provided in the "Letter of Claim", which Post Office received on 28 April 2016. The legal team are currently reviewing the document.

17.12 The Claimants' solicitors (Freeths LLP) have offered to mediate the disputes. Post Office is reserving its positon on this until it better understands the claim.

17.13 Post Office agents may seek to rely on the *Bates* action to dispute repayment of shortfalls in branch cash holdings, e.g. in defence to BAU debt recovery action.

Media Activity

17.14 The Scheme and allegations concerning Horizon have been the subject of significant media coverage, most notably the BBC Panorama programme "Trouble at the Post Office" broadcast on 17 August 2015.

17.15 There has been no recent significant media activity. Post Office teams continue to manage media and communications activity.

Regulatory Activity

17.16 Post Office is engaging with the Criminal Cases Review Commission (CCRC) in relation to 24 applications made by former PMs seeking a review of their convictions. The CCRC can refer a case to the Court of Appeal if its review identifies new evidence or legal argument which gives rise to a "real possibility" that the conviction would be overturned on appeal.

17.17 Post Office's Legal team is liaising with the CCRC so as to comply with its statutory obligations under the Criminal Appeals Act 1995, and continues to provide very substantial documentation to the CCRC for review. Although the CCRC has said it is nearing the end of its investigations, there is no estimated date for completion.

17.18 Post Office also received 49 simultaneous "Data Subject Access Requests" (DSARs). Post Office has substantively responded to all these DSARs and concluded this work stream. DSAR applicants can formally complain to the Information Commissioner's Office if they are not satisfied with the response they receive. To date, no such formal complaint has been made.

18. Taxation

18.1 Income statement

A breakdown of the tax credit for the year is shown below:

	2016 £m	2015 £m
Corporation tax credit for year	**(9)**	(10)
Tax under provided in previous years	**-**	(7)
Current tax	**(9)**	(17)
Deferred tax credit relating to the origin and reversal of tempora differences	**2**	(9)
Effect of change in tax rate	**3**	-
Income tax credit reported in the consolidated income statement	**(4)**	(26)

A deferred tax credit of £25m was recognised in the year to March 2015 in relation to the retirement benefit surplus as a proportion of this surplus was considered to be recoverable through future contributions. An equal and opposite entry was recognised through equity. In the year to March 2016 the proportion of the surplus recoverable through future contributions decreased and therefore a deferred tax debit of £5m has been recognised to account for the deferred tax effect of this.

The corporation tax credit for the period of £9m represents the losses that we expect to surrender to FRES through consortium relief for the period.

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

19. Impairment

Post Office Limited (POL) was loss-making at its inception in 2001 and has impaired the majority of non-current assets in all years since 2002/3. POL has continued to impair assets on the basis of operating losses (excluding Network Subsidy Payment), net cash outflows and the reliance on Government support and funding.

IAS 36 requires annual impairment tests where there is any indicator of impairment. The principle is that the assets are carried at no more than their recoverable amount (the higher of the amount which can be realised through the asset's use or sale.) An asset's recoverable amount represents the greatest value to the business in terms of the cash flows that it can generate.

As noted above, since the inception of POL some assets have been impaired as a combination of ongoing losses, cash outflows, and reliance on the government have meant that value in use is £nil i.e. that the assets are not generating cash flows, and fair value less costs to sell are £nil as the assets are not considered to be readily saleable due to their use being specific to POL (for example Horizon system and cash collection vehicles).

This approach is consistent with IAS 36 which includes a number of indications of impairments including forecasted operating losses or net cash outflows as well as any indicators that are relevant to specific business circumstances.

Asset categories are considered separately below:

19.1 Property, plant and equipment excluding freehold property, long leasehold property and land

These assets have a relatively short useful life (between 2 and 15 years) and are impaired in full.

19.2 Freehold property, long leasehold property and land

These assets have a long useful life and have a clear market value and could be sold, these assets are not impaired but are instead depreciated on a straight line basis over their useful lives:

	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

19.3 Intangible assets with a finite useful life

In POL all of these assets are software, the have a short useful life of between 1 and 6 years and are impaired to zero.

19.4 Intangible assets arising on acquisition or with an indefinite useful life

These assets are considered for impairment individually but are not automatically impaired. Goodwill is considered separately below.

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19.5 Goodwill

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. Goodwill is tested for impairment annually as well as when there are any indicators of impairment.

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19.6 Non-current assets within subsidiaries

Subsidiaries are considered separate cash generating units and the need for impairment of assets is considered within the subsidiary and is dependent on whether indicators of impairment exist within that subsidiary. At a Group level the impairment is adjusted on consolidation to be in line with Group policy.

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Post Office Limited

Audit Results Report to the Audit and Risk Committee

for the 52 week period ending 27 March 2016

19 May 2016

Building a better working world

The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter dated 22 January 2016.

This report is made solely to the Audit Committee, Board of Directors and Management of Post Office Limited in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit Committee, Board of Directors and Management of Post Office Limited those matters we are required to state to them in this 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 Audit Committee, Board of Directors and Management of Post Office Limited for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.

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Building a better working world

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INVESTOR IN PEOPLE

Private and confidential

12 May 2016

Audit and Risk Committee
Post Office Limited
20 Finsbury Street
London
EC2Y 9AQ

Dear Members of the Audit and Risk Committee

Audit Results Report

We are pleased to present our Audit Results Report for the forthcoming meeting of the Audit and Risk Committee. This report summarises our preliminary audit conclusion in relation to Post Office Limited's financial position and results of operations for the 52 week period ended 27 March 2016 ("the period").

The audit is designed to express an opinion on the Post Office Limited ("Post Office") Group and Company financial statements for the period ended 27 March 2016 and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Post Office's accounting policies and judgments and material internal control findings.

This report also contains our preliminary summary of audit differences, communications regarding our independence and a summary of communications we are required to make to you.

This report is intended solely for the information and use of the Audit and Risk Committee, Board of Directors and Management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Risk Committee meeting scheduled on 19 May 2016.

Yours faithfully

Peter McIver
Engagement Partner
For and on behalf of Ernst & Young LLP

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Overview

Overview

This overview is intended for use as an outline agenda for our discussion at the Audit and Risk Committee meeting to be held on 19 May 2016 and includes a summary of our principal findings. Further details are contained within the main body of this report.

We conducted our audit for the 52 week period ending 27 March 2016 in accordance with International Standards on Auditing (UK and Ireland) in order to provide reasonable assurance that your financial statements are free of material misstatement, as set out in our engagement letter dated 22 January 2016.

Status of the audit (page 10)

A status of our work is included on page 10. We will provide the Audit and Risk Committee with a verbal update on the progress and conclusion of our audit at its meeting on 19 May 2016.

Materiality

We have recalculated our materiality based on 1% of actual revenue as per draft Group Consolidated Financial Statements. We did not identify significant changes compared to the materiality communicated to you in our Audit Planning Report dated 17 March 2016.

The overall materiality used remained at £10.8m. Our performance materiality was set at 50% of overall materiality and was £5.4m. Our reporting threshold for audit differences remained at £542k.

Scope update

There were no changes in our audit scope compared to that which was communicated in our Audit Planning Report dated 17 March 2016. As explained in our Audit Quality Enhancements paper dated 19 April 2016, we re-considered our audit approach in response to the identified significant risks.

Significant accounting and auditing matters (page 12)

We focused on accounting and auditing matters identified as significant for 2016 audit. We summarised the key areas of focus and preliminary findings from our audit procedures performed as of 12 May 2016 below.

Significant risks (page 13)

- **Completeness of Postmasters Compensation Provision (£134m):** As a result of our audit procedures, we identified an understatement of Postmasters Compensation provision by £1.0m. This understatement relates to 56 Post Office branches which are currently "being engaged", based on the average compensation of £17,396 per branch being forced to leave the network. This judgmental adjustment has been recorded by Management. No other significant differences were identified.
- **Revenue recognition across diverse range of revenue streams (£1,111m):** As a result of our audit procedures, we are satisfied that revenue for the group is materially correct and has been recognised in compliance with group policy and IFRS.
- **Classification of exceptional items relating to Transformation (£283m) and utilisation of Government Grant (£150m):** As part of our audit procedures, we concurred with Management's classification of exceptional items being consistent with group policy and IFRS. As part of our test of details we identified the following judgmental differences:
  - an understatement of a provision related to the IT Support services provided by Royal Mail Group to Post Office post separation under Master Services Agreement. The total amount of understatement is £0.8m. This adjustment has now been recorded by Management;
  - an overstatement of accrual balances related to Network Transformation: Project Enabling Works (£2.7m) older than 12 months and Operational Business Change ("OBC") (£1.2m) older than 6 months. Based on previous experience and historical data we would have expected these balances are utilised within respective period, therefore proposed to reverse these accruals. These have both been adjusted by Management.
- **Risk of management override around estimates and judgments:** We have performed various procedures to address the risk of fraud and management override throughout our audit focussing on revenue recognition, completeness of Postmasters' compensation provision, areas susceptible to judgements and estimates and unusual transactions. No issues were identified.

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Overview (cont'd)

Other areas of audit focus (page 22)

- **Horizon Subpostmasters Claim:** As part of our discussion with the Group Chief Financial Officer and the Group Legal Counsel we understand that Post Office Limited have received a formal Letter of Claim from Freeths Solicitors on behalf of 91 applicants on 28 April 2016. We have received the copy of this letter. It contains a number of allegations made against Post Office. We understand that there is no quantification of the claim for damages at this point of time. At the date of this report Management are in the process of reviewing this letter and will prepare the necessary response and the litigation strategy. There is no provision recognised as at 27 March 2016 for this claim. The financial statements now include a generic contingent liability note regarding receipt of such claims, stating no material impact is expected. We will update our assessment as part of subsequent events review procedures performed up to our sign-off date.

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- **Pension valuation and accounting (net surplus £196m):** As part of our audit procedures, we are satisfied with Management's assumptions used for pension liability valuation, being within the acceptable range. At the date of writing this report we are yet to finalise our audit procedures in relation to pension plan assets valuation. In February 2016, Post Office commenced a formal consultation with active members (and their representatives) of the Post Office section of the Royal Mail Pension Plan ("RMPP") with regards to the potential closure of the RMPP to future accrual with effect from 1 September 2016. The closure is subject to the outcome of the pensions consultation and no final decision will be made until the formal consultation is completed. The proposed closure will also require consent of the Trustee of the RMPP. This closure, if it occurs, could affect the pension average pay in the 2016/17 financial year.
- **IT and SAP CFS (Core Finance System):** We engaged our EY ITRA team to assist us in testing of IT General controls over in-scope IT applications for 2016 audit. This includes HNGX, POLSAP, SAP CFS and SAP HRP. We identified user access issues for POLSAP and SAP CFS. We instructed Management to perform alternative procedures to validate whether access maintained by the users of these two applications was appropriate throughout 2015/16 year. As at the date of this report this analysis is yet to be finalised.
- **Supply Chain Restructuring (Project Iris):** We discussed with the Supply Chain Director and the Network & Sales Finance Director the timing of the Supply Chain Restructuring project. Post Office Limited Management is preparing a detailed restructuring plan and consultation which is to be completed by 19 May 2017. We reviewed the Project Iris timetable and the Board of Directors minutes. Based on our audit procedures performed we are satisfied with Management's conclusion that there is no restructuring provision obligation as at 27 March 2016.

Our detailed comments and the results of our audit procedures on these items are included on pages 22 to 25.

Overview (cont'd)

Summary of audit differences (page 27)

As at the date of this report, we have not identified any unadjusted audit differences above our reporting threshold of £542k for the year ended 27 March 2016. We summarised the audit adjustments identified as part of our audit which have been now recorded by Management on page 27.

Control themes and observations (page 29)

Our preliminary control observations and recommendations have been documented on page 29. These are currently being discussed with Management. We will be summarising our final observations in Management letter as there continues to be opportunities for further consistency and efficiency of processes and controls across the business.

Independence (page 32)

We consider ourselves to remain independent and objective. Please refer to our independence report in Appendix A.

Audit Opinion

Subject to finalisation of our audit work, we expect to issue unmodified audit opinion.

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Status of the audit

Status of the audit

The audit is well progressed with our procedures now primarily focussed on the audit of the financial statements and certain balances. Our audit work in respect of the opinion on Post Office Limited consolidated financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of drafting this report. We will provide the Committee with a verbal update at its meeting on 19 May 2016.

Item	Actions to resolve	Responsibility
Annual report and accounts	• Review of the final version of 'front end' of the annual report including review of aspects of the Directors' Remuneration Report, Chairman's and CEO's statements and completion procedures thereon; • Review of directors' emoluments disclosures once final bonus outturns confirmed; • Review of the final version of 'back half' including comments on financial statements and disclosure notes; and • Detailed review of subsequent events; • Financial statements to be approved by Management and the Audit Report to be signed by EY.	Management and EY
Postmasters' Compensation Provision	• Finalisation of audit documentation upon receipt of remaining supporting documentation as part of our sample selected for testing.	Management and EY
Exceptional items	• Finalisation of audit documentation upon receipt of remaining supporting documentation as part of our sample selected for testing.	Management and EY
Pension plan assets confirmations	• Follow up remaining pension plan assets confirmations; • Review and follow up the differences with confirmations received (if any).	Management and EY
IT Audit	• Finalisation of alternative procedures to support the appropriateness of user access for SAP CFS and POLSAP; • EY to review analysis prepared by Management.	Management and EY
Corporate tax	• Follow up on comments provided to date; • Review of final corporation tax supporting files and corporate tax financial statement disclosures.	Management and EY
Subsequent events procedures	To be completed through to the date of our audit opinion on the Group and Company financial statements (matters to be updated include: enquiries of Management, review of latest management accounts, unrecorded liabilities testing and board minute review to date of signing).	Management and EY
Letter of representation	To be signed/ dated contemporaneous with our audit opinion on the Group and Company financial statements, which is anticipated to be in June/July 2016.	Management and Audit committee
Journal entries testing	• Finalisation of audit documentation upon receipt of remaining supporting documentation as part of our sample selected for testing; • Follow up on queries to Company in relation to journal entries selected for testing.	Management and EY
FRES - Interoffice reporting deliverables	• Follow up on final signed deliverables from PwC FRES component audit team; • Review of PwC component team's working papers for FRES audit.	EY
Goodwill impairment analysis	Finalisation of EY review of Management's assumptions for analysis of CGU's identification and impairment of goodwill.	Management and EY
Going concern assessment	EY to finalise the review the Management's going concern assessment	Management and EY

Significant accounting and auditing matters

Significant accounting and auditing matters

Introduction

Where there are significant transactions or matters arising during the year we have performed our audit procedures on these items as they arise. Our year end report only deals with new and open items. We have summarised below the key financial reporting matters that we have previously considered and reported to you during FY2016.

Accounting and auditing matters subject to significant judgements and estimates

Management is required to disclose significant estimates and judgements in the financial statements. The following outlines the basis for our assessment of the level of subjectivity involved in accounting matters reported to you.

Level of subjectivity

This rating applies only to significant estimates and indicates the level of subjectivity in the estimate as well as the reliability of the underlying data used to develop the estimate.

Subjectivity rating	Description
High	Estimate involves significant judgement and is made with little verifiable historical experience, current trend information or market and industry comparative information.
Medium	Estimate still involves some judgement and is made with verifiable historical experience, current trend information, or market industry comparative information.
Low	Estimate involves limited judgement and is made with verifiable historical experience, current trend information, or market industry comparative information.

The following 'dashboard' summarises the significant accounting and auditing matters set out in this report. It seeks to provide the Audit Committee with an overview of the subjectivity involved based on the above criteria. The detail of each accounting matter is set out after the dashboard.

Areas of audit emphasis	Level of subjectivity 2016
Completeness of Postmasters Compensation Provision* (page 13)	High
Revenue recognition across diverse range of revenue streams* (page 14)	Medium
Classification of exceptional items relating to Transformation and utilisation of Government Grant* (page 15)	High
Impairment of fixed assets and intangible assets, including goodwill (page 19)	Medium
Pension valuation (page 22)	Medium

* Identified as a significant risk under International Standards on Auditing and communicated in our Audit Planning Report in March 2016

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Significant accounting and auditing matters (cont'd)

Significant risks

In our Audit Planning Report we **identified four areas** of audit risk that we deemed to be significant in the context of our audit of Post Office Limited. Auditing standards define significant risks as those with a high likelihood of occurrence and, if they were to occur, could result in a material misstatement of the consolidated financial statements. These significant risks are discussed below.

1. Completeness of Postmasters Compensation Provision of £133m (2015: £127m)

In August 2015 Management of Post Office Limited ("POL") identified that the Provision for Postmasters' Compensation had not been fully recognised in the financial statements for the half year ended 28 September 2014 and for the year ended 29 March 2015. The total amount of restatement recognised was £87 million and £67 million for the year ended 29 March 2015 and the half year ended 28 September 2014 respectively. We concurred with the accounting treatment of prior year adjustment and the amount of restatement recognised.

We have assessed the completeness of Postmasters Compensation Provision as a fraud risk (as defined by auditing standards) and thus as a significant risk (as fraud risks are also significant risks). Our focus has been specifically on the completeness of the provision recorded as at 27 March 2016. As part of our audit procedures we noted that Management recorded a £123m additional charge, which was offset by £95m payments made during the year and a release of provision totalling £21m (as explained below). The net provision now stands at £134m.

£m	Movements	52 week period ended 27 March 2016
Opening balance (as restated)		**127**
Charged during 1H 2016	*47*	
Charged during 2H 2016	*75*	
Total charged for the year		**123***
Provision utilised (payments made) 1H 2016	*(46)*	
Provision utilised (payments made) 2H 2016	*(49)*	
Total provision utilised (payments made)		**(95)**
Release of unused provision		**(21)***
Closing balance		**134**

In order to address this risk we performed our planned audit procedures as follows:

- To ensure that every branch has been accounted for and that the Postmasters' compensation provision is complete, we have performed an independent reconciliation of 100% of the branch population. This involved checking the status of each of the 12,471 branches at 27 March 2016 and understanding the journey they have made since the half year. We compared this to Management's results and used this to identify anomalies and challenge the provision analysis provided by Management. We have satisfied ourselves that the movement in the journey of the branches is reasonable.
- To ensure that every branch in the Post Office Network is classified correctly, we have independently categorised each branch into their categories into a specific type of journey at 27 March 2016, based on their individual attributes and challenged Management's assessment by comparing results. No exceptions were identified.
- To vouch the attributes and classification of the branches in the network we selected a sample of 594 branches and checked supporting documentation to check that where a provision is applicable, it has been recognised in the correct period by obtaining the signed contracts and checking that the dates of the signed agreements. We checked that branches selected for testing are not duplicated in any other category. Where we identified unusual items or categories, these were communicated to Management and adjusted where necessary.

Significant accounting and auditing matters (cont'd)

1. Completeness of Postmasters Compensation Provision of £134m (2015: £127m) (cont'd)

- To check the validity and accuracy of POL's records we selected a sample of 50 Conditional Resignation Pack (CRP) contracts and checked dates for correct cut off and sign off. We also traced the contracted amounts of these CRPs per POL's records to POL's cash utilisation reconciliation and bank statements, showing the amount being settled post year end.
- To further gain assurance on the completeness of the exceptional items charge we have challenged Management's charge by performing a reasonableness test on each category of the Postmasters compensation elements by comparing costs incurred to date against budgeted costs and estimated costs to complete for the various programmes. This involved understanding the number of open projects and how the estimated costs to complete are computed. At the date of this report this work is still in progress.
- We have had held discussions with the Director of Network (Sharon Bull) and other senior non finance members of the organisation to improve our knowledge and understanding of developments that could impact the Postmaster compensation provision and the progress the transformation is making against its planned targets, this enabled us to corroborate our testing results and Management explanations.
- We have performed an unrecorded liabilities test on 100% of the subsequent cash payments to Postmasters made post year end (for April 2016). This was done by checking that all payments to Postmasters made post year end are included in the provision at year end and we are now independently sampling 25 selected payments for May and June months post year end to actual bank statements. At the date of this report this work is still in progress.
- We have not identified any material differences as part of our test, with the exception of the following:

  As a result of our audit procedures, we identified an understatement of the charge for Postmasters Compensation provision of £1.0m. This understatement relates to a group 56 Post Office branches identified by Management as currently "being engaged". Following discussions with Management we understood these branched are likely to result in compensation once engagement concludes and therefore should be provided for as at 27 March 2016. We determined the £1.0m balance based on the average compensation of £17,396 per branch included within Fixed Pay Compensation (FPC). The FPC branches are those branches which had not confirmed to POL that they were to convert nor leave the Network and so were being forced out of the Network by POL. This judgemental adjustment has now been recorded by Management. No other significant differences were identified and this has been corrected by Management and is included in the provision of £134m.

As part of our audit procedures, we identified that in the second half of the year following a detailed analysis and new information received, Management released part of the provision totalling £21m.

- This represents Management's best estimate of the release to account for Post Office branches now unlikely to convert. These branches were advertised as leavers in the previous period and the Post Office has now not been able to find a replacement. The Postmaster's resignation obligation is conditional on Post Office finding a replacement. This detailed analysis was performed by Management and resulted in 501 branches identified as being unlikely to convert.
- This is in line with Management's expectation as the original programme was set out to transform up to 8,000 branches (non-community and non-pilot branches), which has been subsequently revised down to 7,500 branches due to Management's expectation that they will not be able to find a replacement for 500 branches.
- Management have put together a task force for the first half of FY2017 to further assist in finding replacements for these branches. At this stage, Management has predicted that it would sensible to reduce the provision for leavers payments by around 250 leavers, even considering a high success of the task force, management expects there to still be at least 250 unplaced branches.
- We acknowledge that this is an area of judgement and it illustrates the difficulty to assess this Postmasters' Compensation Provision. We recommend that Management performs regular review of the assumptions applied and revise accordingly when new information become available. For the purposes of 2016 audit we concurred with Management's assumptions to assess the amount of provision release. We will update our testing of the reasonableness of this assumption as part of subsequent events procedures.

Significant accounting and auditing matters (cont'd)

2. Revenue recognition across diverse range of revenue streams (£1,111m)

The Company continues to sell a large variety of products/services across a number of revenue streams. Most of these revenue streams will have their own specific rates, commissions and calculations for allocating the amount of revenue owing to Post Office, which are defined in the specific underlying contracts.

As detailed in our planning board report, the main risk associated with the diverse range of revenue streams is ensuring the correct contractual terms are being applied to the revenue lines. We also note that reward and incentive schemes based on achieving profit targets may place undue pressure on Management to achieve revenue forecasts. We have therefore identified revenue recognition and management override as a significant and fraud risks both of which impact our revenue testing.

The main focus of our testing to address the risk of revenue recognition is summarised as follows:

- We performed system walkthroughs over POL's revenue lines and also performed detailed test of controls work on those revenue lines, this testing involved checking correct contractual rates and volumes data in their calculations. No issues were identified and we have taken a controls-based approach to all revenue lines.
- We performed detailed testing on over 19 key customers giving us a coverage totalling 95% of the group revenue. Our detailed tests included checking that revenue rates and commissions for each revenue line is being appropriately applied in accordance with the terms of the relevant sales contracts. Further we checked all revenue transaction with these key customers back to invoice and cash receipts.
- Where a revenue estimate is made for a revenue line for a month prior to actual sales volumes and billing reports being available, we have checked invoices subsequently posted in order to check that adjustments were made for the estimated revenue figure to reflect the actual sales for all periods tested.
- Our audit procedures also considered the accounting treatment for significant products or revenue streams where applicable by reviewing all new significant revenue contracts and any changes to existing contracts with customers. We did not identify any exceptions in relation to Management's application of its revenue recognition policy.
- To ensure that revenue has been included in the correct period, in addition to the procedures above, we have performed detailed cut-off procedures over revenue postings before and after period end, and checked that the amounts recognised as revenue are appropriate, and that where appropriate they have been correctly recognised in trade debtors, accrued revenue or deferred revenue in the appropriate period.
- We also examined the fluctuations of revenue against budget and prior year by corroborating variances to the relevant evidence obtained through our other testing procedures. In addition, where appropriate we have corroborated Management's explanations for movements using our knowledge of developments in the industry and business.
- Post Office Management Services Limited ("POMS") is a full scope component and a fully owned subsidiary and comprises IRRELEVANT IRRELEVANT

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Based on the procedures performed, we conclude that revenue, accrued income and deferred income balances for the FY16 financial year are appropriately stated.

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant

Post Office is executing a Transformation across its network in order to modernise it as part of the overall strategy to make the Post Office competitive for the future. This one-off programme is expected to continue until FY2017-18. Management note that the costs of Network Transformation are exceptional in nature given that a branch modernisation programme of this scale has not been carried out before. As such, Management believe this requires separate presentation on the face of the Income Statement to allow a better understanding of financial performance in the year.

Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

In addition, the Department of Business, Innovation & Skills ('BIS') provides a government grant to POL to subsidise network transformation expenditure, agents compensation and related capital expenditure. POL offsets this government grant against the related expenses in the exceptionals section of their Income Statement, in line with IAS 20 Government Grants.

Please refer to the table below for the details on exceptional items recorded for 2016 year:

	Note	FY2016 £m	FY2015 £m
Network Transformation costs	3.1	(75)	(73)
Agents Compensation	3.2	(102)	(154)
Network transformation including subpostmasters compensation		**(177)**	**(227)**
Crown Transformation	3.1	(23)	(10)
Redundancy	3.3	(29)	(25)
Separation	3.4	(11)	(8)
Total Network and Crown transformation costs		**(240)**	**(270)**
IT Transformation costs	3.5	(30)	(16)
Business Transformation Programme	3.6	(9)	(12)
Business Transformation costs		(4)	(1)
Other		-	(3)
Total restructuring costs		**(283)**	**(301)**
Intangible and tangible assets impairment	3.8	**(136)**	**(141)**
Government Grants	3.9	**150**	**170**
Total operating exceptional expense, net		**(269)**	**(272)**

3.1 Network Transformation (£75m) and Crown Transformation costs (£23m)

The Network Transformation and Crown Transformation costs are attributable to the modernisation of Post Office's existing branches as part of the transformation programme.

The network transformation has reached approximately **75%** of completion, tracking in line with budget.

Management note that the costs of network and crown transformation are exceptional in nature given that a branch modernisation programme of this scale has not been carried out before and it is not treated as business as usual within the Post Office. We agree with Management's conclusion that this transformation is significant in nature, and an one off event, subsidised by the government grant (also an exceptional item) and therefore is appropriately presented on the face of the income statement to allow a better understanding of financial performance in the year.

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Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

3.1 Network Transformation (£75m) and Crown Transformation costs (£23m) (cont'd)

Substantive audit procedures performed:

- In additions to discussions held with Management as part of our audit procedures we have also had held discussions with the Director of Network (Sharon Bull) and other senior non finance members of the organisation to improve our knowledge and understanding of developments that could impact the both the Network and Crown transformation and understand how it is tracking to plan. This has enabled us to corroborate our testing results and Management explanations.
- We selected a sample of 57 transactions giving us a coverage of 49% for Network Transformation cost in the year and we tested over 50% of the Crown transformation costs. Our tests involved obtaining the details and the nature of the costs incurred against the overall strategy of the programme and we checked each transaction to supporting documentation such as invoices and project approvals to validate that they are directly related to transformation costs and not related to routine expenses related to the normal course of the business.
- As a result of our audit procedures, we initially identified two judgemental adjustments relating to the overstatement of accrual balances with Network Transformation Exceptional items, relating to Project Enabling Works (£2.7m) and Operational Business Change (OBC) (£1.2m). We identified that the Project Enabling Works accruals were older than 12 months, these costs relate to costs incurred by Postmasters that are to be reimbursed by POL. For the OBC accrual we have identified the costs relating to accruals older than 6 months, these accruals are for works that POL have placed with suppliers for equipment services, which we would expect to have been settled. These have both been adjusted by Management now.

Management's overall treatment is consistent with the approach followed in the prior year and the basis on which the government grant, which partially funds the Post Office Transformation spend, was agreed.

3.2 Agents Compensation expense (£102m)

Postmasters compensation charge continues to be significant in the year. The postmasters continued to be incentivised and compensated for ensuring their branches take part in the Network Transformation programme. We coordinated our testing approach with the audit procedures we performed to address identified significant risk in relation to completeness of Postmasters' compensation provision. Please refer to respective section on page 13.

3.3 Redundancy costs (£29m)

Redundancy costs largely related to the Crown Transformation programme and the redundancy of staff as part of cost saving initiatives and as such are treated as exceptional.

We reviewed the respective signed conditional resignation notices given to agents and vouched a sample of 17 items to termination payments to notices submitted and concluded the cost is appropriate. We have also obtained the breakdown of the redundancy plans and checked corroborated the charge against Management's formal plans.

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Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

3.4 Separation (£11m)

Separation costs comprise of costs incurred to achieve separation from Royal Mail. In line with prior year, POL has continued to incur separation costs with respect to building internal functional capabilities and implementing new commercial relationships. Since the separation Royal Mail Group ("RMG"), the Company has had a Master Services Agreement(MSA) in place which relates to an agreement with RMG to provide IT support services to POL post-Separation. These costs are part of a defined programme and are designed to bring about significant changes to the business. The MSA was supposed to end in September 2015.

However, due to delays in separating out some of the IT services, there was a need to extend this arrangement to 31 March 2016. POL have now formally separated all of the services and the Separation programme has been formally closed down. POL have estimated internally that the maximum extension costs and penalty charges which RMG could try to levy on them is approximately £3.0m plus irrecoverable VAT (c£0.3m). POL have accrued for £2.5m of these costs (including irrecoverable VAT) in exceptional items as it arises as a result of the Separation Programme, which has been consistently accounted for as exceptional. The costs are still under negotiation with RMG to finalise a settlement. We proposed to increase the provision by £0.8m which has been recorded by Management.

We would not expect any further costs next year, however have confirmed costs are of the same nature as the prior year.

3.5 IT Transformation Costs (£30m)

The IT transformation was one of Post Office's key programmes to deliver the commitments made in 2010 in the Government Funding and Strategic Plan. During the year Management terminated an agreement with IBM who were contracted to perform IT Transformation work in respect of Front Office software for the POL branches. The agreement with IBM was terminated for commercial reasons and this work has been contracted to Fujitsu in the year. IRRELEVANT
Management's view was that this cost arose as part of the Transformation programme and was fundamental in achieving the objectives of the POL Transformation.

We selected a sample of 17 transactions giving us a coverage of 79% of IT Transformation cost. Our tests involved obtaining the details and the nature of the costs incurred against the overall strategy of the programme and we checked each transaction to supporting documentation such as contracts, invoices and project approvals to validate that they are directly related to IT transformation costs and not related to routine expenses related to the normal course of the business.

We have held various meetings across the business with the Heads of the Network and IT Transformation programmes to corroborate our testing results.

Consistent with prior year, Management treats this specific transformation project as an exceptional cost given the project results in a fundamental change to the entire Post Office IT model. In our view we would not generally expect IT upgrades to be considered as exceptional items, however due to the unique IT environment POL finds itself in post separation from Royal Mail and the IT infrastructure required to create an independent group, we can accept these IT costs being treated as exceptional. Given the continuing rationale of impairing assets, these costs have been impaired as an exceptional item. Management noted that the changes in the Network Transformation project would not be achievable without the IT transformation project. Management continues to be consistent in its treatment of IT Transformation costs.

We have revisited the appropriateness of classifying such costs as exceptional and reviewed supporting documents to satisfy ourselves that these costs link to one-off major IT project costs relating to transformation.

We concurred with Management's treatment of these costs in FY16 as exceptional and we have challenged Management to continue to assess these future costs on a specific basis to determine when they become business as usual costs.

Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of

3.6 Business Transformation Programme (£9m)

The Business Transformation Programme is a wide reaching programme tasked with delivering £300m of cost savings. As such, it is expected to radically transform the structure of the business. The Business Transformation Programme has begun its work and has already identified medium term costs saving opportunities of £100m which, owing to the one-off nature of the events giving rise to them, were deemed appropriate by Management to include as an exceptional item.

We checked the nature of the costs that make up the £9m to supporting invoices. We checked £6.2m which is c.69% of the total vouched that this it consist of consultancy costs related to the Business Transformation Programme cost saving initiative payable to consultants. We concur with Management's treatment of these costs in FY16 as exceptional, but we have challenged Management to continue to assess these future costs on a specific basis to determine when they become business as usual costs.

3.7 Intangible and Fixed Asset Impairment

Post Office continue to adopt a policy of fully impairing all intangible and fixed asset and long leasehold additions made during the year in which they are purchased, except for freehold land and buildings. Management's justification for adopting this policy is due to the fact that Post Office has historically been, and continues to be a loss making entity excluding the Network Subsidy Payment and Government grant it receives and in its current form is not a viable commercial business (without the government support).

As an additional factor in the decision to impair, Post Office has been working on a major programme of network change that will cost approximately £500m. We observed the transformation spend and strategy is included within the current State Aid funding package and investment of this scale will lead to significant cash outflows for the immediate future. The resulting transformational change is specifically designed to impact the longer term profitability of the organisation and accordingly Management believes that Post Office will continue to be loss making entity in the near to medium term.

We have challenged Management on the appropriateness of this policy. Management's view is that there is no current evidence to support the profitability of the business without state aid. On the basis of our discussions with Management we believe Management's approach is appropriate and prudent in 100% impairing all assets on acquisition, reflecting value in use and cost.

The fixed asset impairment charge for the year is £136m (PY: £141m). The year on year increase in fixed asset additions is mainly a consequence of network and crown transformation related capital expenditure to modernise POL branches.

For the reasons noted above we continue to agree that Post Office's accounting policy for impairment and disclosure of the charge as an exceptional item is reasonable, and in line with IAS 36, Impairment of Assets.

We discussed with Management the impact on the financial statements and forecasting as it becomes more likely that Post Office will be cash generative without reliance on government grants. We recommend Management should continue to review its impairment policy at each reporting period in relation to these assets, produce full DCF impairment models and ensure the fixed asset registers are appropriately maintained.

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Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

3.7 Government grant - State Aid Funding

On 19 March 2015, POL received confirmation that its application for State Aid funding for 2015/16 to 2017/18 had been approved. This approval entitles POL to receive the following funding from the Department of Business, Innovation & Skills ('BIS') by way of grants: FY2015/16 - £280m, FY2016/17 - £220m, FY2017/18 - £140m.

Of the amounts above, £130m (2015/16), £80m (2016/17), and £70m (2017/18) were agreed to be made by way of a network subsidy payment, which has been regularly paid by the government to POL over the last few years, enabling the company to keep branches open that would otherwise not be viable. We have confirmed receipt of the government grant and reviewed updates to the terms and conditions of the funding agreement, no issues identified. POL received the full funds for FY2015/16 grant allocation from BIS in April 2015; £130m by way of a draw down of the network subsidy and an additional £150m to fund capital projects and transformation costs. We have confirmed receipt of the government grant and have confirmed that there have not been any updates to the terms and conditions of the funding agreement. The full £150m which is classified as exceptional has been utilised in the year to date against capital spend, network transformation and IT transformation costs and subpostmasters compensation.

Based on our procedures performed, we conclude that the government grant has been appropriately recognised in the income statement in accordance with the contract from BIS.

4. Risk of management override around estimates and judgements

During the normal course of an audit, we are required to perform procedures to address risks that could result in material misstatement due to fraud and error including the risk of management override of controls. There are both specific and tailored procedures performed to ensure that sufficient consideration is given to these risks.

The risk of fraud and management override exists in all businesses and is heightened where the economic environment is challenging and where there is significant change being implemented across a business potentially giving rise to the opportunity, pressure or incentive to perpetrate a fraud. Areas of focus from an audit perspective to address the risk of management override include:

- Revenue recognition
- Estimates and judgements; and
- Unusual transactions

The table below highlights the specific areas which we believe are more susceptible to the risk of management override or bias for Post Office and the procedures we have performed to address the risk.

Significant accounting and auditing matters (cont'd)

4. Risk of management override around estimates and judgements (cont'd)

Area of focus	Details of procedures performed/cross reference to detail included in this report.
Revenue recognition – Our focus was on cut off via manipulation of revenue recorded close to yea rend.	Refer to page 15 for details.
Impairment of goodwill – There is subjectivity relating to the assumptions used to value acquired intangible assets.	Refer to page 19 for details.
Valuation of provisions – There is subjectivity in management's determination of their best estimate of amounts provided.	Refer to page 13 for details.
Journal entries – By their nature, there is the potential for the risk of management override of the financial statements through processing of journal entries.	We have performed journal entry testing at the group level and at component level focussing on: ► Entries made near to the year end; ► Post – closing adjustments; ► Entries made in relation to transactions outside the normal course of business; ► Analysis of journal entries by user profile and the posting day of the week; ► Entries relating to our fraud risk around revenue recognition (Refer to page 15).
Entity level controls – There is a risk that controls operating at the centre are not implemented consistently across the group.	We performed various procedures to assess the 'tone from the top' and the design and implementation of key entity level controls and assessed the overall control environment to be effective.

During the course of our audit, we found no evidence of material, or potentially material fraud or error in the financial statements.

We have not been made aware of any further material instances of known fraud within the group in addition to those previously reported.

In addition, for provisions we have challenged senior management to understand the material movements in provisions in the year. We considered the aspects and attributes of each provision individually, assessing whether its accounting treatment meet the requirements of IAS 37. Material movements within provisions related mainly to utilisation and charge of severance and agents' compensation provisions.

We have vouched a sample of provision charges to supporting documents such as formal redundancy and severance plans for severance provision increases and signed voluntary and/or compulsory redundancy notifications for increases in agent's compensation provision in the year. This enabled us to check the validity of charges to provisions in the year. Where provisions have been utilised in the year we have vouched a sample to evidence of payment.

We concluded that each individual provision meets the criteria of provisions as per the requirements of IAS 37 – Provisions, and have therefore been appropriately provided for at the end of the year.

Significant accounting and auditing matters (cont'd)

Other areas of audit focus

In addition to the significant risk areas highlighted in the previous section, there were a number of other accounting and auditing matters which have arisen during the year. Details of each are provided below:

Horizon Subpostmaster claim

As part of our discussion with Group Chief Financial Officer and Group Legal Counsel we understand that Post Office Limited have received a formal Letter of Claim from Freeths Solicitors on behalf of 91 applicants on 28 April 2016. We have received the copy of this letter. It contains the number of allegation made to Post Office. We understood that there is no quantification of the claim for damages at this point of time. At the date of this report Management is in process of reviewing this letter and will be preparing the necessary response and will be preparing the litigation strategy. There is no provision recognised as at 27 March 2016 for this claim. The financial statements now include a generic contingent liability note regarding receipt of such claims, stating no material impact is expected. We will update our assessment as part of subsequent events review procedures performed up to our sign-off date.

Pensions valuation and accounting

Pensions accounting can be a highly subjective area given the impact that relatively minor changes in assumptions can have on the valuation of the defined benefit liability. Based on current calculations, Post Office has a net surplus at the year end of £196m (2015: £205m) as follows:

£m	FY2016		FY2015	
	RMPP	RMSEPP	RMPP	RMSEPP
Fair value of pension plan assets	407	30	379	31
Pension liabilities	(184)	(27)	(150)	(26)
Surplus in plan before assets ceiling adjustment	223	3	229	5
Effect of assets ceiling	(29)	(1)	(27)	(2)
Surplus in plan after assets ceiling adjustment	194	2	202	3

We have confirmed that the approach and methodology applied by Management are consistent with previous reporting periods. We have reviewed and challenged Management's calculations, specifically with respect to the pension assumptions. The key assumptions are noted in the table below along with our assessment of where these assumptions are within our acceptable range of outcomes.

Financial assumptions		Prudent	Central	Optimistic
Discount rate			3.50%	
Price inflation (RPI)			2.90%	
Price inflation (CPI)			1.80%	
Salary increases (above RPI infl) [1]			-0.10%	
Pens incs in payt (above infl)	LPI 5% (RPI) [1][3]		-0.10%	
	CPI [2][4]		+0.00%	
Pens incs def (above CPI) [2]			+0.00%	
Demographic		**Prudent**	**Central**	**Optimistic**
Mortality in retirement	Males		106% S1PMA MC 1.25% u/pin	
	Females		101% S1DFA MC 1.25% u/pin	
Retirement age			60	
Commutation [5]			15% of Pension	

Consistent with prior years, we used an EY actuarial specialist to evaluate these assumptions and we consider them to be within an acceptable range, albeit the inflation assumption continues to be at the upper end of the acceptable range.

Significant accounting and auditing matters (cont'd)

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VAT Considerations

The business has been fairly stable over the past year in terms of service offerings and the market. In light of this, the VAT processes and systems have not had any major changes in the year.

The work carried our by our VAT specialists included;

- Review of POL process notes for Accounts Payable and Accounts Receivable and VAT return compilation.
- Review of the quarterly VAT records throughout the year, including the January - March 2016 VAT submission and the reconciled the draft (unsubmitted) VAT figures to the year end VAT ledger balance
- Understand and review of any changes to the VAT group during FY16.
- Check of any VAT assessments and disclosures to HMRC, along with confirmation that there are no outstanding issues.
- Enquiring about any complex, unusual or significant transactions that have occurred during FY16.

The above work was carried out by reviewing the relevant documentation, taking part in detailed discussions with Carl Nielsen (Head of VAT) and Ian Lakin (Tax Compliance Manager), and walking through the AP/AR processes with the relevant POL finance staff.

We have also reviewed correspondence with HMRC on other complex, unusual, or significant transactions or issues with VAT, and note that there are no outstanding queries with HMRC or other VAT provisions. Management has also confirmed that there are no further unusual transactions or VAT planning arrangements apart from those disclosed to us.

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Significant accounting and auditing matters (cont'd)

VAT Considerations (cont'd)

Based on the work performed, including by our VAT experts, no errors were identified on the returns in respect of POL's inputs and outputs compared to the overall turnover and expenses figures. The partial exemption recovery method agreed with HMRC in July 2014 has not been amended in FY16. The method allows for direct attribution of fully taxable supplies followed by an allocation of the residual input VAT based on the value of POL's supplies in relation to 'mail' and 'non-mail' services for that period. The provisional rate of residual input VAT recovery for FY16 has been set at 55%. This rate has been hardcoded into the POL's IT platform (CFS) during the year as recommended by us in the prior year. Based on the work performed we consider the current VAT processes to be robust and responsive to changes in the legislation and HMRC's approach.

We would advise Management to continue to assess the VAT recovery rate on a regular basis to ensure VAT is appropriately monitored and recorded through out the year.

As a result of our work, we believe that the financial statements are free from material misstatement in this area.

Corporation Tax Considerations

Current tax

POL outsource the preparation of their tax computations to Wilkins Kennedy. We have audited the tax charge, involving experts from our EY tax team where appropriate.

Our testing focused on the following key areas:

£m	FY2016	FY2015
(Loss)/Profit before tax	(169)	(167)
Tax Credit in Income Statement	(4)	(26)
Tax charge – items taken directly to equity	(5)	9

A [illegible] eness and correct classifications in accordance with IAS 12 is still in progress.

Deferred tax assets and liabilities

At 27 March 2016, the Group has a net deferred tax balance of £nil on the balance sheet (2015: £nil). A deferred tax liability of £5m in respect of the movement in the pension surplus has been recorded through OCI. This is offset by the recognition of an equal deferred tax asset in respect of tax losses carried forward at 29 March 2015 which has been recorded in the income statement.

The deferred tax liability referred to above relates to the pension surplus of £226m (before withholding tax) recognised for accounting purposes. We understand that it is Management's expectation that £139m of the pension surplus will be recovered solely through a reduction in future pension contributions over the life of the scheme as advised by actuaries. The reduction in future pension contributions will increase the future current tax liabilities of Post Office and, therefore, a taxable temporary difference arises in respect of which a deferred tax liability is recognised. It is Management's intention that the remaining element of the surplus of £87m will be recovered through refunds from the scheme. Accordingly, the surplus has been shown on the face of the balance sheet net of a 35% withholding tax of £30m. We agree this treatment is appropriate and in line with EY's interpretation of IFRIC 14. Consistent with prior years, no deferred tax assets have been recognised in respect of losses and other temporary differences for the year ended 27 March 2016 (other than to match the deferred tax liability arising on the pension surplus), due to uncertainty around the availability of future taxable profits.

Significant accounting and auditing matters (cont'd)

Supply Chain Restructuring (Project Iris)

We discussed with the Supply Chain Director and Network & Sales Finance Director the timing of Supply Chain Restructuring project. Post Office Limited Management has prepared a detailed restructuring plan and consultation which is to be approved by 19 May 2017. We reviewed Project Iris timetable and conducted a Board of Directors minutes review. Based on our audit procedures performed we are satisfied with Management conclusion that there was no restructuring provision obligation as at 27 March 2016 as no formal decision was made pre 27 March 2016 therefore POL was not demonstrably committed to the restructure at year end.

Going concern considerations

POL continues to operate in a net liability position and continues to experience net cash outflows (excluding government State Aid funding). POL therefore continues to be reliant on State Aid to remain a going concern. State Aid approval for the funding for 2015-16 to 2017-18 was received on 19 March 2015 as detailed above. In addition to State Aid approval POL has an existing working capital facility with BIS with a limit of £950 million from 31 March 2015 up to 31 March 2018.This working capital facility is used to finance network cash requirements.

Management's cash flow forecast up to 2020-21 indicates that POL will continue to see cash outflows until 2016/17, even including State Aid. We have received Management's year end going concern assessment. At the date of this report we are yet to finalise our review. The draft financial statements include a going concern note covering the above.

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Summary of audit differences

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Summary of audit differences

Summary of audit differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and amounts actually recorded

These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

We have identified five judgmental audit differences, including Network transformation Project Enabling accrual over older than 12 months and Operation Business Change over 6 months, understatement of Postmasters Compensation Provision, understatement of provision for Royal Mail Separation costs and impairment for software intangible assets of POMS. All these adjustments have been now recorded by Management.

We also identified one reclassification audit difference in relation to reclassification of Royal Mail Separation contract costs from accrued liabilities to provisions which has been corrected by Management.

Misstatements (£m)	Assets current	Assets non-current	Liabilities current	Income/ expenses
Judgemental	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/(Credit) Current period
Corrected misstatements:				
Network Transformation OBC Accrual - This is a release of an accrual where projects have no dates or are over 6 months old. These are for vendor costs where it is generally expected that the costs should be paid within 2 months.			1.2	(1.2)
Network Transformation Project Enabling Works Accrual - This relates to an accrual for agents claiming back for work carried out in order to convert branches. This is the release of any costs greater 12 months old as it would be expected that these costs are claimed back within this time frame.			2.7	(2.7)
Understatement of Postmasters Compensation Provision for all branches that are currently being engaged (56 branches at an average amount of £17,396).			(1.0)	1.0
Understatement of provision for the costs related to Royal Mail Separation contract (maximum exposure of £3.3m) and reclassification from accruals to provisions line.			(0.8)	0.8
IRRELEVANT		(2)		2
Reclassification audit difference:				
Transfer of £2.5m from accruals to provisions for the costs related to Royal Mail Separation contract and reclassification from accruals to provisions line.			2.5 (2.5)	
Balance sheet totals	-	**(2)**	**2.1**	**(0.1)**

Conclusion: Subject to our outstanding items, there are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 27 March 2016.

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Control themes and observations

Control themes & observations

As part of our audit of the financial statements, we obtain an understanding of the internal control and IT environment sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you any significant deficiencies in internal control.

We can confirm that on the basis of our audit work performed, we did not identify any significant deficiencies in internal controls. However we have identified certain control deficiencies below from this year's audit cycle. We anticipate providing a detailed Management Letter incorporating certain recommendations for process improvements noted by us in the performance of our procedures.

The following is a summary of our considerations:

1. Financial statements implications:

Revenue

- We recommend Management maintains robust and detailed analytical review of revenue fluctuations and deviations during the year in comparison with historical data and industry data on a individual revenue lines basis. We expect this to cover the precision level and expectations developed by Management. We understood Management is working on formalising this analysis.

Exceptional items

- As part of our audit procedures we noted that the company maintains large volume of information related to exceptional items in Excel spreadsheets. This may result in manual errors and completeness issues as a result of various sources of information used. We recommend the Company to develop a uniformed database and standardised procedures for exceptional items recordkeeping.

2. Observations on the IT Environment

The following IT applications are in scope for our audit: HNGX, POLSAP, SAP CFS and SAP HRP.

HNGX and POLSAP are supported by third party service providers Fujitsu and Steria. Our audit approach was to rely on the ISAE 3402 report commissioned by Fujitsu over the controls it operates, and independently test controls operated by Atos, Steria and POL.

HRP has previously been tested as part of the Royal Mail (RM) audit. With the separation of the RM and POL IT environments, this year, HRP was tested as part of the POL audit procedures. Due to the separation of IT infrastructure supporting POL and RM applications, the ISAE 3402 report provided by CSC did not cover the SAP HRP application. As we were unable to rely on this report for the 2016 audit, we have independently tested the controls operated by CSC, Steria and POL for this application.

CFS is supported by CGI and Steria. As no ISAE 3402 reports were available, we performed independent testing of controls operated by CGI, Steria and POL.

- In respect of Fujitsu-operated controls, no significant findings were noted in the ISAE 3402 report, and we have therefore been able to rely upon it as part of our audit approach.
- Our testing of the Post Office operated controls confirmed that some of the control observations raised last year have been remediated and/or the risk formally accepted by Management, whilst some of the observations have recurred.
- Although we noted that a periodic review of users' access rights were implemented in the year for POLSAP covering Supply Chain (SC) and Financial Service Centre (FSC) POLSAP users, the SC review which was initiated in September was incomplete as not all line manager responses had been received. Additionally, we noted that the periodic review had been initiated for CFS users only in January 2016, however such review was also not completed. We recommend Management should ensure that the access for all application users is periodically reviewed and evidence retained.

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Control themes & observations (cont'd)

Observations on the IT Environment (cont'd)

- As a result of the incomplete periodic review of users' access rights, we performed alternative procedures to validate that access held by users at the time of our testing was appropriate. Although these additional procedures are currently incomplete, we have observed exceptions that prevent us from being able to fully rely on the controls around appropriateness of access for the CFS and POLSAP applications. These exceptions are currently being validated and discussions being held to determine the effect on the overall audit approach.
- We also observed during our employee leavers testing, that there were a number of active POLSAP, CFS and SAP HRP accounts belonging to leavers that were not removed in a timely manner. We were however able to perform additional procedures to validate that these accounts had not been used after the leaving date and therefore concluded the control deficiency have not significantly impacted our audit of the financial statements. Management should revoke the access of terminated employees immediately and perform investigations to identify the root cause of leavers retaining their access.
- During our change Management procedures on the CFS and HRP applications, we observed that a number of changes had been developed and implemented by the same user which violated the principle of segregating incompatible duties within the change Management process. We are in the process of performing additional procedures to mitigate the risk of inappropriate changes being implemented into the live environment. Management should work with the third parties (CGI and CSC) in implementing a control to segregate incompatible duties when developing and implementing system changes.

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Appendices

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Appendix A Independence update

We confirm there are no changes in our assessment of independence since our previous confirmation in our planning board report. We complied with the APB Ethical Standards and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 19 May 2016.

Relationships, services and related safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Description of relationship or service and related independence threat	Period provided/duration	Safeguards adopted and reasons considered to be effective
Service 1: Fujitsu ISAE 3402 report – ISAE3402 report for the Fujitsu services supporting the POL account. This report will provide an assessment of the Fujitsu controls supporting POL business critical systems. We have placed reliance on the ISAE3402 as part of the 2015-156financial statement audit.	Performed on continued annual basis	► Not a prohibited service ► A separate team from the POL IT team has been engaged for the review of the ISAE3402 report, and standard ring fencing applied between two teams. ► Went through review exercise to ensure in line with EY independence rules
Service 2: ISAE 3000 report on POL Note Circulation Scheme related services to the Bank of England for the FY2015-16 period and to be performed in May 2016.	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.
Service 3: Agreed-upon procedures performed which relate to testing of covenants relating to the loan from the Department of Business, Innovation and Skills (BIS).	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.
Service 4: Agreed-upon procedures performed to ensure that the amount which is collected by Post Office Limited on behalf of the DVLA for road tax is subsequently paid over to the DVLA.	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.
Service 4: Agreed-upon procedures performed to ensure that the amount which is collected by Post Office Limited on behalf of the DVLA for road tax is subsequently paid over to the DVLA.	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of the audit engagement partner and the audit engagement team have not been compromised.

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Appendix A Independence update (cont'd)

Fees update

As part of our reporting on our independence, we set out below a summary of fees for the year ended 27 March 2016.

£	2016
- Post Office Limited core audit fee*	346,000
Total audit fees	**346,000**
-IAS34 Half year review of consolidated accounts	40,000
- Note Circulation Scheme ISAE 3000 Report	78,000
- BIS Agreed Upon Procedures Report	12,000
- DVLA Agreed Upon Procedures Report	13,000
Total non-audit services	**143,000**
Total*	**489,000**

*Excludes out of pocket expenses incurred

We confirm that none of the services have been provided on a contingent fee basis.

Ernst & Young LLP has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. See below for a summary of our firm wide policies.

Appendix A – Independence report (cont'd)

Firm-wide policies

Ernst & Young LLP has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Listed below are some of the key policies and processes in place within Ernst & Young LLP for maintaining objectivity and independence.

Further details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Ernst & Young LLP Transparency Report which the Firm is required to publish by law. The most recent version of this Report is for the 2015 year and can be found at http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015

Service	Timing
Financial interests	Our Partners and client facing (technical) staff are prohibited from investing in any audit client around the World. All partners and staff are required to confirm their compliance each year with the firm's independence policies. Monitoring of compliance in respect of all partners and professional managers takes place through a worldwide investment tracking system. New starters are required to confirm their compliance with the firm's independence policies on commencement of their employment.
Training	All partners and professional staff are required to undergo regular mandatory training on our Independence and Ethical policies and processes.
Partner rotation	The firm has detailed policies on the rotation of the audit partner, and in the case of listed clients key audit partners, the independent partner and 'other partners and staff in senior positions'.
Consultation	The firm requires consultation outside the audit team on complex accounting, auditing and ethical matters. Major issues of principle arising on all audits are referred to a panel of independent experienced audit partners.
Independent partner reviews	Before listed company audit opinions are issued, an audit partner independent of the audit team reviews the nature of the relationship with the client, aspects of the accounts that are subject to significant estimates and judgements, and the adequacy of the presentation of information in the accounts.
Quality reviews	The firm operates a worldwide programme under the direction of senior partners that annually assesses the quality of our work. Over a three year period, a proportion of the work of all audit partners is reviewed. The results of the programme help us to evaluate the firm's quality controls and personnel performance and identify areas for improvement. As with other firms, EY's audit practice is subject to annual review by the Audit Inspection Unit (AIU) and the Quality Assurance Directorate (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) for compliance with Audit Regulations. As part of its visits, the AIU/QAD evaluates the system of quality control operated by the firm for its audit practice.
Business relationships	EY UK has implemented a centralised process for the review and pre-approval, by our quality and risk management team, of all new business relationships. A submission must be made and approved for each new business relationship before committing the firm. In addition, all new business relationships must be notified and approved by the lead audit or client service partner before committing the firm.
Ethics	Our Global Code of Conduct provides an ethical framework on which we base our decisions and our actions – as individuals and as members of our global organisation. Ernst & Young LLP has also established the EY/Ethics hotline which will allow any person, inside or outside of EY, to confidentially and anonymously report an activity that they believe may involve conduct that is unethical, illegal, in breach of professional standards, or is otherwise inconsistent with EY's established policies and Code of Conduct.
Non-audit services	Our audit engagement partners must approve any non-audit services offered to their clients. This allows them to: ► Ensure the objectives of the proposed engagement are not inconsistent with the objectives of the audit of the financial statement; ► Identify and assess any related threats to our objectivity; and ► Assess the effectiveness of available safeguards to eliminate such threats or reduce them to an acceptable level. Where no satisfactory safeguards exist we do not carry out the non-audit service.

Appendix B
Management representation letter for statutory reporting

June 2016

Ernst & Young

1 More London Place

London SE1 2AF

Attn: Peter McIver, Audit Partner

Post Office Limited – Financial Statements for the 52 week period ended 27 March 2016

Dear Sirs,

This letter of representations is provided in connection with your audit of the consolidated and parent company financial statements of Post Office Limited ("the Group and Company") for the 52 week period ended 27 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent company financial statements give a true and fair view of (or 'present fairly, in all material respects,') the Group and Company financial position of Post Office Limited as of 27 March 2016 and of its financial performance and its cash flows for the 52 week period then ended in accordance with, for the Group, International Financial Reporting Standards as adopted by EU ("IFRS"), and for the Company , FRS101.

We understand that the purpose of your audit of our consolidated and parent company financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records.

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 22 January 2016, for the preparation of the financial statements in accordance with, for the Group IFRS, and for the Company FRS 101.
2. We acknowledge, as members of management of the Group and Company, our responsibility for the fair presentation of the consolidated and parent company financial statements. We believe the consolidated and parent company financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group in accordance with IFRS and for the Company in accordance with FRS 101, and are free of material misstatements, including omissions. We have approved the consolidated and parent company financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Company financial statements are appropriately described in the Group and Company financial statements.
4. As members of management of the Group and Company, we believe that the Group and Company have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with IFRS for the Group and FRS 101 for the Company that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and parent company financial statements taken as a whole.

Appendix B
Management representation letter for statutory reporting (continued)

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the Group and Company financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Company's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or parent company financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or parent company financial statements or otherwise affect the financial reporting of the Group or Company.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and parent company financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and parent company financial statements.
3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 52 weeks ended 27 March 2016 to the most recent meeting on the following date: *[list date]*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Company's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the 27 March 2016. These transactions have been appropriately accounted for and disclosed in the consolidated and parent company financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Company has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and parent company financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. In accordance with FRS 101 paragraph 5, we have notified our shareholders in writing, in accordance with reasonable timeframes and format requirements, of our intention to take advantage of disclosure exemptions in paragraph 8 of FRS 101 (in accordance with paragraphs 6 to 7 of FRS 101) in the company individual financial statements.

Appendix B
Management representation letter for statutory reporting (continued)

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and parent company financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 20 to the consolidated and parent company financial statements all guarantees that we have given to third parties.
4. We confirm that we have disclosed all relevant information relating to the ongoing challenges and actions in relation to the Horizon Subpostmasters claim to allow an assessment of the financial implications. In addition we have discussed with you any additional information that has come to light subsequent to 29 March 2015. The judgments that we have made reflect the most current advice received from external legal counsel.

F. Subsequent Events

1. Other than the receipt of funding for the financial year 2016/17 described in Note 25 to the consolidated and parent company financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent company financial statements or notes thereto.

H. Comparative information – comparative financial statements

In connection with your audit of the comparative consolidated and parent company financial statements for the year ended 29 March 2015, we represent, to the best of our knowledge and belief, the following:

In preparing the financial statements for the current year, the comparative figures for the year ended 29 March 2015 have been restated. The provision for postmasters' compensation, included in network transformation had not been fully recognised in the financial statements for the year ended 29 March 2015. The restatement affects exceptional costs, provisions and retained earnings due to the loss in the year changing as a result of a restatement to the exceptional charge. Within this report, the comparative income statement, statement of comprehensive income, balance sheet and statement of changes in equity for the year ended 29 March 2015 have been restated. There has been no effect on the cash flow statement.

The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's consolidated and parent company financial statements. There have been no significant errors or misstatements, or changes in accounting policies, other that the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and parent company financial statements.

Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and parent company financial statements for the year ended 29 March 2015 are solely the result of reclassifications for comparative purposes.

I. Going Concern

1. Note 1 to the consolidated and parent company financial statements discloses all of the matters of which we are aware that are relevant to the Group and Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J. Equity

1. We have properly recorded or disclosed in the consolidated and parent company financial statements the share/capital stock repurchase options and agreements, and shares/capital stock reserved for options, warrants, conversions and other requirements.

Appendix B Management representation letter for statutory reporting (continued)

K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the Group and Company financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the Group and Company financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

L. Income and Indirect Taxes

1. We acknowledge our responsibility for the tax accounting methods adopted by the Group and Company, which have been consistently applied in the current period, and for the current year income tax provision calculation (and *Value added Tax*)
2. We also acknowledge our responsibility for the plans with respect to future taxable income, which represent our estimates as to the outcome of those plans, based on available evidence, and for the significant assumptions used in our analysis. We would implement such strategies as necessary to prevent a tax operating loss or credit carryforward from expiring.
3. We have disclosed to you all tax opinions, correspondence with tax authorities, or other appropriate information that served as support for the accounting for potentially material matters.

M. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the corporate taxation and pension valuations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and parent company financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

N. Estimates

- Completeness of Postmasters compensation provision;
- Classification of exceptional items relating to Transformation and utilisation of Government Grant;
- Impairment of fixed assets and intangible assets, including goodwill;
- Pension valuation .

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of IFRS for the Group and FRS101 for the Company.
2. We confirm that the significant assumptions used in making the above estimates appropriately reflect our intent and ability to carry out the specific courses of action in relation to those entities on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and parent company financial statements with respect to the accounting estimate(s) are complete and made in accordance with IFRS for the Group and FRS101 for the Company.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and parent company financial statements due to subsequent events.

O. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

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Appendix B
Management representation letter for statutory reporting (continued)

P. Completeness of Postmasters Compensation Provision

1. We have provided to you with access to all information and additional information you have requested in relation to Postmasters Compensation Provision and access to persons within the Company involved in Postmasters Compensation Provision calculation and analysis from whom you determined it necessary to obtain audit evidence.
2. We have not provided you with signed contracts for 140 Pilot branches as these are not retained by us. Prior to the launch of the Network Transformation Programme, the concept was tested through a series of Pilot branches and funded by a separate initial budget and therefore does not need to be provided for within the Network Transformation provision at 27 March 2016.
3. We believe the £21m release of Postmasters Compensation Provision is the best estimate based on the most recent assessment of the branches fail to convert.

Q. Impairment of fixed assets and intangible assets

1. We confirm we assessed the indicators of impairment for fixed assets and intangible assets as at 27 March 2016. We believe the assumptions used in determining the carrying value of the goodwill recorded on a group level are appropriate and not impairment is required as at 27 March 2016.

Yours faithfully,

____________________ ____________________

Chief Executive Officer

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Chief Financial Officer

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Appendix C
Required communications with the Audit and Risk Committee

There are certain communications that we must provide to the Audit and Risk Committees. We have detailed these here together with a reference of where and when they were covered:

	Communicate when event occurs	Communicate on a timely basis, at least annually	Planned/actual timing of communication to the Audit and Risk Committee
Communications required on all audits			
Overview of planned scope and timing of the audit		✓	Refer to our 2016 Audit Planning Report
Major issues discussed with management in connection with initial or recurring retention	✓		Refer to our 2016 Audit Planning Report
Other information in documents containing audited financial statements		✓	Discussed within this report.
Significant audit adjustments		✓	Discussed within this report.
Unrecorded misstatements considered by management to be immaterial		✓	Discussed within this report.
Expected modifications to the audit report		✓	Not applicable, we do not anticipate any modifications to our audit report.
Our judgements/views about qualitative aspects of the Company's accounting practices and financial reporting		✓	Discussed within this report.
Disagreements with management	✓		Not applicable, no such instance noted during our audit.
Consultations with other accountants	✓		Not applicable, no such instance noted during our audit.
Serious difficulties encountered in dealing with management when performing the audit	✓		Not applicable, no such instance noted during our audit.
The adoption of, or a change in, an accounting policy	✓		Not applicable, no such instance noted during our audit

Appendix C
Required communications with the Audit and Risk Committee (cont'd)

	Communicate when event occurs	Communicate on a timely basis, at least annually	Planned/actual timing of communication to the Audit and Risk Committee
Communications required on all audits (cont'd)			
Methods of accounting for significant unusual transactions and for controversial or emerging areas	✓	✓	Discussed within this report.
Events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern	✓	✓	Not applicable - no such events and conditions to communicate to the committee.
Sensitive accounting estimates		✓	Discussed within this report.
Consideration of laws and regulations		✓	Discussed within this report.
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	✓		No such instances of fraud to communicate.
Significant matters arising during the audit in connection with the entity's related parties		✓	Not applicable - no such matters to communicate to the committee.
Management's refusal for us to request external confirmations or our inability to obtain relevant and reliable audit evidence from other procedures		✓	No such instances to communicate.
Representations that the auditor is requesting from management		✓	We have attached a draft management letter of representation in an appendix to this report.
Significant deficiencies and material weaknesses in internal control over financial reporting		✓	This will be included, as necessary, within our Controls, Themes and Observations Report which will be shared with you after the conclusion of our audit.
Group audits ► An overview of the type of work to be performed on the financial information of the components ► An overview of the nature of the Group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ► Instances where the Group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the Group audit, for example, where the Group engagement team's access to information may have been restricted		✓	Discussed within this report.
Fraud or suspected fraud involving Group management, component management, employees who have significant roles in Group-wide controls or others where the fraud resulted in a material misstatement of the Group financial statements.	✓	✓	No such instances of fraud to communicate.

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Appendix C
Required communications with the Audit and Risk Committee (cont'd)

	Communicate when event occurs	Communicate on a timely basis, at least annually	Reference
Audit and Risk Committee pre-approval of services, including specific pre-approval of internal control-related services and non-prohibited tax services		✓	Discussed within this report.
Critical accounting policies and practices. ISA 260 (UK and Ireland) requires the auditor to communicate the auditor's views on the qualitative aspects of the Company's accounting practices and financial reporting		✓	Discussed within this report.
All material alternative accounting treatments discussed with management		✓	Discussed within this report.
Fees		✓	Discussed in our Audit Planning report dated and in this report.
Other material written communications with management		✓	Discussed within this report.
Communication of independence matters		✓	Discussed within this report.
Other findings or issues regarding the oversight of the financial reporting process		✓	Discussed within this report.

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Crown Network Strategy Update

Author: Julie Thomas   Sponsor: Kevin Gilliland   Meeting date: 24 May 16

Executive Summary

Context

In July 2015, the Post Office (POL) Board approved the current strategy for the Crown network, covering the period 2015-18. This was established with the aim of moving the Crowns through the breakeven point during FY15/16 and on to sustainable profitability thereafter. The first year of this strategy has exceeded expectations (with Crowns out-turning FY15/16 at a £2.7m profit), and the programme team has also gained new insights which can be used to enhance the strategy. Concurrently the pace of simplification, cost reduction and profitability improvement sought across the wider business has accelerated. Furthermore, our wider Network strategy is being refreshed in advance of the June 2016 Board, together with important aspects of the business' longer-term commercial strategy. In this context, opportunities are now being explored to further enable profitability improvements via changes to Crowns.

Questions addressed in this report

1. Is the 2015 strategy for the Crown Network still a "no regret" approach?
2. What are the opportunities and challenges associated with substantially fewer Crowns?
3. What are the key questions for our long-term Crown strategy?

Conclusion

1. The fundamental themes of the current 2015-18 Crowns strategy are "no regret" and are being successfully delivered.
2. The Crown Network is now profitable and 100 of our 314 Crowns are classified as strategically-important, flagship, branches. However the majority of Crowns are still run under commercially sub-optimal, or loss-making, models. Our target is to make all branches in the Network cash-generative and the Crowns are no exception. Whilst direct ownership provides stability and strong brand prominence in our most important locations, it also consumes significant management time and drives in central costs. Transition away from Crowns is politically and operationally challenging, and a simple proposition of like-for-like franchising will not enable us to fully optimise the profitability of the Crowns. High levels of investment are required for any fundamental change above that already approved (£100-£150m additional spend) but this must be balanced with the opportunity cost of sub-optimised branches (c.£18m p.a. EBITDAS).
3. The key questions to address are; how branch models could be re-engineered to enable easier franchising; what this would mean for our customer proposition and commercial strategy; what the plan would be to enable Crowns-driven cost reduction from the wider business; the choices available when engaging Government on any fundamental Crown network changes; how the costs and risks of transition could be reduced; and the consequences around people and I.R.

Input Sought	Input Received
Does the Board have appetite for a transformation programme to much further reduce the Crown network considering the levels of investment required and likely return? If so, a fuller business case will be developed for a decision at the September Board.	Board endorsement of 2015-18 Crown Strategy, July 2015. Board approval of Paddington (WH Smith deal), April 2016. GE review of more radical Crown options, April - May 2016

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The Report

What is the opportunity and why now?

1. The objective is to refresh the Crown strategy in light of new opportunities and challenges arising since the 2015 Crown strategy was established. This will lead to the development of an outline business case for a more aggressive reduction in the size of the Crown branch network than was set out by the 2015 strategy.
2. The 2015 Crown strategy set out the rationale for, and benefits of, a directly-run flagship network. However it noted that only 100 Crowns have a good fit against the strategic vision that was set out. For the remainder, the only rationale for retaining them under a direct ownership model was that the costs and benefits of transition to any alternative model (or closure) would exceed the 3 year payback period which was targeted at the time the current strategy was approved.
3. The 2015 strategy looked at the costs and benefits of changes to improve the profitability of Crown (or replacement Agency) branches, but was deliberately agnostic to any cost reductions across the wider business which could be enabled by a much-reduced Crown network. This was a deliberate choice because of the degree of uncertainty at the time about the business' intentions and the mechanisms which would be available for large-scale cost reduction beyond the Crowns area. There is now increasing clarity about this.
4. During FY15/16 significant progress has been made in terms of delivering change in Crowns and improving our "flagship" presence on the high street using the WH Smith branch network:
   a) The Project Paddington deal with WH Smith (WHS) has been negotiated and signed. This will see 28 unprofitable, un-strategic Crown branches franchised; 33 Crown branches hosted in order to reduce their property costs; contracts extended on 97 of our largest Mains (which are operated by WHS); significantly up-weighted Post Office brand prominence across the WHS branch estate; and POL ATMs and Self-Service Kiosks introduced into the WHS estate. This deal has helped POL gather valuable insights on how the commercial and operational model for large franchising deals will need to evolve in future in order to be successful.
   b) A further 11 Crown branches have been advertised as franchise opportunities, and applicants are currently being assessed for their suitability. Demand has been received from the market for every one of these branches. Preparatory work has been completed on 42 additional branches, of which 21 are ready to be advertised for franchise as part of the current strategy.
   c) 2 un-profitable, un-strategic branches have closed, where there was surrounding network capacity in place to absorb demand. Public consultations have commenced (or are about to commence) for a further 4 closures.
   d) Trials of a new retail offer in Crowns have been run with both WHS and VOW Retail (the incumbent provider) and both trials have seen strong growth in retail sales. A public procurement exercise is in-flight to select and appoint a new retail supplier to Crowns. A renegotiation of the Photo Me contract and rollout of further machines has increased our ability to generate income from otherwise under-utilised square footage.
   e) A project to automate Post Office Card Account transactions on Self-Service Kiosks has been mobilised, with pilots of the new service planned for the end of this financial year. (This project is running later than originally planned, which has introduced a £1.5m in-year benefits gap for 16/17, to be mitigated by acceleration of other programme activities.)

5. FY15/16 has also presented new opportunities and challenges for the Crowns strategy, namely:

a) The business has accelerated its simplification agenda. Progress has been made on the business' Target Operating Model and on mechanisms to achieve a Simpler to Run Network. The business' capacity to take out wider costs beyond the Crown network is now both increased and better understood.
b) The Government's introduction of the National Living Wage has made franchising large, labour-intensive, Crowns onto standard Mains contracts even less profitable for retailers. However the increasingly intense competitive pressures on the retail sector have added even more need to guarantee footfall into stores, and so demand for Crown franchises has still been seen. The quality of this demand has been variable, however, with WH Smith continuing to be the only national multiple with both experience of running large Post Offices and an appetite to take more in any significant numbers.
c) The increasing pressures of property cost on retailers, particularly in central London, mean it is now virtually impossible to franchise a Crown in zone 1 or 2 of London. The space required from the retailer is simply not available. The same property cost pressure is being felt by the agency network in central London, and Crowns which remain are proving essential for continuity of Post Office service.
d) To achieve large-scale franchising deals with retailers, without expensive inducements or over-scale fees beyond standard Mains terms, it is increasingly clear that we will need to move away from a standard like-for-like Crown to Main franchise pattern. Future deals will need to explore different branch models, with service potentially dissipated across multiple retail partners, and self-service automation forming a much higher part of the model offered.
e) Considering the array of people changes planned or in-flight in the wider business, there will be greater opportunities to reduce the cost of transition over future years (e.g. from adjusted redundancy terms), or to take out cost from the wider business as a result of changes in the Crown network.

What do we propose to do and why?

The proposal

6. The Crown Network Strategy will be refreshed and presented to the September Board meeting. In particular the refresh of the Crown Network Strategy will focus on:

a) The updated position of the Crown Network, following progress made in FY15/16.
b) The strategic and economic benefits of the Crown network considering the commercial needs of the wider business, but also any costs or constraints that the Crown network's existence imposes on the wider business.
c) A reduced target size and shape for the Crown network for both 2018 and 2020. This will take into consideration the business' Target Operating Model, our ambitions for a Simpler To Run Network, levers available to reduce the costs of change in the Crown Network, and commercial requirements of the business.
d) The change roadmap, considering the optimised balance of models, optimised EBITDAS benefits, the best use of investment funds, and co-ordination with other change activities across the business to manage both opportunities and risks.

Risks & mitigations

Industrial Relations, political and stakeholder reaction to change

7. Further franchising will lead to increased political and public pressures, including adverse media coverage where transformation of the network is viewed as job losses and back-door privatisation. For example, as a result of the announcement of POL's

intention to Franchise 39 Crown branches, we are now answering Parliamentary Questions from MPs in the impacted constituencies, Freedom of Information requests from consumer groups and requests to attend either MP or Union-organised public meetings. Furthermore, some customers view a Crown as giving their town a particular status and will campaign against change for that reason. *Although this is resource hungry, POL's experience through 25 years of Franchising Crowns (from 1500 down to 300 now) and various Network Change programmes impacting Agency branches, means we know that the negative feedback and press coverage is usually localised to the area impacted and is short-lived. Once the change has taken place, the customer experience is generally improved through more modern, accessible premises and longer opening hours.*

8. Long-running industrial action significantly disrupts the Crown Network and or Supply Chain businesses (due to conflation of issues as a result of CWU representation across both parts of the business), delaying change and impacting short or medium term service and profitability. *The Crowns team will develop proposals together with the People and Engagement team and the Industrial Relations Steering Group in order to establish the right phasing and people approach, before reporting back.*

<u>Impact on Post Office commercial strategy & brand</u>

9. There is a risk that during the consultation period for franchises, customers are dissuaded to buy-in to the proposed change by staff who are negatively impacted themselves or by trade unions who campaign against the change. *This particularly impacts migration rates of the Travel and Telephony businesses where convenience and rates are key to customers and competition on the high street for this product is high. Marketing plans will be developed to attract customers to the new location as well as capability support at the new location. Experience has shown that the wider cost savings of franchising more than compensate for this revenue loss.*

10. The Personal Financial Services business relies on directly-employed staff generating business in branches. There is a risk that franchising Crown branches adversely impacts the wider FS strategy, resulting in reduced income. *The FS Strategy will identify the most important branches based on customer demand / opportunity. The existing network of branches in WHS stores includes private consultation rooms for Financial Services sales, and the number of such rooms is increasing with the recent Paddington deal. The current 'Hub & Spoke' trials will need to be developed into more formal ways of working to ensure the ownership model is less important to meet our FS growth aspirations. As above, revenue loss is included in all business cases so that we provide an accurate picture of the business impact of franchising or closure.*

The business case

11. The strategy refresh will recommend an outline business case for changes to the Crown network in terms of further projects to; increase automation, including counter-less operation of some branches; apply voluntary redundancy; deliver property deals; better monetise our retail space; and franchise or close branches.

12. Beyond this, the refreshed strategy will also provide guidance on what the improvements to the outline business case could be in scenarios where more radical levers were available for use such as; Compulsory Redundancy; major reductions in Voluntary Redundancy terms; reductions to service provision in urban deprived areas or conversely use of subsidy to maintain service in those areas; and/or a policy of active cannibalisation of the Crown network.

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What options did we consider?

13. More radical options for the Crown Network are under review. A policy of wholesale, or very large scale, franchising or closure would be challenging without; changes to the commercial and operational proposition for potential franchise partners; increasing use of compulsory redundancy; and changes to terms available under voluntary redundancy.
14. Some indicative scenarios are modelled below in order to help frame a common understanding of the viability of certain radical options. These would require investment above and beyond that already approved by the Board for the current Crown strategy. The below scenarios work on the basis of potential changes to the 227 remaining Crown branches which are not subject to franchise or closure under business cases already approved by the Board:

Option	Indicative economics			
	One-off cost (£m)	One-off benefit (£m)	Recurring EBITDAS (£m p.a.)	Payback period (years)
Franchise all 227 branches	(157)	19	18	7.7
	Settlement agreements account for £62m of the one off costs in this scenario, based on our experience during recent change programmes. Central (i.e. indirect) cost reductions would contribute £11m of the recurring EBITDAS benefits.			
Franchise all 227 branches - best case	(132)	19	24	4.7
	If POL could significantly reduce staff exit costs without jeopardising the wider business transformation agenda the overall investment cost would drop by £25m (assumed 45% reduction in this scenario). Increasing central cost reductions by 50% beyond current assumptions would add another £6m to recurring EBITDAS.			
Franchise all 73 remaining loss-making branches	(56)	7	7	7.0
	In a more constrained investment environment we could take the less radical option of exiting just Crowns which are directly loss-making at a branch P&L level, still delivering EBITDAS benefit but only tackling a smaller amount of central cost (£2m). This would not optimise the profitability of every branch.			

15. A single deal to franchise the entire estate, either via a large scale procurement exercise or even under a Joint Venture has not been ruled out, however this is considered unlikely to produce a better economic return than is achievable via other mechanisms. WH Smith is the only national multiple chain with the experience of running large ex-Crown Post Offices and a significant geographic reach, however there are still over 100 Crowns which have no geographic alignment to an existing WH Smith presence, and in many cases these locations do not align with a local market which WH Smith wants to enter.

What do we need to do next to progress?

What is required to progress the preferred option?

16. We will report back to the June Board on how the Network, and the mix of branch models within it (including Crowns), will support the refreshed commercial strategy

of the business, the progress made with the Simple to Run Network initiative and our long term approach for Community and Outreach branches.

17. Subject to Board appetite, a refreshed version of the Crown Network Strategy will be developed, to cover the timeframe of 2016-2020 and this will be presented to the September 2016 Board meeting. This will take into account the latest Crown branch P&L budgets and Paddington (WHS deal) benefits; the medium to long-term roadmap for our people; and the wider business cost reduction opportunities.

What would the impact be of delaying or rejecting the decision to progress?

18. Delaying or rejecting a revision of the Crown Network strategy would result in missed opportunities for further cost reduction from the Crown network.

Postmaster Litigation

Author: Jane MacLeod / Rodric Williams Sponsor: Jane MacLeod Meeting date: 17 May 2016

Executive Summary – Subject to Legal Privilege

Context - *Bates & 90 Others v. Post Office Limited*

1. On 11 April 2016, 91 (mostly former) postmasters issued a High Court Claim formally starting a court case against Post Office (the "**Claim**").

2. The Claimants have until 11 August 2016 to "serve" the Claim Form, which will trigger Post Office's obligations to respond to the Claim through the Court. We have however been provided with a copy for information only.

3. The Claim Form contains very little information. However, on 28 April 2016 the Claimants' solicitors (Freeths LLP) sent a 53-page "Letter of Claim" setting out the allegations in more detail (the "Letter"). Court Protocol requires us to respond to the Letter before the Claim passes to the Court for formal case management.

4. The Claim potentially poses significant legal, financial, operational and reputational risk to Post Office.

5. This paper:
   - summarises the status of and next steps in the Claim; and
   - provides an initial overview of timing, costs and affected stakeholders.

Questions addressed in this report

- What are the Claimants alleging?
- What process will the Claim follow and over what time frame?
- What are the estimated costs of responding to the Claim?
- What are Post Office's objectives for the Claim?
- Who are the stakeholders?

What are the Claimants alleging?

6. The Letter sets out the bases on which the Claim will be made. Despite its length, there is nothing new or surprising in the Letter, and it does not set out how much the Claimants are claiming or how they propose calculating that amount.

7. Much of the Letter focuses on technical points of law, with the main focus being the relationship between Post Office and postmasters, seeking to place greater responsibility on Post Office for branch accounting difficulties.

8. Apart from some generalised statements, there is no allegation that there is a systemic failure in the Horizon software. Rather, the Letter claims that because

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Horizon has the potential to cause discrepancies in branch accounts, Post Office should not have relied on it so heavily and done more to investigate it as a possible source of branch shortfalls.

9. Other familiar allegations include poor training/support, the ability of Fujitsu to alter remotely branch transactions, improper criminal prosecutions, and putting undue pressure on postmasters to make up shortfalls.

What process will the Claim follow and over what time frame?

The Letter

10. The Letter asks Post Office to respond to the issues raised and agree in principle to a "Group Litigation Order" ("**GLO**") so issues common to the Claimants can be efficiently managed through the Court.

    10.1. There are practical and tactical implications for agreeing to a GLO which will substantially influence the way the Claim proceeds. For example, Freeths may not be able to fund the litigation if we can show the individual claims are not sufficiently common for a GLO. Equally, an early favourable ruling on an issue we want to treat as common (e.g. the effect of a criminal conviction or limitation period) could reduce the number of claimants and thus the economic viability of the litigation.

    10.2. Post Office is therefore entitled to know more about the Claim and the purported common issues before making any decision about a GLO.

11. Freeths have questioned whether Post Office would be prepared to mediate these claims. At this stage it is not possible to form a view as to whether mediation would be viable in some or all of the cases. However we will keep under constant review whether options to mediate or settle would provide a better outcome for Post Office.

The Claim

12. Freeths need to decide by 11 August 2016 whether to serve the Claim Form and start the formal Court procedures.

13. Set out at the Appendix to this Report is an "Estimated Litigation Timetable", which sets out the main steps in standard litigation through to trial, assuming the Claim Form is served during August 2016.

14. The Court's procedures are designed to examine the issues rigorously, and accordingly take time. Assuming that this case follows standard procedures, the Claim might not come to trial until November 2018. Whether or not the Claim proceeds under a GLO could impact substantially this timeframe, e.g. the standard timetable may not start to run until the GLO issues are finalised, which could take some months, or the litigation may not proceed at all if no GLO is made.

15. The Court's procedures provide for regular assessment of the Claim and the risks and benefits of continuing with it, which ensures that the vast majority of cases are settled before trial.

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What are the estimated costs of responding to the Claim?

16. The Court actively manages costs due to the resources litigation consumes and the "loser pays" presumption which requires the unsuccessful side to pay a substantial portion of the other side's costs (typically 65% to 90%). The Court's processes also require "front end loading" where significant costs are incurred at the beginning of a claim to narrow down the issues and save costs overall.

17. We estimate that responding to the Letter in a robust and proportionate manner will incur external legal costs at approximately the same rate as during the Sparrow Mediation Scheme, i.e. £30,000 to £50,000 per month for the next three to six months. More detailed costings will be provided and updated as the Claim progresses.

18. Should the matter proceed to a full trial, Legal costs and expenses for the Claim could easily exceed £1million, particularly if the performance of the Horizon system itself becomes a key issue. By way of reference, Post Office successfully defended at trial a 2006 "Horizon"-related claim brought by one former agent, the costs of which exceeded £300,000.

What are Post Office's objectives?

19. The Claim challenges a critical part of Post Office's business - how we engage with our postmasters, and how we allocate risk and responsibility for the Post Office transactions, cash and stock they handle.

20. Even though most of the Claimants are former postmasters, the Claim raises issues in respect of current and future b.a.u. activities (e.g. branch accounting, agent contract management, and debt recovery) because it concerns the core branch accounting principles and systems, including Horizon, currently in use.

21. We therefore see two main objectives in responding to the Claim:

    21.1. Proportionately manage Post Office's legal defence.

    21.2. Protect the Network going forward so that Post Office and current agents have confidence in our systems.

Stakeholders

22. The Claim will have a wide impact on Post Office, affecting Network, Finance and the FSC, IT (including our relationship with Fujitsu), HR, Legal and Communications, each of which will help inform Post Office's defence.

23. Other stakeholders will be interested in the Claim, e.g. BIS and the NFSP. However, the involvement of external stakeholders should be limited to appropriate updates provided as part of an agreed communications plan so as to maintain legal privilege and confidentiality in the legal advice we receive and the strategy and tactics adopted in our defence of the Claim.

Input Sought

The Board is requested to note the content of this paper.

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Appendix - Estimated Litigation Timetable

Step	**Estimated completion date**	**Proportion of overall work**
1. Pre-Action Correspondence: Initial investigations into alleged issues and correspondence between the parties to establish the basis for the claim and the defence	August 2016	5%
2. Claim Form served: Legal proceedings are formally begun with service of the Claim Form on Post Office	August 2016	
3. Statements of Case: Each party produces formal Court documents setting out their legal positions. The SPMRs will produce a Particulars of Claim. Post Office will then produce a Defence. The SPMRs will then file a Reply to the Defence.	January 2017	10%
4. Case Management: The Court orders the steps to be undertaken before trial and a timetable for their completion. This may require multiple short Court hearings.	April 2017	5%
5. Formation of the Group: The SPMRs will apply for formal recognition that their claims form a Group Action. The Court will define the issues common to the Group and set a deadline by which further Claimants may join the Group.	June 2017	5%
6. Disclosure: All parties are required to search for relevant documents and provide those documents to the other parties.	November 2017	25%
7. Witness statements: All parties must draft and exchange statements setting out the evidence to be given by each of its witnesses.	March 2018	15%
8. Expert evidence: Parties commission experts to investigate and report on technical issues (eg. Horizon). Reports are exchanged and meetings held between experts to narrow the points of disagreement.	July 2018	15%
9. Trial: A trial will likely take several weeks and require several months of preparation.	November 2018	20%
10. Judgment. It will likely take a Judge several months to consider the case and draw up the judgment.	February 2019	

Notes

Step 5: Formation of the Group could occur at an earlier stage and possibly before Step 3: Statements of Case. This depends on how the SPMRs wish to proceed.

The above timetable assumes that all points of dispute will be considered in one single trial. It is possible that certain discrete or preliminary points may be dealt with separately at an earlier stage. If there are any preliminary hearings these will likely occur before Step 6 and will the delay the above timetable by 3 - 6 months.

Following Step 10: Judgment, there is the possibility of an Appeal and there will also be costs proceedings. These could take a further 6-12 months.

Modern Slavery Statement

Author: Nisha Marwaha Sponsor: Jane MacLeod Meeting date: 5 May 2016

Executive Summary

Context

The Modern Slavery Act 2015 (the Act) challenges slavery, domestic servitude, forced and compulsory labour and human trafficking. Post Office is required to produce an annual slavery and human trafficking statement (Statement) setting out what steps have been taken to ensure its business and supply chains are slavery free. This paper attaches the Statement which must be approved by the Post Office Board and signed by a Director.

Questions this paper addresses

1. What specific risks should the board be aware of?
2. What action have we taken so far?
3. What are other businesses doing and how do we compare?

Conclusion

- Post Office has been undertaking due diligence on its business and supply chains to identify any risk areas.
- Post Office has prepared a Statement which must be published within 6 months of year end.
- A steering group appointed in January 2016 is responsible for creating a project plan and undertaking due diligence on Post Office's and POMS supply chains.
- The steering group has identified that the highest level of risk is within our Agency network. We will be taking action to address this risk including amending our contracts with our Postmasters to require compliance with the Act.
- Post Office's Statement has been prepared using Home Office guidance and in consideration of other available Statements by UK and international companies.
- Post Office will have to take ongoing action to meet the requirements under the Act.

Input Sought

The Board is asked to approve the Statement.

The Report

What specific risks should the board be aware of?

- The requirement to publish a Statement applies to "commercial organisations" which (a) supply goods or services and (b) have a total turnover of not less than £36,000,000. It will therefore not apply directly to Postmasters if their turnover is less than £36 million per year.
  - → However, Postmasters are part of the Post Office supply chain. Post Office must state what steps it has taken to ensure that slavery and human trafficking is not taking place in any of its supply chains or in any part of its business.

- To date we have not identified any direct relationship with an individual or company registered in a high risk country.

- The due diligence that we have undertaken so far indicates that there is a potential risk on non-compliance within our agency Network:
  - → The reason for this is that there are a large number of people employed by Postmasters (including multiple partners) but who are not employees of Post Office or POMS. They work directly for the Postmasters (including multiple partners). We will be taking action to address this risk (see below) including working to amend our contracts with our Postmasters to require compliance with the Act and we will be delivering training to Postmasters as and where it is appropriate.

What action have we taken so far?

1. GE member Neil Hayward delegated responsibility for our Modern Slavery initiatives to a steering group lead by Hannah Dalton (Head of HR). The steering group was appointed in January 2016.

2. The steering group has developed a project plan to carry out due diligence of our business and implement change. Our ongoing work involves a risk analysis of our core business and its related supply chains.

What are other businesses doing and how do we compare?

1. We looked at statements for international companies with complex supply chains to get a flavour for content and examples of initiatives.

   - ➢ For example: **Ford**
   - They have published a statement which is approx. 2 pages long.
   - Ford recognise their supply chain is extensive and complicated and that it presents challenges.
   - Some of Ford's initiatives are similar to ours - this is encouraging given that Post Office's business and supply chains are not as extensive as Ford.

2. Many companies have not yet published their Statements, but we have looked at a variety to ensure that our approach is consistent. We are confident that the detail in our Statement and our project plan is appropriate at this stage, but we will monitor developments and keep the adequacy of the Statement under review.

3. We also looked at what some of our partners are doing:

WH Smiths

- Statement not yet published.
- They use the Ethical Trading Code of Conduct and Human Rights Policy. It incorporates the ILO Conventions to scope out the current position on Modern Slavery related matters.
- The policy specifies a person who takes responsibility for the Code.

Bank of Ireland

- Do not currently have a Modern Slavery statement.
- Publish a Responsible Business Report which currently makes no reference to Modern Slavery.
- As a key partner, Post Office should investigate directly with BOI as there appears to be very little in terms of Modern Slavery related matters.

Post Office Limited (Post Office) & Post Office Management Services Limited (POMS)
Modern Slavery Transparency Statement 2015-2016
May 2016

Executive Summary
This statement sets out the steps we have taken during the last financial year to ensure that Modern Slavery is not taking place in any of our supply chains or any part of our business. It is made pursuant to section 54(1) of the Modern Slavery Act 2015 (MSA).

Our business
Post Office is the UK's largest retail network and the largest financial services chain in the UK with more branches than all of the UK's banks and building societies put together. We have provided services for more than 370 years and currently supply more than 170 products and services (mails & retail; financial services; governments services; and telephony) from a Network of more than 11,500 Post Office branches nationwide.

Post Office directly manages currently over 300 of the Network branches. The remainder of the branches are managed on an agency basis by Postmasters and multiple partners.

Our supply chains
We currently operate throughout the UK, however our supply chains connect with suppliers with a global reach.

Banking services
Our banking services are provided through a joint venture with the Bank of Ireland (BoI).

Postmasters
Postmasters can operate one or more branches. As agents they have control on how they run their branches on a day-to-day basis. All those working in an agency Post Office branch are employees of the Postmaster.

Multiple partners
A large proportion of the agency part of our network is run by multiple partners.

Trade Unions
In our Crown network, we work closely with the Communications Workers Union (CWU) and Unite (CMA) Communications Managers Association.

Third Party Suppliers/Procurement
We also procure products and services from a wide range of national and international businesses.

Responsibility and due diligence
Responsibility for our Modern Slavery initiatives currently resides with a steering group which was appointed in January 2016. It is tasked with the development of a project plan to carry out due diligence and implement change. Our ongoing work involves a risk analysis of our core business and its related supply chains.

Where are the risks of Modern Slavery at Post Office/POMS?
To date we have not identified any direct relationship with an individual or company registered in a high risk country. The due diligence that we have undertaken so far indicates that there could be a risk of non-compliance within our agency network because there are a large number of people employed by Postmasters (including multiple partners) but who are not employees of Post Office or POMS. They work directly for the Postmasters (including multiple partners). We will be taking action to address this risk (see below).

What we have done so far

- Our Whistleblowing Policy has been updated to include references to concerns about Modern Slavery.
- We have adapted the Post Office recruitment policy to address MSA requirements.
- We conducted an assessment of the Post Office procurement process to ensure it aligns with the MSA. As part of this process we conducted a review of the criteria used by Post Office to evaluate whether suppliers meet Post Office's minimum tendering requirements.

Next steps
Our work on Modern Slavery continues and we intend to introduce the following changes in the near future.

- Updating Postmaster's selection and appointment process to address MSA requirements.
- Amending our standard form procurement contracts.
- Developing a communication and training plan to ensure our suppliers, staff and agents are aware of Post Office's obligations in relation to Modern Slaver and informing them about the Modern Slavery Helpline.

Our policies
We currently operate the following policies that describe our approach to Modern Slavery:

- *Code of Business Standards*
- *Whistleblowing Policy*

Further information
If you have any concerns about the issues raised in this statement or if you think you have identified signs of Modern Slavery then please either contact us or call the Government's Modern Slavery Helpline on 0800 0121 700.

Signed: ....

Name: ....

Position: ....

Date: ....

Post Office Limited Sealings

Author: Alwen Lyons Meeting date: 24 May 2016

Executive Summary

Context

The Directors are invited to consider the seal register and to approve the affixing of the Common Seal of the Company to the documents set out against items number 1400 to 1421 inclusive in the seal register.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1400 to 1421 inclusive in the seal register is hereby confirmed.

Strictly confidential

POL00030888

POST OFFICE LIMITED

Date
16 May 2016

Register of Sealings

Company Number
21554540

Seal Number	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1400	07/03/2016	04/03/2016	TR1 relating to Ground Floor, 92 Station Road, West Wickham, BR4 0QE between Post Office Limited and Royal Mail Group Limited.	Alwen Lyons	Jean Reynolds
1401	07/03/2016	04/03/2016	TR1 relating to Ground Floor, Kirkby Post Office, Newtown Gardens, Liverpool, L32 8RN between Post Office Limited and Royal Mail Group.	Alwen Lyons	Jean Reynolds
1402	15/03/2016	14/03/2016	Licence to Assign relating to Lease of the Post Office forming part of the premises known as Otley Post Office, 21 Nelson Street, Otley, LS21 1ST between Post Office Limited, Martin Goldthorpe, Martin Goldthorpe Limited and Martin Goldthorpe and Pearl Janet Goldthorpe.	Victoria Moss	Jean Reynolds
1403	15/03/2016	14/03/2016	Rent Deposit Deed relating to the Post Office forming part of the premises known as Otley Post Office, 21 Nelson Street, Otley, LS21 1ST between Post Office Limited, Martin Goldthorpe Limited and Martin Goldthorpe and Pearl Janet Goldthorpe.	Victoria Moss	Jean Reynolds
1404	22/03/2016	22/03/2016	Deed of Surrender of Part and Deed of Variation relating to lease of 22-24 South Street, Romford, RM1 1RA between Golftee Nom A Limited and Golftee Nom B Limited and Post Office Limited.	Victoria Moss	Jean Reynolds
1405	23/03/2016	17/03/2016	Deed of Novation between Post Office Limited, NCC Group Escrow Limited, 3M Cogent Inc. and 3M United Kingdom PLC relating to the Single Licence Software Escrow Agreement dated 11th July 2011 between NCC Escrow International Limited, Post Office Limited and 3M Cogent Limited. Two copies sealed. Labelled (a) and (b).	Victoria Moss	Jean Reynolds
1406	24/03/2016	21/03/2016	Deed of Variation for "Safe Haven" Agreement between CSC Computer Sciences and Post Office Limited. Two copies sealed, labelled (a) and (b).	Alwen Lyons	Stan Kitchiner

POST OFFICE LIMITED

Register of Sealings

Date
16 May 2016

Company Number
21554540

Seal Number	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1407	06/04/2016	06/04/2016	Underlease between Wildmoor (Hull) Limited and Post Office Limited relating to Unit 51A The North Point Shopping Centre, Kingston-Upon-Hull Humberside.	Victoria Moss	Jean Reynolds
1408	08/04/2016	09/03/2016	Second Deed of Variation of the Collaboration Agreement between Post Office Limited, WH Smith High Street Limited and WH Smith Travel Holdings Limited.	Victoria Moss	Julie Thomas
1409	12/04/2016	07/04/2016	Lease between Simpsons Paints Limited and Post Office Limited relating to ground floor and basement, 354 and 356 Edgware Road London W2	Victoria Moss	Jean Reynolds
1410	12/04/2016	12/04/2016	Framework agreement for the operation of Post Office concessions at WH Smith Two copies, labelled 1410a and 1410b.	Paula Vennells	Julie Thomas
1411	12/04/2016	12/04/2016	Master Framework Agreement. Two copies labelled 1411a and 1411b.	Paula Vennells	Julie Thomas
1412	12/04/2016	12/04/2016	Third deed of variation of collaboration agreement. Two copies labelled 1412a and 1412b.	Paula Vennells	Julie Thomas
1413	12/04/2016	12/04/2016	TR1 relating to Balham Post Office, 92a Balham High Road, London SW12 9AF, between Post Office Limited and RT Incorporated Limited.	Victoria Moss	Jean Reynolds
1414	12/04/2016	12/04/2016	Lease relating to the Post Office forming part of the premises known as 92A Balham High Road, London SW12 9AF between RT Incorporated and Post Office Limited.	Victoria Moss	Jean Reynolds
1415	12/04/2016	12/04/2016	Deed of variation relating to 92A Balham High Road, London SW12 9AF between Post Office Limited and RT Incorporated Limited.	Victoria Moss	Jean Reynolds
1416	12/04/2016	12/04/2016	Pre-emption agreement relating to Balham Post Office, 92a Balham High Road, Balham SQ12 9AF, between RT Incorporated and Post Office Limited.	Victoria Moss	Jean Reynolds

POST OFFICE LIMITED

Date — 16 May 2016

Register of Sealings

Company Number — 21554540

Seal Number	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1417	14/04/2016	19/02/2016	Deed of amendment to the parent company guarantee between Fujitsu Services Limited and Post Office limited.	Alwen Lyons	Michelle McMahon
1418	21/04/2016	20/04/2016	TR1 relating to 121-125 Peckham High Street, London, SE15 5SF between Post Office Limited and Audenfield Limited	Alwen Lyons	Jean Reynolds
1419	21/04/2016	19/04/2016	TR1 relating to Ground Floor Post Office, 243-245, Selhurst Road London, SE25 6XR between Post Office Limited and Agadir Limited	Alwen Lyons	Jean Reynolds
1420	03/05/2016	15/04/2016	Settlement deed between Post Office Limited and Jonathan Brenton and Nicholas Sutton in respect of a dispute between Mr Brenton and Post Office Limited by which Post Office Limited will make an ex gratia payment totalling £75,920 without admission of liability.	Victoria Moss	Jessica Madron
1421	06/05/2016	06/05/2016	TR1 relating to 2-4 Gratton Road, London, SW17 0SQ between Post Office Limited and Tasklane Limited.	Victoria Moss	Jean Reynolds

Project Paddington

Author: Alwen Lyons Sponsor: Alwen Lyons Meeting date: 24 April 2016

Executive Summary

Context

The Board were asked by email on 5 April 2016 to delegate authority to the CEO to sign a variation to the existing Collaboration Agreement, a Master Franchise Agreement and a Framework Concession Agreement with WHSmith (WHS) in connection with Project Paddington.

The Board approved this request by email response and the CEO signed the agreements on 12 April 2016.

The Board's delegation now requires formal ratification.

Input Sought

1. The Board is asked to ratify the decision by the Board to delegate authority to the CEO to sign the Collaboration Agreement, a Master Franchise Agreement and a Framework Concession Agreement with WHSmith.

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Post Office Ltd
Post Office Board
24 May 2016

Location:

1.19 Wakefield , Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ, United Kingdom

ATTENDANCE LIST

ATTENDEES	SIGNATURE
Parker, Tim	
Callard, Richard	
Cameron, Alisdair	
Paula, Vennells	
Stent, Carla	
Tim, Franklin	
Virginia, Holmes	

Also in attendance

Alwen, Lyons	
MacLeod, Jane	

Apologies for absence

McCall, Ken

Additional access

CoSec	
Wechsler, Tom	

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Post Office Board Agenda

Date
24th May 2016

Start Time	Finish Time
12.30hrs	16.00hrs

Location
Room 1.19 Wakefield

Present	In Attendance	Apologies
• Tim Parker (Chairman) • Richard Callard • Tim Franklin • Virginia Holmes • Carla Stent • Paula Vennells • Alisdair Cameron	• Alwen Lyons • Nick Kennett • Steve Ashton • Jane Hill • POAC guest • Mark Davies • Natasha Wilson • Neil Hayward • Kevin Gilliland • Jane MacLeod	• Ken McCall

Agenda Item		Action Needed	Purpose	Lead
1.	**Minutes of previous Board and Committee meetings including Status Report**	Decision	Minutes formally agreed	Alwen Lyons
2.	**CEO Report** Including IR updates	CEO report noted	CEO to update the Board on the report.	CEO
	WORKING LUNCH			
3.	**POAC**		Update on POAC from the Chairman and a member of the council	Tim Franklin/ Jane Hill
4.	**Peregrine Phase 1**	Progress noted	Update the Board on Phase 1 of Peregrine, negotiation with the Bank of Ireland	Nick Kennett
5.	**POMS – Steve Ashton POMS Chairman invited**	Progress noted	Presentation of POMS strategy, milestones and risks by the POMS Chairman & CEO	Steve Ashton/ Nick Kennett
6.	**Annual Report & Accounts**	Decision	Annual Report and accounts approved as recommended by the ARC	Mark Davies/ CFO
7.	**Approval of STIP payments and performance conditions**	Decision	Approval of STiP payments and performance conditions as recommended by RemCo (Paper to be walked in)	Neil Hayward/ Natasha Wilson

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Post Office Board Agenda

Agenda Item		Action Needed	Purpose	Lead
8.	**Crown and Network Strategy**	Discussion	To update the Board on the Crown & Network strategy	Kevin Gilliland
9.	**Items for noting :**			
	9.1 Sparrow	Noting	Board aware of the litigation and response to the Letter of Claim;	General Counsel
	9.2 Modern Slavery	Decision	To approve the statement required by the Modern Slavery Act.	General Counsel
	9.3 Sealings	Noting	Board aware of the affixing of the seal;	Company Secretary
	9.4 Ratifications	Decision	Board Decisions ratified: Paddington;	Company Secretary
10.	**Any Other Business**			
	CLOSE			16.00

Post Office Limited – Strictly Confidential

POLB 16(2nd)
POLB 16/13 – 16/15

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

Minutes of a Board meeting held at 12.00 noon on 09 February 2016
at 20 Finsbury Street, London EC2Y 9AQ and by telephone conference

Present:

Tim Parker	Chairman
Richard Callard	Non-Executive Director (by telephone)
Alisdair Cameron	Chief Financial Officer
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive (by telephone)

In Attendance:

Alwen Lyons	Company Secretary
Jane MacLeod	General Counsel (GC)
Piero D'Agostino	Head of Legal Commercial
Alison Jaap	Head of Design

Apologies:

Tim Franklin	Non-Executive Director

POLB 16/13 INTRODUCTION

(a) A quorum being present, the Chairman opened the meeting.

(b) The directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's articles of association

POLB 16/14 PROJECT TRINITY

(a) The CEO thanked the team for the work undertaken on project Trinity and acknowledged the complexity involved in addressing the issues arising from the Front Office IT plans.

(b) The CFO explained that four key questions had been considered before recommending the Trinity changes to the Board:

1. Would this be the right option commercially and operationally for Post Office?
2. Would the extension of the Fujitsu (FJ) contract on the terms described be in the best interests of Post Office?
3. Could the change be made in a legally compliant way?
4. Would it deliver a long term cost effective relationship with FJ?

(c) The Board discussed the options available and asked for more detail on the termination of the IBM contract.

(d) The GC explained that the IBM contract specifically permitted termination for convenience and set out a formulaic calculation of amounts payable in the case of exercise. In the current circumstances this resulted in a payment of c£13 million to IBM plus the cost of the work already completed. The Board asked if the £13m could be reduced and the GC advised that this would be difficult to achieve, although the amounts payable for work undertaken to date would need to be negotiated.

(e) The Board asked which companies might challenge the procurement process. The CFO advised that both Accenture or CSC would be aggrieved by the decision and that they represented the greatest risk. The numbers contained in the business case included provision for a challenge.

(f) The Board discussed the length of the proposed contract with FJ. The GC explained that Post Office had proposed an extension to the FJ contract of 4 years with 2 further one year extensions.. However FJ had suggested a 6 year term, with the ability to terminate after 4 years. The GC explained that the risk of a successful challenge would increase if there was a material extension to the term, as a longer term may not be considered a 'modification' of the existing contract, but rather the award of a new contract, in which case the Regulation 72 exemption would not apply. The CEO noted that this risk needed to be considered in light of the benefits that would be obtained from a longer contract.

ACTION: GC

(g) **The GC was asked to test the impact of a longer term contract period on regulation 72 of the Public Contract Regulations 2015.**

ACTION: CFO

(h) **The Board asked the CFO to consider whether, and if so, how the termination costs would be disclosed in the Accounts.**

ACTION: GC

(i) **The GC was asked to consider whether the termination costs would need to be disclosed under an FIO request.**

(j) The Chairman requested the GC to provide an update on the risk of an action for misfeasance in public office. The GC explained that a complainant, who has suffered a loss, could bring an action for the tort of misfeasance in public office. However there were a number of elements of the tort which would need to be established, one of which was to establish that the Company and/or the Board had acted with malice or bad faith, causing deliberate injury to the complainant. Accordingly, the GC noted that if the Board believed in good faith that a change of contractor was not possible for the economic and technical reasons set out in the Board papers, and that a change would cause significant inconvenience and/or substantial duplication of costs, then it would be more difficult to establish that Post Office or the Board had acted with malice or in bad faith.

(k) The Board considered the decision to terminate the IBM contract and agreed that it was in the best interests of the Company and although the £13m termination cost was high, it was a contractual obligation and could be defended if required.

ACTION: CFO/GC

(l) **The CEO proposed that a review would be undertaken of the initial procurement processes leading up to the decision to award the contract to IBM, to ensure that any lessons from that review were captured. The findings from that review would be reported at the ARC.**

(m) The CFO stressed that Trinity enabled the Business to remain within its funding plan to March 2018, explaining that the funding post 2018 was still to be agreed.

ACTION: CFO

(n) **The Board asked, as part of the presentation of the 3 year plan in March, to be provided with a list of projects, their value and the committed spend.**

(o) After careful consideration, the Board:

<u>Noted</u> the proposal for the termination of the IBM contract and the extension of the Fujitsu contract for Horizon.

<u>Noted</u> the risks and issues arising around delivery and legal and procurement.

<u>Approved</u> the termination of the IBM contract.

<u>Approved</u> the extension of the Horizon contract with Fujitsu on the terms set out in the paper.

<u>Approved</u> the on-off costs of £39.1m and the operating costs of £107.3m for the committed minimum contract of 4 years.

<u>Authorised</u> each of the Group Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) to:

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- finalise the necessary contractual documentation (including the Notice to Terminate and all ancillary documentation) to terminate the IBM contract;
- finalise the necessary contractual documentation to extend the Fujitsu Horizon contract and any ancillary documentation; and
- authorise the execution of all such documentation.

POLB 16/15 **CLOSE**

(a) There being no further business, the Chairman declared the meeting close.

....

Chairman **Date**

Post Office Limited – Strictly Confidential

POLB 16(3rd)
POLB 16/16 – 16/25

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

Minutes of a Board meeting held at 9.00am on 21 March 2016
at 20 Finsbury Street, London EC2Y 9AQ.

Present:

Tim Parker	Chairman (*Minutes POLB 16/19-16/25)*
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive

In Attendance:

Alwen Lyons	Company Secretary
Martin Edwards	Director of Strategy (*Minute POLB 16/19 only*)
Dave Carter	Group Financial Controller (*Minute POLB 16/19 only)*
Mark Ellis	Supply Chain Director (*Minute POLB 16/20 only)*
Nick Kennett	Financial Services Director (*Minute POLB 16/22 only)*

POLB 16/16 **INTRODUCTION**

(a) In the absence of the Chairman Ken McCall, Senior Independent Director took the Chair, noted that a quorum was present and opened the meeting.

(b) Each Director confirmed that they had no conflicts of interest in relation to the business to be considered at the meeting.

POLB 16/17 **MINUTES OF THE PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT**

Minutes

(a) The minutes of the meeting of the Board held on 22nd January 2015 were <u>approved</u> as accurate records and the Chairman was <u>authorised</u> to sign them.

(b) The minutes of the Audit, Risk and Compliance Committee meeting held on 10th November 2015 were <u>noted</u>.

Status Report

(c) POLB 16/10 (c) – The Board noted the options set out in the Prosecutions Policy paper and endorsed the publication of the policy on the Post Office's website.

(d) POLB 15/102 (d) – The Board noted the paper provided. The CFO said that the approach to suppliers covered cyber security as a whole and not purely Distributed Denial of Service (DDoS) risk.

ACTION: CFO — **Provide a list of the Top 20 suppliers to the ARC**

ACTION: CFO — **The CEO proposed that a supplier strategy be presented at a future ARC covering the Top 20 Supplier relationships and Supplier compliance.**

(e) The Board noted the Status Report dated 14/03/2016.

POLB 16/18 **CEO REPORT**

CEO Report

(a) The CEO introduced the CEO Report, focusing on the following key points:

Scorecard performance

(b) The CEO believed that the Business was now well placed to hit the financial target for the year and that the 6000th transformed branch would be opened before the Easter break.

ACTION: CEO — **The Board asked the CEO to pass on their congratulations to Kevin Gilliland and the Network Transformation team for the excellent result.**

Project Paddington

(c) The CEO explained that Project Paddington, the proposal to continue the relationship with IRRELEVANT IRRELEVANT would need email approval by the Board within the next three weeks. The CEO assured the Board that this was a IRRELEVANT IRRELEVANT

Project Pathfinder

(d) The CEO explained that the IRRELEVANT period had been extended by a month to take account of a request for more time from individuals affected; the timing of IRRELEVANT IRRELEVANT and to enable a considered view on the effect of any IRRELEVANT announcement.

(e) The CFO clarified that the IRRELEVANT IRRELEVANT explained that the Business needed to be sure that the IRRELEVANT IRRELEVANT did not have a significant effect on the consultation. The Board acknowledged that the timing was complex and asked IRRELEVANT to review IRRELEVANT in light of IRRELEVANT and to opine on how the IRRELEVANT is likely to respond.

ACTION: NH IRRELEVANT

Ministerial Meeting.

(f) Richard Callard reported that the Minister had recently met Brian Scott, Unite, and that they had discussed both franchising and pensions. The Minister had taken the line that these were commercial decisions for the Board and the Executive.

(g) Transformation Report
The CEO explained that the transformation plans were being rebased after the Trinity project. It was agreed that the IT strategy would be presented at the July Board.

ACTION: CFO **The IT Strategy would be a topic for discussion at the July Board meeting.**

(f) The Board noted the CEO report.

POLB 16/19 **APPROVAL OF ONE YEAR OPERATING PLAN AND BUDGET 2016/17, THREE YEAR PLAN AND APPROVAL OF RELEASE OF BUDGET INFORMATION TO SHEX FOR FUNDING OBLIGATION**

(a) The Chairman welcomed Martin Edwards, Director of Strategy, and Dave Carter, Group Financial Controller, to the meeting.

Period 11 Financial Results

(b) The CFO introduced the Period 11 Financial Results. The Board acknowledged the EBITDAS performance for 2015/16, recognised that this had been driven by cost reduction and asked whether this delivered the necessary growth and run rate for 2016/17. The CFO explained that over the next two years he expected slight income decline during a period of right sizing the cost base, but that the year-end run rate for 2015/16 was consistent with the budget for 2016/17.

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(c) The Board noted the Period 11 Financial Results.

2016/17 Budget and 3 Year Plan

(d) The CFO introduced the 2016/17 budget and 3 year plan.

(e) The proposed budget and year 2 of the three year plan were aligned with the rebased funding targets agreed with ShEx, being an EBITDAS targets of -£10m in 2016/17 and +£28m in 2017/18. Year 3 of the plan was outside of the existing funding agreement.

(f) Tim Parker joined the meeting.

(g) The Board questioned the shape of the income in the 3 year plan which remained flat for 2 years and then showed significant Financial Services (FS) growth. Martin Edwards explained that year 3 of the plan included £15m FS income from the buyout of Junction.

(h) The CFO explained that the next 2 years were the main focus of the plan as these years aligned to the current Government funding agreement. The Executive and ShEx would start to consider the next funding agreement in the summer after the Board strategy day.

(i) The CFO noted that there was considerable risk in achieving the -£10m target in 2016/17 and therefore the Group Executive was in the final stage of agreeing more stretching cost targets to mitigate that risk.

(j) The Board approved the 2016/17 budget.

(k) The Board approved the 3 year plan and noted that the plan would be overlaid by the new Strategic Plan.

(l) The Board discussed the 2016/17 scorecard and the proposal to have EBITDAS as the only target aligned to the STIP (Short Term Incentive Payment). The CFO explained that the GE had discussed this proposal and agreed that it should be recommended to the Board as a 1 year proposal to support the rightsizing of the cost base.

(m) The CEO assured the Board that she and the Executive recognised the need for a balanced scorecard including customer, people and operations targets and that GE personal objectives for 2016/17 would also include attestation for the areas of risk for which they are accountable.

(n) Richard Callard reminded the Board that the Government had to approve STIP measures and targets and that they may prefer to continue with a Network Transformation element as this related directly to the funding.

(o) The Board approved the 2016/17 scorecard and noted that the bonus structure, thresholds and targets would be discussed at the Remuneration Committee on 12th April.

Release of Budget information to ShEx to fulfil the funding obligation

(p) The Board approved the release of the 2016/17 budget information submission to ShEx in order to release the Government funding.

(q) Martin Edwards and Dave Carter left the meeting.

(r) Tim Parker took over the role of Chair.

POLB 16/20 **PROJECT IRIS**

(a) The Chairman welcomed Mark Ellis, Supply Chain Director, to the meeting.

(b) Mark Ellis explained the work undertaken since the January Board to finalise the options considered, confirm the business case benefits, and build and test the contingency plans. The implementation plan had been shortened from 10 to 7 months.

(c) The Board recognised that implementation of IRIS was going to be difficult and asked, in the event of Industrial Action (IA), if there were other areas, such as marginal outsourcing which should be included in the proposal. Mark Ellis accepted that there were other changes to ways of working which could have been considered. However he recommended that these be implemented at a later stage as no guarantees were being given for future ways of working.

(d) The CFO stressed that if IA led to changes such as postmasters managing their own cash, this may be a template for the future and could lead to completely new ways of working.

(e) The Board asked if consideration had been given to further reducing the number of depots and closing the difficult sites in London. Mark Ellis explained that modelling had shown the optimal number of sites to be 14-16 and that the plan was to keep 15 depots. A proposal for fewer, larger depots had been considered but discounted because of the capital expenditure required. The Business needed a depot in

London and had chosen to close Dartford and keep East London open.

(f) Mark Ellis explained that any IA would put pressure on the quality of service to the largest 30 external customers, who make up 75% of the revenue. It was expected that this revenue would be lost quickly.

(g) The Board discussed the pension consultation and IRIS announcement timings as debated earlier in the meeting, with the action for Virginia Holmes to opine.

(h) Mark Ellis assured the Board that Security and Health & Safety issues had been considered and addressed in the contingency planning.

(i) The CEO stressed that ShEx and the Minister were sighted on the plans and were supportive. Richard Callard suggested that the Executive include briefing DWP as part of the stakeholder plan.

ACTION: ME **Include DWP briefing in the IRIS stakeholder plan.**

(j) The Board approved the recommendation to restructure the Supply Chain and exit the external market whilst noting that this was likely to trigger prolonged, public industrial action.

(k) The Board approved the immediate next steps including contingency preparations, conversations with Government and a scene setting conversation with the Unions. Subject to discussions regarding the pension consultation.

(l) The Board approved the proposed negotiating mandate.

(m) ME left the meeting

POLB 16/21 **ITEMS FOR NOTING**

Cash and Working Capital

(a) The CFO introduced the Cash, Working Capital and Headroom paper. The Board discussed the paper and agreed that more focus would be required on cash in the future with the possibility of it becoming a bonus worthy objective as headroom tightened.

(b) The Board noted the paper.

Trinity Contract

(c) The CFO introduced the project Trinity paper and updated the Board on a FOI request received from a legal firm. The

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GC would lead on the response to the request ensuring any commercial information was redacted.

(d) The Board noted the progress made.

Sealings

(e) The Board resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1379 to 1399 inclusive in the seal register is hereby confirmed.

POLB 16/22 ITEMS FOR RATIFICATION

IRRELEVANT Contract Extension

(a) The CFO introduced the IRRELEVANT Contract Extension paper and explained the rationale behind extending the IRRELEVANT contract for two years.

(b) The Board approved the award of a two year contract extension to IRRELEVANT at a cost of IRRELEVANT delegating authority to the CEO or the CFO to sign the contract.

IRRELEVANT Contract

(c) The Board approved a new contract with a maximum term of five years and a maximum cost of IRRELEVANT and delegated authority to the CEO and CFO to sign a contract within these parameters.

IRRELEVANT Contract

(d) The Chairman welcomed Nick Kennett, Financial Services Director to the meeting.

(e) Nick Kennett explained the short term agreement negotiated with the IRRELEVANT which is targeting to generate an additional IRRELEVANT income to Post Office in 2016/17; in receiving this payment, Post Office will support IRRELEVANT reduce the size and cost of its liability balance sheet. The additional income is included in the 2016/17 AOP.

(f) The agreement also included an extension from two to four years of the run-off processes in the IRRELEVANT ontract if Post Office were to advise IRRELEVANT from 2021 that it is exiting Financial Services. This extension supports IRRELEVANT manage the risks associated with Post Offic the impact on Post Office being negligible as it pre-supposes that Post Office had made the strategic decision to exit the personal financial services market. Post Office would receive income over four, rather than two, years.

(g) Nick Kennett also assured the Board that this agreement did not affect any negotiation regarding IRRELEVANT or the wider IRRELEVANT he confirmed that the core exit/termination provisions, were Post Office to remain in Financial Services, are unchanged.

(h) The Board approved the proposed agreement with IRRELEVANT and authorised the CFO and Director of Financial Services to finalise the terms of the arrangement with IRRELEVANT approve the form of legal agreement to give effect to the arrangement and sign any such agreement(s) in accordance with Post Office's usual procedures.

(j) Nick Kennett left the meeting

POMS Articles

(k) The Board approved the specified amendments to the IRRELEVANT articles as set out in Appendix A of the paper.

POLB 16/23 VERBAL UPDATES FROM BOARD COMMITTEE CHAIRS

Remuneration Committee (RemCo) Update

(a) Ken McCall gave a verbal update from the RemCo meeting held on the 9th February 2016.

The main areas the meeting covered were:

- The letter to the Minister regarding bonus claw-back for the Postmaster Compensation provision error.
- Directors' remuneration report and key trends in the market.
- LTIP trends in the market place and design principles.
- The need to recalibrate the LTIP to provide meaningful incentives.

The Board noted the update.

Nomination Committee (NomCo) Update

(b) The Chairman gave a verbal update from the NomCo meetings of 25th November 2015 and 9th February 2016.

The main areas the meetings covered were:

- Appointment of two new NEDs.
- Confirmation of Board Committee membership.
- Recruitment of a Digital Director and Sales Director.
- Changes to the senior leadership population and introduction of the L300 group.

The Board noted the update.

Audit, Risk and Compliance Committee (ARC) Update

(c) Carla Stent gave a verbal update from the ARC meeting held on the 17th March 2016.

The main areas the meeting covered were:

- Update from the POMS ARC Chair and the relationship with POMS.

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- Risk & Controls framework update. Two new risks were included; Health & Safely and Pensions.
- Report & Accounts corporate governance statement agreed.
- Approved the internal audit plan including a cyber-security audit.
- Year end audit discussed with Ernst & Young (EY) and the audit partner challenged to explain how the audit would be more effective this year.

The Board asked what Health & Safety issues had moved the risk to Amber on the risk register. The CFO explained that the new Director of Property was putting new processes in place to manage 3rd parties, the issues raised by these processes had been included on the agenda of the Executive Health & Safety Committee. Until this was complete the risk should remain as Amber.

The Board noted the update.

Post Office Advisory Council (POAC) Update

(d) Tim Franklin gave a verbal update from the POAC meeting help on the 17th March 2016.
The main areas the meeting covered were:

- The network branch proposition was debated with input from the Business, Onestop and an independent postmaster.
- Input from the Council on customer and retailer proposition.
- Review of Council membership – everyone has asked to stay on the Council – they are invaluable source of feedback.

ACTION: CoSec **Circulate the POAC minutes to the Board**

The Board noted the update and that POAC is an agenda item at the next Board meeting.

POLB 16/24 **ANY OTHER BUSINESS**

Sale of IRRELEVANT

(a) The CFO explained the opportunity to sell IRRELEVANT of Post Office tax losses to IRRELEVANT which would generate IRRELEVANT income. This was the limit which could be sold und IRRELEVANT

(b) The Board approved the sales of tax IRRELEVANT

POLB 16/25 **CLOSE**

(a) There being no further business, the Chairman declared the meeting close.

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Chairman **Date**

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POLARC 16(1st)
POL ARC 16/01 – 16/09

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE
held at 9.30am on 22 January 2016
at 20 Finsbury Street, London EC2Y 9AQ

Present:

Carla Stent	Chairman (Chair)
Tim Franklin	Non-Executive Director (TF)
Ken McCall	Non-Executive Director (KM)
Richard Callard	Non-Executive Director (RC)

In Attendance:

Paula Vennells	Chief Executive (CEO)
Alisdair Cameron	Chief Financial Officer (CFO)
Garry Hooton	Audit Manager (GH)
Alwen Lyons	Company Secretary (AL)
Jane MacLeod	General Counsel (GC)
Mike Morley-Fletcher	Head of Risk and Assurance, Corporate Services, (MMF)
Angus Grant	Ernst & Young, (AG)
Mounia Mukina	Ernst & Young, (MM)
Amanda Bowe	Post Office Management Services Limited Non-Executive Director & Chair of ARC (AB) (Minute 16/07 only by phone)

POLARC 16/01 INTRODUCTION

(a) A quorum being present, the Chairman opened the meeting.

(b) Each Director confirmed that they had no conflict of interest in relation to the business to be considered at the meeting.

POLARC 16/02 MINUTES OF THE MEETING HELD ON 10 NOVEMBER 2015, STATUS REPORT AND MATTERS ARISING

(a) The minutes of the meeting held on 10 November 2015 were approved as presented and the attendant Committee member was authorised to sign them as a true record.

(b) The Committee noted the action list dated 1st December 2015.

(c) The CFO explained that Audit fee for 2015/16 had yet to be finalised as the focus had been on completion of the subpostmasters' compensation issue.

ACTION: CFO **Report back on the on the finalisation of the Audit fees.**

(d) The Committee asked how the Executive were dealing with the issue of inappropriate expenses claims. The GC explained that the issue, relating to confusion over LIW/Homebase categorisation, was being addressed by the introduction of an annual reconciliation. The ARC asked for an update on the implementation of the recommendations from the Financial Crime audit at the March meeting.

ACTION: GC **Report back on the implementation of the recommendations from the Financial Crime audit at the March ARC.**

(e) The Committee noted that at the last meeting the CEO had requested a review to give assurance regarding the security of customer data (minute POLARC 15/44 (e)). The GC was asked to circulate the outcome of the review to the Committee

ACTION: GC **Circulate the report on security of customer data to the ARC.**

ACTION:GC **The Chair asked the GC to review the Internal Audit timetable to include cyber risks.**

POLARC 16/03 **RISK UPDATE**

(a) MMF introduced the Risk Update and undated the Committee with the progress made to date on the Risk Management Project Plan.

(b) MMF explained the new Group Risk Profile which identified and evaluated the (GE) Group Executive's proposed top risks for the Business. The Committee discussed the Risk Profile and challenged whether Industrial Relations was the highest risk. They asked the Business to consider whether:

- failure to achieve cost reduction targets;
- failure to renegotiate an effective MDA with RMG; and
- cyber security attacks which disrupt systems – for example, those affecting payments to POCA customers;

should be identified as higher risks.

ACTION:MMF **Reconsider the Top Risks and whether they should include failure to achieve cost reduction targets; failure to renegotiate an effective MDA with RMG; and cyber security attacks which disrupt systems – for example, attacks which affect payments to POCA customers.**

(c) The Chair asked that the Risk Profile be amended to clearly show GE accountability for managing each risk. KM suggested that the sign off by the GE owner should be included in any year end attestation process.

ACTION:MMF **Ensure the Risk Profile shows clearly which GE member is accountable for managing each risk. Include GE signoff, for the individual risks for which they are accountable, as part of the new yearend attestation process for year ending March 2017.**

(d) MMF explained that general controls had been identified and collected into a "Framework", so that the GE could ensure that the

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controls in place were at the right standard, and have the right effect enabling them to be evidenced for yearend attestation (year ending March 2017). The Committee asked if the Group Executive would have personal objectives aligned to the Framework. The CEO assured the Committee that personal objectives for GE members would be aligned to the General Control Framework.

ACTION: CEO

The CEO agreed to ensure that all areas in the General Control Framework were assigned to Group Executive members as part of their personal objectives

(e) The Committee discussed the 'Tone from the Top' and agreed it needed more clarity as the project progressed. It was agreed that this would be the key messages, behaviours and communication that the CEO and GE demonstrated at all times. These needed to be aligned and to exemplify the values of the Post Office.

(f) The CFO explained the alignment with the Financial Controls project which was building systems to enable attestation that financial controls were working. He noted that this was work in progress.

(g) The Committee discussed the frequency of attestation and reporting and AG explained that in the Financial Services industry quarterly reporting would be expected. The CFO proposed the introduction of six monthly reporting to align with the external reporting calendar. The Chair noted that it took time to embed attestations and recommended that the Executive have "dry runs" prior to the year end attestation (year end March 2017).

ACTION: GC/CFO

The CFO/GC to ensure that the areas in the General Controls Framework are understood and that the Group Executive recognised their accountabilities to attest to the controls being in place in time to support the Directors' statement in the 2016/17 Report & Accounts.

(h) The Committee asked for an update on the Control Framework at the next ARC with more details of controls, GE owners and subject matter experts, plus a timetable for when the ARC will receive assurance.

ACTION: MMF

Produce a statement including more details of controls, GE owners and subject matter experts, plus a timetable for when the ARC will receive assurance.

(i) MMF updated the Committee on the progress in the Policy Framework project, explaining that the 'strawman' included in the paper was likely to change, and that the approach was being tested using the policies owned by the GC. The Committee asked for dates and timelines for establishing the succinct set of Key Policies, setting out what can be expected over the next quarters.

ACTION:MMF

Include dates and timelines in the Policy Framework document, with detail as to what the amalgamated policies include.

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(j) The CFO highlighted the challenge in articulating a pricing policy across the wide range of products sold by the Business. The complexity was acknowledged and it was accepted that the policy, if required, may need to be restricted to a set of principles.

(k) The Committee asked Ernst & Young (EY) to provide a list of the key policies which they would expect to see in a market median company, to act as a benchmark.

(l) MMF introduced the Business Continuity project and explained the aim of the Business to benchmark against the measurable ISO22301 business continuity standard.

(m) The Committee were perturbed by the findings to date. The CEO was disappointed by the language in the report and challenged the extent to which the 'business continuity & crisis management is deficient, unpractised and not embedded within the organisation's culture'. The CEO gave examples of the recent flood crisis where offices had been given support and reopened because people were very aware of how to manage the network in a crisis. The CEO believed that, since separation from RMG, more could have been done to document and test the procedures in place.

(n) The Committee asked the GE sponsor of the paper to update the ARC on the progress being made. Including a list of top suppliers and whether they have contingencies in place; specifically before the next meeting.

ACTION:GC

Continue to update the ARC on the progress being made to improve Business Continuity. Including a list of top suppliers and whether they have Business Continuity contingencies plans in place before the next meeting.

(o) MMF gave a progress update on Incident Reporting processes. The Committee asked for an explanation as to what constitutes a P1, P2 or P3 incidents how they are monitored and the SLA in place to report and deal with them. The Committee also asked how the Executive remediate the root cause of problems and challenge suppliers to change processes.

ACTION:MMF

At the next update, provide a report to define P1, P2 or P3 incidents and the SLA in place to report and deal with them. . Include how the Executive remediate the root cause of problems and challenge suppliers to change processes.

(p) The Committee discussed the statement made in the Annual Report & Accounts that the Business complied with the 'spirit' of the UK Corporate Governance Code (Code) and the implications of changes in the Code. AG recognised that the Business was not legally caught by the Code and that significant work would need to be done to continue to state a compliance with the 'spirit' of the code. The key areas where the Business does not comply with the Code are those concerned with reporting and risk management maturity, particularly providing evidence of the review of the internal controls.

(q) The Committee agreed that the Executive should focus on improving risk management before any public benchmarking statement. The Committee asked the Executive to work with the external auditors to set out what a three year roadmap to benchmark against the Code would look like.

ACTION: GC **The Executive to work with the external auditors to set out what a three year roadmap to benchmark against the UK Corporate Governance Code would look like.**

(r) The GC supported the decision to withdraw from making a statement in the Report & Accounts but recognised the importance of benchmarking against the best practice of the Code albeit designed for public companies.

(s) The Committee agreed that the Business should pull back from a reference to the Code in the Report & Accounts but agreed that a statement was necessary to explain the Business was still maintaining high standards.

ACTION: GC/CFO **The Executive would discuss how it would reference the Corporate Governance Code in the Report & Accounts, and revert to the Committee by email before discussing with the Board Chairman**

(t) After providing feedback on its elements, the Committee noted the Risk Update.

POLARC 16/04 **INTERNAL AUDIT UPDATE**

(a) GH introduced the Internal Audit Update focussing on the following key points:

Contract Management. Significant progress has been made with 50% of actions now complete and the other 50% on track for completion by the end of March. A further report would be provided at the March ARC.

Property and Health & Safety compliance. Good progress with a new Head of Property Compliance now in place and although there are still actions to complete GH believed the controls were improving.

Open Actions. A detailed revised report would be provided for the March ARC. The Committee recognised the number of internal audits and reports due in the last quarter and asked for assurance that the internal audit team had enough resource to complete the work. GH gave assurance that the plan would be delivered. The Chair asked for reports to include feedback on closure of high rated actions.

Included post audit assurance in the ARC report in relation to audit actions rated as high.

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ACTION: GH

(b) GH circulated a paper detailing the Internal Audit Planning Process and the Draft Audit plan proposed for 2016/17. The Committee were asked to feedback any comments to GH who would collate and share with the Chair in February before returning to the Committee with a final proposal

ACTION: Committee members

Committee members to feedback to GH on the audit plan proposal

(c) Committee members agreed that all audit reports with a red report rating would be circulated in full the Committee as soon as the report was available. Audit reports with an amber or green report rating would be summarised and reported at the subsequent ARC meeting.

ACTION: GH

GH to ensure that all reports with a red rating are circulated to the Committee and to the Chair of the POL Board.

(d) Having taken all the discussion points into consideration, the Committee noted the outcomes of the recent audits and reviews and further noted the current and upcoming work.

POLARC 16/05 **FINANCIAL CONTROLS PROGRESS REPORT**

(a) The CFO introduced the Financial Controls Progress Report and recognised the importance of the work to give the Executive and the Board the confidence to sign the 2015/16 Accounts. He explained that the project had started by testing its methodology by checking the fixed assets, as this was a relatively easy task. The next reconciliation would be the income numbers, as this was the most complex area and material to the accounts. The CFO explained the interfaces between the systems involved which complicated the reporting process. He did not believe that systematic errors existed as these would lead to complaints from customers and clients, but could not yet prove this was the case.

(b) The Chair asked the CFO to focus on ensuring the systems were secure and providing the correct information, with a plan to automate as soon as possible.

(c) The Chair asked for progress reports at every ARC and for Financial Reporting to be flagged in the risk reports.

ACTION:CFO

Provide Financial Reporting progress reports at every ARC and include in the risk reports.

(d) Having taken all the discussion points into consideration, the Committee noted the Financial Controls Progress Report.

POLARC 16/06 **POSTMASTER COMPENSATION ISSUE / SIGNING OF INTERIM ACCOUNTS**

(a) **Postmaster compensation**

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The CFO introduced the Provisions for Compensation paper and explained the background to the understatement of the provision. The error had arisen because agreements with subpostmasters had not been captured accurately, and the provisions based on this information had been wrongly calculated. After significant work the provisions had been increased by £67m in September 2014 and £87m in March 2015. Adjustments to both accounts were supported by EY.

(b) The CFO stressed that there were no implications for payments to subpostmasters or adjustments to the EBITDAS in the reports.

(c) The Post Office Interim Reports and Accounts for September 2015 and the Post Office Holdings Company Report & Accounts could now be signed and published.

(d) The Chair asked why the mistake had not been discovered sooner by the Business or EY, and if both the CFO and AG were now absolutely sure of the accuracy.

(e) The CFO stressed that the compensation provision would always by its nature be an estimate as individual branch details change, but that he was now comfortable that the provision was prudent and would cover the right level of compensation. AG agreed and emphasised that the provision was an estimate as individual contracts changed during the process. The Chair pointed out that the recording and aggregating of information had been completed incorrectly and asked for assurance from AG that the provision was now accurate. AG explained that the auditors had checked the last nine months of actual payments and that a lot of work had been done to check the manual processes with a branch by branch analysis, and that they were now comfortable with the provision as restated.

(f) The Committee asked why EY had not identified the problem during the original External Audit. AG explained that they had done limited testing and with hindsight should have focussed more on the manual processes. This was being addressed in this year's external audit plan.

(g) The Committee asked what other provisions were made in the Balance sheet and how they were tested.

ACTION: CFO — **The CFO was asked to provide the next meeting with an analysis and assurance of the provisions on the balance sheet.**

ACTION: CFO/AG — **The CFO to agree with EY the audit approach for each financial statement area.**

(h) Having taken all the discussion points into consideration, the Committee <u>noted</u> the progress and the next steps.

Interim Report

(i) The Interim Report for the six months ended 27 September 2015, had been circulated to the Committee.

(j) The Committee challenged whether the provision was a true 'timing error' as reported in the narrative to the interim report. The CEO promised to check the narrative before the accounts were signed on Monday 25th January.

ACTION: CEO **The CEO promised to provide a briefing pack including; the interim report; the press statement; and Qs & As to the Board before publication of the interim accounts.**

(k) The Committee asked for clarification about a second restatement in the accounts concerning cash and debtors. The CFO explained that this was a technical classification which EY had requested at the end of 2014/15, and was not a new issue. The Committee asked for this issue to be included in the Qs & As circulated as it would be easy to conflate the two issues.

(l) Richard Callard explained that the mistake had knocked the Minister's confidence in the Business and its reporting.

(m) Having taken all the discussion points into consideration, the Committee noted the Interim Report.

POLARC 16/07 REPORT FROM POMS ARC

(a) The Chair welcomed Amanda Bowe, Post Office Management Services Limited Non-Executive Director and Chair of ARC, to the meeting by conference call.

(b) AB introduced the Report from Post Office Management Services ARC and explained that work was underway to establish a risk framework and risk appetite for POMS.

(c) AB highlighted two key risks:
- the role of Post Office as the Appointed Representative of POMS, and
- POMS oversight of branch compliance.

(d) AB stressed the importance and risks to both Post Office and POMS of poor branch compliance and its mitigation through 1st and 2nd line oversight arrangements.

(e) AB acknowledged that POMS was at an evolutionary stage in its development and had resource and capacity risk especially in its Risk and Compliance function.

(f) AB explained that she was meeting the External Auditors in February and currently waiting to agree the POMS audit plan.

ACTION: GH **It was agreed that the POL and POMS audit plans should be aligned.**

(g) The Committee thanked AB for the POMS ARC report, which contained the right level of detail from the wholly owned subsidiary

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(h) The Committee noted the report.

(i) AB left the meeting.

POLARC 16/08 **ANY OTHER BUSINESS**

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

POLARC 16/09 **DATE OF THE NEXT MEETING**

(a) It was noted that the next meeting of the Committee would be 17th March 2016.

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Chair **Date**

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Post Office Limited Board

Status Report as at: 16/05/2016

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
January 2016 POLB 16/2 (c)	CEO Report and Transformation Update How should the Business recognise exceptional contribution by individuals. Consideration to be given to Chairman's awards or best Post Office awards.	**CEO**	September Board Meeting		Open
January 2016 POLB 16/14 (l)	Project Trinity To undertake a review of the initial procurement process leading up to the decision to award the contract to IBM, to ensure that any lessons from that review were captured. The findings of the review are to be reported to the ARC.	**General Counsel**	July Board		Open
January 2016 POLB 16/2 (g)	CEO Report and Transformation Update To provide a paper explaining the rationale behind the NFSP funding and the move to a trade association to assist new Board members.	**Neil Hayward**	May Board	Action point closed, noting paper provided and appended to status report.	Closed
March 2016 POLB 16/17 (d)	Status Report The CEO proposed that a supplier strategy be presented at a future ARC covering the Top 20 Supplier relationships and Supplier compliance.	**CFO**	July	This should be covered as part of the IT Strategy.	Open
March 2016 POLB 16/23 (d)	Post Office Advisory Council (POAC Update) To circulate the POAC minutes to the Board	**Company Secretary**	Ongoing		Closed
March 2016 16/20 (i)	Project Iris To include the IRRELEVANT in the Iris stakeholder plan.	**Mark Ellis**		IRRELEVANT undertaken by Mark Ellis and Chris Doutney.	Closed
March 2016 POLB 16/18 (b)	CEO Report The Board asked the CEO to pass on their congratulations to Kevin Gilliland and the Network Transformation team for the excellent result.	**CEO**	May Board Meeting	Completed	Closed

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March 2016 POLB 16/18 (g)	CEO Report The IT Strategy would be presented as a topic for discussion at the July Board meeting.	**CEO**	July Board	IT strategy on July Board.	Open
March 2016 POLB 16/18 (e)	CEO Report Neil Hayward to consult Virginia Holmes on Pathfinder in light of Iris, and to opine on how the Trustee is likely to respond.	**Neil Hayward**		VH and Natasha Wilson caught up and NW explained process and rationale.	Closed
March 2016 POLB 16/17 (d)	Status Report Provide a list of the Top 20 suppliers to the ARC	**CFO**		Done.	Closed

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NFSP Grant Agreement update

Author: Nick Beal   Sponsor: Neil Hayward   Meeting date: 24 May 2016

Executive Summary

Context

The Grant Agreement with NFSP, which funds the NFSP's day to day operation, grants for support projects (value p.a. £1.5m +£1m) and their transition to a Trade Association, was approved by the board in June 2015. In advance of the end of the first year of the agreement, this paper is an update on how the agreement is working, key areas that have benefitted from NFSP support and a summary of the background to the agreement.

Questions addressed in this report

1. What progress NFSP have made in their transition to a Trade Association?
2. What activity in Post Office has benefited from NFSP support?
3. What was the rationale in establishing the agreement?

Conclusion

Progress since establishing the agreement has been good but there have inevitably been occasional tensions that have meant that NFSP have been challenged to reconcile the reality of being funded by Post Office vs their traditional role that they have yet to fully move away from.

But the agreement is a strong basis for both organisations working together and we will expect an approach over the next 12 months that will reinforce this opportunity and see some very different initiatives between us.

The Report

What progress NFSP have made in their transition to a Trade Association?
What activity in Post Office has benefited from NFSP support?

Looking Back

WHAT HAS GONE WELL?

1. NFSP have transitioned to a company limited by guarantee and therefore legally adopted the framework of a Trade Association.
2. All postmasters are entitled to free membership and subscriptions have ceased
   → NFSP are therefore fully dependent upon the funding from Post Office
3. NFSP have widened their focus on supporting postmasters' retail business
   → NFSP are having to (and are beginning to) improve their expertise in this area and the structure of the recent annual conference was much more weighted towards retail than in previous years – both in terms of the content of the conference sessions and the seminars run by Post Office teams
4. As well as the retail focus, the NFSP conference (8^{th} to 11^{th} May) demonstrated good progress in their transition.
   → Overall conference format
   → Small but growing number of younger & newer postmasters attending
   → Presence of external retail industry experts
   → Overall messaging that a Post Office is a great asset to a retail business and that, when retail and post office is run well together, can be very successful
5. There have been a number of key initiatives in Post Office that have benefited from the support of NFSP
   → the successful deployment of the final phase of NT
   → the increased response rate to the engagement survey
   → internalisation of challenges made relating to remuneration reductions (i.e. we have kept our differences out of the public domain)
   → development of the Apprenticeship Programme

WHAT HAS NOT GONE WELL?

6. The leadership still occasionally displays behaviours which reflect the historical role
   → This has given rise to some tensions between the organisations where decisions and changes made by Post Office (particularly related to remuneration) have not been accepted (but challenge to this has been had behind closed doors rather than in the public domain)
7. Linked to above, NFSP continue to face challenges from some members (and external agitators e.g. CWU) relating to their future direction whereby they have been challenged to reconcile the reality of being funded by Post Office vs their traditional role that they have yet to fully move away from
   → There remains an attitude that occasionally they need to "win" something from the Post Office

Looking Ahead

OPPORTUNITIES?

8. Supported by the grant project funding, NFSP will continue to develop their role in supporting postmasters' retail
   → This should improve the viability of branches and make them less dependent upon revenue from the Post Office
9. NFSP can support Post Office in improving our engagement with postmasters
   → Postmasters will perform better
10. We will work closely on developing other initiatives e.g. using our resource to support retail development (funded by the project grants), developing a wider range of support services to improve other areas of the postmaster lifecycle e.g. business planning
   → Outcomes will have a better chance of buy in by postmasters and our investment challenges can be supported by the grant funding

RISKS OR CONCERNS?

11. The sensitivity of very difficult future changes e.g. remuneration/network re-structuring, will challenge NFSP's ability to accept change within the framework of the agreement
   → NFSP reaction causes the agreement to be breached and terminated
12. New/young/retail orientated members fail to exert enough influence to rapidly change the organisation further
   → NFSP's focus remains weighted disproportionality to Post Office "issues" rather than growth and retail

In Conclusion

CONFIDENCE?

13. My confidence in the plan overall is medium. I remain convinced that restructured NFSP have a role to play in supporting our network – our mutual challenge will be to maintain a good, productive relationship when some business changes that impact postmasters are not well received and NFSP reactions to this are in conflict with our expectations.

IMPLICATIONS?

14. I will be looking to develop the relationship further, funded by the project grants, supported by external, neutral facilitation to ensure a better understanding of the role NFSP can play, both within Post Office and the NFSP itself.

Appendix

1. What was the rationale in establishing the agreement

Context
Post Office wishes to ensure that there is effective engagement between its branch operators and the management structures within the organisation – it is a very large, complex organisation made up of more than 8,000 separate businesses.

We believe a transformed NFSP can support this - a strong and credible body that is the voice of the UK's Post Office branch operators which can reflect views that add value to the overall Post Office customer proposition through effective challenge, contribution to business/operational/product development and also provide a range of benefits to operators.

Post Office's view is that supporting, via grant payments, the NFSP to transform itself and securing a future will be commercially beneficial to both Post Office and operators, by helping to drive the development of products and services which are more attractive and relevant to our customers and identifying opportunities to do things more efficiently and effectively.

Background
The current activity re-structuring the network (and the last decade's closures) has had a major impact on the NFSP – for many new operators, membership of what has been seen as a quasi-trade union is not particularly important. For many branches, the post office aspect will not be the prime part of their business, unlike for the majority of traditional subpostmasters, and therefore their inclination to view paid membership of NFSP as value for money will be lowered and membership was predicted to decline.

NFSP recognised this was a threat to the future of their organisation and in the main accepted that their traditional role would not exist in the future. They were therefore looking to move from a quasi-Trade Union role to a Trade Association type of organisation - representing the totality of the agency network and also have role in the wider retail interest of members rather than just the post office aspects.

Developing the Grant Agreement
Tied primarily to their agreement to a revised Network Transformation approach that includes mandated change for some aspects (the previous programme being voluntary), Post Office agreed to develop a approach with them that would provide long term funding and hence stability.

This has evolved into the completion of the Grant Agreement between Post Office and NFSP (see below for a summary of features) – the provision of annual and project grant payments to support the operation and development of NFSP whilst providing free membership for all postmasters.

Whilst in the past they have asserted a fairly typical trade union position of trying to negotiate as much as possible for their individual members without really recognising the bigger picture of the business as a whole, the Grant Agreement is seen as a significant opportunity for both organisations to introduce a new type of relationship - although this will not happen overnight and current ways of working can still be unpredictable

- The Grant Agreement was formally approved by the Board in June 2015 and signed in July 2015
- Free membership for postmasters on the new models was launched in October 2015 and to all postmasters from April 2016
- First payments for the Annual Plan were made in January 2016

<u>Key Features</u>

- The GA is based upon the principles brought to and endorsed by the Board initially in October 2013.
- This provides a 15 year funding arrangement (£1.5m pa annual grant + discretionary £1m pa project specific grants) for the NFSP and commits them to supporting Network Transformation, including acceleration of the final phase of Network Transformation. The project specific grants can only be accessed via business cases submitted against existing POL processes i.e. funding is not guaranteed.
- The annual grant enables the provision of free membership to all postmasters
- The agreement sets out specific activities NFSP can and cannot undertake, defining clear activities that would represent a breach of the GA which Post Office could then, if it chose, seek to rely on to terminate. This includes, amongst other things, any public activity which may prevent Post Office from implementing any of its initiatives, policies or strategies or other activities which may be materially detrimental to Post Office.
- It also ensures that the NFSP must become representative of the whole network – they must achieve and maintain a minimum membership of 50% of each operating model (Main, Local etc).
- In line with the original principles, the 15 year term does not have a "for convenience" break clause. However, the specific detail of termination events and the detailed definition of the last phase of NT built into the agreement are based on the principles brought to the board in October 2013 and the level of detail achieved through negotiation has strengthened Post Office's position. The agreement can be terminated in the event of the NFSP breaching the clear criteria as defined above.
- Therefore, whilst we envisage a 15 year agreement, we can and will terminate it against the specific requirements we've defined as termination events if it's not working – the 15 years is not guaranteed and expenditure beyond the annual grant will only be made on a case by case basis.
- The GA is intended to assist the NFSP on their journey from a trade union to trade association and enables a relationship between the organisations that supports the engagement, development and growth of thousands of small businesses.

CEO's Report

Author: Paula Vennells   Meeting date: May 2016

Executive Summary

Context

Our goal for 2016–17 is to achieve EBITDAS of (£10m).

Our 3 year goals are:

1. To establish the foundations of a successful independent business.
2. To accelerate the transformation of Post Office and reach breakeven.
3. To secure commercial sustainability for the long term.

In summary, our strategy is to stabilise our income in mails and grow in financial services by focusing on the customer, moving up the value chain where suitable; modernise our physical and digital channels; streamline our support services; build a simpler, more cost effective operating model; alongside improving our colleague and network engagement.

Questions this paper addresses

1. What is on my mind? *(successes, challenges, opportunities and risks)*
2. What are the implications for our outlook and plans?

Conclusion

1. Building on a strong year end, we have had an encouraging start to this financial year with EBITDAS and income ahead of target.
2. Our transformation is on track and we have delivered some significant milestones in recent weeks, including completing separation from Royal Mail and opening our 6000th modernised branch.
3. We are entering a critical period in the restructuring of Post Office Ltd with multiple, associated industrial relations challenges.

Input Sought

The Board is invited to note the report and highlight any issues where a future discussion would be welcome.

The Report

Looking Back

WHAT HAS GONE WELL?

- Financial Performance – P1
  - → EBITDAS in P1 is £2.5m favourable driven by income from Financial Services and Government Services. It is £5m higher than a year ago.
  - → Performance was particularly strong in P1 on Credit Card and Home Insurance. Life Insurance, Banking, Identity and Passports also performed well.
  - → Total Expenditure was in line with budget, with Postmaster costs being £(1.1)m adverse (simply the flow down of improved income), offset by non-staff costs (£0.5m favourable) and Project Opex (£0.6m favourable).
  - → As it is P1, we have not provided a full financial report. A summary of P1 performance is attached at annex A. Al Cameron will provide an update at the Board meeting.

- Transformation
  - → As highlighted in the Transformation Update accompanying this report, we completed technical and contractual IT separation from Royal Mail Group at the end of March.
  - → There was some minor disruption but nothing significant or ongoing.
  - → This represents the conclusion of four years of hard work and collaboration across both businesses and major investment in the Post Office infrastructure.
  - → In addition, I accompanied Tim Parker to open our 6000th transformed branch in Nyetimber, West Sussex in early April. An outstanding achievement by the Network Transformation Team.

- NFSP Conference
  - → Last week Tim and I attended the NFSP's annual conference, along with other colleagues from Post Office Limited.
  - → The event was well-attended and the debate was lively; with a strong theme of creating a sustainable proposition for agents based on Post Office within a retail environment coming through.
  - → Feedback was very positive and the conference represented a significant milestone in the transformation that the NFSP is going through alongside POL.

WHAT HAS NOT GONE WELL?

- Financial Performance - P1
  - → Despite a strong overall performance in Financial Services, Mortgage, Savings, Travel Money and Travel Insurance were all below target for P1.
  - → Telecoms and Lottery were also behind target.
  - → Marketing plans are in place for Mortgage, Travel and Telecoms. We have also launched new mortgage products with some market-leading rates.

- Horizon
  - → As reported last week, we were subject to a significant incident with Horizon on 9th May.
  - → Between 8.55 am and 10.15 am, approximately 65% of transactions on Horizon failed to complete as the system began to degrade owing to memory issues. The system was brought back to full trading capacity by 10:30.
  - → This incident occurred following a week's live proving of the secondary system and following transfer back to the primary system which, with no changes to configuration, had run without incident for a year. It had also run on low volumes on the Sunday without incident.
  - → The incident was wholly unacceptable and has been the subject of a formal, contractual escalation with Fujitsu, who are working through the root cause.
  - → There was some media coverage on the day itself and the following day but this was relatively low-key and short-lived.
  - → A configuration change enabled the system to start operating effectively and no further issues have been experienced. However, we do not yet understand why that change had the impact it did and until we do we will not be switching between primary and secondary servers.
  - → We will revert to the ARC with a full root cause analysis and steps undertaken when our work is complete.

Looking Ahead

OPPORTUNITIES?

- Strategy
  - → The Group Executive and I dedicated two days earlier this month to discussing the future strategy for Post Office.
  - → These were highly productive discussions centred on how we become a consistently profitable business so we can invest from a position of strength; cement our position as the number one retailer of letters and parcels; continue to grow our financial services business; complete the restructuring of

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POL to be a much smaller, lower cost business that is aligned to the needs of retailers in our agency network.

→ Further work is now underway to prepare for the Board's strategy days next month.

- Project Paddington

→ Further to signing the Paddington deal with IRRELEVANT IRRELEVANT we have now finalised the detailed business case for the deal which is in line with the outline case signed off by the Board.

→ The business case payback period remains at 2.8 years although there have been small movements in investment costs and benefits.

→ Costs are now IRRELEVANT increase on the pre-contract signature assumption. This arises from updated branch build and redundancy costs following detailed costing work. The total EBITDAS benefits now stand at IRRELEVANT - an improvement of IRRELEVANT owing to IRRELEVANT IRRELEVANT

RISKS OR CONCERNS?

- Industrial Relations

→ We have entered into a critical period in delivering our restructuring with the associated challenges in industrial relations across the Crown network, Supply Chain, Customer Support Centres, pay and pensions.

→ We continue to have discussions with both CWU and Unite but the risk of industrial action across the business remains significant.

- Reorganisation

→ Last week we briefed the trade unions and colleagues in Finsbury Dials Customer Support Centre and Financial Services Sales teams about a number of proposed changes across the business.

→ These entail 105 redundancies alongside the removal of a significant number of vacancies.

- Iris

→ Following discussions with the trade unions yesterday, we informed colleagues today of our decision to withdraw from the external market and refocus Supply Chain on serving the needs of post offices.

→ This entails 594 redundancies and the closure of 9 operational units.

→ At the time of writing, it had received limited media coverage; we are monitoring this closely and will keep the Board informed.

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- Pathfinder
  - → The consultation on closing the defined benefit pension scheme to future accrual continues until the end of the month.
  - → Colleagues continue to appear to understand the business rationale for the proposed changes but are naturally concerned about the impact on them as individuals.
  - → There is a briefing for the Board and GE on this issue on 24 May.

In Conclusion

CONFIDENCE?	IMPLICATIONS?
It is too early in P1 to give a sense of confidence for the year but the start in terms of business performance and transformation is very encouraging, especially given the industrial relations climate.	Significant challenges still lie ahead in achieving our financial targets and most notably, in managing our industrial relations. Although the rationale for change is clear, the impact on colleagues affected is hard. We will provide them with as much support and guidance as we can going forward.

Annex A

Period 1 – Financial Performance

	P1		
£m	**Actual**	**Budget**	**Variance**
TOTAL GROSS INCOME	**90.4**	**88.1**	**2.3**
Cost of Sales	(10.6)	(10.8)	0.2
TOTAL NET INCOME	**79.8**	**77.3**	**2.5**
Staff Costs	(21.4)	(21.5)	0.0
Postmaster Costs	(37.2)	(36.1)	(1.1)
Non-Staff Costs	(27.3)	(27.8)	0.5
Total Expenditure (pre Project OpEx)	**(86.0)**	**(85.4)**	**(0.6)**
FRES - Share Of Operating Profits	3.6	3.6	(0.0)
EBITDAS - BAU	**(2.6)**	**(4.5)**	**1.9**
Project OpEx	0.0	(0.6)	0.6
EBITDAS	**(2.6)**	**(5.1)**	**2.5**
Depreciation	(0.0)	(0.1)	0.0
Network Payment	7.7	7.7	0.0
EBIT pre exceptionals items	**5.1**	**2.5**	**2.6**

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Transformation Update

Author: Michael Brown   Sponsor: David Hussey   Meeting date: 24th May 2016

Executive Summary

Context

The Post Office is undertaking a complex transformation programme, designed to modernise our network and IT infrastructure, simplify our cost base and create the platform for customer-led growth. The core objective is to create a commercially sustainable business equipped to cope with lower levels of government funding after March 2018.

Questions this paper addresses

1. Overall, are we on track to deliver our key Transformation programmes?
2. What are the implications of any variance, for our outlook and plans?

Conclusion

1. Following a strong finish to 2015-16 we are on track to deliver our transformation plans:
   - We achieved key Transformation year end targets including modernising 1,904 branches, Crown Break-even, separation from Royal Mail and delivery of £63m of benefits vs a target of £51m, including and £54m of cost efficiencies.
   - The risk profile has improved and remains stable following conclusion of Trinity.
   - Automation of Post Office Card Account transactions in the Crown network is delayed.

2. The latest view of costs and benefits have been included in the three year plan.
   - We are on track to deliver Transformation financial benefits that are included in the three year plan.
   - The delay to automation of the Post Office Card Account transactions in Crown branches creates a £1.5m gap in the programme's benefits in 2016-17. Options to accelerate Crown Network Change activity to close the gap are being considered.

Input Sought

The Board are asked to note the progress made, key challenges faced and actions taken to address them.

The Report

Looking Back

WHAT HAS GONE WELL (SINCE LAST PROGRESS REPORT IN MARCH)?

- Network Transformation
  - In 2015-16 we opened 1,904 modernised branches against a target of 1,850.
  - As at 9th May we have 6,155 modernised branches open (3,009 Local and 3,146 Mains).
  - From our modernised network we have:
    - Contributed an extra 192,150 hours in the network which is the equivalent of 4,177 extra Post Offices operating core hours.
    - Reducing fixed pay to postmasters by £23m in 2015/16 and are forecast to save £31m in 2016/17.

- Crown Network Development
  - Subject to audit, the Crown network is forecast to exceed the break even target.
  - We have signed an agreement with WH Smith to franchise 28 Post Offices, have a further 33 Crowns hosted in their stores and extended existing contracts to protect continuity of service.
  - These are key milestones in achieving our ambition of a Crown network going from break-even to a £10m profit run-rate by March 2018.

- Point-of-Sale Software (Trinity)
  - There have been no legal challenges following the termination of the Front Office contract with IBM and the extension of the Fujitsu contract for provision of the Horizon Point-of-Sale system.

- Separation
  - The programme to technically and contractually separate Post Office Ltd from Royal Mail has successfully completed.

- Delivery of Benefits
  - Transformation initiatives have delivered £63m of benefits in 2015-16 against a target of £51m.
    - £53.9m from cost efficiency savings including Crown and IT savings
    - £4.8m from project Hawk.
    - £4.6m from Network Transformation

- Support Services Transformation
    - The new Call Centre in Chesterfield has been operational from 25th April, delivered 8 days early.
    - Delivery of benefits on track to start in July 2016, which enables delivery of annualised savings of £3.3m benefits in 2016/17 in line with the business case.

WHAT HAS NOT GONE WELL (SINCE LAST PROGRESS REPORT IN MARCH)?

- Crown Network Development
    - A delay to the automation of Post Office Card Account (POCA) transactions in Crown branches has put £1.5m benefits at risk in 2016-17.
    - This is due to issues with the technical interfaces between suppliers to verify the POCA PIN number. Resolving the issue requires significant development.
    - Options to accelerate Crown Network Change activity to close the gap are being considered with the Industrial Relations Steering Group.

Looking Ahead

UPCOMING ACTIVITY

- Support Services Transformation
    - Chesterfield Call Centre to increase operational capacity from 20 desks to 95 by the end May.
    - Closure of St Helens and Leeds sites with the work transferring to Chesterfield due at the end May.
    - One third of colleagues will transfer from the existing call centre in Dearne, and two thirds will be newly recruited and trained.

- Defined Benefit Pension Scheme
    - The consultation period has been extended to 31st May to allow employees and their representatives to take the potential for redundancies into account when responding to the proposed changes to pensions.
    - Group Executive session on 24th May will review progress with consultation.

- Project IRIS (Supply Chain Transformation)
    - Plans for Supply Chain will be communicated to colleagues on 17th May
    - The programme plans are subject to consultation. Timelines and business case are currently on track.

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- Simple To Run Network
  - This programme's objective is to deliver an attractive retail proposition which is commercially sustainable for the Post Office.
  - A hypothesis to achieve this objective has been presented to the Group Executive and further detailed analysis is being undertaken ahead of the June Board.

- Transforming Agents Proposition
  - This programme has an objective to complete an integrated strategic review of our commercial model and relationship with our Agents.
  - The programme is currently in a design phase.

CONCERNS & RISKS

- Currently, we are not reporting any 'red' risks and are confident that delivery risks continue to be tightly controlled and managed.

- Risks are regularly reviewed within and across Transformation programmes, clear mitigation actions are agreed and broken down into manageable deliverables ensuring we are regularly reducing the probability and impact of these risks.

- There are three Transformation Programmes (Iris, Paddington and Pathfinder) which are entering a phase which will significantly increase the likelihood of industrial action. The IR Risk is well documented and managed by P&E, who work closely with the IR Steering Group to ensure this is managed, controlled and the impact is minimised.

In Conclusion

CONFIDENCE IN DELIVERING TRANSFORMATION?	IMPLICATIONS?
Our confidence in delivering Transformation continues to increase due to: 1, Achievement of key Transformation year end targets. 2, The risk profile remaining stable following conclusion of Trinity. 3, Progress across Transformation programmes is in line with plans.	We are on track to deliver Transformational financial benefits that are included in the three year plan. We need to continue to closely manage and mitigate risks in line with risk appetite.

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Risks do exist across the portfolio and there is an increased risk of industrial action as a result of Transformation activity.

Appendix – Programme Dashboard

PROGRAMME	RAG	EXPLANATION FOR RAG STATUS
Network Transformation	G	Delivered 2015-16 targets, on track for 2016-17 targets.
Crown Network Development	A	Subject to audit, the Crown network is forecast to exceed the break even target. WH Smiths' contract has been signed. Amber status is due to a delay to automation of POCA transactions, putting £1.5m 2016-17 benefits at risk. Options to accelerate other activity to close benefits gap are being considered.
EUC Branch	A	The project remains at Amber status whilst we work through the commercials and confirm the end state support model for the Simple To Run Network environment.
Point of Sale Software	A	Good progress is being made against the delivery schedule for release 1 of Horizon improvements. Amber status pending baselining of plan and business case.
Back Office IT Transition	A	On track for delivery in September 2016. Amber status due to delays in agreeing exit plans with incumbent vendors.
Support Services Transformation	G	On track to deliver a rationalised, consolidated Support Services operation into Chesterfield by the end of July 2016 and annualised savings of £3.3m.
Simple To Run Network	A	Further detailed analysis required ahead of the June Board.
Transforming Agents Proposition	G	On track.
Defined Benefit Pension	A	Project will remain on amber until the outcome of the consultation period is known.

The Post Office Advisory Council

Author: Jane Hill Sponsor: Mark Davies Meeting date: 24 May 2016

Executive Summary

Context

The Post Office Advisory Council (the Council) has been in existence for two years.

This paper is to update the Board on the background to its formation, the benefits it has brought and its future purpose.

Questions addressed in this report

This paper seeks to address the question: why is the Council important to the Post Office? The answer is twofold:

- it has developed and matured into a forum that makes a positive contribution.
- it symbolises a shift to more mutual ways of working by the Post Office. As the potential for mutual ownership of the Post Office is still part of the legislative framework in which we operate, the continuation of the Council supports this strand of public policy.

Conclusion

The Council is an essential conduit between the Board and its key stakeholders, providing a ready forum for engagement, feedback and discussion around key policy changes and future plans.

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The Report

What is the opportunity?

The Post Office Advisory Council (the Council) was established in March 2014 to provide a mechanism for the Post Office to engage stakeholders and to provide advice and feedback on business issues. (It is not part of the formal governance arrangements for the Post Office.) Terms of reference are in Annex 1.

Membership comprises employees, postmasters, representatives from the unions the NFSP and other businesses including Google and Unilever. Short biographies of members are in Annex 2. Members are not paid. The Council meets three times a year - in March, July and November - and is chaired by Non-Executive Director Tim Franklin.

The Public Affairs team acts as secretariat and also provide strategic oversight and delivery. Our approach during the first year was to bring all members up to the same level of knowledge about the Post Office, our strategy and the challenges we face. During the Council's second year we have moved to a more output-focussed approach, seeking input and insights from members on current issues. The Council is now starting to make a valuable contribution.

Business rationale for the Council

Two years on and seven meetings in, the Council has developed and matured into a forum that has the potential to make a positive contribution to the Post Office at an important time in its evolution. It acts as a critical friend, without being dominated by the interests of either the unions or the NFSP, while bringing the customer perspective as well as insights and experience from other sectors. The Council has become a useful sounding board on current business issues and for testing emerging thinking. Furthermore, members are an engaged and increasingly trusted group. They are also keen to continue with their roles.

Public policy rationale for the Council

The Council was established during the 2010-15 Coalition Government when mutualising the Post Office was a policy objective of Liberal Democrat ministers. A "path to mutualisation" was set out in the Government's response to a public consultation in 2012 – *Building a Mutual Post Office*. A number of pre-requisites were identified, the most important being "*achieving commercial sustainability*" and "*building a mutual culture*"[1]. On the latter, "*the input of those with an interest in the Post Office will be an essential ingredient in that cultural shift*"[2]. The creation of the

[1] Building a Mutual Post Office: The Government's response, July 2012 p.31
[2] Building a Mutual Post Office: The Government's response, July 2012 p.31

Post Office Advisory Council was to be a mechanism for achieving this cultural shift and there was an initial emphasis on the Council's stakeholder engagement role.

While mutualisation of the Post Office has slipped down the Government's agenda, the potential for mutual ownership is still part of the legislative framework in which we operate. The 2011 Postal Services Act provides for only two ownership models: to remain in government ownership or to become a mutual. Today the Council remains the biggest symbol of this mutualism strand of policy in which policymakers have a residual interest. Disbanding the Council at this point in time could be seen as a deliberate move against this strand of public policy.

Our current approach

Experience from recent meetings tells us that the Council adds most value when there is a clear live issue, or work in progress, on which we are asking for input, and the relevant business lead participates in the session. Over the past year we have aimed to have at least one such item on the agenda at each meeting.

Recent examples of these sessions have been:

Post Office Vision (March 2015): Council members challenged the purpose and clarity of an early draft, presented by the Communications Team, leading to a review of the purpose and content of the Vision.

Social purpose of the Post Office (November 2015): the Council was asked to consider how the social purpose of the Post Office should evolve in a commercially sustainable way, to help inform the businesses approach to negotiations with Government on future funding and strategy. Discussions during the session highlighted the importance of the economics for the agent – with differing perspectives from both the multiple represented on the Council, as well as independent postmasters. The session also underlined the role of agents as guardians of our social purpose, and the need for a more joined-up approach with their own initiatives to be part of their local communities.

Future approach to network design (March 2016): the Council was asked to consider how the Post Office could become a more attractive proposition for agents, to inform development of the Simpler to Run Network. The session provided some very clear areas for the Network team to focus on. For example, the need to simplify our products and operation, integrate better with a retailer, align online and store, and do more to promote opening hours.

Through its membership, the Council has also allowed us to foster closer links with, and to learn from, other businesses and sectors. Last year colleagues from People & Engagement were invited by Andrew Moys to attend the John Lewis Partnership Council, the organisation's main democratic body which represents partners and ensures the business is run on their behalf.

We have also benefitted from Google's membership of the Council with Google organising a workshop for Post Office colleagues to look at the opportunity for harnessing the benefits of technology.

Individual Council members have also supported commercial teams, with both their professional expertise and perspective as customers. For example, Marcus Buck, who joined Unilever as a marketing management graduate trainee and is now responsible for one of their global brands, has been working with the Post Office Head of Brand. And Rebecca Glenapp, who runs a successful e-Commerce business, took part in some consultation work that has helped us refine our offer to SMEs.

What do we need to do next to progress?

We intend to develop our approach to the Council, utilising the skills and experience of members to benefit the business.

Each Council meeting agenda will have at least one "work in progress" item, on which we ask for input, with the relevant business lead participating in the session. We will do so by working with the Strategy team to set each agenda, and with the business lead for each agenda item setting clear objectives for the session.

The Council's Terms of Reference set out that, in addition to the Chairman, a second Non-Executive Director would become a member. Neil McCausland took on this role until he stood down from the Post Office last year. Rather than replace him, we propose to invite non-executive members of the Board to attend Council meetings on a rotating basis instead. A list of future Council meeting dates is at Annex 3.

Appendix

1. Terms of Reference
2. Members' biographies
3. Future Council meeting dates

1. Terms of Reference

PURPOSE

The Post Office Advisory Council (Council) exists to provide a forum for Post Office stakeholders and other experts to discuss issues of interest and importance that impact on customers, stakeholders and their communities.
The Post Office Board of Directors provides the primary governance of Post Office Limited (Post Office).

ROLE

The role of the Council is to:

- provide a two-way channel of communications between the Post Office and its stakeholders
- provide a mechanism for stakeholders and experts to offer views and advice to Post Office Board and the Group Executive on subjects brought to it
- increase understanding and strengthen relationships between Post Office, its stakeholders and wider interest groups
- provide a community for advocacy and communication of Post Office issues

The Council

- is not part of the formal governance arrangements of the Post Office
- is not a representative body
- has no decision-making authority
- may provide advice and views on matters brought before it but neither the Post Office Board nor the Group Executive is required to act on that advice or those views

MEMBERSHIP

The Chairman will be appointed by the Post Office Board and will be one of the Board Non-Executive Directors.

There shall be about twenty members plus two Non-Executive Directors of Post Office. Other attendees will be members of the Group Executive (as required by the agenda), and guests as may be invited from time to time at the discretion of the Chairman.

In the absence of the Chairman, a Council meeting may be chaired by any Post Office Non-Executive Director in attendance who is appointed to act as Chair by the members.

Members will be selected to provide a diverse and balanced mix of skills, experience and stakeholder representation. Selection will be through a mix of invitations for nominations from key stakeholder groups and advertised competition, with interviews to ensure the membership has a strong mix of skills, and fully reflects the geographical, stakeholder, social, community and commercial interests. The aim is to ensure members represent views from the following broad categorisation of areas.

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

Initial appointments will be for periods of two, three or four years to ensure continuity of membership. Thereafter members will generally be appointed for a term of four years, renewable upon application for further terms of one year at the discretion of the Chairman.

There is no right to renew membership and renewal may be refused on any reasonable grounds including the need to refresh membership in order to stimulate fresh debate.

Membership will be terminated if a member misses two meetings within the term of their appointment.

CONDUCT OF MEETINGS

All members will be given reasonable written notice of meetings.

Meetings will be held three times a year, and will last a full morning.

Members cannot send deputies except in the case of corporate members whose attending member is unavailable. No deputy shall be allowed to attend unless approved in writing in advance by the Post Office.

Members cannot bring guests unless approved in writing in advance by the Post Office.

All meetings shall be treated as confidential unless otherwise specified.

Recording of meetings on any form of media is not permitted.

Any member may be requested to leave a meeting if in the absolute discretion of the Chairman he believes the member's conduct is or is likely to be detrimental to the purpose of the Council and the overriding objective of a constructive exchange of views and debate.

The Chairman will feed back the views of the Post Office Board and Group Executive at each meeting.

Following each Council meeting, the Chairman will provide feedback to the Post Office Board and Group Executive as appropriate.

EXPENSES

Members will not be paid, but will be reimbursed reasonable out of pocket expenses for attending meetings upon production of written receipts for the expenses incurred. If there is any dispute as to the extent of any expenses to be recovered, the Chairman's decision will be final and binding.

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GOVERNANCE

The Post Office Secretariat will attend all meetings, and take a note of proceedings and discussions at meetings.

Agendas and a summary of minutes of Council meetings will be published, redacted where appropriate to protect confidential information and circulated to members.

The agenda will be set by the Post Office. Requests for items to be included on the agenda should be made to the Chairman in writing (including email). The Chairman is not obliged to accept any item on to the agenda.

If the Chairman does accept an agenda item, he may request that the point under discussion be supplemented or supported by an accompanying document or documents. Failure to supply any supporting documents reasonably requested by the deadline given will lead to withdrawal of the item from the agenda.

February 2015

2. Members' biographies

Elizabeth Armstrong

Elizabeth has a background in customer services for Nationwide Building Society where she was also National Executive Officer and Individual Cases Officer for the Nationwide Group Staff Union. Now retired Elizabeth is involved in local politics and is a parish councillor. Not only does she bring a background of working in the financial services area she also has a keen interest in enhancing services for rural communities.

Theo Bertram

Theo Bertram is Head of Public Policy and Government Relations at Google UK. Prior to joining Google in 2011, Theo was Head of Public Affairs at Telefonica O2. Between 2006 and 2010, he was a Special Adviser to the Prime Minister for both Tony Blair and Gordon Brown and was Head of the Research and Information Unit at 10 Downing Street.

Marcus Buck

Marcus was born and grew up in Liverpool. After graduating from Cambridge University with a degree in History he worked for a large advertising agency on campaigns for Radox, Santander and Boots. He then joined Unilever as a graduate trainee in their Marketing function, he has also been the Brand Manager for Dove Men+Care.

Andy Burrows

Andy Burrows is the Head of Post Office Policy for CITA. He leads the organisation's work to promote the consumer interest in all aspects of Post Office services, including the quality, accessibility and sustainability of the branch network. His work programme also explores potential new services which could be offered through the Post Office, including government services, credit unions and banking solutions for low-income consumers.

Andy previously worked for a predecessor body, Postwatch, managing its consumer scrutiny and research programme; and before that undertook research projects for think tanks.

Tim Coomer

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Tim has a background in rural retailing and has worked for a FMCG wholesaler before spending some time working for Community First where his work involved managing successful support, advisory and training programmes tailored for rural retailers and postmasters across the south west. Tim has a wide range of experience with both independent and community retail coupled with an extensive knowledge of issues faced by both rural communities.

Pardeep Duggal

Pardeep is Head of Digital Marketing at E.ON. Pardeep's team manage the E.ON website, mobile app and email campaigns, as well as digital marketing including social, paid activity and working with third parties.

Prior to joining E.ON, Pardeep worked in retail and financial services, always in marketing, and moved into digital during its infancy.

Chris Feliciello

Chris is an Area Manager for a high street chain and has worked for them for over 20 years, holding a variety of positions in Yorkshire, Greater Manchester and North Wales. Chris sits on Community Pharmacy Wales, supporting the interests of community pharmacies in Wales.

Tim Franklin (Chair)

Tim Franklin joined the Board of Post Office Limited as a Non-Executive Director on 19 September 2012. He has 30 years experience working at board level in a variety of financial services businesses in both the mutual and private sectors.

David Foley

David is the Chief Executive of three Chambers of Commerce, an Industrial Professor at East Kent College and a Director of Academy FM, Dover People's Port Trust and Thames Capital Ltd. He sits on the board of a variety of community organisations and private companies in different sectors of the economy.

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Rebecca Glenapp

Rebecca Glenapp launched LUX FIX with Alice Hastings-Bass in the summer of 2012. Rebecca started her career in strategy consulting before leaving to work in business development for digital start-ups for several years. The aim behind LUX FIX was to build a business that offered an alternative to mass-market brands, working with independent designers who provide the quality in materials and design without the normal "designer" price tag. They now have over 150 designers on the site and have launched e-shops for the Telegraph, Independent and Evening Standard fashion teams.

Farida Iqbal

Farida has been working with Post Office Ltd for 18 years in a variety of different roles and has seen the business adapt to the changing needs of its customers. Farida's experience includes working as a counter clerk at Crown branches, supporting teams in the agency network, working with payment services on tenders for energy and water utilities and she now works on the Network Transformation Programme.

Nilesh Joshi

Nilesh Joshi, is the National Executive Officer of the National Federation of Subpostmasters. He has been an active member of the Federation for the last 15 years and joined the executive team after taking various roles at branch and regional level.

In November 1990, Nilesh became the postmaster of the Forest Hill Road branch in East Dulwich, which he still runs. In 2009 the branch won the Asian Trader Independent Retailer of the year.

Marc Kidson

Marc is the Chair of the British Youth Council, a national youth campaigning charity, and has been a researcher at the Institute for Government, a cross-party think tank helping to improve the effectiveness of government. He served on the Post Office's Stakeholder Forum from October 2011 to December 2013, looking at how the Post Office defines its public purpose as an organisation.

Ben Lucas

Ben Lucas has a background as Chair of Public Services at the RSA. He is a public policy and communications entrepreneur and has worked at the heart of the public policy world for over three decades. He was previously founding Director of the 2020

Public Services Trust. He began his working life as the research officer for the construction union, UCATT; before becoming Jack Straw's adviser during the mid-1990s. Following this, he co-founded and became Managing Director of LLM Communications, which became the leading independent public affairs advisory firm in the UK. Ben is a founding Trustee of the think tank, New Local Government Network, and an adviser to the Joseph Rowntree Foundation.

Ismail Loonat

Ismail has around twenty years' experience as a postmaster and over the years has built a strong rapport with the local community and businesses. Ismail's efforts were acknowledged when he was one of finalist for the Royal Mail Chair excellence award in 2009.

More recently, his Post Office obtained funding from the Post Office Community Enterprise Fund. Ismail is an active community worker and has been a volunteer for numerous charities.

Andrews Moys

Andrew has recently moved on from his role of Director of Communications at John Lewis Partnership. He managed the Partnership's communications team of 25 with responsibility for government and media relations, internal communications including the Partnership's weekly magazine, The Gazette and the John Lewis Partnership website.

Andrew started his career in management consultancy, before specialising in corporate communications working for BAA, the world's largest airports company, and then at Cadbury, the global confectionery brand.

Brian Scott

Brian Scott is the Unite Officer for the CMA Sector of Unite. His responsibilities are for all Unite members in the postal sector. Other areas for which Brian is responsible are the European Social Dialogue and the Uni-Europa Postal Committee.

Brian has been a member of the Labour Party for over 30 years and is currently chair of the Tywford branch. He joined the Post Office in 1974 and worked in BT for a number of years before taking on his current role. He was a member of the CMA Executive Council from 1984 to 1991 and held the position of National Vice-Chair for three years and was Chairman of the Telecom Executive Committee for 4 years during this period. He was made a National Honorary Member of the CMA in 1992.

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Lynn Simpson

Lynn is a full time union representative for the Communication Workers Union. This year she was elected onto the Postal Executive of the CWU, the first woman from Post Office to hold this position

Other positions she has held include Area Health and Safety, Industrial Relations, Area Representative and Territorial Chair of the Southern Territory. She has been involved in various joint working programmes including several National Duty reviews and a new way of working trial which had staff engagement, customer satisfaction and increased income at the heart of the pilot.

Nicholas Stuart

Nicholas is an NHS Consultant Cancer Specialist working in North Wales as a Professor of Cancer Studies at the University of Bangor. Nicholas has worked in North Wales for the past 21 years having previously trained in Southampton, Birmingham and Oxford. Previously Nicholas has been Lead Cancer Clinician for North Wales Cancer Network and Chair of the Welsh Forum of Local Negotiating Committees. He is involved with a number of charitable groups including those that raise funds to help local cancer services in North Wales and with the Northwest Cancer Research Fund based in Liverpool.

Kevin Twynholm

Kevin is a lifelong retailer with a passion for innovation and meeting the ever-changing needs of customers. He currently works for One Stop Stores Ltd overseeing Retail Projects, Store Productivity and Services.

He has been involved with the Post Office Network Transformation programme since the days of Post Office Essentials and has led the conversion of over 100 branches to the new Local and Mains models.

Donna Underhill

Donna joined the Post Office in 2004 as a counter clerk and has worked in various roles in the Crown Network before becoming Branch Manager 6 years ago. Previously Donna has worked with First Friday and has been influential on all aspects of the Crown Leadership Excellence Programme which has underpinned the whole vision strategy.

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3. Future Council Meeting Dates

6th July 2016

2nd November 2016

15th March 2017

5th July 2017

8th November 2017

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IRRELEVANT Update to Post Office Board

Author: Nick Kennett Meeting date: May 2016

Executive Summary

Context

IRRELEVANT

At its IRRELEVANT meeting, the IRRELEVANT board approved a five business strategy. It is proposed that a summary of this strategy is presented to the Post Office Board in July.

Questions this paper addresses

1. What progress was made in 2015/16 towards delivering the strategic objectives?
2. What return on investment will IRRELEVANT achieve?
3. What is the strategic plan for POMS and will this deliver the long term growth anticipated in the FS strategy plan?
4. What are the key risks to the delivery of the Plan and what is the level of confidence for its delivery?

Conclusion

1. In 2015/16 IRRELEVANT completed many of the key building blocks as anticipated in the long term strategy and the value opportunity from the business model is being realised; core board, risk and governance structures are operational.
2. After a slow start, with IRRELEVANT completing later than originally budgeted, 2015/16 EBITDA (excluding exceptional costs) was IRRELEVANT ceeding Q2 forecast by IRRELEVANT IRRELEVANT paid Post Office Limited commission IRRELEVANT in the year. The 2016/17 budget targets a IRRELEVANT
3. The near term focus is t IRRELEVANT

   IRRELEVANT
4. The key financial risk to the current plan IRRELEVANT

   IRRELEVANT

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IRRELEVANT

Input Sought

The Board is asked to note the progress made and confirm support to the strategic direction and business intent set out.

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The Report

Looking Back

1. The overarching strategy and rationale in establishing IRRELEVANT is to:

IRRELEVANT

2. Overview of 2015/16

WHAT HAS GONE WELL?

1. EBITDA (before exceptional costs) in 2015/16 was IRRELEVANT; this was below the annual plan of IRRELEVANT mainly due to a IRRELEVANT IRRELEVANT completing later than originally budgeted. However, the position exceeds the Q2 EBITDA forecast following a strong focus on income recovery and cost control.

2. Following the establishment of IRRELEVANT in 2014 and its management of the IRRELEVANT IRRELEVANT delivered a number of the core building blocks for the long term FS strategy in 2015/16, including:

IRRELEVANT

IRRELEVANT

IRRELEVANT

IRRELEVANT

3. In particular following IRRELEVANT has established clear organisational and governance processes and controls, including:
   → Organisation structure complete, integrating existing Post Office POI IRRELEVANT and selected recruits (in particular risk, strategy and product) into a single, focused team;
   → Board structure complete with the addition of a second INED, as Chair of the POMS Audit, Risk and Compliance Committee;

- → Executive management structures in place in accordance with FCA principals, with Executive, Risk & Compliance and Product Committees operational;
- → Operational processes established with Post Office to drive sales, marketing, digital and se[illegible]s; Post Office insurance team disbanded and integrated into IRRELEVANT

4. Projects to build IRRELEVANT capability to deliver the long term strategy are well advanced and will deliver in 2016/17:

IRRELEVANT

5. In Q3 and Q4 General Insurance sales have been strong, with Home Insurance generating record annual sales and life having strong year-end momentum:
   - → Sales momentum has continued into P1.
   - → As at March 2016 IRRELEVANT had sufficient capital and funding to meet its operational and regulatory requirements. As at March 2016, the regulatory capital was IRRELEVANT

6. In conclusion, IRRELEVANT s well established to deliver the opportunities forecast in the original business plan:
   - → Financial and operational momentum are established;
   - → Management and governance processes are in place;
   - → IRRELEVANT s gaining control of customer proposition and process design from third parties;
   - → Initial capability acquired to deliver long term strategic objectives.

WHAT HAS NOT GONE WELL?

1. In 2015/16 IRRELEVANT
   - → Net commission income in 2015/16 was IRRELEVANT of lower branch sales and delays launching on aggregator websites;
   - → IRRELEVANT and Post Office are IRRELEVANT

IRRELEVANT

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IRRELEVANT

2. 2015/16 operating costs were IRRELEVANT from higher contact centre costs and IRRELEVANT being dependent on consultants and contractors ahead of IRRELEVANT
   → Contact centre costs have been brought down and we are working with our provider (WebHelp) to bring this down further;
   → Consultancy costs have been cut, in particular for compliance services, as third party team have been replaced by specialist IRRELEVANT staff.

Looking Ahead

STRATEGY OVERVIEW & OPPORTUNITY

1. The 2016/17 budget targets an EBITDA of IRRELEVANT) with income IRRELEVANT
   IRRELEVANT
2. IRRELEVANT has updated its business strategy [1] targeting to build a sustainable competitive advantage and grow market share by:

   IRRELEVANT

3. In 2016/17 we will continue to build the capabilities required to realise IRRELEVANT potential:
   → IRRELEVANT

[1] The strategy is being discussed for approval at the May 2016 POMS Board meeting.

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IRRELEVANT

RISKS ON DELIVERY

There are a number of risks that need to be reviewed and managed accordingly, including:

IRRELEVANT

IRRELEVANT

3. The next stage of IRRELEVANT development is IRRELEVANT

IRRELEVANT

4. IRRELEVANT could under-estimate the complexity and capabilities required to take on the responsibilities undertaken by IRRELEVANT

IRRELEVANT

5. IRRELEVANT

→ Post Office is unable to support the digital or data agenda;
→ Corporate services resources are unavailable or insufficient to support the plan;

IRRELEVANT

In Conclusion

CONFIDENCE?	IMPLICATIONS?
Overa IRRELEVANT s well positioned to deliver on the long term growth plan. Key strategic deliverables in 2016/17 are critical and will provide the structure for the future.	Failure to deliver will impact POMS' financial growth and return on investment. IRRELEVANT s focused on working with Post Office to build confidence that is it able

IRRELEVANT s very dependent on Post Office delivery and in IRRELEVANT IRRELEVANT My overall confidence that IRRELEVANT will deliver 2016/17 plan is **good** and on the long term plan is **balanced**.	to deliver in-branch sales targets compliantly, effective marketing support and digital capability.

Nicholas Kennett
IRRELEVANT
May 2016

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Data Dashboard

2016/17 Plan

The proposed 2016/17 Plan is for IRRELEVANT
IRRELEVANT

IRRELEVANT

Gross Income	IRRELEVANT
Cost of Sales	
Net Income	
Staff Costs	
Non-staff Costs	
POL Commission	
Total Expenditure	
EBITDA	
EBT	

The mid-year 2015/16 acquisition of the IRRELEVANT business from IRRELEVANT has a distorting effect on year-on-year comparisons. To remove that distortion, a restated 2015/16 comparator has been calculated on a current run rate basis, excluding any unique one-offs, to give a like-for-like view.

Against this restated comparator, IRRELEVANT with IRRELEVANT growth more than offsetting a decline in Car. The Plan for total operating costs is flat at IRRELEVANT with savings in operating costs off-setting increased staff costs (reflecting the expansion of the IRRELEVANT team headcount) and increased POL commissions due to increased net income. Together these result in an EBITDA of IRRELEVANT IRRELEVANT than the latest Q3 2015/16 forecast and IRRELEVANT than the post IRRELEVANT adjusted forecast. However, planned EBITDA continues to include an unallocated income stretch of IRRELEVANT (actions have been identified in order to deliver the cost stretch).

The plan profit increases IRRELEVANT excess capital.

Annual Report and Accounts 2015/16

Author: Dave Carter Sponsor: Alisdair Cameron Date: May 2016

Executive Summary

Context

1. The draft 2015/16 Annual Report and Accounts (ARA) is presented to the Board for review.

2. POL usually signs and publishes its ARA at the end of June or the first week of July. This timetable has been maintained, giving an extended post balance sheet review period to provide further assurance over the completeness and accuracy of the results.

3. The papers comprise a draft ARA, a briefing book setting out details of the financial results and a report from Ernst & Young on their findings to date.

4. This draft of the ARA has been slightly updated for individual comments from the version sent to the ARC but has not benefited from the debate at the ARC which meets on 19th. It is proposed that the Chairman of the ARC presents a verbal update for the Board summarising the ARC's discussions. However, if there are material re-writes proposed, we will let you know.

5. The Board is being asked to delegate authority to the ARC to approve the ARA on its behalf. It is proposed that a short ARC call is arranged for the end of June to confirm the completion of the work, review any findings and agree that the ARA can be signed and published, within the Board's delegated authority.

Questions

6. The following questions are addressed:
   - In summary, what were POL's financial results for 2015/16?
   - What is the status of the work to support the ARA?
   - What issues are we drawing to the Board's attention in their review?

The Main Report

Financial Results

7. Post Office made an operating profit of £105m and an EBITDAS loss of £24m in 2015/16. This represented a significant improvement in EBITDAS from a loss of £57m in the previous year. Commercial turnover was broadly flat at £981m, with total revenue declining with the planned reduction in the Network Support Payment. Progress towards break-even has been made by reducing net costs, especially through the impact of Network Transformation on agents' pay and in spite of higher pensions and bonus costs.

8. Overall, in line with our plans and budgets, POL is in a temporary period when we are spending more on transformation than we receive through the declining Government Grant. As a result, we uses more of our facility with government, increasing borrowings by £155m to £465m, against a limit of £950m.

Audit Status

9. As previously discussed with the ARC, given the need to strengthen the financial control environment, additional accounting and audit procedures are being carried out. The bulk of this work is finished.

10. No significant issues have been identified in the work to date. Internal POL reviews have identified a number of small adjustments, netting at a £1.2m reduction in EBITDAS, which have been adjusted for in this draft of the ARA. The ARA also reflects some judgemental adjustments agreed with EY and summarised in their report: these net to a £0.1m reduction in profit, with no impact on EBITDAS.

11. As agreed with the ARC, procedures will be completed during the next few weeks and updated with ongoing reviews of post year end transactions.

Matters for the Board's attention

Basis of preparation

12. The financial statements have been prepared on a basis that is consistent with prior years, including the assumption that POL is a going concern. The logic underpinning this assumption is set out in section 12 of the Briefing Book.

13. Nonetheless, the Board has recognised that the longer term financial stability of POL is uncertain, with no funding or facilities guaranteed after March 2018. We have therefore continued to impair the bulk of our capital expenditure and intangible assets in the year in which it is incurred. The amount written off in 2015-16 was £136m (2014-15 £140m) and further details are set out in section 19 of the Briefing Book.

14. The exceptions to this policy have been freehold property and long leasehold property and land, reflecting their long term economic value independent from business activities.

15. In addition, we have concluded that it is appropriate to capitalise the goodwill incurred on the acquisition of the remaining 50% of the joint insurance business from Bank of Ireland without immediate impairment. The value is £44m. POMs is a separate, profitable Cash Generating Unit, will generate future revenues and has an economic life of its own: in 2015/16 only 6% of the sale and renewal income of the acquired business was generated by the POL network (14% of new sales). The business therefore has considerable resale value and could continue to trade without POL. The carrying value of the goodwill will be reviewed at each reporting date for any impairment, with no loss in value observed at March 2016.

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Restatement

16. As disclosed in the Interim report and accounts, the comparative figures for the year ended 29 March 2015 have been restated. The provision for postmasters' compensation, included in Network Transformation, has now been fully recognised in the results for the year ended 29 March 2015. The restatement affects exceptional costs, provisions and retained earnings as set out in the table below. Within this report, the comparative income statement, statement of comprehensive income, balance sheet and statement of changes in equity for the year ended 29 March 2015 have been restated. There has been no effect on the cash flow statement.

	As previously reported	Restatement	29 March 2015 Restated
Total provisions	(63)	(87)	(150)
Shareholders' funds (retained earnings)	(72)	(87)	(159)
Profit/(loss) for the year	(54)	(87)	(141)

Discontinued Operation

17. Prior to the year end the business took the decision to discontinue the Mobile telephony operation. In consultation with EY, this has been treated as a Discontinued Operation in the financial statements, reported below EBITDAS and Operating Profit.

18. The net impact is a £2.8m increase in 2015-16 EBITDAS (2014/15: £3m) as operating costs of £3m and income of £0.16m are removed. Within Discontinued Operations, the total impact is a £10m cost, additionally reflecting £3.7m of balance sheet write-offs (2014/15: £1m) and £3.5m of provisions relating to estimates of exit and termination costs.

Disclosures

19. In the draft ARA, we have made some reductions in the amount of disclosure. The ARC previously took the view that we should no longer be seeking to comply with the Combined Code as an objective in itself, given the associated costs and bureaucracy. As a result, some disclosures are optional.

20. In summary, we have removed the segmental reporting note as the key information is already stated in the Financial and Business Review. We have retained a section on Risks. We have removed the very detailed report on Directors' Remuneration. However, on the advice of our shareholder, we have put more disclosure around directors' remuneration in the notes to the accounts than is required by legislation, including a table of individual earnings and a brief explanation of the incentive plans.

21. In the note on Commitments (Note 19 to the Group Financial Statements), we have included a general statement headed "Contingent Liabilities", noting that from time to time we may face legal claims and concluding that "The Directors do not consider the outcome of any current claim or action will have a material adverse impact on the consolidated position of the Group."

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22. We have been notified by a law firm of a claim on behalf of a group of 91 Postmasters. The claim has been filed in the High Court, but has not been formally served on us. Among the claimants are individuals who we believe may not participate in a class action, either because they are time limited, have criminal convictions or have previously reached a full and final settlement with us. The claim is not valued and no new information has been provided.

23. Clearly, no provision has been raised as we think the chances of making a payment that we can reliably estimate is remote. In addition, we have concluded that to disclose the existence of the claim would give it a spurious importance. EY are keen that the ARC and the Board debate this point and have recommended it is disclosed. Potential, additional wording might be: *"A High Court Claim has been issued on behalf of a number of Sub-postmasters against Post Office in relation to various legal, technical and operational matters. Full Particulars of Claim have not yet been received by Post Office."*

Input Sought

24. The Board is requested:

- to review and comment on the draft Annual Report and Financial Statements for 2015-16;
- give delegated authority to the ARC to approve the Annual Report and Financial Statements; and
- give delegated authority to the Chairman, the Chief Executive and the Chief Financial Officer to sign the Annual Report and Financial Statements following approval by the ARC.

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Draft to Board – IN STRICTEST CONFIDENCE –17 May 2016

The Post Office

2015/16 Annual Report and Financial Statements

Contents

Draft to Board – IN STRICTEST CONFIDENCE –17 May 2016

Chairman's Foreword

I was delighted to be appointed Chairman of the Post Office in September 2015, and I have very much enjoyed getting to know the business over the last few months. In the first place the job of the Post Office is to provide some essential services to our customers, and we are very conscious of our obligation to ensure that 90 per cent of the population has a post office within a mile of where they live. This amounts to operating the largest retail network in the UK with over 11,600 branches dedicated to meeting the needs of a myriad of different communities throughout the country. I am proud to be part of this long tradition of service to the public. But we are also a commercial business, and in this report we have sought to provide a clear view of how we are performing, and the challenges that lie ahead. For many years the Post Office has relied on a subsidy from the Government and has also received a considerable amount of investment from public sources to modernise the network. As a result of this investment, and thanks to the efforts of postmasters and our staff to improve our business in many areas, the public subsidy has declined steadily and EBITDAS, our key measure of performance before subsidy, has improved from a loss of £57m last year to a loss of £24m in 2015/16.* Considering that the EBITDAS three years ago was a loss of £116m, this demonstrates the substantial progress made in recent years. During 2015/16 the actual Network Subsidy Payment received from the government reduced from £160m to £130m.

In a time of straightened public finances, we cannot expect to call on the taxpayer indefinitely, and the time has come for the Post Office to take on the challenge of becoming a fully sustainable profitable business, whilst at the same time maintaining its public service obligations. If we are to be successful over the medium term, we need to be capable of generating sufficient resources internally so that we can invest in business development and growth in the future. The Post Office is a national brand, trusted by consumers across a range of activities: postal services, cash transactions, financial services and telecoms. Whilst we may need a small element of Government funding over the medium term to maintain 3,000 or so community branches, there is no reason why we cannot achieve positive financial results from the rest of our business. In particular the Post Office has significant potential in the financial services market, but that will require substantial investment behind our brand in what is a competitive marketplace.

Over the last few years there has been significant investment in the Network Transformation Programme, and this is now bearing fruit in terms of a business model that is more flexible and meets the needs of our customers. I was very pleased to open the 6000th branch to be modernised in Nyetimber in West Sussex earlier this year. Now operating from a bright refurbished local convenience store, it is open an extra 25 hours a week, including Sunday. It seemed to me that the postmaster, Than Thevarajah, epitomises the energy, entrepreneurial spirit and customer focus that lies at the heart of the modern Post Office. Whilst maintaining a comprehensive service offer, the post office till fits well into a thriving retail business, creating footfall, and an opportunity to enhance a personal service to customers.

At the same time as we have invested in our sub post offices, we have also made good progress with our own operated post offices: self service kiosks have proved popular, and have helped to reduce queues at peak times. To operate post offices in expensive prime retail town centre locations with limited commercial add-on activity, can be a financial challenge, although considerable progress has been made on stemming the losses in this area.

* Please see the Financial and Business Review on Page 7 for the calculation of EBITDAS.

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Draft to Board – IN STRICTEST CONFIDENCE –17 May 2016

As Paula's report explains, several of the markets we operate are experiencing some turbulence, but it can be done; the post office can still be a very attractive business proposition in an appropriate retail setting.

This year has seen some changes to our Board. I would like to thank three of our members who retired last year for their contribution to the revitalisation of the Post Office: Alice Perkins, my predecessor, Neil McCausland and Alastair Marnoch. I very pleased to welcome two new members of the Board – Carla Stent who is chairing our Audit and Risk Committee, and Ken McCall, who is chairing our Remuneration Committee. I would also like to acknowledge the supportive role of our shareholder, the Department of Business, Innovation and Skills, in the continuing development of the Post Office. Similarly, I would like to record my appreciation of the work done by our Post Office Advisory Group, chaired by Tim Franklin.

I have been struck by the diversity of our branches around the country, and yet there is a common thread: they are places where all people and businesses can, and do, use a range of services that are important to them in their everyday lives. This combination of commercial focus and community involvement is exemplified by local postmasters such as Bryan Hewson at Amble in Northumberland. Bryan has fully modified his branch which contains a community hub where people can come in and use computers and get online. He is actively expanding his business and is a key part of the community that won the coastal town section of the Great British High Street awards this year.

Bryan and his team are great examples – but they are not unique. So most of all, I would like to pay tribute to everyone looking after our customers in the front line or in support, for their hard work and their dedication to the highest service standards. All of these men and women make a difference every day of the week to the lives of the many people who depend on the Post Office: thank you.

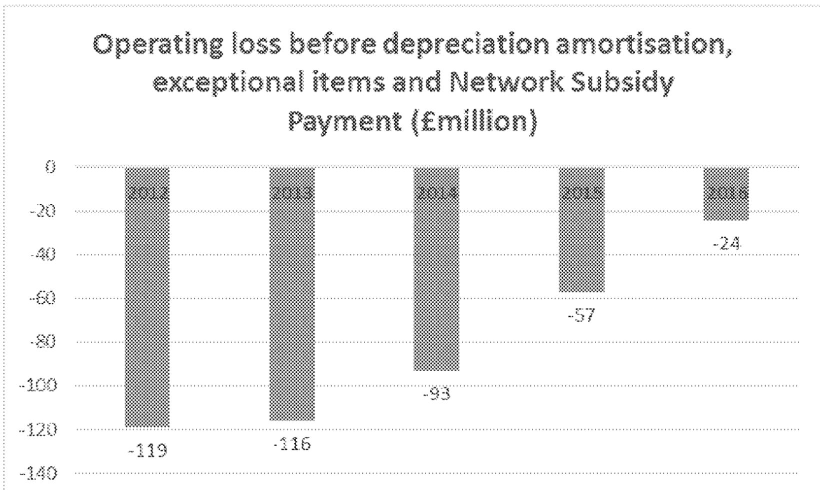
Draft to Board – IN STRICTEST CONFIDENCE –17 May 2016

Chief Executive's Statement

The Post Office results for 2015/16 show continued progress towards commercial sustainability and reduction in reliance upon Government. In 2015/16 we have reduced our operating loss before subsidy by £33 million and financial support from Government by £50 million.

I am pleased we have increased our commercial turnover from £976 million to £981 million, in the face of very challenging market conditions. We have grown revenue in our Financial Services and Telecoms markets and maintained our Mails market position; our Government Services revenue has declined. We have also delivered a £28 million reduction in cost across the business.

In 2015/16 we posted a loss of £24 million in our key EBITDAS measure maintaining a trend of steady improvement:



The cash position of the company continues to be sound. It operates well within its facilities to meet its own trading needs as well as enabling its network of Post Offices to pay and receive money on behalf of the range of partners with whom we operate.

Our strategy is to build profitability whilst at the same time reducing year on year funding from Government, thereby creating the potential to re-invest to secure the future of our nationwide network. This enables around 60,000 of our Post Office colleagues in 11,600 communities to undertake around a billion transactions a year on behalf of our customers – increasingly essential services to local communities as banks and other businesses withdraw.

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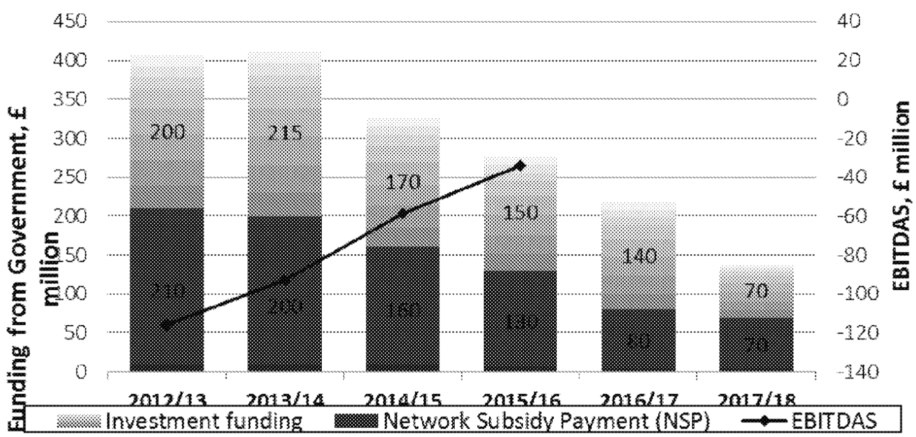
The implementation of this strategy is reflected in our performance;



To continue this progress, the Post Office needs to enhance its competitiveness and customer service in the fast changing Mails, Financial Services, Government Services and Telecoms markets in which we operate. And our central and support services need to become simpler - and cheaper - to run, thus creating the conditions for postmasters to trade profitably and sustainably.

This requires:

- continued investment in the transformation of the branch network, and in IT and digital capabilities to promote convenience to customers and flexibility in meeting their needs.
- A greater focus on simplifying our central and support functions, enabling a more ambitious reduction in costs
- ongoing development of profitable own brand products in Financial Services and continued effective long term relationships with both the Royal Mail and others for whom we are a trusted distributor.

In 2015/16 we have made progress in each of these areas. Working with postmasters across the UK, we have passed the milestone of modernising 6000 branches, adding 190,000 extra opening hours and improving adjacent retail/convenience offers too. I'm delighted these postmasters and their staff have achieved over 95% customer satisfaction. We have started to restore the financial position of our larger branches where we faced particularly high operating costs: my thanks to colleagues in the Crown Post Offices who over a four year period have moved from a £46 million annual loss to a breakeven position. We have completed the separation of our IT infrastructure from that of Royal Mail Group. We have made our first acquisition, buying our joint insurance business from the Bank of Ireland. We have commenced the restructuring and simplification of our central support functions and service centres that support our branch network and its service to our customers.

These are important milestones and, combined with our improving financial results, they provide confidence in our capabilities for the future. I am grateful to all those who work in Post Offices and

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those who support them in various centres across the UK for their huge commitment, their professionalism and their delight in serving customers.

Looking forward, I am in no doubt that the Post Office has a bright future. But at present our reality is that we still make a loss. Some of our product markets are in structural decline – particularly in Government Services where the shift online has reduced turnover by 9.2%. And where we have identified significant potential growth in areas such as Financial Services and Telecoms, these markets are intensely competitive with well established incumbents. The mails market is evolving rapidly and success will demand ongoing innovation and flexibility. Our Government funding is only in place until 2018 and is reducing significantly.

Our overriding objective is to support a sustainable and thriving network of Post Offices, from a low cost support structure. There remains further work to do before we make enough money in competitive and changing markets to reinvest sufficiently and sustainably in our systems, branches and customer propositions. That means continuing to ask the hard questions of ourselves and being resolute in implementing the answers.

To that end we have launched consultations with our people on closing our defined benefit pension scheme to future accrual and [on reducing the operating cost of providing cash to Post Offices]. Further changes will follow but I am determined that, as we implement change, we stay true to our values. The trust in the Post Office brand is built on its people; and especially as we go through change we will take care to ensure everyone is treated with respect.

The prospect of further and potentially difficult change can be a hard message on the back of the real progress that has been made during 2015/16. But it is the right thing to do and the only way we can ensure that Post Offices remain open in every community and have a bright future serving our customers and delivering our public purpose, ensuring services are available across the UK for another generation.

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Financial and Business Review

Summary results

The Post Office has maintained its commercial turnover with growth in Financial Services and Telecoms offsetting a planned decline in the Royal Mail fixed fee in Mails and decreases in Government Services and lottery turnover.

Our total revenue decreased by £25 million (2.2%) because of the planned reduction in the Network Subsidy Payment (NSP) from Government. In spite of that, cost reduction and the benefits accruing from continued high levels of investment enabled operating profit before exceptional items to increase by 1.9%. Moreover, the critical measure of EBITDAS (operating loss before interest, taxation, depreciation, amortisation, subsidy and exceptional items) which strips out the Network Subsidy Payment showed significant improvement reducing the loss from £57 million to £24 million.

Key Financial Performance Indicators

	2016	2015 Restated	Change
Turnover	£981m	£976m	£5m
Operating profit before exceptional items	£105m	£103m	£2m
Operating loss before, depreciation, amortisation, exceptional items and Network Subsidy Payment (EBITDAS)	(£24m)	(£57m)	£33m
Net cashflow	(£109m)	£184m	(£293m)

Profit and Loss Summary

	2016 £m	2015 Restated £m	Variance £m	Variance %
Turnover	981	976	5	0.5
Network Subsidy Payment	130	160	(30)	(18.8)
Revenue	**1,111**	**1,136**	**(25)**	**(2.2)**
People costs	(233)	(238)	5	2.1
Other operating costs	(808)	(831)	23	2.8
Total costs	**(1,041)**	**(1,069)**	**28**	**2.6**
Share of profit from joint ventures and associates	35	36	(1)	(2.8)
Operating profit before exceptional items from continuing operations	**105**	**103**	**2**	**1.9**
Add: Depreciation	1	**0**	1	
Less: Network Subsidy Payment	(130)	(160)	30	(18.8)
EBITDAS	**(24)**	**(57)**	**33**	**57.9**

Revenue

The Post Office's total revenue decreased by £25 million (2.2%) to £1,111 million due to a decrease of £30 million in the Network Subsidy Payment (government grant revenue put towards the costs of maintaining the Post Office network). The Post Office segments income into four pillars: Mails and Retail, Financial Services, Government Services, and Telecoms. This commercial turnover increased by £5 million to £981 million. The pillars and their performance are detailed on the next pages:

	2016 £m	2015 Restated £m	Variance £m	Variance %
Mails and Retail	380	388	(8)	(2.1)
Financial Services	303	290	13	4.5
Government Services	128	141	(13)	(9.2)
Telecoms	130	120	10	8.3
Other income	40	37	3	8.1
Turnover	981	976	5	0.5
Network Subsidy Payment	130	160	(30)	(18.8)
Revenue	**1,111**	**1,136**	**(25)**	**(2.2)**

Mails and Retail

Mails and Retail includes the sale of parcels and other Mails products provided by Royal Mail and Parcelforce. It also includes Lottery and Retail services such as sales of collectibles as well as packaging and stationery. Revenue decreased in the year by £8 million (2.1%) whilst transactional volumes in mails increased slightly.

	2016 £m	2015 £m	Variance %
Mails services	334	340	(1.8)
Retail and Lottery	46	48	(4.2)
Mails and retail	**380**	**388**	(2.1)

Overall mails services revenue reduced by £6 million (1.8%) to £334 million. However, this was driven by a planned reduction of £7 million in the fixed fee part of the contract with Royal Mail Group. Product sales improved slightly by £1 million in the year. This position was underpinned by a good sales and service performance over the Christmas peak period (year on year trading income was 3.6% higher) and by growth in areas related to online shopping (Home shopping returns grew by 25%). The mails market remains competitive and fast changing as it continues to shift towards package related activity and premium tracked products like Special Delivery.

The £2 million reduction in turnover from Retail and Lottery services was primarily driven by a reduction in Lottery sales due to fewer rollovers and lower prizes.

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Financial Services

The Financial Services pillar includes Post Office Money personal financial services products such as mortgages, credit cards, insurance, savings, ATMs and travel products as well as traditional services such as bill payment and over-the-counter banking transactions.

On 30 September 2015, Post Office Limited acquired from Bank of Ireland UK plc the business and assets of our joint insurance business. Immediately following acquisition, Post Office Limited transferred the business to its subsidiary Post Office Management Services Limited, a FCA regulated entity, which operates the business alongside its existing travel insurance activities.

	2016	2015	Variance
	£m	£m	%
Personal Financial Services	152	127	19.7
Bill payment, banking and other financial services	151	163	(7.4)
Financial Services	**303**	**290**	4.5

Across Financial Services in aggregate, turnover increased by £13 million to £303 million (2015: £290 million), a 4.5% rise. This performance was the aggregate of strong growth in personal financial services such as insurances and mortgages and a decline in more traditional services such as bill payments.

Personal Financial Services turnover increased by £25 million (19.7%). This was primarily driven by increased turnover from new insurance intermediation activities undertaken by Post Office Management Services Limited, and through growth in savings and International money transfers.

Turnover from traditional Financial Services products declined by £12 million. Bill payment turnover fell by £4 million reflecting a continuing shift from paper-based to electronically-delivered products and the increasing use of alternative payment methods. NS&I premium bonds turnover fell and ceased to be available from Post Offices from 1 August 2015.

Offsetting this reduction within traditional products was an increase in banking revenue of £3 million with a 10% growth in banking transactions. Enhanced agreements with Barclays and HSBC to add business customers were made during the year. 95 % of all personal bank accounts in the UK are now accessible via post offices as work continues with the banks to secure an overall framework for universal access. In an era of closures by the major banks, the Post Office network maintains its position as the provider of a national infrastructure which meets community banking needs across the UK.

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 Home Office including Her Majesty's Passport Office (HMPO) and UK Visas and Immigration (UKVI).

	2016	2015	Variance
	£m	£m	%
DWP	75	87	(13.8)
Home Office	34	30	13.3
DVLA	10	20	(50.0)
Other Government Services	9	4	125.0
Government Services	**128**	**141**	(9.2)

Government Services turnover of £128 million decreased by £13 million (2015: £141 million). DVLA turnover decreased by £10 million as customers increasingly use the online channel for motor vehicle licence payments, a trend which has accelerated since the paper disc was withdrawn in

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October 2014. DWP turnover also decreased, by £12 million to £75 million due to a decline in the number of active Post Office Card Accounts and new contractual terms. This however remains a significant market and Post Office service remains important to a substantial number of customers of Government services.

Counteracting the structural decline in the more traditional parts of the market, identity related services posted strong growth. Home Office revenue has increased by £4 million, driven by passport check and send services and biometric enrolment services. Other Government Services turnover has increased by £5 million largely due to the identity related services, including Cabinet Office's new Verify online identity service where Post Office has the highest market share and best first time success rate.

Telecoms

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

	2016	2015	Variance
	£m	£m	%
HomePhone and Broadband	126	115	9.6
E top-ups and phonecards	4	5	(20.0)
Telecoms	**130**	**120**	8.3

Telecoms turnover of £130 million (2015: £120 million) increased by £10 million. This was driven by a strong performance in our Homephone and Broadband services with a £11 million (9.6%) increase in annual revenue to £126 million. E top ups and phonecard revenue fell by £1 million in a generally declining market.

In the competitive Telecoms market an increase of 36,000 additions to the broadband customer base were achieved and pricing adjustments in November 2015 improved revenue per customer whilst maintaining our position as one of the best value providers in the market.

Our approach is characterised by tight management and effective margin control enabling strong performance against market incumbents. Development of this business however needs to be managed carefully to maintain these characteristics and in March 2016 Post Office made the decision to withdraw from the development and roll out of a proposed mobile offer in order to focus on its Homephone and Broadband activities.

Other income

Other income increased by £3 million to £40 million largely due to a change in the amortisation of a historical agreement. Other income is generated primarily from the Supply Chain business that manages and distributes cash for Post Offices and for third parties. The revenue generated by the Supply Chain business has fallen by £3 million as the relatively high cost base made it difficult to attract and retain external revenue.

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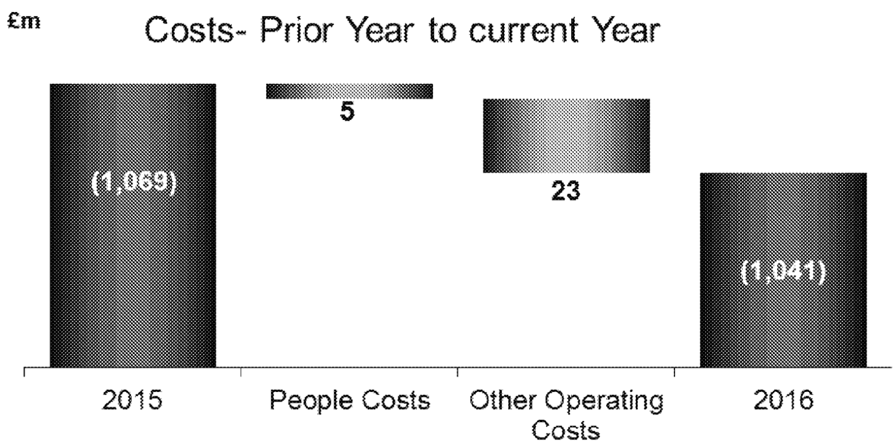
Costs

Total costs decreased by £28 million to £1,041 million (2015: £1,069 million).



People costs of £233 million (2015: £238 million) decreased by £5 million net of an increase to pension costs of £2 million reflecting efficiency savings. Other operating costs decreased by £23 million to £808 million largely due to postmaster remuneration costs being lowered by £22 million arising from the Network Transformation programme. The fixed element of postmaster remuneration cost has fallen by £20 million in the year in addition to a reduction in indirect tax of £2 million. The variable element has remained flat year on year.

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Discontinued operations

The decision to withdraw from the development and roll out of a mobile offer has been disclosed in the Financial statements as a discontinued operation, showing a loss for the financial year after tax from discontinued operations on the consolidated income statement of £10 million.

Exceptional Items

Exceptional items are shown below:

	2016 £m	2015 Restated £m
Operating exceptional items:		
Restructuring costs including postmasters' compensation	(283)	(301)
Impairment of intangible assets, property, plant and equipment	(136)	(140)
Government grant	150	170
Net exceptional items	**(269)**	**(271)**

Operating exceptional items include the costs of delivery of major change and the impairment of non-current assets. These are offset by Government grant funding, received towards the transformation programmes and recognised to match the associated costs. The Government grant funding for 2015-16 of £150 million (2014: £170 million) was received on 1 April 2015 and was fully recognised in the year.

As disclosed in our Interim Report for the six months ended September 2015, an error was identified in the calculation for postmasters' compensation within the Network Transformation programme on the balance sheet and exceptional items charged in the 2014/15 half year and full year. The March 2015 exceptional charge has been restated by £87 million. This was a timing error related to recognition of the liability. It has not impacted payments to postmasters or the overall cost of the programme.

Restructuring costs

Restructuring costs are shown below:

	2016 £m	2015 Restated £m
Network Transformation programme		
-Postmasters' compensation	102	154
-Programme costs	75	73
Crown Transformation programme	23	10
IT Transformation programme	30	16
Business Transformation programme	9	12
Redundancy costs	29	25
Business Transformation payments	4	1
Other exceptional items	11	10
Restructuring costs	**283**	**301**

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Impairment

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 nil.

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. Goodwill is tested for impairment annually as well as when there are any indicators of impairment. As noted above Goodwill relates to the business combination and there are no indicators of Goodwill impairment at the balance sheet date.

Government grants

In addition to the Network Subsidy Payment, the Post Office receives Government grant funding towards the transformation programme. Government grant funding of £150 million was received in the year (2015: £170 million). The additional government grant funding is included within operating exceptional items to match the associated costs.

The grant was allocated to cover £31 million capital expenditure (2015: £59 million), £66 million network transformation related postmasters' compensation (2015: £43 million) and £53 million network and IT transformation programme costs (2015: £68 million).

The level of grants will continue to reduce as set out in the current funding agreement with the Government. State Aid approval for the funding from 2015/16 to 2017/18 was received on 19 March 2015.

Cash Flow and Net Debt

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

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

The cash and cash equivalents amounted to £712 million (2015: £821 million) at the year end. There was a net cash outflow during the year of £109 million (2015: inflow £184 million). Net debt (excluding cash in the Post Office network) increased by £209 million year on year as shown in the table below. As planned, Government Grants, which are not expected to cover all of the costs of Transformation, were received ahead of the associated spend. As a result we are in a period of net expenditure.

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	2016 £m	2015 £m
Net cash (outflow)/inflow from operating activities	(123)	(15)
Income tax recovered	9	11
Net cash outflow from investing activities	(145)	(116)
Net cash (outflow)/inflow before financing activities	**(259)**	**(120)**
Add/(deduct) movement in cash in the network included in net cash inflow	55	(51)
Finance costs paid	(5)	(3)
Net (increase)/decrease in net debt	**(209)**	**(174)**
Net debt brought forward at the beginning of the year	(197)	(23)
Total net debt carried forward at the end of the year	(406)	(197)

Post Office Limited's borrowing facility from the Government and the associated Framework Agreement imposes constraints on the availability of external borrowing and limits the purposes for which the facility can be used to fund the cash and near cash items held within the Post Office Limited network.

Post Office Limited's treasury policy is to minimise the amount drawn down on the loan in order to reduce its interest cost. The facility is limited to a maximum of £950 million, the unused but available facility at the end of the year was £485 million. The maximum drawn down under the facility during the year was £509 million on 6 January 2016. The facility is available at two days' notice and has an end date of 31 March 2018.

Pensions

Post Office Limited is a participating employer within the Post Office Section of the Royal Mail Pension Plan (RMPP), and until 31 March 2015 was a participating employer within the Royal Mail Defined Contribution Plan (RMDCP).

Royal Mail plc 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. The Post Office operates a Defined Contribution Scheme – the Post Office Pension Plan.

On 1 April 2012 – after the granting of state aid by the European Commission on 21 March 2012 – almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP), built up until 31 March 2012, were transferred to HM Government.

On this date, the RMPP was also sectionalised, with Royal Mail plc and Post Office Limited each responsible for their own sections from that point. 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 moved from an asset of £205 million at March 2015 to an asset of £196 million at March 2016. The movement in the surplus is primarily due to an increase in the long term liability partly offset by an improvement in the asset values.

Valuation of the RMPP scheme is carried out triennially with the next valuation being performed as at 1 April 2015. The valuation has not yet been completed due to the current consultation on proposals to close the RMPP scheme to future accrual.

Both defined benefit plans closed to new members in March 2008, and RMSEPP closed to future accrual on 31 December 2012. New employees were offered membership of the RMDCP following this date. With effect from 1 April 2015 new employees were offered membership of the Post Office Pension Plan, previous to this they were offered membership of the RMDCP.

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The future funding of ongoing pension contributions into RMPP and deficit payments into RMSEPP was agreed with the respective pension trustees during the year and payments were made in accordance with the agreements. The net cash payments made are detailed below:

	2016	2015
	£m	£m
Regular pension contributions	(20)	(22)
Funding of the pension deficit - RMSEPP	(1)	(1)
Payments relating to redundancy	(3)	(2)
Net cash payments	**(24)**	**(25)**

The income statement charge for the year was £3 million (2015: £3 million) in relation to the defined contribution scheme and £27 million (2015: £25 million) in relation to the defined benefit scheme.

The regular future service contributions cash rate for RMPP expressed as a percentage of pensionable pay remained at 17.1% (2015: 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 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £220 million of funding on 1 April 2016, £80 million of which was the Network Subsidy Payment and £140 million other Government Grant funding towards the transformation programme.

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Corporate Governance

Good corporate governance continues to support Post Office's journey

Legal Ownership Structure

Post Office is a wholly owned subsidiary of Postal Services Holding Company Limited. The Secretary of State for Business, Innovation and Skills (BIS) holds a special share in Post Office and the rights attached to that special share are enshrined within Post Office Articles of Association.

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

Insert Corporate Structure chart

Corporate Governance Overview 2015/16

At Post Office we maintain standards of corporate governance appropriate for our ownership structure, our commitment to social purpose and our strategy to achieve commercial sustainability. We regularly review these standards to ensure they continue to deliver at the appropriate level for our developing business needs and relevant legal and regulatory advances. As a Government-owned entity we are committed to acting in accordance with the Nolan Principles of Public Life, namely: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The Board is mindful of these principles both in its decision making and in its responsibility for organisational culture.

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Rationalisation of Committee Structure

During 2015/16 the Board reviewed its committee structure. The proposals resulting from this review were to dissolve two committees: Financial Services; and Pensions.

Following dissolution, financial services and pensions risk is now considered by the ARC as part of a consolidated risk approach. In considering the implementation of these changes, the Board reviewed and revised the ARC's terms of reference and membership to ensure that members had sufficient expertise and experience, particularly in financial services. A formal arrangement was also put in place for the POMS ARC to report into the Post Office ARC.

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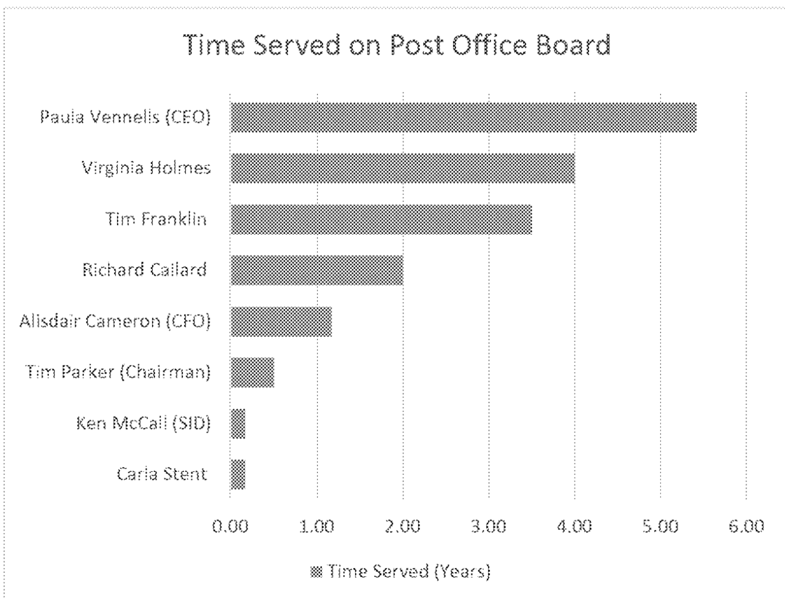
Board of Directors (as at 27 March 2016)

The Board is responsible for setting the business' strategic aims, putting in place the leadership to deliver them, supervising the management of the business and reporting to the Shareholder and determining the Post Office vision, values and organisational culture.

During 2015/16 there was a 50 per cent change in non-executive Board membership but gender diversity was maintained with 37.5 per cent women. This figure is in excess of Lord Davies' recommendation for FTSE Boards of 25 per cent women and significantly ahead of the 19.6 per cent on FTSE 250 boards, as stated in Lord Davies' five year review published in October 2015.

Diversity in terms of time served is important for good succession planning and to maintain an effective level of corporate knowledge and understanding. An appropriate spread of time served ensures freshness of approach combines with knowledge and experience to deliver the most effective strategic leadership for Post Office.



The Board is comprised of an independent Non-Executive Chairman, the Chief Executive, the Chief Financial Officer, five Non-Executive Directors (one of whom is designated the Senior Independent Director) and the Company Secretary. Further information on the Board roles and responsibilities can be found on page XX. Non-Executive Directors are not employees of Post Office but provide services under the terms of an individual letter or appointment, signed at the commencement of their directorship.

Directors' statutory duties are set out in the Companies Act 2006. The primary duty of the directors is to promote the success of Post Office Limited as a Company for the benefit of its Government shareholder and the wider stakeholder community.

Three new Non-Executive Directors were appointed to the Board in 2015/16 and the process followed for their recruitment is set out in more detail in the Nominations Committee report on pages XX. Post Office seeks the most suitable candidates as directors and considers diversity in its

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appointments, including diversity of skills and experience. This is in keeping with the belief of Post Office that a varied balance of backgrounds, experience and insights and a culture of inclusivity across the entire workforce is in the best long-term interests of Post Office and should reflect the communities it serves. In April 2015, Post Office was included in The Times' top 50 employers for women.

Tim Parker	Ken McCall	Paula Vennells
Independent Chairman	Senior Independent Director	Chief Executive
Joined the Board 1 October 2015	Joined the Board 21 January 2016	Joined the Board 18 October 2010
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Richard Callard

Non-Executive Director

Joined the Board 26 March 2014

PHOTO

Alisdair Cameron

Chief Financial Officer

Joined the Board 28 January 2015

PHOTO

Tim Franklin

Non-Executive Director

Joined the Board 19 September 2012

PHOTO

Virginia Holmes

Non-Executive Director

Joined the Board 4 April 2012

PHOTO

Carla Stent

Non-Executive Director

Joined the Board 21 January 2016

PHOTO

Alwen Lyons

Company Secretary

Appointed as Company Secretary 4 July 2011

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Post Office would like to thank the following previous members of the Board who served as Non-Executive Directors during the year 2015/16: Alice Perkins who stood down as Chairman on 31 July 2015; Neil McCausland who stood down as Senior Independent Director on 30 September 2015; and Alasdair Marnoch who stood down on 31 July 2015.

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Group Executive (as at 27 March 2016)

The Group Executive is the most senior management body and is comprised of the Chief Executive, each of her direct reports and the Company Secretary

Membership
The Group Executive is chaired by Paula Vennells, Chief Executive and the other members are:

Alisdair Cameron	Chief Financial Officer
Martin George	Commercial Director
Kevin Gilliland	Network and Sales Director
Neil Hayward	Group People Director
David Hussey	Business Transformation Director
Nick Kennett	Financial Services Director
Alwen Lyons	Company Secretary
Jane MacLeod	General Counsel

Other members of the Group Executive during 2015/16 were:

David Ryan	Group Business Transformation Director (left the Post Office in May 2015)

Role of the Group Executive
The Group Executive implements the strategy agreed by the Board and monitors business performance and development at a day to day level. It meets regularly to discuss latest developments, to discuss proposals for new business development, to receive financial and other performance reports and to monitor business transformation and commercial development. It will also address any urgent issues that have arisen within the business and which 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 the Company Secretary also attend meetings of the Board which facilitates and strengthens the communication channels between the senior leadership, the Board and its Committees.

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Board

Role and responsibilities

The Board is accountable to the Secretary of State for BIS for the performance of Post Office and is required to notify the Shareholder of certain actions, as set out in the Articles of Association.

The Board is also responsible for ensuring compliance with all legal and regulatory requirements, supervising the management of the business, providing constructive challenge to the Group Executive and communicating with the Shareholder. It has a schedule of matters reserved for its decision and has approved terms of reference for its committees which are provided on the Post Office website.

The Board approves the annual budget and business plan each year and did so last in March 2016. The Board regularly reviews reports on performance against that Plan, together with receiving periodic business reports from senior management. Directors are briefed on matters to be discussed at Board and Committee meetings by papers distributed in advance, as well as by management presentations.

In setting the risk appetite for Post Office and establishing a framework to manage and mitigate risk, the Board takes guidance from its Audit, Risk and Compliance Committee, to which it delegates oversight of risk management. This committee receives reports from the Group's Head of Risk and from the internal and external audit teams. Further detailed information on the management of risk within Post Office, together with identification of principal risks, their impacts and mitigation can be found in the Management of risk section on pages XX to YY.

Accountability

The Board is accountable to its Shareholder and to the large and diverse group of stakeholders of the Post Office.

Key focus and achievements in 2015/16

During the year to 27 March 2016 the Board oversaw further significant progress in network transformation, with another 1,904 branches modernised, bringing the total so far to 6,001 and delivering a better service to customers. The Board also considered the development of the financial services strategy including the approval to acquire the business and assets of our joint insurance business from Bank of Ireland (UK) plc. Owning 100 per cent of the insurance business, through the subsidiary Post Office Management Services Limited, was a significant development contributing to the 19.7 per cent growth in personal financial services to £152m in 2015/16.

In 2015/16 the Board went through a period of transition with a change in 50 per cent of its Non-Executive Directors. This refreshed Board will focus in 2016/17 on driving forwards efficiency and ensuring that all support services are optimised to deliver the ongoing transformation journey towards a sustainable and thriving network of Post Offices.

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Non-Executive Directors' Terms of Office at 27 March 2016

Non-Executive Director	**Date of appointment**	**Term of office**	**Unexpired term at 27 March 2016**	**Committee memberships**
Tim Parker	1 October 2015	3 years	2 years 6 months 5 days	Nominations (*Chairman*) Remuneration
Richard Callard	26 March 2014	Until removal	N/A	Audit, Risk and Compliance
Tim Franklin[1]	19 September 2012	4 years	5 months, 23 days	Audit, Risk and Compliance
Virginia Holmes	4 April 2012	3 years[2]	2 years, 8 days[2]	Nominations Remuneration
Ken McCall	21 January 2016	3 years	2 years, 9 months, 25	Remuneration (*Chairman*) Audit, Risk and Compliance Nominations
Carla Stent	21 January 2016	3 years	2 years, 9 months, 25	Audit, Risk and Compliance (*Chairman*)

1. Tim Franklin is also Chairman of the Post Office Advisory Council
2. Virginia Holmes began a second three year term on 2 April 2015

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Board Meetings

During 2015/16 the Board met ten times (including extraordinary meetings in person or by telephone for time critical issues). A record of Directors' attendance is set out in the table below.

COMMITTEE ATTENDENCE TO BE INCLUDED IN THIS TABLE.

Director	Meetings *(attended/eligible to attend)*	Extraordinary Meetings *(attended/eligible to attend)*
Alice Perkins[1]	2/2	2/2
Tim Parker[2]	4/4	1/1
Richard Callard	7/7	3/3
Tim Franklin	7/7	3/3
Virginia Holmes	7/7	1/3
Alasdair Marnoch[3]	2/2	1/2
Neil McCausland[4]	3/3	2/2
Paula Vennells	7/7	3/3
Alisdair Cameron	7/7	3/3
Carla Stent[5]	2/2	0/0
Ken McCall[6]	2/2	0/0

1. Alice Perkins resigned 31 July 2015
2. Tim Parker was appointed to the Board 1 October 2015
3. Alasdair Marnoch resigned 31 July 2015
4. Neil McCausland served as interim Chairman from 1 August 2015 until his resignation on 30 September 2015
5. Carla Stent was appointed to the Board 21 January 2016
6. Ken McCall was appointed to the Board 21 January 2016

Conflicts of Interest and Independence

The Board may, in the furtherance of its duties, seek independent professional advice at the expense of Post Office. During the period, no director sought independent professional advice. The Articles give the directors power to authorise conflicts of interest. The Board has adopted a procedure by which situations giving rise to potential conflicts of interest are identified to the Board, considered for authorisation and recorded.

During the period, none of the directors had a material interest in any contract of significance with Post Office or any of its subsidiaries. There was careful management of any potential conflicts of interest for Alisdair Cameron during the period up to 30 October 2015 when he served as a Non-Executive Director on the Board of Post Office Management Services Limited.

At all times during the periods of their appointments in 2015/16, the independent directors met the criteria for independence set by the Board .

Post Office has arranged appropriate insurance cover in respect of legal action against directors of Post Office and its subsidiaries.

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Committees

To assist in the execution of its corporate governance responsibilities, the Board has established a governance structure of three committees which deal with specific topics requiring independent oversight, specifically: audit, risk and compliance; nominations; and remuneration. Each committee is chaired by a Non-Executive Director and the Board delegates certain authorities to these committees which operate within their own agreed, documented Terms of Reference.

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Nominations Committee

Tim Parker

Chaiman of the Nominations Committee since 1 October 2015

(Alice Perkins was the Committee Chairman prior to her standing down)

2015/16 Priorities

- Managing the recruitment and appointment process for three new Non-Executive Directors.
- Reviewing the composition of and the skills matrix for the Board.
- Progressed Post Office's consideration of talent management and succession planning at both the executive and non-executive levels.

2016/17 Forward Focus

- Review succession plans for senior executive team.
- Ensure appropriate talent pipelines are in place to meet the needs of the transforming organisation.

Introduction from the Committee Chairman

During 2015/16 the Committee has been key in bringing new capability to the Board to ensure the right talent is in place to support the Post Office during its ongoing transformation. To do so we have used a combination of external search capability coupled with internal resourcing to ensure that we are able to access specialist expertise relevant to each role. The Committee is mindful of the value which diversity brings to the Board and considers this when making any proposals for appointments.

While the focus in 2015/16 has been on external appointments, going forward the Committee will focus on ensuring that we begin to build a strong internal talent pipeline to create a sustainable organisation.

Tim Parker

Membership and Attendance

The Committee is chaired by Tim Parker, Chairman and the other members are Virginia Holmes and Ken McCall, the Senior Independent Director. During 2015/16 Tim Parker and Ken McCall joined the Committee, replacing Alice Perkins and Neil McCausland who stood down from the Board.

The Committee operates in accordance with its Terms of Reference, which were last approved by the Board in March 2015and reviewed in November 2015.

The Committee' key responsibilities are to:

- keep under review the structure, size and complexity of the Board, together with the balance of skills, experience and diversity available within the Board and each of its committees;
- make recommendations to the Board regarding any changes in Board membership;
- manage the process for recruiting and replacing Board Directors (excluding the non-executive director nominated by the Shareholder as their representative), members of the Group Executive, the Company Secretary and Directors of Post Office Management Services Limited;
- actively manage succession planning for the Board and the Group Executive;
- review the process for the engagement of external search agents for senior appointments;
- ensure Directors' appropriate disclosures of other business interests and any potential conflicts of interest; and
- oversee the process for Board and Committee performance evaluation.

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Work carried out by the Committee in 2015/16

During the period the Committee oversaw the recruitment and appointment process for three new Non-Executive Directors. Using a skills matrix the Committee ensured the Board was comprised of Members with the requisite skills and experience, including: PLC Board experience; non-executive experience; financial services exposure; retail exposure; public sector and government exposure; IT and digital knowledge; business transformation expertise; and experience of mails and logistics. The use of this matrix was key in ensuring that all skills were represented, securing a strong and effective Board for the future. The Committee also oversaw the process to appoint to the Board of Post Office Management Services Limited an independent Non-Executive Director to chair its Audit, Risk and Compliance Committee.

The Committee used the services of Russell Reynolds Associates to undertake market searches for executive and non-executive appointments and to advise on succession planning. This firm did not have any other connection with Post Office.

In 2015/16 the Committee also made recommendations to the Board for membership of its committees and considered succession planning (in particular for the Group Executive) and talent management. The Committee noted the formation of the L300, a forum for the top 300 leaders of Post Office, to foster senior accountability and to develop the internal talent pipeline.

Ken McCall

Chaiman of the Remuneration Committee since 21 January 2016

(Neil McCausland was the prior Committee Chairman)

2015/16 Priorities

- Reviewing the remuneration for senior executives and the fees paid to Non-Executive Directors
- Reviewing the rules of the long term incentive plan
- Review of the Remuneration Policy for Post Office Management Services Limited

2016/17 Forward Focus

- Ensuring the long term incentive plan focus on EBITDAS and customers' UK-wide access to our network
- Ensuring the short term incentive plan focus on EBITDAS as the business moves towards commercial sustainability

Remuneration Committee

Introduction from the Committee Chairman

Having joined the Post Office Board as Senior Independent Director and Chairman of the Remuneration Committee in January 2016, I would like to thank my predecessor, Neil McCausland, for his chairmanship.

In 2015/16 the Committee has effectively delivered against its objectives to provide oversight for senior level remuneration across Post Office Group and to use benchmarking as one measure to ensure the appropriateness of this remuneration. It has also provided oversight of the short term and long term incentive plans.

Two of the three Committee members have changed during the year. I am grateful for the consistency Virginia Holmes' continued membership brings and am confident that the refreshed Committee will discharge its duties effectively in the coming year and with fairness and transparency.

Ken McCall

Membership and Attendance

The Committee is chaired by Ken McCall, Senior Independent Director and the other members are Tim Parker, Chairman, and Virginia Holmes. During 2015/16 Tim Parker and Ken McCall joined the Committee, replacing Alice Perkins and Neil McCausland who stood down from the Board.

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 Group Executive. However, the Committee is careful to recognise and manage any potential conflicts of interest when receiving views from the Group Executive and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

The Committee operates in accordance with its Terms of Reference, which were last approved by the Board in March 2015 and reviewed in November 2015.

Any changes in remuneration for directors of Post Office must be approved in advance by the Shareholder, while the remuneration of the Chairman and of the Non-Executive Directors is set by the Shareholder. Also, no material changes can be made to Directors' base salaries, benefits or incentives without Special Shareholder consent.

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Work carried out by the Committee in 2015/16

During the year, the Committee reviewed and made recommendations for the 2014/15 payments against the short and long term incentive plans and the targets, scorecard measures (including stretch targets) and objectives for 2015/16.

The Committee also reviewed the rules of the long term incentive plan, the remuneration for the Chief Executive and the Chief Financial Officer and the fees paid to Non-Executive Directors.

Prior to the acquisition in October 2015 of the insurance arm of Post Office via its wholly owned subsidiary Post Office Management Services Limited, the Committee reviewed, and recommended for approval, the Remuneration Policy for the subsidiary.

The Committee is permitted to engage external consultants and in the year under review, advice was primarily obtained from New Bridge Street Consultants on market practice and benchmark development. New Bridge Street Consultants is part of the Aon Consulting Group that, under its Aon Hewitt brand, acts as investment adviser to the Post Office section on the Royal Mail Pension Plan. Post Office is satisfied that these two provisions of advice, from different parts of the Aon Consulting Group are managed separately and therefore present no compromise of independence.

The Committee' key responsibilities are to:

- make recommendations to the Board on the remuneration strategy and any changes to individual elements of the remuneration package for Executive Directors; members of the Group Executive who report directly to the Chief Executive; and other senior level appointments with comparable remuneration;
- provide an oversight function for the remuneration of the Directors of Post Office Management Services Limited;
- obtain information on salary levels across the business and within external organisations of comparable size, in order to set remuneration levels within an appropriate context, while being mindful that any remuneration increases should correspond with corporate and individual performance improvements; and
- have oversight of, approve and make recommendations to the Board in respect of remuneration levels for new senior executive appointments. In doing so, it liaises and works closely with the Nominations Committee.

Directors' Remuneration Report

Statement by the Chair of the Remuneration Committee

This is my first statement on behalf of the Remuneration Committee. The executive remuneration strategy and framework within Post Office Ltd is structured to support improvement in profitability and reduction in reliance upon Government funding and subsidy. This is to create a sustainable business which can deliver its public purpose.

During 2015/16 progress has been made in these areas despite challenging market conditions. Most of the targets for progress in the year have been achieved but it remains clear that the Post Office is still only part way through its corporate transition. Targets will continue to be stretching in recognition of the challenges ahead.

The bonus performance outturn in 2015/16 reflects the progress made in reducing our EBITDAS loss, pace and extent of transformation of the network, high levels of customer service and significant financial improvement in the performance of our Crown branches.

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For 2016/17 our long term incentive plan will continue the focus on significant and sustained EBITDAS improvement and the maintenance of the unique access that people across the United Kingdom have to Post Office branches.

The short-term incentive plan will continue to focus on financial improvements in a challenging commercial environment in line with our business strategy and transformation objectives.

The Remuneration Committee is confident that the current policy maintains the strong link between reward and demonstrable performance against the measures which drive the financial and structural transformation of the Post Office to become a sustainable commercial business able to deliver its public purpose.

The Remuneration Committee will continue to monitor and benchmark external best practice and apply the highest standards of governance.

Details of directors' remuneration can be found at XX

Ken McCall

Chair, Remuneration Committee

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Audit, Risk and Compliance Committee

Carla Stent

Chairman of the Audit, Risk and Compliance Committee since 21 January 2016

Non-Executive Directors who also chaired this Committee during 2015/16: Alasdair Marnoch (until 31 July 2015), Neil McCausland (1 August until 30 September 2015) and Tim Parker (28 October 2015 until 20 January 2016)

2015/16 Priorities

- Supporting and overseeing the further development of the Group-wide Risk Management Framework
- Following the required restatement of the accounts, providing oversight of the review of financial controls and the development of the General Controls Framework
- Reviewing oversight of risk to ensure the Committee has a more streamlined and robust overview of risk across the Group

2016/17 Forward Focus

- Further progress towards full implementation of the Group-wide Risk Management Framework including consideration of an additional form or self assessment for management
- Increased consideration of financial services risk to support the development of the financial services strategy

Introduction from the Committee Chairman

Having joined the Post Office Board as Chairman of the Audit, Risk and Compliance Committee near the end of 2015/16 I would like to thank my predecessors for their chairmanship of the Committee.

In addition to its regular cycle of business, during the year the Committee has also supported the further development of the Group-wide Risk Management and the General Controls Frameworks. Reviewing Group-wide risk oversight has been an important development, ensuring that risk is appropriately managed as the organisation undergoes transformation.

Looking forwards to 2016/17, the Committee will continue to build on the good work of 2015/16 and will particularly ensure appropriate oversight of financial services risk and the consideration of any impact of prospective regulatory changes on this developing area for Post Office.

I am confident that the revised membership of the Committee encompasses a strong set of relevant skills and experience and will

Membership and Attendance

The Committee is chaired by Carla Stent, and the other members are Ken McCall, the Senior Independent Director, Richard Callard and Tim Franklin, both Non-Executive Directors. During 2015/16 Richard Callard, Ken McCall, Tim Parker (until 20 January 2016) and Carla Stent joined the Committee, with Alasdair Marnoch and Neil McCausland both leaving as they stood down from the Board.

The Head of Internal Audit attended all meetings of the Committee and also met the Committee Chairman, as required, through the year. The external auditor was also invited to attend meetings of the Committee as appropriate.

The Board considers that the Committee's members have broad commercial knowledge and extensive business leadership experience and that this constitutes a broad and suitable mix of business and financial experience and expertise.

The Committee operates in accordance with its Terms of Reference, which were last reviewed by the Committee and approved by the Board in September 2015.

Further detailed information on the management of risk within Post Office, together with identification of principal risks, their impacts and mitigation, can be found in the Management of Risk section on pages XX.

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Work carried out by the Committee in 2015/16

During the year, the Committee reviewed and recommended that the Board approve the annual report and financial statements for 2014/15 and the interim report for 2015/16, including consideration of principal and strategic risks. It also approved the annual audit plans for both the internal audit function and the external auditors, Ernst & Young LLP.

The Committee reviewed the work carried out by internal audit and by the external auditor, further details of which can be found below.

As part of an holistic review of risk management and internal controls, the Committee supported and provided guidance on the further improvement of the Risk Management Framework and clarification of our general controls. This work included the development of a framework of key policies, reviewing business continuity procedures and increasing the clarity and robustness of accountabilities. The Committee's review of cyber risk during the year will continue into 2016/17.

The Committee' additional responsibilities are to:

- provide governance of the auditing services, which includes reviewing and making recommendations to the Board on the nomination or discharge of the external auditors;
- review and agree the annual audit plans for both internal and external audit;
- ensure the appropriateness of the Post Office relationship with the external auditor is managed, including consideration of the external auditor's independence and endorsement of its remuneration and terms of engagement for approval by the Chief Financial Officer;
- review the provision of any non-audit services provided by either internal or external audit;
- devote specific time to the consideration and overview of risks relating to the financial services businesses of the Group and to any risk relating to existing and new pension schemes; and
- consider the impact of any new legislative, regulatory, market or other developments which could materially or adversely affect Post Office and its subsidiaries.

Following the rationalisation of the committee structure to ensure comprehensive oversight of Group-wide risk at the Committee, there was a formalisation of the reporting procedures between the Committee and the equivalent committee for Post Office Management Services Limited. The Committee also scheduled regular deep dives on financial services and pensions risk. In the year, financial conduct risk was considered and a review was carried out on the Anti-Money Laundering and Counter Terrorist Financing Framework on which the Committee will receive regular follow up reports.

Internal Audit

The Committee received assurance from Internal Audit over Post Office's key risk areas. To maintain independence, the Head of Internal Audit reports functionally to the Chairman of the Committee and operationally to the General Counsel. Assurance is achieved through a mixture of in-house auditors, with skills and experience relevant to Post Office operations, supplemented by a co-sourcing arrangement currently with PwC for more specialist, one-off expertise and Deloitte LLP for business transformation assurance.

The annual plan is developed by Internal Audit across the risk universe with input from management. It is approved by the Committee and may be updated, with the Committee's consent. Updates and findings are provided by the Head of Internal Audit at each meeting of the Committee. Any significant findings or identified risks are closely examined so that appropriate action can be taken.

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During the year, Internal Audit conducted 11 mainstream reviews, two financial services reviews and facilitated a further seven on Business Transformation.

Business Area	Audits Conducted
Mainstream	Treasury Operational Risk, Social Media, Contract Management, Financial Crime, Common Digital Platform, Agents Remuneration, Data Protection, Mobile Proposition, Drop and Go, Property Regulatory Compliance, Travel Expenses
Financial Services	FS Conduct Risk, POMS Regulatory Readiness
Business Transformation	Portfolio Design, End to End Financial Management, Benefits Management Framework, Cross Towers Governance Structure, Programme Assurance Authority, End User Computing, IT Separation from Royal Mail

At the end of the year, Internal Audit conducted a self assessment of compliance with the Internal Audit Charter, which was reviewed by the Committee. Next year, this process will incorporate feedback from auditees and Committee members on Internal Audit's effectiveness.

External Audit

The external auditors are engaged to express an opinion on the financial statements. They review and test the systems of internal financial control and the data contained in the financial statements to the extent necessary to express their audit opinion. They discuss with management the reporting of operational results and the financial condition of the Post Office and present their findings to the Committee.

During the year the external auditors met once with the Committee in the absence of the executive. The Committee agreed the external audit fee and considered the external auditors to have an appropriate level of independence. Prior to the end of year a change in the external audit partner provided enhanced levels of independence.

During the year XX% of the total fees paid to Ernst & Young were for non-audit services, an increase/decrease on the 29% paid in 2014/15.

Annual Assessment

During the year, the Committee reviewed and recommended that the Board approve the effectiveness of the:

- risk management framework, by reviewing evidence of risk assessment activity and the summary of the material risks and action plans, via the Group Risk Profile
- systems of internal control, primarily through agreeing the scope of the internal audit plan and reviewing its findings, but also from reports from Management and external advisors
- preparation of the annual and interim financial statements and a review of the nature and scope of the external audit.

In consequence, the Board, through the Committee, confirmed that there is a regularly reviewed ongoing process of identifying, evaluating and managing the principal risks faced by Post Office and their related controls. The process is continuing to evolve, but has been in place for the year under review and up to the date of approval of the annual report and financial statements. The Board has reviewed its effectiveness.

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Subject to acknowledgement of the reinstatement referred to on page XXX, the Board considers the risk management, internal control systems and processes appropriate for Post Office activities and designed to manage rather than eliminate the risk of failure to achieve Post Office strategic objectives, protect our reputation and comply with regulatory standards. They provide reasonable, but not absolute assurance, against material misstatement or loss.

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Management of Risks

Our Approach to Risk

We define risk as anything that can adversely affect our ability to meet the Post Office's objectives, maintain its reputation and comply with regulatory standards. Risk is an inherent part of how the PO seeks to grow and create value. We seek to understand and harness risk in the pursuit of our aims and business plan objectives. As we progress, our aim is to operate within an acceptable level of risk taking, in accordance with risk appetite parameters set by the Board. All staff are expected to be aware of risks in their areas of responsibility and manage those risk intelligently in their day-to-day activities.

Risk Management Governance

The Board is accountable for the risk management and internal control systems in the Post Office, for reviewing their effectiveness and for determining the nature and extent of the principal risks. Responsibility for day-to-day operations rests with members of the Group Executive. The Risk and Compliance Committee, on behalf of the Group Executive, reviews the operation of the risk management process and management of the principal risks. The committee is chaired by the General Counsel, membership includes all of the Group Executive and the output is reported to the Audit, Risk & Compliance Committee (ARC).

Assurance for the Board over the effectiveness of our risk management and internal controls is provided by the Audit, Risk and Compliance Committee, through review of reports from Management, particularly the Risk & Compliance Committee (RCC), Internal Audit, external advisers and External Audit.

Our Risk Management Framework

To improve our ability to consistently identify, manage and monitor risks, and take advantage of opportunities we might otherwise miss, we have developed a structured framework for assessing, managing and communicating risk. The framework identifies roles and responsibilities, the policies for how risks are managed, the tools and processes used, a risk appetite statement and the reporting outputs to inform both Management and the ARC.

Material risks are identified by business areas (bottom up analysis) for their own risk management; Group Executive members review these and add further strategic and external perspectives (top down review). The scope of risks to consider is facilitated by a Risk Universe. Impact and likelihood is assessed for evaluating each risk, after consideration of the controls we have in place. Where the resultant "net" risk profile is considered in excess of our risk appetite, consideration will be given as to how the risk could be brought back within an acceptable level of risk taking. For other risks we may want to introduce monitoring procedures. Details of our Principal Risks are included on page ZZZ.

Our Control Framework

Our risk management efforts are underpinned by our internal control framework. The Board has put in place an organisational structure with formally defined lines of responsibility and delegation of authority. Executive Management have established procedures for setting our direction, planning and controlling the operation of our business, and reviewing and monitoring our performance and conduct. These include:

- communication of the Group's strategy, objectives and targets
- expectations of standards of conduct by our colleagues as set out in our Code of Business Standards
- definition and review of our social purpose
- annual and three-year operating and capital plans which are reviewed by the Board. This includes the identification and assessment of risks compared to our appetite
- monthly comparisons actual financial performance with budget by operating divisions, with consideration by the Board of year end forecasts
- an organisational structure with lines of responsibility and appropriate segregation of duties
- change management approach, resources and governance are used to manage significant projects

- formally defined delegations of authority, including capital investment limits and a treasury policy
- appointment of employees of the necessary calibre to fulfil their allocated responsibilities, with formal personal development and appraisal procedures
- senior management remuneration designed to align personal and business objectives, as well as to discourage dishonest, illegal or unethical acts
- a framework of operating, financial and IT policies
- a whistleblowing procedure for colleagues to raise concerns in confidence and if required, anonymously; a complaints procedure is available to customers and third parties.

Progress during the year and plans for next year

During the year, we have continued to develop our risk management capability. Highlights of what's been achieved and what is planned for next year include:

Risk assessment: during 2015/ 16, there has been more regular use of the risk management framework in business areas and by RCC, with greater focus on defining further actions required to manage risks and the introduction of longer term horizon scanning	**Risk assessment:** for 2016/ 17, we plan to focus our incident reporting process to provide lessons learnt on our risk assessments and operationalise our risk appetite further
Control environment: during 2015/ 16, we have reviewed the appropriateness of our Internal Control Framework and our key policies and identified appropriate remediations	**Control environment:** for 2016/ 17, we plan to formalise our monitoring mechanisms for both our Internal Control Framework and our key policies

Our Principal Risks and Mitigations

These are our principal risks, detailed with their potential consequences if they were to crystallise and how the Post Office manages them. Any of these risks could have a material impact on our results, condition and prospects. However, these risks should not be regarded as a complete and comprehensive statement of all potential risks; some risks are not yet known and some that are not considered material could later turn out to be material.

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Potential risks	Consequences	Key Mitigations
STRATEGIC RISKS		
A) Competitive threat Post Office faces both opportunities for and threats to income from our competitive market place. - The Mails and parcels market remains intensely competitive. - Government Services are impacted by increased use of digital channels and reduced public spending. - Financial Services is a challenging market where responding quickly to different strategies, business models, and products is essential to growth.	Crystallisation of these risks could result in not achieving our growth objectives, losing market share and revenues.	• Customer perceptions and competitor behaviour are key inputs to decision making. • Our strategy focuses on customer requirements, market trends and competitor behaviour, working with partners where appropriate, to offer customer centric propositions, supported by a clear distribution strategy. • Each product proposition developed in the context of a customer strategy which describes target market, channel of distribution and completing attributes.
B) Dependency on strategic relationships Post Office has strategic relationships which are key to its product offering and growth, for instance with Royal Mail Group and Bank of Ireland (UK) plc. Misalignment of the strategic direction or focus with the strategic partner could result in products that do not support our growth strategy or meet our customer or market requirements.	This could result in not achieving our growth objectives, losing revenue and market share.	• Close working relationships established with our strategic relationships. • Interactions scheduled with our strategic partners to improve the product offering and service to drive growth and profitability for both parties. • Contractual arrangements monitored and managed to ensure that they are aligned with commercial objectives and that relationships deliver to expectations.
TRANSFORMATION RISKS		
C) Benefits from business transformation not realised Budgeted savings from our transformation programme may be delayed or not achieved, or overall service compromised, due to pressures on capability, capacity and the scale of change.	This could result in not achieving our growth objectives, loss of revenue and cost savings, reduced customer satisfaction and damage to reputation with stakeholders.	• Programme management office established, with assurance oversight. • Detailed plans in place to manage the transformation, and identify risks to ensure transformation activities are delivered within budget and on time. • Flexible resource augmentation model implemented to ensure supply of people with the right capabilities, skills and experience. • Benefits tracked from inception to delivery and into business as usual operations through formalised reviews during the lifecycle.
D) IT transformation not delivered in full Our programme of IT transformation may not be delivered in full due to the level of complexity of replacing legacy IT and simultaneously implementing new integrated service model	This could result in systems and infrastructure that are not fit for purpose, may add costs and lead to business interruption.	• Strategy and Integrated Service model developed and monitored. • Programme teams and operational business teams work closely to ensure that the objectives of the strategy are delivered. • Business and Technology Transformation governance, assurance and oversight plan in place and operational.
E) Industrial action The withdrawal of support from staff or postmasters to the ongoing implementation of Post Office transformation has the potential to damage the business in terms of both reputation and financial performance particularly if industrial action takes place.	This could result in business disruption leading to loss of revenue, reduced customer satisfaction and brand damage.	• Well defined agreements with relevant unions. • Comprehensive engagement programme in place with staff, unions and postmasters so as to ensure that there is alignment with our vision and strategy around transformation. • Contingency planning in place to minimise the impact of potential industrial action.

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OPERATIONAL RISKS		
F) Lack of appropriate capability The Post Office is dependent on its dedicated work force to meet the expectations of its customers and stakeholders. Continuing to attract, motivate, develop and retain people is key to its success.	This could result in not achieving our strategic objectives and loss of staff engagement.	• Continual review of our organisational structure to ensure it evolves and supports our requirements. • Key capabilities for our current and future state needs identified with a capability heatmap. • Investment in developing our people.
G) Decline in customer experience If we are unable to deliver an attractive customer experience, via our products, service and channels, we risk losing the support of our customers.	This could result in reduced customer satisfaction and brand reputation, with consequential loss of market share and revenues.	• Customer strategy continually monitored to ensure that it meets changing customer product and service expectations and reflects current market and competitor trends. • Channel strategy ensures we meet the changing customer requirements for access and utilises available and emerging technology to reflect changing customer needs.
H) Unattractive network proposition As we transform, there is a risk that the Post Office may not be able to retain, or attract sufficient new, retail partners because of the complexity of our network proposition and relative value to the retail partner particularly compared to other categories.	As well as loss of revenue, this could result in shrinkage to our network and breach our public purpose commitment.	• New branch model being developed to provide retailers with an attractive proposition relative to other categories. • New branch model also ensures that we use modern technology to drive simplicity of operations, efficiency and cost reduction for the retailer, as well as a better customer experience. • Branch model continually reviewed and updated to respond to ongoing competitive threat and market conditions.
I) Business interruption and cyber threat Post Office is dependent on the continued availability of its information systems and associated infrastructure. These could be threatened, either due to internal issues, external events or cyber attack.	This could result in disruption of service leading to negative customer experience, breach of contractual obligations and brand damage.	• Business continuity plans updated through review, testing and enhancements. • New contracts have provisions covering the security, resilience and availability of our IT systems and infrastructure. • Information Security policies in place. • Penetration testing schedule to assess and improve the security of our systems.
J) Dependency on third parties Post Office works in partnership with a number of third parties to deliver high quality services. We need to successfully select, contract and monitor our key in-source or out-source relationships and avoid any unintentional breaches of contractual terms.	This could lead to business interruption and additional costs through failure to meet contractual obligations.	• Contract management framework to monitor our contracts and suppliers. • Assessment of risks and monitoring of mitigating actions. • Defined key policies that we require our suppliers to comply with and attest compliance.
FINANCIAL RISKS		
K) Stakeholder funding The cost of delivering the public purpose of the Post Office and meet the expectations of stakeholders may exceed current forecasts.	This could result in not achieving our growth objectives, failing to meet our public purpose commitment and damaging our reputation with stakeholders.	• Proactive engagement with stakeholders to ensure there is full understanding of, and alignment with, the strategic goals and the investment case required to deliver them. • Annual and three-year operating and capital plans developed and risk assessed. • Scheduled feedback to stakeholders and review.
L) Financial reporting and controls failure Our financial controls are fundamental to delivering our fiduciary responsibilities, management	This could result in loss of revenue, increased costs, financial misstatement and	• Defined and structured delegation of authority which is reviewed and approved by the Board. • A Financial and Accounting manual and a framework of supporting general controls – see our General

information, financial reporting and compliance with accounting and governance standards. These may not operate effectively if they are not documented, reviewed and monitored regularly.	damage to reputation with stakeholders.	Controls Framework on page XXX. • Documented financial controls, with additional assurance to be provided from a Control Self-Assessment process.
M) Pension cost increases The cost of servicing the current Defined Benefits scheme could become unbearably onerous as a result of the prolonged low interest rate environment, resulting in substantially increased contributions.	This could result in material increases in required contributions, adversely affecting our ability to achieve commercial sustainability.	• Valuation assumptions and pension funding strategy have regular external and internal monitoring and review. • Options being developed to minimise the impact of an adverse valuation, with assistance from professional advisors. • Consultation process initiated on options for the future of the Defined Benefit plan.
LEGAL & REGULATORY RISKS		
N) Financial regulatory breach The Post Office operates under an extensive regulatory environment, covering areas such as financial and postal services, telecoms, procurement, competition law and data security. This environment continues to evolve, particularly in the financial services arena, and we need to ensure that the changing requirements continue to be identified and met.	This could result in regulatory censure, fines, litigation or curtailment of trading, which could impact income and/ or damage our reputation with customers and suppliers.	• New regulatory obligations monitored by relevant business owners, with support from Corporate Services. • On-going training to our staff on legal and regulatory matters. • Regular compliance tests and monitoring are conducted. • Internal and external assurance programmes are in place (including by our regulatory principals) to ensure that we meet financial services regulatory requirements, including sales practices and conduct, customer experience and product experience and delivery.

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Draft to Board – IN STRICTEST CONFIDENCE –17 May 2016

Directors' Report

The Directors present the Group Annual Report and Financial Statements for the year ended 27 March 2016.

Expected future developments

Expected future developments are detailed in pages XX to XX.

Results and dividends

The loss after taxation for the year was £XXm (2015: profit £XXm). The directors do not recommend the payment of a dividend (2015: £nil dividend).

Political contributions

No political contributions were made in the year (2015: £nil).

Research and development

There was no research and development expenditure during the year (2015: £nil).

Directors and their interests

The following served as Directors during the year:

R J Callard

A C J Cameron

T A Franklin

V A Holmes

A Marnoch (resigned 31 July 2015)

K S McCall (appointed 21 January 2016)

N W McCausland (resigned 30 September 2015)

T C Parker (appointed 1 October 2015)

A Perkins CB (resigned 31 July 2015)

C R Stent (appointed 21 January 2016)

P A Vennells

No director has a beneficial interest in the share capital of Post Office. The emoluments of Directors are set out in the Directors' Remuneration Report which appears on pages XX to XX.

People

Our goal is to ensure that everyone associated with our business – employees and postmasters – are engaged and involved in the business and are aligned and equipped to meet our shared objectives.

We conduct regular employee surveys, which provide employees and postmasters the opportunity to express their views and opinions on important issues. This two way communication encourages all our people to contribute towards improving the business and delivering our strategic objectives.

To engender greater engagement, Post Office has structured and systematic communication channels in place, ensuring employees and postmasters are informed on matters which impact them.

As part of our commitment to drive better service for customers we continue to focus on improving the quality of our leadership, ensuring we have the right skills for today and tomorrow, and achieving greater involvement from employees, postmasters and their representative bodies.

We have launched a Learning Academy which provides high quality learning for all employees and postmasters. We will continue to invest in developing the best talent to support our vibrant, sustainable business, including graduate recruitment and active participation in the new apprenticeship programme.

Underpinning all of this, is a need for dignity and respect in the workplace, where everybody feels valued, is treated fairly and equally, and all our people play a full part in helping the business to achieve its goals.

Corporate responsibility

Details of Post Office corporate responsibility activities are contained within a separate report on page XX.

Disabled employees

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

Post balance sheet events

In accordance with the funding agreement with government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £220m of funding on 1 April 2016. TBC

Going concern

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

Financial instrument risk

The exposure of the Group to market risk, credit risk and liquidity risk has been disclosed in note X of the annual report on pages XX-XX.

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware, that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

The auditor, Ernst & Young LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

By Order of the Board

Alwen Lyons
Secretary

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Draft to Board – IN STRICTEST CONFIDENCE –17 May 2016

Post Office Limited
(Company Number 2154540)
Finsbury Dials
20 Finsbury Street
London
EC2Y 9AQ

X June 2016

POL00030888

Post Office Limited

Registered Number 2154540

Post Office Limited

Financial Statements

2015-2016

POL00030888

Post Office Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report, which includes the Directors' Report, Remuneration Report and Corporate Governance Statement, and the Group and Parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. 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 ("EU"). The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company, and of the profit or loss of the Group and Parent Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the EU, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group's financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Directors are responsible for preparing the Directors' report and the Corporate Governance report in accordance with the Companies Act 2006 and applicable regulations.
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 Parent Company financial statements prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework", give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The management report contained in this report includes a fair view of the development and performance of the business and the position of the Group as a whole and of the Company, together with a description of the principal risks and uncertainties they face.

Post Office Limited

Independent auditor's report to the members of Post Office

We have audited the consolidated financial statements of Post Office Limited for the 52-week period ended 27 March 2016 which comprise the Group Income Statement, the Group Balance Sheet, the Group Statement of Comprehensive Income, the Group Statement of Cash Flows, the Group Statements of Changes in Equity, the Parent Company Statement of Comprehensive Income, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page [xx], the directors are responsible for the preparation of the 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 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 and 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 and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 27 March 2016 and of the group's loss for the 52-week period then ended;
- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the Group and Parent Company financial statements 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 Financial Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the 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.

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Post Office Limited

Other matters

- The maintenance and integrity of the Post Office Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Post Office Limited

Consolidated income statement

for the 52 weeks ended 27 March 2016 and 29 March 2015

	Notes	**2016** £m	2015 (Restated) £m
Continuing operations:			
Turnover		**981**	976
Network Subsidy Payment		**130**	160
Revenue		**1,111**	1,136
People costs excluding restructuring costs	2	**(233)**	(238)
Other operating costs		**(808)**	(831)
Share of post tax profit from joint ventures	10	**35**	36
Operating profit before exceptional items for continuing operations	3	**105**	103
Operating exceptional items	4	**(269)**	(271)
- government grant		**150**	170
- restructuring costs		**(283)**	(301)
- impairment		**(136)**	(140)
Operating loss from continuing operations		**(164)**	(168)
Profit on disposal of property, plant and equipment		**-**	-
Loss before financing and taxation from continuing operations		**(164)**	(168)
Finance costs	6	**(5)**	(3)
Finance income	6	**-**	1
Net financing income relating to pensions	17	**8**	7
Loss before taxation from continuing operations		**(161)**	(163)
Taxation credit	7	**4**	26
Loss for the financial year from continuing operations		**(157)**	(137)
Discontinued operations:			
Loss for the financial year after tax from discontinued operations	22	**(10)**	(4)
Loss for the financial year		**(167)**	(141)

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Post Office Limited

Consolidated statement of comprehensive income
for the 52 weeks ended 27 March 2016 and 29 March 2015

	Notes	**2016** **£m**	2015 (Restated) £m
Loss for the financial year from continuing operations		**(157)**	(137)
Loss for the financial year from discontinued operations	22	**(10)**	(4)
Loss for the financial year		**(167)**	(141)
Other comprehensive income not to be reclassified to profit or loss in			
Future periods			
Remeasurements on defined benefit surpluses	17	**(9)**	54
Income tax effect	7	**5**	(9)
Total comprehensive income for the year		**(171)**	(96)

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

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Consolidated statement of cash flows
for the 52 weeks ended 27 March 2016 and 29 March 2015

	Notes	**2016 £m**	2015 £m
Cash flows from operating activities			
Operating profit before exceptional items from continuing operations		**105**	103
Operating loss from discontinued operations	22	**(10)**	(4)
Total profit before exceptional items		**95**	99
Adjustment for:			
Share of profit from joint ventures	10	**(35)**	(36)
Pension operating costs	2	**30**	28
Working capital movements:		**(81)**	(17)
Increase in trade and other receivables		**(14)**	(34)
(Decrease)/Increase in trade and other payables		**(61)**	10
Increase in provisions for discontinued operations	22	**3**	-
(Decrease)/increase/ in non-exceptional provisions	15	**(9)**	7
Pension operating costs paid		**(23)**	(23)
Cash payments in respect of operating exceptional items:		**(109)**	(66)
Government grant		**150**	170
Restructuring costs		**(253)**	(224)
Other		**(6)**	(12)
Net cash outflow from operating activities		**(123)**	(15)
Income tax recovered	7	**9**	11
Cash flows from investing activities			
Dividends received from joint ventures	10	**35**	30
Finance income received		**-**	1
Acquisition of insurance business	21	**(44)**	-
Purchase of fixed and intangible assets		**(136)**	(147)
Net cash outflow from investing activities		**(145)**	(116)
Net cash (outflow)/inflow before financing activities		**(259)**	(120)
Cash flows from financing activities			
Finance costs paid		**(5)**	(3)
Payments to finance lease creditors		**-**	(3)
Proceeds of borrowings from BIS	14	**155**	310
Net cash inflow from financing activities		**150**	304
Net (decrease)/increase in cash and cash equivalents		**(109)**	184
Cash and cash equivalents at the beginning of the year	12	**821**	637
Cash and cash equivalents at the end of the year	12	**712**	821

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Consolidated balance sheet
at 27 March 2016 and 29 March 2015

	Notes	2016 £m	2015 (Restated) £m
Non-current assets			
Intangible assets	8	**44**	-
Property, plant and equipment	9	**9**	10
Investments in joint ventures	10	**67**	67
Retirement benefit surplus	17	**196**	205
Trade and other receivables	11	**12**	10
Total non-current assets		**328**	292
Current assets			
Inventories		**6**	6
Trade and other receivables	11	**409**	397
Cash and cash equivalents	12	**712**	821
Total current assets		**1,127**	1,224
Total assets		**1,455**	1,516
Current liabilities			
Trade and other payables	13	**(653)**	(718)
Financial liabilities - interest bearing loans and borrowings	14	**(465)**	(310)
- obligations under finance leases	20	**(8)**	-
Provisions	15	**(151)**	(144)
Total current liabilities		**(1,277)**	(1,172)
Non-current liabilities			
Other payables	13	**(25)**	(30)
Provisions	15	**(16)**	(6)
Total non- current liabilities		**(41)**	(36)
Net assets		**137**	308
Equity			
Share capital	18	**-**	-
Share premium	18	**465**	465
Retained earnings		**(330)**	(159)
Other Reserves	18	**2**	2
Total equity		**137**	308

The financial statements on pages XX to XX were approved by the Board of Directors on XXX 2016 and signed on its behalf by:

P A Vennells
Chief Executive

A Cameron
Chief Financial Officer

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Consolidated statement of changes in equity
for the 52 weeks ended 27 March 2016 and 29 March 2015

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	**Total equity £m**
At 30 March 2015 (restated)		465	(159)	2	**308**
Loss for the year		-	(167)	-	**(167)**
Remeasurements on defined benefit surplus	17	-	(9)	-	**(9)**
Income tax effect	7	-	5	-	**5**
At 27 March 2016		**465**	**(330)**	**2**	**137**

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	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 31 March 2014		465	(63)	2	404
Loss for the year (restated)		-	(141)	-	(141)
Remeasurements on defined benefit surplus	17	-	54	-	54
Income tax effect	7	-	(9)	-	(9)
At 29 March 2015 (restated)		465	(159)	2	308

Post Office Limited

Notes to the financial statements

1. Accounting Policies

Financial year
The financial year ends on the last Sunday in March and for this reason these financial statements are made up for the 52 weeks ended 27 March 2016 (2015: 52 weeks ended 29 March 2015).

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

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 £million except where otherwise indicated.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertaking as at 27 March 2016. 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 such control ceases. A dormant set of financial statements for Post Office Management Services Limited (subsidiary) were prepared to 30 November 2014. The subsidiary began trading in January 2015 and the first set of financial statements have been prepared for the 16 month period to 27th March 2016. The year end date is in line with the Company. The subsidiary uses consistent accounting policies where appropriate and a its results have been consolidated into the group financial statements. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions are eliminated in full.

New standards, amendments and interpretations issued not yet effective for the current year
The following standards and interpretations, which have been issued by the IASB and are relevant for the Group, subject to EU ratification, become effective after the current year–end and have not been early adopted by the Group:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was first issued in November 2009 and had since been amended several times. A complete version of the standard was issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model and a new expected credit loss model for calculating impairment. The new standard becomes effective for annual periods beginning on or after 1 January 2018, subject to EU adoption expected in first half of 2016. It is anticipated that the application of this amendment will have no significant impact on the Group's income statement or balance sheet.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from contracts with customers in May 2014. The new standard provides a single, five–step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when control of goods or services is transferred to the customer. It replaces all existing revenue recognition guidance under current IFRS and becomes effective for annual periods beginning on or after 1 January 2018, subject to EU adoption expected in 2016. The Group is currently considering the impact of IFRS 15 on its consolidated results and financial position.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group is currently considering the impact of these amendments on its consolidated results and financial position.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group is currently considering the impact of these amendments on its consolidated results and financial position.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

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IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group is currently considering the impact of these amendments on its consolidated results and financial position.

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Fundamental accounting concept – going concern

The Group has net assets of £137 million at 27 March 2016 (2015: £308 million). A funding agreement with Government was announced on 27 November 2013 which provided for:

- Funding of £280 million for 2015/16
- Funding of £220 million for 2016/17
- Funding of £140 million for 2017/18
- Extension of the existing working capital facility with the Department for Business, Innovation & Skills (BIS) with a limit of £950 million from 30 March 2015 up to 31 March 2018 (it was previously £1.15 billion)

At 27 March 2016 £485 million of the working capital facility was undrawn (2015: £840 million).

State Aid approval for the funding from 2015/16 to 2017/18 was received on 19 March 2015.

This funding takes the form of a Government Grant, enabling 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 which could not support a commercial retail outlet. New main and local branches are currently being rolled out across the United Kingdom. Customers are benefitting from a much better retail experience including very significantly extended opening hours. This programme is designed to make the Post Office network more self-sustaining and, over time, less dependent on direct subsidy. This is a modernisation programme and not a branch closure programme.

The Directors are satisfied with the continued progress made towards modernisation during 2015/16 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 and is not without risk.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office Limited will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the

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Post Office Limited

Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Prior year restatement

In preparing the financial statements for the current year, the comparative figures for the year ended 29 March 2015 have been restated. The provision for Postmasters' Compensation, included in network transformation, had not been fully recognised in the financial statements for the year ended 29 March 2015. The nature of the provision is described in more detail in the accounting policies on page XX. The restatement affects exceptional costs, provisions and retained earnings due to the loss in the year changing as a result of a restatement to the exceptional charge. This represents an acceleration of an expected cost and there has been no impact on the Group's funding position or on payments to Postmasters'. Within this report, the comparative income statement, statement of comprehensive income, balance sheet and statement of changes in equity for the year ended 29 March 2015 have been restated. There has been no effect on the cash flow statement.

	As previously reported	Restatement	29 March 2015 Restated
Total provisions	(63)	(87)	(150)
Shareholders' funds (retained earnings)	(72)	(87)	(159)
Operating exceptional items - restructuring costs	(214)	(87)	(301)
Profit/(loss) for the year	(54)	(87)	(141)

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 17.

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

Provisions

The Group has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. Postmasters' compensation provisions are recognised when either Postmaster's agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for Postmasters' compensation at the yearend date represents management's best estimate of the future obligation. 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.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate the risks specific to that liability.

Impairment of non-current assets

The Group assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. 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. Due to on-going operational losses (excluding the Network Subsidy Payment) the carrying value of some assets are impaired to zero on acquisition. Each asset category is described below:

Property, plant and equipment excluding freehold property, long leasehold property and land:

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and due to on-going

Post Office Limited

operational losses (excluding Network Subsidy payment) they are impaired to zero on acquisition. If they were not impaired they would be depreciated on a straight-line basis over the following useful lives:

	Range of asset lives
Plant and Machinery	3 – 15 years
Motor vehicles and trailers	2 – 12 years
Fixtures and equipment	2 – 15 years

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value, therefore these assets are not impaired on acquisition but would be considered for impairment if indicators existed in line with Group policy noted above. They are instead depreciated on a straight-line basis over the following useful lives:

	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

The remaining useful lives of freehold buildings are reviewed periodically and adjusted where applicable on a prospective basis.

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. These assets are impaired to zero for the reasons noted above. If they were not impaired they would be amortised on a straight line bases via a charge to income statement over the following period:

Software	1 to 6 years

Intangible assets arising on acquisition or with an indefinite useful life:

These assets are considered for impairment individually in line with Group policy noted above but are not automatically impaired. Goodwill is considered separately below.

Goodwill

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. Goodwill is tested for impairment annually as well as when there are any indicators of impairment.

Non-current assets within subsidiaries

Subsidiaries are considered separate cash generating units and the need for impairment of assets is considered within the subsidiary and is dependent on whether indicators of impairment exist within that subsidiary. At a Group level the impairment is adjusted on consolidation to be in line with Group policy.

Revenue

Turnover from Government Services, Financial Services, Mails and Retail and Telecoms comprises the value of services provided from the Group's principle activities in providing a whole range of services through its physical and digital channels. Turnover from Financial Services and some Retail services comprises the commission received. 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.

Turnover within the subsidiary Post Office Management Services Limited comprises the value of commissions received from providing insurance intermediary services.

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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.

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 and in comparison to prior years. Items classified within here will be material either because of size or nature and relate to the transformation of the business rather than ordinary trading. This separate reporting of exceptional items helps to provide a better picture of the Company's underlying performance.

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
Investments in joint ventures 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 less any impairment in value. The income statement reflects the Group's share of post-tax profits from the joint venture.

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

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

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

- initial recognition of goodwill

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

- taxable temporary differences associated with investments in subsidiaries 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 statement, 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.

Pensions and other post-retirement benefits
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

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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. When the calculation at the balance sheet date results in net assets to the Group, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling).

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 (£).

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss.

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

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

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

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

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

Financial assets
Financial assets are measured at fair value at the balance sheet date. They are classified into the following categories loans and receivables or available for sale as appropriate based on the purpose for which they were required. Financial liabilities are measured at either fair value at the balance sheet date 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.

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.

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.

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All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, including cash in the Post Office network 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. Cash equivalents are classified as loans and receivable financial instruments.

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.
The subsidiary Post Office Management Services Limited holds some fiduciary cash balances, there are held on trust on behalf of insurance third parties, see note 12 for details.

2. Staff costs and numbers
Employment and related costs were as follows:

People costs excluding restructuring costs:	**2016** **£m**	2015 £m
Wages and salaries	**184**	191
Social security costs	**19**	19
Pension costs (note 17)	**30**	28
Total	**233**	238

	Period end employees		Average employees	
	2016	2015	**2016**	2015
Total employees	**6,605**	6,876	**6,667**	7,281

Total employee numbers can be categorised as follows:

	2016	2015
Administration	**1,261**	1,324
Crown Offices	**3,344**	3,406
Supply Chain	**1,360**	1,524
Network and Crown transformation programmes	**640**	622
Total	**6,605**	6,876

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

	2016 £m	2015 £m
Postmasters' fees	**413**	435
Bureau de Change foreign currency exchange losses	**-**	1
Depreciation	**1**	-
Cost of inventories recognised as an expense	**3**	4
Operating lease charges – Land and buildings	**17**	20
Fees payable to the group's auditors for audit and other services:	**£000**	£000
- parent company and group audit	**346**	391
-audit of subsidiary	**70**	-
-audit related assurance services	**40**	40
-other non-audit services	**106**	173

4. Operating exceptional items

	2016 £m	2015 (Restated) £m
Government Grant	**150**	170
Restructuring:		
Business transformation*	**(13)**	(13)
Network transformation including Postmasters' compensation (note 15)	**(177)**	(227)
Crown transformation	**(23)**	(10)
IT transformation	**(30)**	(17)
Restructuring – severance	**(29)**	(25)
- other	**(11)**	(9)
Total restructuring	**(283)**	(301)
Impairment:		
Impairment of intangible assets (note 8)	**(93)**	(56)
Impairment of property, plant and equipment (note 9)	**(43)**	(84)
Total impairment	**(136)**	(140)
Total operating exceptional items	**(269)**	(271)

Restructuring:

Restructuring costs are those incurred in order to implement the major transformation programmes primarily the Crown and Network programmes which are discussed further in the Financial Review on page XX. Network transformation includes the costs of Postmasters' compensation (2016: £102 million, 2015: £154 million) which are payments made to Postmasters' as a result of the ongoing programme.

*Business transformation costs include £2 million of acquisition costs, see note 21 for further details on this acquisition.

Impairment:

See the accounting policies on page XX for details.

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5. Directors' emoluments

The Directors received the following emoluments:

	2016	2015
	£000	£000
Emoluments, excluding pension contributions and LTIP*	**TBC**	1,234
Contributions to pension schemes	**TBC**	-
Amounts receivable under Long-Term Incentive Plans	**TBC**	157

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

Directors accruing pension entitlements during the period under:	**2016**	2015
	Number	Number
Defined benefit schemes	**-**	-
Defined contribution schemes	**-**	-

The highest paid Director received the following emoluments:

	2016	2015
	£000	£000
Emoluments and LTIP, excluding pension contributions but including cash supplements received in lieu of pensions	**TBC**	522
Company contributions to pension schemes	**-**	-

Remuneration for each director for the financial year 2015/16

Name	Annualised salary/fees 2015/16 (note 1)	Actual salary/fees 2015/16	Benefits 2015/16	Cash in lieu of pension 2015/16	STIP 2015/16	LTIP 2015/16	Total 2015/16	Total 2014/15
Non Executive Directors								
Tim Franklin	40,000	40,000	-	-	-	-	40,000	40,000
Virginia Holmes	40,000	40,000	-	-	-	-	40,000	40,000
Alasdair Marnoch (note 2)	45,000	15,000	-	-	-	-	15,000	45,000
Ken McCall (note 3)	50,000	12,500	-	-	-	-	12,500	N/A
Neil McCausland (note 4)	50,000	25,000	-	-	-	-	25,000	50,000
Tim Parker (note 5)	75,000	37,500	-	-	-	-	37,500	N/A

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Alice Perkins (note 6)	100,000	33,333	-	-	-	-	33,333	100,000
Carla Stent (note 7)	45,000	8,831	-	-	-	-	8,831	N/A
Richard Callard (note 8)	0	0	-	-	-	-	0	0
Executive Directors								
Paula Vennells	250,000	250,000	9,900	62,500	TBC	143,500	TBC	521,987
Alisdair Cameron (note 9)	240,000	240,000	13,919	56,189	125,002 +75,000	-	510,110	90,124

Note 1: The annualised fees are shown as at 27th March 2016 or at the date of leaving.

Note 2: Alasdair Marnoch resigned from the Board and left on 31st July 2015

Note 3: Ken McCall was appointed to the Board on 21st January 2016

Note 4: Neil McCausland resigned from the Board and left on 30th September 2015

Note 5: Tim Parker was appointed to the Board on 1st October 2015. Mr. Parker donates the after tax value of his Board fees to charity.

Note 7: Alice Perkins resigned from the Board and left on 31st July 2015

Note 7: Carla Stent was appointed to the Board on 21st January 2016

Note 8: Richard Callard is an employee of the Shareholder Executive of the Department for Business, Innovation, and Skills.

Note 9: Alisdair Cameron received a bonus of £75,000 in October 2015; this is shown separately in the STIP column. This was compensation for the variable pay which Alisdair gave up to join Post Office and was payable after six months' service depending upon performance conditions being met. The inclusion of this amount in Alisdair's contract and its payment against the performance conditions were agreed by the Remuneration Committee and the Special Shareholder.

Remuneration Policy Summary

The table describes the STIP and LTIP available for the Executive Director's.
The remuneration framework for the Executive Directors requires consent from the Special Shareholder each year.

Short-Term Incentive Plan (STIP)	The STIP drives and rewards performance over the single financial year against a key financial and operational targets taken from the business scorecard. Metrics and targets are determined and set each year according to business priorities. 80% of the STIP plan is determined by business targets, with the remaining 20% linked to the achievement of personal performance

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	objectives. The target opportunities for the Chief Executive and Chief Financial Officer are 48% and 40% respectively.
Long-Term Incentive Plan (LTIP)	The LTIP is designed to reward and retain key executives and senior managers on the achievement of strategic longer term targets linked to the development and growth of a sustainable business. The specific performance targets are determined for each LTIP cycle with reference to the three-year plan which is agreed with the Special Shareholder. The target opportunities for the Chief Executive and Chief Financial Officer are 70% and 50% respectively.

Differences in remuneration policy for the Executive Directors and employees generally

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

Claw-back provision

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

6. Net finance costs

	2016 £m	2015 £m
Interest receivable	**-**	1
Interest payable on loans	**(2)**	(1)
Finance charges	**(3)**	(2)
Total	**(5)**	(2)

7. Taxation

(a) Taxation gains recognised in the year

	2016 £m	2015 £m
Corporation tax credit for year	**(9)**	(10)
Tax under provided in previous years	**-**	(7)
Current tax	**(9)**	(17)
Deferred tax credit relating to the origin and reversal of temporary differences	**2**	(9)
Effect of change in tax rate	**3**	-
Income tax credit reported in the consolidated income statement	**(4)**	(26)

Deferred income tax of £5 million (2015: £9 million) has been credited (2015: debited) to other comprehensive income relating to actuarial movements in the retirement benefit surplus. This offsets the deferred tax debit of £5 million (2015 (credit): £9 million) that has been reported in the consolidated income statement.

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

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	2016 £m	2015 Restated £m
Loss on ordinary activities before tax from continuing operations	**(161)**	(163)
Loss on ordinary activities before tax from discontinued operations	**(10)**	(4)
Accounting loss before taxation	**(171)**	(167)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 21%)	**(34)**	(35)
Net decrease in tax charge as a result of recognition of deferred tax assets	**8**	(16)
Expenditure disallowable for tax	**1**	2
Adjustment in respect of prior period	**-**	(7)
Effect of unutilised losses carried forward	**28**	36
Joint venture profit after tax included in Group pre-tax profit	**(7)**	(6)
Total current tax (see above)	**(4)**	(26)

(c) Deferred tax

Deferred tax assets relate to the following:

	Balance sheet		Income statement	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Pensions temporary differences	**(25)**	(30)	**(5)**	9
Losses available for offset against future taxable income	**25**	30	**-**	-
Total deferred tax asset	**-**	-	**(5)**	9
Income statement			**(5)**	9

(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £166 million (2015: £141 million), comprising £78 million (2015: £74 million) relating mainly to fixed asset timing differences, £1 million (2015: £1 million) relating to timing differences on provisions and £87 million (2015: £66 million) relating to tax losses that are available to offset against future taxable profits. The Group has rolled over capital gains of £2 million (2015: £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.

The Finance Act 2013 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2018. Following these changes, deferred tax balances were reduced from 20% to 18%. The impact of this change on deferred tax balances is included in these financial statements.

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8. Intangible assets

	Software		Goodwill		Total	
	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m
Cost						
At 30 March 2015, 31 March 2014	297	243	-	-	297	243
Reclassifications	-	(3)	-	-	-	(3)
Additions	93	57	44	-	137	57
Disposals	(1)	-	-	-	(1)	-
At 27 March 2016, 29 March 2015	**389**	**297**	**44**	**-**	**433**	**297**
Amortisation and impairment						
At 30 March 2015, 31 March 2014	297	243	-	-	297	243
Reclassifications	-	(3)	-	-	-	(3)
Amortisation and impairment (see note 4)	93	57	-	-	93	57
Disposals	(1)	-	-	-	(1)	-
At 27 March 2016, 29 March 2015	**389**	**297**	**-**	**-**	**389**	**297**
Net book value						
At 27 March 2016, 29 March 2015	**-**	**-**	**44**	**-**	**44**	**-**

Goodwill relates to the acquisition from Bank of Ireland of the business and assets of the joint insurance business. The goodwill sits within Post Office Management Services Limited. See note 21.

The impairment figure for intangible assets in 2015 includes £1 million for discontinued operations, see note 22 for details. Note 4 only includes figures for continuing operations which explains the £1 million difference. These assets were disposed of in the current year as shown above.

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9. Property, plant and equipment

	Land and Buildings						
	Freehold	Long leasehold	Short leasehold	Motor Vehicles	Plant and machinery	Fixtures and equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 31 March 2014	100	17	113	44	1	739	1,014
Reclassification*	(31)	26	6	-	-	2	3
Additions	16	12	-	1	-	55	84
Disposals	(2)	-	(4)	(5)	-	(13)	(24)
At 29 March 2015	83	55	115	40	1	783	1,077
Reclassification*	(6)	3	(22)	-	-	25	-
Additions	1	-	-	4	-	38	43
Disposals	(1)	-	(3)	(1)	-	(3)	(8)
At 27 March 2016	**77**	**58**	**90**	**43**	**1**	**843**	**1,112**
Depreciation and impairment							
At 31 March 2014	91	16	113	44	1	739	1,004
Reclassification*	(31)	26	6	-	-	2	3
Depreciation and impairment	16	12	-	1	-	55	84
Disposals	(2)	-	(4)	(5)	-	(13)	(24)
At 29 March 2015	74	54	115	40	1	783	1,067
Reclassification	(6)	3	(22)	-	-	25	-
Depreciation and impairment (see note 3 and 4)	2	-	-	4	-	38	44
Disposals	(1)	-	(3)	(1)	-	(3)	(8)
At 27 March 2016	**69**	**57**	**90**	**43**	**1**	**843**	**1,103**
Net book value							
At 27 March 2016	**8**	**1**	**-**	**-**	**-**	**-**	**9**
At 29 March 2015	9	1	-	-	-	-	10

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £3 million (2015: £3 million) of the total cost of properties.

* Reclassifications have been done in the year between freehold, long leasehold, short leasehold and fixtures and equipment in relation to Postmaster's branches. Reclassification between freehold, long leasehold and short leasehold asset categories is due to the fact that all land and building assets are classified as freehold whilst they are an asset under construction, then once works are complete and lease contracts are confirmed, the asset is moved into the correct respective category.

10. Investments in joint ventures

The following entity has been included in the consolidated financial statements using the equity method:

Joint ventures

During 2015/16 and 2014/15, 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. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road,

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Brentford, Middlesex, TW8 9DF. The financial statements of the joint venture are prepared for the same reporting period as the Group.

	2016 Joint venture £m	2015 Joint venture £m
Share of net assets		
Total net investment at 30 March 2015, 31 March 2014	**67**	**61**
Share of post tax pre dividend profit	**35**	**36**
Dividend	**(35)**	**(30)**
Total net investment at 27 March 2016, 29 March 20	67	**67**

	2016 Joint venture	2015 Joint venture
Share of assets and liabilities:	**£m**	£m
Current assets	**205**	191
Non-current assets	**6**	6
Share of gross assets	**211**	197
Current liabilities	**(144)**	(130)
Share of net assets	**67**	67
Share of revenue and profit:		
Revenue	**79**	82
Profit after tax	**35**	36

11. Trade and other receivables

	2016 £m	2015 £m
Current:		
Trade receivables	**93**	101
Prepayments and accrued income	**73**	106
Client receivables	**229**	162
Other receivables	**14**	28
Total	**409**	397
Non-current:		
Prepayments	**12**	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 13).

As at 27 March 2016 trade receivables of £16 million (2015: £14 million) were impaired and fully provided for. During the year £4 million (2015: £6 million) of the provision has been utilised and an additional £6 million (2015: £3 million) has been provided for. Trade receivables of £21 million (2015: £21 million) were past due but not impaired. The aging analysis of the trade receivables are as follows:

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	2016 £m	2015 £m
Not yet overdue	**72**	80
Past due not more than one month	**12**	8
Past due more than one month and not more than two months	**3**	3
Past due more than two months	**6**	10
Total	**93**	101

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

12. Cash and cash equivalents

	2016 £m	2015 £m
Cash in the Post Office Limited network	**653**	708
Short-term bank deposits	**57**	93
Fiduciary cash balances held on behalf of insurance third parties	**2**	-
Money market fund investments	**-**	20
Total cash and cash equivalents	**712**	821

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.
The fiduciary cash balances are held within Post Office Management Services Limited and are held on trust on behalf of insurance third parties and cannot be called upon should the Company become insolvent.

13. Trade and other payables

	2016 £m	2015 £m
Current:		
Trade payables	**51**	30
Accruals	**161**	160
Deferred income	**39**	29
Social security	**8**	9
Client payables	**375**	454
Capital payables	**16**	25
Other payables	**3**	11
Total	**653**	718
Non-current:		
Other payables	**25**	30

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

14. Financial liabilities – interest bearing loan and borrowings

	2016 £m	2015 £m
Department of Business, Innovation & Skills loan drawn down	**465**	310

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The loan under the facility is short dated on a programme of liquidity management and matures on average 1 day after the year end (2015: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2018. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £485 million (2015: £840 million). The average interest rate on the drawn down loans is 1.0% (2015: 1.0%).

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

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

15. Provisions

	Network Transformation £m	Other £m	Total £m
At 29 March 2015 (restated)	127	23	150
Acquired through the business combination (note 21)*	-	1	1
Charged in operating exceptional items	123	54	177
Charged in operating costs	-	6	6
Charged for discontinued operation	-	3	3
Utilisation	(95)	(47)	(142)
Unused amounts in the year – operating exceptionals	(21)	(5)	(26)
Unused amounts in the year – operating costs	-	(2)	(2)
At 27 March 2016	**134**	**33**	**167**
Disclosed as:			
At 27 March 2016			
Current	**132**	**19**	**151**
Non – current	**2**	**14**	**16**
	134	**33**	**167**
At 29 March 2015			
Current	126	18	144
Non-current	1	5	6
	127	23	150

The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page XX for further details of this provision..

Other provisions of £33 million (2015: £23 million) include £30 million for continuing operations, this includes £19 million onerous lease obligations, £3 million severance and £8 million of smaller provisions including £1 million for personal injury claims and £1 million which sits within the subsidiary Post Office Management Services Limited and relates to the repayment of commission received in the event of the cancellation of insurance policies. It also includes £3 million in relation to the discontinued operation as disclosed in note 22.

*A provision was acquired as part of the acquisition from Bank of Ireland of the business and assets of the joint insurance business, see note 21.

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16. Financial assets and liabilities

a. Financial assets and liabilities by category

The breakdown of the Group's financial instruments at 27 March 2016 and 29 March 2015 is shown below:

	2016			2015		
	Current	**Non current**	**Total**	Current	Non Current	Total
	£m	**£m**	**£m**		£m	£m
Financial assets						
Trade and other receivables	**394**	**-**	**394**	378	-	378
Cash and cash equivalents	**712**	**-**	**712**	821	-	821
Financial liabilities						
Trade and other payables	**(606)**	**(4)**	**(610)**	(680)	(2)	(682)
BIS loan	**(465)**	**-**	**(465)**	(310)	-	(310)
Finance leases obligations	**(8)**	**-**	**(8)**	-	-	-
Total financial assets/ (liabilities)	**27**	**(4)**	**23**	209	(2)	207

Except for prepayments, social security and deferred income, which have been excluded from the table above, all of the Group's financial assets and liabilities by nature and classification for measurement purposes are considered loans and receivables.

The fair value of the Group's financial assets and liabilities approximate their carrying value due to the short term maturities of these instruments. The fair value of financial assets and liabilities is defined as the amount at which the Group would expect to receive upon selling an asset or pay to transfer a liability in a transaction between market participants at the measurement date.

The nature of the inputs used in determining the values of the financial assets and liabilities is quoted prices (unadjusted) in active markets for identical assets and liabilities. All of the Group's financial assets and liabilities are therefore considered as Level 1 in the fair value hierarchy.

The Group has no Level 2 and Level 3 financial instruments and there have been no transfers between the levels of fair value hierarchy during the period.

b. Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and aims to minimise potential adverse effects on the Group's financial performance.

Interest rate risk

The Group is exposed to changes in interest rate on floating rate debt, cash deposits and money market fund investments. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been a £5m favourable impact on the Group's equity and income statement. A 50 basis point decrease would have resulted in a £5m adverse impact on the Group's equity and income statement.

Foreign currency risk

The Group is exposed to foreign currency risk resulting from balances held to operate Bureau de Change services.

The currencies which these transactions are primarily denominated are the US dollar and Euro. 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 hedges its foreign currency risk principally through external forward foreign currency contracts to cover near-term future revenues with a number of providers including First Rate Exchange Services Holdings Limited.

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The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar and Euro exchange rates, assuming they are unhedged and with all other variables held constant, on profit/(loss) before tax and equity.

	Strengthening / (weakening) in US dollar rate	Effect on profit before tax	Effect on equity	Strengthening / (weakening) in euro rate	Effect on profit before tax	Effect on equity
	per cent	£m	£m	per cent	£m	£m
	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)
2016	**10**	**2**	**2**	**10**	**4**	**4**
	(10)	**(2)**	**(2)**	**(10)**	**(4)**	**(4)**
2015	10	1	1	10	3	3
	(10)	(1)	(1)	(10)	(3)	(3)

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 commission 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. The maximum exposure to credit risk is limited to the carrying value of each class of asset summarised in note 11.

Business credit risk is monitored centrally. The level of bad debt provision is less than 2% (2015: less than 2%) 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 Group Executive regularly monitor the level of debt in the Group, the working capital requirements and the forecast cash flows. The Board and Group Executive 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 short term bank deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The Group has adequate cash reserve to meet operating requirements in the next 12 months.

At 27 March 2016 the Group has unused facility of £485 million (2014: £840 million). The facility expires in 2018.

The tables below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest, where applicable.

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At 27 March 2016	12 Months	1-2 Years	2-5 Years	> 5 Years	**Total** **£m**
Financial assets					
Trade and other receivables	394	-	-	-	**394**
Cash and cash equivalents	712	-	-	-	**712**
Financial liabilities					
Trade and other Payables	(614)	(4)	-	-	**(618)**
Interest bearing loan	(465)	-	-	-	**(465)**
Finance leases obligations	(8)	-	-	-	**(8)**
Total financial assets/ (liabilities)	**19**	**(4)**	**-**	**-**	**15**

At 29 March 2015	12 Months	1-2 Years	2-5 Years	> 5 Years	Total £m
Financial Assets					
Trade and other receivables	378	-	-	-	378
Cash and cash equivalents	821	-	-	-	821
Financial Liabilities					
Trade and other Payables	(689)	(2)	-	-	(691)
Bank overdraft	-	-	-	-	-
Interest bearing loan	(310)	-	-	-	(310)
Finance leases obligations	-	-	-	-	-
Total financial assets/ (liabilities)	200	(2)	-	-	198

17. Pensions

The disclosures in this note reflect the two defined benefit schemes: Post Office Limited sectionalised RMPP scheme which is independently operated by the Group and the 7% share of the RMSEPP scheme. Royal Mail Group Limited is the principal employer in Royal Mail Senior Executive Pension Plan (RMSEPP) and Post Office Limited became a participating employer with effect from 1 April 2012. It also includes the defined contribution scheme Post Office Pension Plan.

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

The Group participates in pension schemes as detailed below.

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

*From 1 April 2015 the Post Office Pension plan replaced the Royal Mail Defined Contribution Plan.

Defined Contribution
The charge in the income statement for the defined contribution schemes and the Group contributions to these schemes was £3 million (2015: £3 million) during the year. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Group for a year.

Defined Benefit
Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds. The latest full actuarial funding valuation of RMPP was carried out as at 1 April 2012 using the projected unit method. For RMPP, this valuation was concluded at £135 million surplus. The latest full actuarial funding valuation of RMSEPP was carried out as at 31 March 2012 using the projected unit method. For 100% of the RMSEPP plan, the valuation was concluded at £83 million deficit. Valuations are carried out triennially and the next one is being performed as at 1 April 2015. The valuation has not yet been completed due to the current consultation on proposals to closing the scheme to future accrual. RMPP includes sections A, B and C each with different terms and conditions:

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

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

The changes encompassed:

- the Plans closed to new members from 31 March 2008;
- all pensions and benefits earned before 1 April 2008 are linked to final pensionable salary, but defined benefits built up from 1 April 2008 are earned on a "career average pensionable salary" basis;
- from 1 April 2014, pensionable salary was amended to the amount in force at that date, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases. This change resulted in a one-off exceptional gain of £102 million for the 2013/14 financial year;
- employees can continue to take their pension on reaching 60 but the normal retirement age increased to 65 for benefits earned from 1 April 2010;
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age at 55, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached; and
- RMSEPP was closed to future accruals on 31 December 2012.

Payment of £17 million (2015: £19 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% (2015: 17.1%), effective from April 2010. This rate is not expected to change materially during 2016/17. However, in February 2016, Post Office went out to formal consultation with active members (and their representatives) of the Post Office section of the Royal Mail Pension Plan regards to the potential closure of the RMPP to future accrual with effect from 1 September 2016. The closure is subject to the outcome of the pensions consultation and no final decision will be until the formal consultation has been completed. The proposed closure will also require consent of the Trustee of the RMPP. This closure if it occurs could affect the rate paid in 2016/17.

The Group pays 7% of the total deficit payment required to fund the deficit in RMSEPP and a payment of £1 million (2015: £1 million) was made by the Group during the year. No RMPP deficit payments were made during 2014/15 or 2015/16. For RMSEPP, deficit recovery payments will be £1 million per annum, from 1 April 2010 to 31 January 2024.

A current liability of £nil (2015: £1 million) has been recognised for payments to the pension schemes relating to redundancy. During the year, payments of £3 million (2015: £2 million) relating to redundancy were made.

The weighted average duration of the RMPP fund is 26 years, and for the RMSEPP fund is 21 years. Over the next financial reporting period to 27 March 2016 it is expected that employer contributions to the plans will be £17 million and £1 million for RMPP and RMSEPP respectively.

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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 in relation to both RMPP and RMSEPP were:

	At 27 March 2016 % pa	At 29 March 2015 % pa
Rate of increase in salaries	**2.8**	2.8
Rate of pension increases – RMPP sections A/B	**1.8**	1.9
Rate of pension increases – RMPP section C	**2.8**	2.8
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of pension increases – RMSEPP all other members	**2.8**	2.8
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of increase for deferred pensions	**1.8**	1.9
Discount rate	**3.5**	3.5
Inflation assumption (RPI) – RMPP & RMSEPP	**2.9**	3.0
Inflation assumption (CPI) – RMPP & RMSEPP	**1.8**	1.9

The ultimate cost of the RMPP plan to the Group will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets, for example Corporate Bonds, which mitigates the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes pensionable pay in RMPP, which was amended with effect from 1 April 2014. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this will be partially offset by an increase in the value of the bond holdings and, to some extent, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would increase because pensions would be paid for a longer time.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were transferred to the Royal Mail Statutory Pension Scheme. These liabilities are substantially no longer an obligation of the Group and consequently the transfer resulted in a significant removal of pension risk from the Group.

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

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	2016 £m	2015 £m
Changes in RPI and CPI inflation of +0.1% pa	**(5)**	(4)
Changes in discount rate of +0.1%pa	**5**	4
Changes in real salary growth of +0.1% pa	**(2)**	(1)
Changes in CPI assumptions of +0.1% pa	**(1)**	(1)
An additional 1 year life expectancy	**(6)**	(5)

The sensitivity analysis has been prepared using projected benefit cashflows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cashflows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

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

Average expected life expectancy from age 60:	2016	2015
For a current 60 year old male RMPP member	**27 years**	27 years
For a current 60 year old female RMPP member	**30 years**	30 years
For a current 40 year old male RMPP member	**29 years**	29 years
For a current 40 year old female RMPP member	**32 years**	32 years

b) Plans' assets

The assets in the plans for the Group were:

Sectionalised RMPP	Market value 2016 £m	Market value 2015 £m
UK equities	**-**	1
Overseas equities	**-**	10
Corporate bonds*	**233**	217
Property	**11**	8
Private Equity	**10**	12
Cash and cash equivalents	**41**	6
Bond/fixed interest funds	**41**	50
Index-linked funds	**-**	10
Other loan/debt funds	**28**	20
Alternative asset funds	**43**	11
Equity funds	**-**	34
Fair value of RMPP assets	**407**	379
Present value of RMPP liabilities	**(184)**	(150)
Surplus in plan before asset ceiling adjustment	**223**	229
Less effect of asset ceiling	**(29)**	(27)
Surplus in plan after asset ceiling adjustment	**194**	202

*£15 million relates to UK Government Bonds. £215 million to an LDI investment containing UK Government Bonds, it is a liability driven investment and £3 million to an infrastructure debt holding which is EUR denominated and fixed interest.

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Share of RMSEPP	**Market value 2016 £m**	Market value 2015 £m
UK equities	**1**	1
Overseas equities	**10**	11
Government bonds	**15**	16
Alternative asset funds	**2**	-
Property	**2**	2
Other assets	**-**	1
Fair value of share in plan assets for RMSEPP	**30**	31
Present value of share in plan liabilities for RMSEPP	**(27)**	(26)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**3**	5
Less effect of asset ceiling	**(1)**	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**2**	3

A retirement benefit surplus of £196 million is disclosed on the balance sheet, representing the surplus in plans of £223 million and £3 million for RMPP and RMSEPP respectively, and net of tax of £30 million at a rate of 35% on the element of the surplus which is recoverable through a refund from the plans.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. All RMPP and RMSEPP assets are securities with a quoted price in an active market.

c) Movement in plans' assets and liabilities

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

Assets	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Assets in sectionalised RMPP at beginning of period	**379**	260
Contributions paid	**19**	21
Employee contributions paid	**6**	7
Finance income	**14**	12
Actuarial (losses)/gains	**(8)**	81
Benefits paid to members	**(3)**	(2)
Assets in sectionalised RMPP at end of period	**407**	379

Assets	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of assets in RMSEPP at beginning of period	**31**	26
Contributions paid	**1**	1
Finance income	**1**	1
Actuarial (losses)/gains	**(2)**	4
Benefits paid to members	**(1)**	(1)
Share of assets in RMSEPP at end of period	**30**	31

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

Liabilities	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Liabilities in sectionalised RMPP at beginning of period	**(150)**	(90)
Current service cost	**(27)**	(25)
Curtailment costs*	**(1)**	(1)
Finance cost	**(6)**	(5)
Employee contributions	**(6)**	(7)
Actuarial loss	**-**	(23)
Experience adjustments on liabilities	**3**	(1)
Benefits paid	**3**	2
Liabilities in sectionalised RMPP at end of period	**(184)**	(150)

Liabilities	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of liabilities in RMSEPP plans at beginning of period	**(26)**	(24)
Finance cost	**(1)**	(1)
Actuarial loss	**(1)**	(2)
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(27)**	(26)

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

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

	Sectionalised RMPP 2016 £m	Sectionalised RMPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptioi items:		
Current service cost	**27**	25
Total charge to operating profit before exceptional items	**27**	25
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments	**1**	1
Total charge to operating profit	**28**	26
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**6**	5
Interest income on plan assets	**(14)**	(12)
Net pensions credit to financing	**(8)**	(7)
Net charge to the income statement before deduction for tax	**20**	19
Analysis of amounts recognised in the statement of comprehens income:		
Actual return on plan assets	**6**	93
Less: expected interest income on plan assets	**(14)**	(12)
Less: taxation on surplus recoverable through plan refunds	**(2)**	(4)
Actuarial (losses)/gains on assets (all experience adjustments)	**(10)**	77
Experience adjustments on liabilities	**3**	(1)
Effects of changes in actuarial assumptions on liabilities	**-**	(23)
Actuarial losses on liabilities	**3**	(24)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(7)**	53

	Share of RMSEPP 2016 £m	Share of RMSEPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to net pensions interest:		
Interest on plan liabilities	**1**	1
Interest income on plan assets	**(1)**	(1)
Net pensions credit to financing	**-**	-
Net charge to the income statement before deduction for tax	**-**	-
Analysis of amounts recognised in the statement of comprehensi income:		
Actual return on plan assets	**(1)**	5
Less: expected interest income on plan assets	**(1)**	(1)
Less: taxation on surplus recoverable through plan refunds	**1**	(1)
Actuarial (losses)/gains on assets (all experience adjustments)	**(1)**	3
Experience adjustments on liabilities		-
Effects of changes in actuarial assumptions on liabilities	**(1)**	(2)
Actuarial losses on liabilities	**(1)**	(2)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(2)**	1

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18. Equity:

Called up share capital:

	2016	2015
	£	£
Authorised		
Ordinary shares of £1 each	**51,000**	51,000
Total	**51,000**	51,000
Allotted and issued and fully paid		
Ordinary shares of £1 each	**50,003**	50,003
Total	**50,003**	50,003

Other reserves:

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

Share premium:

On 7 August 2007 1,000 ordinary shares of £1 each were issue in return for £313 million cash paid by the the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Innovations and Skills Reform. A share premium of £151,999,998 resulted from this subscription.

19. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £62 million (2015: £96 million).

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

	Land and buildings	
	2016	2015
	£m	£m
Within one year	**14**	17
Between one and five years	**35**	43
Beyond five years	**29**	27
Total	**78**	87

Contingent liabilities: As a large, nationwide retailer operating in dynamic and competitive markets, we may be subject to regulatory investigations and may face damage to our reputation and legal claims.

From time to time, we may be named as a defendant in legal claims or be required to respond to regulatory actions in connection with our activities. This may include claims for substantial or indeterminate amounts of damages from customers, employees, consultants and contractors, or may result in penalties, fines, or other results adverse to us. Like any large company, we may also be subject to the risk of potential employee or agent misconduct, including non-compliance with policies and improper use or disclosure of our assets or confidential information.

The Directors do not consider the outcome of any current claim or action will have a material adverse impact on the consolidated position of the Group.

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20. Finance lease liabilities

	2016		2015	
	Minimum payments	**Present value of minimum lease payments**	Minimum payments	Present value of minimum lease payments
	£m	**£m**	£m	£m
Within one year	**8**	**8**	-	-
Between one and five years	**-**	**-**	-	-
Total minimum lease payments	**8**	**8**	-	-
Less amounts representing finance charges	**-**	**-**	-	-
Present value of minimum lease payments			-	-
Of which:				
Current	**8**	**8**	-	-
Non-current	**-**	**-**	-	-

The aggregate finance charges allocated for the period in respect of finance leases was £nil (2015: £211,078). The fair value of finance lease liabilities is not materially different from the carrying value.

The Group has finance lease contracts for equipment.

21. Business combinations

On 30 September 2015, the Group acquired the remaining 50% of its former insurance joint undertaking from the Bank of Ireland. The consideration of £43,900,000 was settled in cash.

The fair values of the identifiable assets and liabilities of the business as at the date of acquisition were:

	Fair Value £m
Cash	1
Provision	(1)
Net Assets	-
Goodwill arising on acquisition	44
Consideration paid	44

The full acquisition cost is recognised as goodwill due to there being no separately identifiable assets and liabilities other than the cash and provision noted above. The acquisition costs and therefore the Goodwill were based on an independent external valuation provided to both parties. Goodwill has been reviewed for impairment at acquisition and at year end and at both times the amount is considered to represent fair value. There are no indicators of impairment. The Goodwill sits within Post Office Management Services Limited.

From the date of the acquisition to 27 March 2016, the additional 50% of the former joint insurance undertaking of Post Office Limited and Bank of Ireland has contributed £17 million of revenue and £1 million to profit before tax.

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22. Discontinued Operation

In March 2016 the Group decided to discontinue its mobile operation. The results of this operation are disclosed below:

	2016 £m	2015 £m
Revenue	**-**	-
Expenses	**(10)**	(4)
Loss before taxation	**(10)**	(4)
Taxation	**-**	-
Loss for the year from discontinued operation	**(10)**	(4)

Balances on the balance sheet at year end for project closure costs and termination charges are as follows:

	2016 £m	2015 £m
Provisions	**3**	-
Total Liabilities (note 15)	**3**	-

Write down of intangible assets and prepayments

Intangible assets for mobile amounted to £2 million in the year (£1 million in prior year) and these were impaired at acquisition in line with Group policy so no further write down was required on closure of the operation. The impairment is included in the £10 million above (£4 million above prior year). There were prepayments on the balance sheet of £2 million prior to the decision to discontinue this operation and these have been written down to £nil as the costs included in the £10 million expenses noted above.

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

All shareholdings are equity shares.

Related party transactions

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

	Sales/recharges to related party		Purchases/recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
First Rate Exchange Services Holdings Limited	**26**	26	**122**	129	**10**	7	**7**	6

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

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Separately:

- the Group has certain loan facilities with Government (note 14);
- the Group has received a Government Grant of £150 million, all of which was recognised through the income statement; and
- the Group has received the Network Subsidy Payment from Government (note 1).

Key management comprises Executive and Non-Executive Directors of the Post Office Limited Board and the members of the Group Executive at 27 March 2016. The aggregate remuneration of the key management personnel of the Post Office Group is set out below:

	2016 **£000**	2015 £000
Short-term employee benefits*	**TBC**	3,380
Post-employment benefits	**TBC**	68
Other long-term benefits	**TBC**	307
Total	**TBC**	3,755

*Payment in lieu of notice has been included in short-term employee benefits. Please refer to the Director's Remuneration Report on page XX for further details.

24. Post balance sheet events
In accordance with the funding agreement with government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £220 million of funding on 1 April 2016.

25. Immediate and ultimate parent company
At 27 March 2016, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company. The largest group to consolidate the results of the company is Postal Services Holding Company Limited, a company registered in the United Kingdom. Postal Services Holding Company Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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Parent Company Financial Statements

2015-2016

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Company statement of comprehensive income
At 27 March 2016

	Notes	**2016 £m**	2015 Restated £m
Loss for the financial year from continuing operations		**(157)**	(143)
Loss for the financial year from discontinued operations		**(10)**	(4)
Loss for the financial year		**(167)**	(147)
Other comprehensive income not to be reclassified to profit or loss in future periods			
Remeasurements on defined benefit surplus	11	**(9)**	54
Income tax effect		**5**	(9)
Total comprehensive income for the year		**(171)**	(102)

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

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Company balance sheet
at 27 March 2016

	Notes	**2016 £m**	2015 (Restated) £m
Non-current asset			
Intangible assets	2	**-**	-
Property, plant and equipment	3	**9**	10
Investment in subsidiaries	4	**50**	-
Investments in joint ventures	5	**1**	1
Retirement benefit surplus	11	**196**	205
Trade and other receivables	6	**12**	10
Total non-current assets		**268**	226
Current assets			
Inventories		**6**	6
Trade and other receivables	6	**411**	399
Cash and cash equivalents	7	**698**	817
Total current assets		**1,115**	1,222
Total assets		**1,383**	1,448
Current liabilities			
Trade and other payables	8	**(648)**	(716)
Financial liabilities - interest bearing loans and borrowings	9	**(465)**	(310)
- obligations under finance leases	13	**(8)**	-
Provisions	10	**(150)**	(144)
Total current liabilities		**(1,271)**	(1,170)
Non-current liabilities			
Other payables	8	**(25)**	(30)
Provisions	10	**(16)**	(6)
Total non-current liabilities		**(41)**	(36)
Net assets		**71**	242
Equity			
Share capital	12	**-**	-
Share premium	12	**465**	465
Retained earnings		**(394)**	(223)
Total equity		**71**	242

The financial statements on pages XX to XX were approved by the Board of Directors on XXX 2015 and signed on its behalf by:

P A Vennells
Chief Executive

A Cameron
Chief Financial Officer

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Company statement of changes in equity
at 27 March 2016

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 30 March 2015 (restated)		**465**	**(223)**	**242**
Loss for the year		**-**	**(167)**	**(167)**
Remeasurements on defined benefit surplus	11	**-**	**(9)**	**(9)**
Income tax effect		**-**	**5**	**5**
At 27 March 2016		**465**	**(394)**	**71**

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 31 March 2014		465	(121)	344
Loss for the year (restated)		-	(147)	(147)
Remeasurements on defined benefit surplus	11	-	54	54
Income tax effect		-	(9)	(9)
At 29 March 2015 (restated)		465	(223)	242

Post Office Limited

Notes to the financial statements

1. Accounting Policies
The accounting policies which follow set out those which apply in preparing the financial statements for the year ended 27 March 2016.

Financial year
The financial year ends on the last Sunday in March and accordingly, these financial statements are made up to the 52 weeks ended 27 March 2016 (2015: 52 weeks ended 29 March 2015).

Authorisation of financial statements
The parent company financial statements of Post Office Limited (the 'Company') for the year ended 27 March 2016 were authorised for issue by the Board of Directors on XX xxx 2016 and the balance sheet was signed on the Board's behalf by P A Vennells and A Cameron. Post Office Limited is a limited company incorporated and domiciled in England and Wales.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Theses financial statements are prepared under the historical cost convention.

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own income statement. The result dealt with in the accounts of the company amounted to £167 million loss (2015 (restated): £60 million loss).

The results of Post Office Limited are included in the consolidated financial statements of Post Office Group which are available from Companies House.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IFRS 7 Financial Instruments: Disclosures
(b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
(c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    i. paragraph 73(e) of IAS 16 Property, Plant and Equipment
    ii. paragraph 118(e) of IAS 38 Intangible Assets
(d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 'Presentation of Financial Statements'
(e) the requirements of IAS 7 Statement of Cash Flows
(f) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
(g) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'
(h) the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Fundamental accounting concept – going concern

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 XX) and are of the view that it is appropriate that these financial statements have been prepared on a going concern basis.

Prior year restatements

In preparing the financial statements for the current year, the comparative figures for the year ended 29 March 2015 have been restated. The provision for postmasters' compensation, included within network transformation had not been fully recognised in the financial statements for the year ended 29 March 2015. The nature of the provision is described in more detail in the accounting policies. The restatement affects exceptional costs, provisions and retained earnings due to the loss in the year changing as a result of a restatement to the exceptional charge. This represents an acceleration of an expected cost and there has been no impact on the Group's funding position or on payments to Postmasters'. Within this report, the comparative statement of comprehensive income, balance sheet and statement of changes in equity for the year ended 29 March 2015 have been restated. There has been no effect on the cash flow statement.

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	As previously reported	Restatement	29 March 2015 Restated
Total provisions	(63)	(87)	(150)
Operating exceptional items - restructuring costs	(214)	(87)	(301)
Shareholders' funds (retained earnings)	(136)	(87)	(223)
Profit/(loss) for the year	(60)	(87)	(147)

Critical accounting estimates and judgements in applying accounting policies

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

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Company are determined using methods relying on actuarial estimates and assumptions. These pension figures are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Company 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 11.

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

Provisions

The Company has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. Postmasters' compensation provisions are recognised when either Postmaster's agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for Postmasters' compensation at the yearend date represents management's best estimate of the future obligation. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate the risks specific to that liability.*Impairment of non-current assets*
The Group assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. 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. Due to on-going operational losses (excluding the Network Subsidy Payment) the carrying value of some assets are impaired to zero on acquisition. Each asset category is described below:

Property, plant and equipment excluding freehold property, long leasehold property and land:

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and due to on-going operational losses (excluding Network Subsidy payment) they are impaired to zero on acquisition. If they were not impaired they would be depreciated on a straight-line basis over the following useful lives:

	Range of asset lives
Plant and Machinery	3 – 15 years
Motor vehicles and trailers	2 – 12 years
Fixtures and equipment	2 – 15 years

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value, therefore these assets are not impaired on acquisition but would be considered for impairment if indicators existed in line with Group policy noted above. They are instead depreciated on a straight-line basis over the following useful lives:

	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

The remaining useful lives of freehold buildings are reviewed periodically and adjusted where applicable on a prospective basis.

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. These assets are impaired to zero for the reasons noted above. If they were not impaired they would be amortised on a straight line bases via a charge to income statement over the following period:

Software	1 to 6 years

Intangible assets arising on acquisition or with an indefinite useful life:

These assets are considered for impairment individually in line with Group policy noted above but are not automatically impaired. Goodwill is considered separately below.

Goodwill

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. Goodwill is tested for impairment annually as well as when there are any indicators of impairment.

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 income statement over the lease term. The aggregate benefits of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

Investments in joint ventures

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

Investments in subsidiaries

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

Inventories

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.

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

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- 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 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.

Pensions and other post-retirement benefits
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. When the calculation at the balance sheet date results in net assets to the Company, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling).

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

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

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

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

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

Provisions
Provisions are recognised when the Company 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.

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Financial instruments
Financial assets

Financial assets are measured at fair value at the balance sheet date. They are classified into the following categories as appropriate loans and receivables or available for sale as appropriate based on the purpose for which they were required. Financial liabilities are measured at either fair value at the balance sheet date 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.

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.

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 Company uses Money Market funds as a readily available source of cash, and these funds are also categorised as cash equivalents.

Auditor's remuneration
The remuneration paid to auditors is disclosed in the Group financial statements (note 3).

Director's emoluments
The emoluments paid to Directors are disclosed in the Group financial statements (note 5).

2. Intangible assets

Cost	**2016 £m**	2015 £m
At 30 March 2015, 31 March 2014	297	243
Reclassifications	-	(3)
Additions	91	57
Disposals	-	-
At 27 March 2016, 29 March 2015	388	297
Impairment		
At 30 March 2015, 31 March 2014	297	243
Reclassifications	-	(3)
Impairment (see note 5 in the Group financial statements)	91	57
Disposals	-	-
At 27 March 2016, 29 March 2015	388	297
Net book value		
At 27 March 2016, 29 March 2015	-	-

The above intangible assets relate to software.

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3. Property, plant and equipment

	Land and Buildings						
	Freehold	Long leasehold	Short leasehold	Motor Vehicles	Plant and machinery	Fixtures and equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 31 March 2014	100	17	113	44	1	739	1,014
Reclassification*	(31)	26	6	-	-	2	3
Additions	16	12	-	1	-	55	84
Disposals	(2)	-	(4)	(5)	-	(13)	(24)
At 29 March 2015	83	55	115	40	1	783	1,077
Reclassification*	(6)	3	(22)	-	-	25	-
Additions	1	-	-	4	-	38	43
Disposals	(1)	-	(3)	(1)	-	(3)	(8)
At 27 March 2016	**77**	**58**	**90**	**43**	**1**	**843**	**1,112**
Depreciation and impairment							
At 31 March 2014	91	16	113	44	1	739	1,004
Reclassification*	(31)	26	6	-	-	2	3
Depreciation and impairment	16	12	-	1	-	55	84
Disposals	(2)	-	(4)	(5)	-	(13)	(24)
At 29 March 2015	74	54	115	40	1	783	1,067
Reclassification	(6)	3	(22)	-	-	25	-
Depreciation and impairment	2	-	-	4	-	38	44
Disposals	(1)	-	(3)	(1)	-	(3)	(8)
At 27 March 2016	**69**	**57**	**90**	**43**	**1**	**843**	**1,103**
Net book value							
At 27 March 2016	**8**	**1**	**-**	**-**	**-**	**-**	**9**
At 29 March 2015	9	1	-	-	-	-	10

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £3 million (2015: £3 million) of the total cost of properties.

* Some reclassifications have been done in the year between freehold, long leasehold, short leasehold and fixtures and equipment in relation to Postmasters' branches.Reclassification between freehold, long leasehold and short leasehold asset categories is due to the fact that all land and building assets are classified as freehold whilst they are an asset under construction, then once works are complete and lease contracts are confirmed, the asset is moved into the correct respective category.

4. Investment in subsidiaries

The carrying value of £50,000,100 relates solely to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company. It relates to 50,000,000 shares with a nominal value of £1 and 1 share with a nominal value of £100. The registered address of Post Office Management Services Limited is Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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5. Investments in joint ventures

	2016 **£m**	2015 £m
Investment in joint ventures	**1**	1

Joint ventures

During 2015/16 and 2014/15, 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 (2015: £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. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

6. Trade and other receivables

	2016 **£m**	2015 £m
Current:		
Trade receivables	**93**	101
Amounts owed by group undertakings	**6**	2
Prepayments and accrued income	**68**	106
Client receivables	**229**	162
Other receivables	**15**	28
Total	**411**	399
Non-current:		
Prepayments and accrued income	**12**	10

7. Cash and cash equivalents

	2016 **£m**	2015 £m
Cash in the Post Office Limited Network	**653**	708
Short-term Bank Deposits	**45**	89
Money market fund investments	**-**	20
Total	**698**	817

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8. Trade and other payables

	2016 £m	2015 £m
Current:		
Trade payables	**51**	29
Accruals	**157**	159
Deferred income	**39**	29
Social security	**8**	9
Client payables	**375**	454
Capital payables	**16**	25
Other payables	**2**	11
Total	**648**	716
Non-current:		
Other payables	**25**	30

9. Financial liabilities – interest bearing loans and borrowings

	2016 £m	2015 £m
Department of Business, Innovation & Skills loan drawn down	**465**	310

The loan under the facility is short dated on a programme of liquidity management and matures on average 1 day after the year end (2015: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2018. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £485 million (2015: £840 million). The average interest rate on the drawn down loans is 1.0% (2015: 1.0%).

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

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

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10. Provisions

	Network Transformation £m	Other £m	Total £m
At 29 March 2015 (restated)	127	23	150
Charged in operating exceptional items	123	54	177
Charged in operating costs	-	5	5
Charged for discontinued operation	-	3	3
Utilisation	(95)	(46)	(141)
Unused amounts in the year – operating exceptionals	(21)	(5)	(26)
Unused amounts in the year – operating costs	-	(2)	(2)
At 27 March 2016	**134**	**32**	**166**
Disclosed as:			
Current	**132**	**18**	**150**
Non - current	**2**	**14**	**16**
	134	**32**	**166**

The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page XX for further details of this provision..

Other provisions of £32 million (2015: £23 million) include £29 million for continuing operations, this includes £19 million onerous lease obligations, £3 million severance and £7 million of smaller provisions including £1 million for personal injury claims. It also includes £3m in relation to the discontinued operation as disclosed in note 19.

11. Pensions

The disclosures in this note reflect the two defined benefit schemes: Post Office Limited sectionalised RMPP scheme which is independently operated by the Company and the 7% share of the RMSEPP scheme. Royal Mail Group Limited is the principal employer in Royal Mail Senior Executive Pension Plan (RMSEPP) and Post Office Limited became a participating employer with effect from 1 April 2012. It also includes the defined contribution scheme Post Office Pension Plan.

The disclosures in this note show how the value of the assets and liabilities has 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
Post Office Pension Plan*	UK employees	Defined contribution

*From 1 April 2015 the Post Office Pension plan replaced the Royal Mail Defined Contribution Plan.

Defined Contribution
The charge in the income statement for the defined contribution schemes and the Company contributions to these schemes was £3 million (2015: £3 million) during the year. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Company for a year.

Defined Benefit
Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds. The latest full actuarial funding valuation of RMPP was carried out as at 1 April 2012 using the projected unit method. For RMPP, this valuation was concluded at £135 million surplus. The latest full actuarial funding valuation of RMSEPP was carried out as at 31 March 2012 using the projected unit method. For 100% of the RMSEPP plan, the

valuation was concluded at £83 million deficit. Valuations are carried out triennially and the next one is being performed as at 1 April 2015. The valuation has not yet been completed due to the current consultation on proposals to close the scheme to future accrual. RMPP includes sections A, B and C each with different terms and conditions:

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

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

The changes encompassed:

- the Plans closed to new members from 31 March 2008;
- all pensions and benefits earned before 1 April 2008 are linked to final pensionable salary, but defined benefits built up from 1 April 2008 are earned on a "career average pensionable salary" basis;
- from 1 April 2014, pensionable salary was amended to the amount in force at that date, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases. This change resulted in a one-off exceptional gain of £102 million for the 2013/14 financial year;
- employees can continue to take their pension on reaching 60 but the normal retirement age increased to 65 for benefits earned from 1 April 2010;
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age at 55, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached; and
- RMSEPP was closed to future accruals on 31 December 2012.

Payment of £17 million (2015: £19 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% (2015: 17.1%), effective from April 2010. However, in February 2016, Post Office went out to formal consultation with active members (and their representatives) of the Post Office section of the Royal Mail Pension Plan regards to the potential closure of the RMPP to future accrual with effect from 1 September 2016. The closure is subject to the outcome of the pensions consultation and no final decision will be until the formal consultation has been completed. The proposed closure will also require consent of the Trustee of the RMPP. This closure if it occurs could affect the rate paid in 2016/17.

The Company pays 7% of the total deficit payment required to fund the deficit in RMSEPP and a payment of £1 million (2015: £1 million) was made by the Company during the year. No RMPP deficit payments were made during 2014/15 or 2015/16. For RMSEPP, deficit recovery payments will be £1 million per annum, from 1 April 2010 to 31 January 2024.

A current liability of £nil (2015: £1 million) has been recognised for payments to the pension schemes relating to redundancy. During the year, payments of £3 million (2015: £2 million) relating to redundancy were made.

The weighted average duration of the RMPP fund is 26 years, and for the RMSEPP fund is 21 years. Over the next financial reporting period to 27 March 2016 it is expected that employer contributions to the plans will be £17 million and £1 million for RMPP and RMSEPP respectively.

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

b) Major long-term assumptions

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

	At 27 March 2016 % pa	At 29 March 2015 % pa
Rate of increase in salaries	**2.8**	2.8
Rate of pension increases – RMPP sections A/B	**1.8**	1.9
Rate of pension increases – RMPP section C	**2.8**	2.8
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of pension increases – RMSEPP all other members	**2.8**	2.8
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of increase for deferred pensions	**1.8**	1.9
Discount rate	**3.5**	3.5
Inflation assumption (RPI) – RMPP and RMSEPP	**2.9**	3.0
Inflation assumption (CPI) – RMPP and RMSEPP	**1.8**	1.9

The ultimate cost of the RMPP plan to the Company will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets, for example Corporate Bonds, which mitigates the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes pensionable pay in RMPP, which was amended with effect from 1 April 2014. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this will be partially offset by an increase in the value of the bond holdings and, to some extent, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would increase because pensions would be paid for a longer time.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were transferred to the Royal Mail Statutory Pension Scheme. These liabilities are no longer an obligation of the Company and consequently the transfer resulted in a significant removal of pension risk from the Company.

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

	2016 £m	2015 £m
Changes in RPI and CPI inflation of +0.1% pa	**(5)**	(4)
Changes in discount rate of +0.1%pa	**5**	4
Changes in real salary growth of +0.1% pa	**(2)**	(1)
Changes in CPI assumptions of +0.1% pa	**(1)**	(1)
An additional 1 year life expectancy	**(6)**	(5)

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The sensitivity analysis has been prepared using projected benefit cashflows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cashflows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

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

Average expected life expectancy from age 60:	**2016**	2015
For a current 60 year old male RMPP member	**27 years**	27 years
For a current 60 year old female RMPP member	**30 years**	30 years
For a current 40 year old male RMPP member	**29 years**	29 years
For a current 40 year old female RMPP member	**32 years**	32 years

b) Plans' assets

The assets in the plans for the Company were:

Sectionalised RMPP	**Market value 2016 £m**	Market value 2015 £m
UK equities	**-**	1
Overseas equities	**-**	10
Corporate bonds*	**233**	217
Property	**11**	8
Private Equity	**10**	12
Cash and cash equivalents	**41**	6
Bond/fixed interest funds	**41**	50
Index-linked funds	**-**	10
Other loan/debt funds	**28**	20
Alternative asset funds	**43**	11
Equity funds	**-**	34
Fair value of RMPP assets	**407**	379
Present value of RMPP liabilities	**(184)**	(150)
Surplus in plan before asset ceiling adjustment	**223**	229
Less effect of asset ceiling	**(29)**	(27)
Surplus in plan after asset ceiling adjustment	**194**	202

*£15 million relates to UK Government Bonds. £215 million to an LDI investment containing UK Government Bonds, it is a liability driven investment and £3 million to an infrastructure debt holding which is EUR denominated and fixed interest.

Share of RMSEPP	**Market value 2016 £m**	Market value 2015 £m
UK equities	**1**	1
Overseas equities	**10**	11
Government bonds	**15**	16
Alternative asset funds	**2**	-
Property	**2**	2
Other assets	**-**	1
Fair value of share in plan assets for RMSEPP	**30**	31
Present value of share in plan liabilities for RMSEPP	**(27)**	(26)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**3**	5
Less effect of asset ceiling	**(1)**	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**2**	3

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A retirement benefit surplus of £196 million is disclosed on the balance sheet, representing the surplus in plans of £223 million and £3 million for RMPP and RMSEPP respectively, and net of tax of £30 million at a rate of 35% on the element of the surplus which is recoverable through a refund from the plans.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. All RMPP and RMSEPP assets are securities with a quoted price in an active market.

c) Movement in plans' assets and liabilities

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

Assets	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Assets in sectionalised RMPP at beginning of period	**379**	260
Contributions paid	**19**	21
Employee contributions paid	**6**	7
Finance income	**14**	12
Actuarial (losses)/gains	**(8)**	81
Benefits paid to members	**(3)**	(2)
Assets in sectionalised RMPP at end of period	**407**	379

Assets	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of assets in RMSEPP at beginning of period	**31**	26
Contributions paid	**1**	1
Finance income	**1**	1
Actuarial (losses)/gains	**(2)**	4
Benefits paid to members	**(1)**	(1)
Share of assets in RMSEPP at end of period	**30**	31

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

Liabilities	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Liabilities in sectionalised RMPP at beginning of period	**(150)**	(90)
Current service cost	**(27)**	(25)
Curtailment costs*	**(1)**	(1)
Finance cost	**(6)**	(5)
Employee contributions	**(6)**	(7)
Actuarial loss	**-**	(23)
Experience adjustments on liabilities	**3**	(1)
Benefits paid	**3**	2
Liabilities in sectionalised RMPP at end of period	**(184)**	(150)

Liabilities	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of liabilities in RMSEPP plans at beginning of period	**(26)**	(24)
Finance cost	**(1)**	(1)
Actuarial loss	**(1)**	(2)
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(27)**	(26)

*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

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

	Sectionalised RMPP 2016 £m	Sectionalised RMPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptioı items:		
Current service cost	**27**	25
Total charge to operating profit before exceptional items	**27**	25
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments	**1**	1
Total charge to operating profit	**28**	26
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**6**	5
Interest income on plan assets	**(14)**	(12)
Net pensions credit to financing	**(8)**	(7)
Net charge to the income statement before deduction for tax	**20**	19
Analysis of amounts recognised in the statement of comprehensive income:		
Actual return on plan assets	**6**	93
Less: expected interest income on plan assets	**(14)**	(12)
Less: taxation on surplus recoverable through plan refunds	**(2)**	(4)
Actuarial (losses)/gains on assets (all experience adjustments)	**(10)**	77
Experience adjustments on liabilities	**3**	(1)
Effects of changes in actuarial assumptions on liabilities	**-**	(23)
Actuarial losses on liabilities	**3**	(24)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(7)**	53

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	Share of RMSEPP 2016 £m	Share of RMSEPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**1**	1
Interest income on plan assets	**(1)**	(1)
Net pensions credit to financing	**-**	-
Net charge to the income statement before deduction for tax	**-**	-
Analysis of amounts recognised in the statement of comprehensi income:		
Actual return on plan assets	**(1)**	5
Less: expected interest income on plan assets	**(1)**	(1)
Less: taxation on surplus recoverable through plan refunds	**1**	(1)
Actuarial (losses)/gains on assets (all experience adjustments)	**(1)**	3
Experience adjustments on liabilities		-
Effects of changes in actuarial assumptions on liabilities	**(1)**	(2)
Actuarial losses on liabilities	**(1)**	(2)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(2)**	1

12. Equity

Called up share capital:

	2016 £	2015 £
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

Share premium:

On 7 August 2007 1,000 ordinary shares of £1 each were issue in return for £313 million cash paid by the the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Innovations and Skills Reform. A share premium of £151,999,998 resulted from this subscription.

13. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £62 million (2015: £96 million).

Details of the Company commitments under non-cancellable operating leases are disclosed in the Group financial statements (note 19).

14. Finance lease liabilities

Details of the Company's finance lease liabilities are disclosed in the Group financial statements (note 20).

15. Related party disclosures

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

16. Operating exceptional items

Details of operating exceptional items are disclosed in the Group financial statements (note 4).

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17. Taxation
Details of the taxation gains recognised in the year are disclosed in the Group financial statements (note 7a).

18. Business combinations
Details of the business combination which arose in the year is included in note 21 in the Group financial statements.

19. Discontinued operations
Details of the discontinued operation are included in note 22 in the Group financial statements.

20. Post balance sheet events
In accordance with the funding agreement with government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £220 million of funding on 1 April 2016.

21. Immediate and ultimate parent company

At 27 March 2016, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company. The largest group to consolidate the results of the Company is Postal Services Holding Company Limited, a company registered in the United Kingdom. Postal Services Holding Company Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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Post Office Limited

Corporate information

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Post Office Limited

Audit, Risk and Compliance Board Sub-Committee

Year ended 27 March 2016

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1. Glossary

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

Abbreviation	Meaning
AEI	Application, Enrolment & Identity
ATM	Automated Teller Machine
BACS	Bankers' Automated Clearing Services
BAU	Business As Usual
BIS	Department for Business, Innovation & Skills
BOI	Bank of Ireland
CPI	Consumer Price Index
DVLA	Driver & Vehicle Licensing Authority
DWP	Department of Work & Pensions
Eagle	Deal in August 2012 to sell Post Office Financial Services (POFS) to the Bank of Ireland, restructure commission rates for personal financial services and extend the contract to 2023
EU BRP	European Union Biometric Residents' Permit
FRES	First Rate Exchange Services
Gamma	A contract variation made in 2007 with POFS generating £100m cash and income over a number of years in return for a series of commitments through to 2020
GRNI	Goods Received Not Invoiced
HPBB	Homephone and Broadband
Horizon	Horizon Next Generation- IT Counter system in branches
NBV	Net Book Value
NS&I	National Savings & Investments
NSP	Network Subsidy Payment
POCA	Post Office Card Account
PFS	Personal Finance Services
POFS	Post Office Financial Services
RMPP	Royal Mail Pension Plan
RMSEPP	Royal Mail Senior Executive Pension Plan
RMDCP	Royal Mail Defined Contribution Plan
RBS	Royal Bank of Scotland
RPI	Retail Price Index
SGEI	Services of General Economic Interest

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2. Introduction

This Briefing Book has been prepared to explain the Post Office Limited results for the year ended 27 March 2016. It is a summary of the key data, trends and analyses which readers may find useful to further their own understanding of the results for 2015-16. It is to be read in conjunction with the Report & Accounts.

Most of the analysis is based on the comparison of 2015-16's actual results to those of the prior year.

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

3. Accounting Policies

Post Office Limited Group report its results under International Financial Reporting Standards (IFRS). Post Office Limited Company and Post Office Management Services Limited report under Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

4. Primary Statements

4.1 Consolidated Income Statement

	2016 £m	2015 (Restated) £m
Continuing operations:		
Turnover	**981**	976
Network Subsidy Payment	**130**	160
Revenue	**1,111**	1,136
People costs excluding restructuring costs	**(233)**	(238)
Other operating costs	**(808)**	(831)
Share of post-tax profit from joint ventures	**35**	36
Operating profit before exceptional items for continuing operations	**105**	103
Operating exceptional items	**(269)**	(271)
- government grant	**150**	170
- restructuring costs	**(283)**	(301)
- impairment	**(136)**	(140)
Operating loss from continuing operations	**(164)**	(168)
Profit on disposal of property, plant and equipment	**-**	-
Loss before financing and taxation from continuing operations	**(164)**	(168)
Finance costs	**(5)**	(3)
Finance income	**-**	1
Net financing income relating to pensions	**8**	7
Loss before taxation from continuing operations	**(161)**	(163)
Taxation credit	**4**	26
Loss for the financial year from continuing operations	**(157)**	(137)
Discontinued operations:		
Loss for the financial year after tax from discontinued operations	**(10)**	(4)
Loss for the financial year	**(167)**	(141)

4.2 Consolidated statement of cash flows

	2016	2015
	£m	£m
Cash flows from operating activities		
Operating profit before exceptional items from continuing operations	**105**	103
Operating loss from discontinued operations	**(10)**	(4)
Total profit before exceptional items	**95**	99
Adjustment for:		
Share of profit from joint ventures	**(35)**	(36)
Pension operating costs	**30**	28
Working capital movements:	**(81)**	(17)
Increase in trade and other receivables	**(14)**	(34)
(Decrease)/Increase in trade and other payables	**(61)**	10
Increase in provisions for discontinued operations	**3**	-
(Decrease)/increase/ in non-exceptional provisions	**(9)**	7
Pension operating costs paid	**(23)**	(23)
Cash payments in respect of operating exceptional items:	**(109)**	(66)
Government grant	**150**	170
Restructuring costs	**(253)**	(224)
Other	**(6)**	(12)
Net cash outflow from operating activities	**(123)**	(15)
Income tax recovered	**9**	11
Cash flows from investing activities		
Dividends received from joint ventures	**35**	30
Finance income received	**-**	1
Purchase of business combination	**(44)**	
Purchase of fixed and intangible assets	**(136)**	(147)
Net cash outflow from investing activities	**(145)**	(116)
Net cash (outflow)/inflow before financing activities	**(259)**	(120)
Cash flows from financing activities		
Finance costs paid	**(5)**	(3)
Payments to finance lease creditors	**-**	(3)
Proceeds of borrowings from BIS	**155**	310
Net cash inflow from financing activities	**150**	304
Net (decrease)/increase in cash and cash equivalents	**(109)**	184
Cash and cash equivalents at the beginning of the year	**821**	637
Cash and cash equivalents at the end of the year	**712**	821

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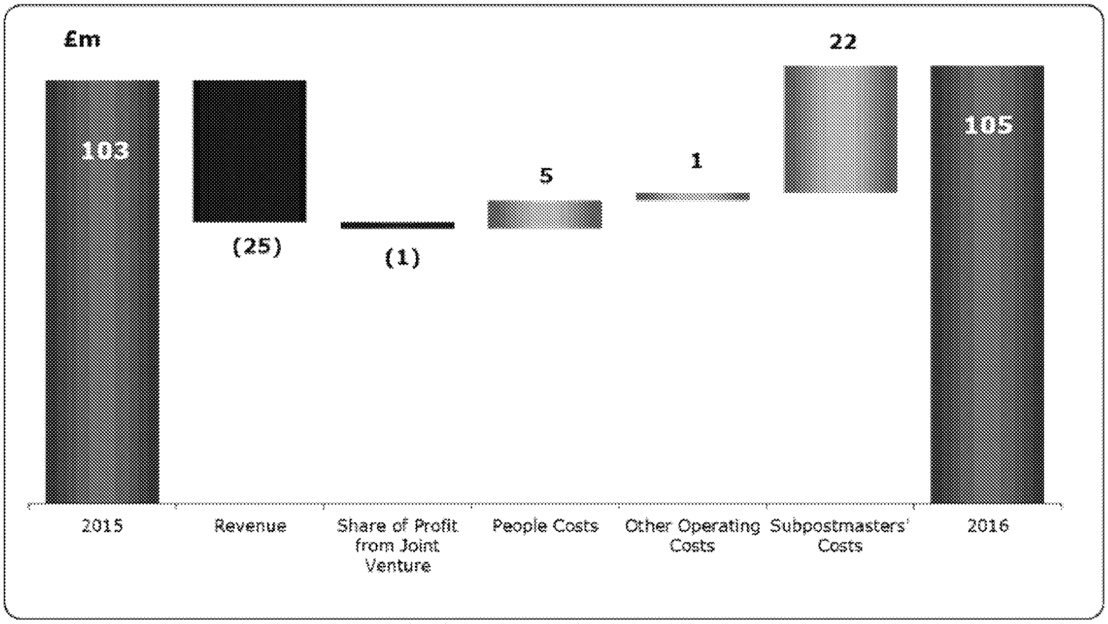
4.3 Consolidated balance sheet

	2016 £m	2015 (Restated) £m
Non-current assets		
Intangible assets	**44**	-
Property, plant and equipment	**9**	10
Investments in joint ventures	**67**	67
Retirement benefit surplus	**196**	205
Trade and other receivables	**12**	10
Total non-current assets	**328**	292
Current assets		
Inventories	**6**	6
Trade and other receivables	**409**	397
Cash and cash equivalents	**712**	821
Total current assets	**1,127**	1,224
Total assets	**1,455**	1,516
Current liabilities		
Trade and other payables	**(653)**	(718)
Financial liabilities - interest bearing loans and borrowings	**(465)**	(310)
- obligations under finance leases	**(8)**	-
Provisions	**(151)**	(144)
Total current liabilities	**(1,277)**	(1,172)
Non-current liabilities		
Other payables	**(25)**	(30)
Provisions	**(16)**	(6)
Total non- current liabilities	**(41)**	(36)
Net assets	**137**	308
Equity		
Share capital	**-**	-
Share premium	**465**	465
Retained earnings	**(330)**	(159)
Other Reserves	**2**	2
Total equity	**137**	308

5. Operating Profit before exceptional items.

5.1 Operating profit bridge analysis



5.2 Explanations for key movements are as follows:

- Revenue - section 6
- People costs – section 7.2
- Postmasters costs – section 7.3
- Other Operating Costs – section 7.4

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6. Revenue

	27 March 2016 £m	29 March 2015 £m	Variance £m
Mails	**334**	340	(6)
Retail & Lottery	**46**	48	(2)
Financial Services	**303**	290	13
Government Services	**128**	141	(13)
Telecoms	**130**	120	10
Other	**40**	37	3
Turnover	**981**	976	5
Network Subsidy Payment	**130**	160	(30)
Revenue	**1,111**	1,136	(25)

The decrease in year on year total revenue of £25m (2.2%) to £1,111m (2015 £1,136m) is driven by the £30m decrease in the Network Subsidy Payment, partially offset by an increase of £5m in turnover.

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

6.1.1 Mails

A summary of the £5.5m (2%) decrease in Mails turnover is set out below. After adjusting for a planned decrease in the fixed fee and an element of back billing the underlying trading variance shows a decrease of £1m.

	£m
Total reduction	(5.5)
Less: planned decrease fixed fee	6.4
Add: one off (back billing)	(1.9)
Underlying trading variance	(1.0)

The key movements within the underlying trading variance are:

- £1.3m reduction in stamps and labels income (1%)
- £1.7m reduction in special mails including international (2%)
- £0.5m net decrease in other products

Offset by

- £2.5m increase in Home Shopping Returns (27%)

6.1.2 Retail & Lottery

Retail and Lottery turnover has decreased by £2.4m:

- Lottery is £1.7m lower than last year, £1.6m of the fall is due to Camelot income and the remainder to Health lottery. This is a combination of a poorly performing games and a shift online and represents a trend expected to continue into 2016-17.
- Retail is £0.7m lower than prior year as a result of smaller retail square footage post refurbishments.

6.1.3 Financial Services

Financial Services income has increased by £13.2m year on year. Overall PFS (MoneyGram, Post Office savings, insurance, travel, lending and current accounts) is up by £24.4m (19.7%) year on year. Revenue from traditional products has declined by £11.2m.

By product the main drivers of the PFS £24.4m increase are:

- £4.4m increase in Savings products.
  - IRRELEVANT
- £4.0m increase in Travel products.
  - £5.5m increase in Travel Insurance revenues driven by the new POMS subsidiary and £0.2m for Travel money card, offset by
  - £1.5m decrease in Bureau income due to the travel sector having seen a general decline and the supermarkets expanding their networks and marketing investment.
- £4.1m increase from Moneygram as we have gained market share. Transfers to certain Eastern European countries is up 50% and we have increased our network access fees

IRRELEVANT

- £0.6m increase in Lending revenue from:
  - £0.8m increase in credit cards
  - £0.2m decrease from mortgages and personal loans

Other Financial Services revenue decreased by £11.2m:

- A £6.1m decrease in Postal Order income. This is due to a prior year change in policy resulting in write back to revenue of uncashed postal orders over 12 months old (a change from 24 months previously).
- A £1.9m decline from bill payments resulting from a warmer winter, as well as utilities and other bill payment clients continuing to migrate customers to other payment methods such as direct debit and online. We have also lost clients such as Derby City Council to Paypoint and travel ticketing clients such as West Yorkshire ticketing scheme.
- £2.5m decrease in Payment services due to a declining market.
- £4.0m decrease in NS&I as the product ceased in June 2015.

The above decreases were partially offset by:

- £1.1m increase in ATM revenue driven by the increased volumes as machines reach maturity
- £2.7m net increase in Banking
  - an increase of £3.6m in personal banking because of higher volumes, specifically cash withdrawals and the impact of other banks closing their branches, offset by
  - a £0.8m decrease in business banking revenues due to a fall in corporate deposit rates from the Santander contract.

6.1.4 Government Services

	2016 £m	2015 £m	Variance £m	Variance %
DWP	**75**	87	(12)	(14)
Home Office	**34**	30	4	13
DVLA	**10**	20	(10)	(50)
Other Government Services	**9**	4	5	125
Total	**128**	141	(13)	(9)

The £12.9m (9.2%) decrease in Government Services revenue is due to:

- £9.7m lower DVLA revenues from a fall in volume as a result of the paperless car tax.
- DWP turnover, which arises from POCA accounts has declined by £12.2m. £8m is due to new contractual terms and the remainder is due to falling numbers of live POCA accounts due to natural attrition and migration to bank accounts.

The decline from DVLA and DWP has been partially offset by:

- £0.7m increase in Check & Send revenues driven by higher volumes.
- £8.3m from ID related products, split:
  - £3.1m increase in UKVI due to the introduction of Nationality and EU BRP enrolments and introduction of Secure Collection service, (both in April 2015)
  - £3.9m from new products (Verify), and
  - £1.3 from existing products such as Environmental Agency.

6.1.5 Telecoms

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

Telecoms Services revenue of £130.0m (2015 £119.8m) has increased by £10.2m. This has been driven by the line rental price increase of £2 introduced in January 2015 and a further increase of £1 in November 15.

Income from mobile top-ups was £0.7m below prior year, as transaction volumes declined due to the mobile networks actively migrating customers away from pre-pay and also reducing their transaction fees.

HPBB	**2015/16**	**2014/15**	**Variance**
Average customer base	459,356	452,094	7,262
ARPU	£22.85	£21.23	£1.62

In March 2016 the decisions was taken to withdraw from the development and roll out of a proposed mobile offer in order to focus on its core Telecoms activities. The income and expenditure in relation to mobile has been disclosed as a discontinued operation on the consolidated income statement and is a loss of £10m (2015 £4m).

	2016	**2015**
Gross Income	0.2	
Operating Expenses	(3.0)	(2.9)
EBITDAS Impact	**(2.8)**	**(2.9)**
Supplier Termination Costs	(2.5)	
Project Shutdown Costs	(1.1)	
Balance Sheet - Capex	(1.7)	(1.0)
Balance Sheet - Prepayment	(2.0)	
Discontinued Operations	**(10)**	**(4)**

7. Costs and People

This section discusses expenditure, excluding exceptionals.

7.1 Total Costs Analysis (excluding exceptionals)

The following provides a breakdown of costs for the full year ending 27 March 2016 compared to the full year ending 29 March 2015

		2016	2015	Variance	
		£m	£m	£m	
Expenditure - (pre- exceptional)	Notes				
Wages & Salaries		**(154)**	(167)	12	8%
Pensions		**(31)**	(29)	(2)	(7%)
Overtime		**(8)**	(10)	2	20%
Bonus & Productivity		**(15)**	(7)	(8)	(114%)
Employers' NI		**(19)**	(19)	0	0%
Temporary Resource		**(6)**	(6)	0	0%
PEOPLE COSTS	7.2	**(233)**	(238)	(5)	2%
Postmasters' costs	7.3	**(413)**	(435)	22	5%
Legal Costs	7.4.1	**(5)**	(3)	(2)	(67%)
Staff & Agent Related Costs		**(10)**	(10)	0	0%
Consultancy & Advisory Services		**(4)**	(3)	(1)	(33%)
Brand & Marketing	7.4.2	**(25)**	(34)	9	26%
Property & Facilities Management	7.4.3	**(53)**	(61)	8	13%
IT Infrastructure & IT Services	7.4.4	**(102)**	(92)	(10)	(11%)
Finance & Losses	7.4.5	**(25)**	(4)	(21)	(525%)
Cost Of Sales	7.4.6	**(110)**	(106)	(4)	(4%)
Other Operating Costs	7.4.7	**(56)**	(76)	20	26%
Vehicles		**(5)**	(7)	2	29%
Total Other Operating Costs	7.4	**(395)**	(396)	1	0%
TOTAL EXPENDITURE (Pre Exceptionals)		**(1,041)**	(1,069)	28	3%

7.2 People Costs (2016 £233m vs 2015 £238m)

7.2.1 People costs (2016 £233m vs 2015 £238m)

People costs have decreased by £4.8m (2.0%) to £233.1m, representing 22.3% (2015 22.2%) of the cost base.

The number of people employed also decreased, by 271 net to 6,605 at 27 March 2016 (2015 6,876), primarily due to redundancies arising from the Crown and Transformation Programmes.

The people cost movement comprises:

- Wages and Salaries have decreased by £11.9m (7.1.%), a £10.1m reduction in basic pay driven by fewer people and cost control and £1.8m relating to reduced staff project costs
- Pension costs have increased by £2.2m (8.1%), reflecting an increase in the RMPP IAS19 service cost rate to 28.5% (2015:23.0%)
- Productivity costs have increased by £7.9m (114.1%), due to increase in management bonus accrual to 87% reflecting current performance levels compared to 50% bonus booked in prior year, and the release of over accrual of 13/14 in the prior year.
- Overtime has decreased by £2.0m (20.5%).

7.2.2 People Numbers

The People numbers were as follows:

	Period end employees		Average employees	
	2016	2015	**2016**	2015
Total employees	**6,605**	6,876	**6,667**	7,281
CT & NTP	**640**	622	**616**	609
Average Employees (excl. CTP & NT)			**6,051**	6,672
Staff Cost (excl. overtime & temporary resource)			**(£219,191)**	(£221,331)
Average Cost per employee			**(£36,225)**	(£33,175)

7.2.3 Average Cost per Employee

The average number of employees for year ending 27 March 2016 was 6,667 (2015 7,281). The average annual cost per employee, (excluding exceptional costs and exceptional heads: CT & NTP), has increased by £3,050 (9.2%) to £36,225 (2015 £33,175). This is largely due to the prior year bonus accrual which anticipated 50% bonus pay out compared to current year bonus anticipation of 87% bonus pay out.

7.3 Postmaster costs (2016 £413m vs 2015 £435m)

7.3.1 Total postmasters costs decreased by £21.9m (5.0%). This reduction was largely made up of £19.7m reduced fixed costs as a result of Network Transformation and £2.1m lower National Insurance as postmasters move to new contracts. Variable costs were flat with the prior year.

The average annual cost per postmaster branch (excluding VAT and NI) is £39,952 (2015 £41,713). This is a 4.2% decrease on the prior year. The decrease is as a result of the reduced fixed income payments through the Network Transformation Programme.

	2016	2015
Agency Branches (incl. Mains and Locals)	**10,127**	10,172
Outreach	**1,175**	1,136
Crown	**316**	326
Total Branches	**11,618**	11,634

7.4 Other Operating Costs (2016 £395m vs 2015 £396m)

7.4.1 Legal Costs have increased by £2.0m, £1.2m is driven by legal support of strategic projects, primarily Sparrow and £0.5m is due to risk and compliance related work. The remaining £0.3m is due to other smaller legal costs.

7.4.2 Brand & Marketing Costs have decreased by £9.4m (26%) year on year. £8.5m in relation to reduced creative agency fees, £3.9m to decreased market research costs and £1.2m reduced corporate communication. These savings are offset by £3.9m increase in advertising costs.

7.4.3 Property & Facilities Management costs have decreased by £7.4m. £3.8m is due to the change in the Facilities Management contracts as a result of separation, Norland and Servest are now our providers whereas previously it was Romec/Royal Mail at a higher cost. £2.6m is due to reduced estates charges including rent, rates and service charges reflecting fewer Crowns branches (339 to 312). In addition there have been several rent reviews and lease expiries where re -negotiations have taken place. £1m less was spent on property BAU project investment.

7.4.4 IT Infrastructure & IT Services costs have increased by £10m (10%) mainly due to £16.2m of increased Computer Infrastructure costs for licences on separation from the Royal Mail IT systems. £5.7m of the IT increase relates to new costs for POMS including the contact centre costs of £2.9m. A further increase of £7.8m for business telephony costs as they were acquired through Royal Mail, so were previously billed through Other operating costs (Managed Services) (see 7.4.7 below). These were offset by reduced Horizon terminal services of £15.4m.

7.4.5 Finance costs have increased by £20.7m, mainly driven by a one off lump sum of £15.6m VAT rebate in the prior year, which also covered prior years. Current year central rebate figure is £1.8m with most of the VAT recovery now appearing against the individual cost lines. Credit and debit card processing charges have increased by £1.5m and Telecoms losses were £1.3m higher than last year, customer bad debt increased by £3.7m partially offset with other smaller favourable movements.

7.4.6 Cost of Sales has decreased by £4m (4%), detailed below:

	2016 £m	2015 £m	Variance £m	Variance %	Comments
Mails & Retail	**(3)**	(4)	1	15%	Decrease due to decision to restrict product range to higher margin items
Financial Services	**(4)**	(1)	(3)	(270%)	Increase is due to POMS
Government Services	**(29)**	(28)	(1)	(3%)	Increase of £0.8m is due to £2m related to Verify service offset by £1.2m lower POCA volumes
Telecoms	**(74)**	(73)	(1)	(2%)	Increase of £1.5m due impact of higher customer numbers
Total	**(110)**	(106)	(4)	(4%)	

7.4.7 Other Operating costs have decreased by £19.5m. The prior year included £10.8m for client compensation relating to the historical overcharges relating to 'death notified accounts' (DWP), and £10.4m for project expenditure as all was recorded against this line in the old finance system, (project expenditure is now recorded across the relevant categories above). The remaining variance is driven by lower managed service costs, specifically costs to Royal Mail (offsets increase in 7.4.4 above) and telecommunication cost reductions.

7.4.8 Project expenditure is now reported within the appropriate cost categories and has decreased by £11.3m to £12.0m and is detailed below:

2015-16 Project Expenditure	**£m**
Eagle – contractual commitment to £4m pa sales capability investment	(4.0)
Mobile (Wave)	(0.7)
Invest to Grow FS	(0.4)
Sparrow	(2.8)
Other Invest to Grow	(3.4)
People & Organisation	(0.5)
Digital	(0.2)
Grand Total	**(12.0)**

8. Quality of Earnings

As in previous years, we look at the impact of any one-off items in EBITDAS as set out in the table below. We do not believe that these items change the users' understanding of the accounts or require additional presentation.

	2016 £m	2015 £m	Change £m	Change %
Post Office Limited (consolidated)				
Reported profit before other exceptional items	**105**	103	2	2%
Network Subsidy Payment	**(130)**	(160)	30	(19%)
Add back depreciation	**1**	0	0	0
Reported EBITDAS	**(24)**	(57)	33	(58%)
Gamma one-off income release*	**(5)**			
Billing corrections re 2014-15	**2**			
Back-billing to RM for Certificates of Posting work	**(2)**			
Fujitsu compensation for poor service in 2013-14	**(4)**			
Change in Telecoms bad debt policy	**1**			
Client compensation relating to prior years		10		
ATM rates provision release		(2)		
Bonus outturn lower in 2013-14 than accrued		(2)		
Bank of Ireland cost recovery debt provision		1		
VAT and NI recovery re earlier years		(15)		
Total adjustments	**(8)**	(8)		
Total	**(32)**	(65)	33	(51%)

* *Individually disclosed*

Each item in the table is explained further below:

8.1 Gamma one-off income release

Gamma refers to a contract with BOI which generates income in relation to the sales of financial services products at branch. The income under the contract has been deferred and is recognised over the life of the contract on a systematic basis. As a result of the purchase of the insurance business from BOI the profile of the income release over the life of the contract was changed to recognise that the acquisition had been made and an additional £5.1m of deferred income, the element which related to the insurance business was recognised in the year to March 2016.

8.2 Billing corrections and back-billing

Corrections of £0.8m were made to year end revenue estimates early in 2015-16 relating to 2014-15. £1m of additional cost was recognised in the year which related to overbilling in previous years. In September 2015, Royal Mail were back-billed £2m for Certificates of Posting services in prior years and not previously invoiced.

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8.3 Fujitsu compensation
Compensation of £3.7m was received in 2015-16 relating to poor service during the migration of the Telecoms service from BT to Fujitsu in 2013.

8.4 Telecoms bad debt policy
During the year the bad debt policy was revised in two ways which in aggregate led to a one-off increase in cost. Firstly it was amended to provide for all debt over 90 days from a policy of providing for all debt over 60 days. Secondly the policy is now to provide for the gross amounts owed rather than net of customers who have made early payments.

8.5 Client compensation
An error was identified that has led to a client being overcharged for approximately 5 years and a provision was booked for compensation for the overcharges in 2014-15.

8.6 VAT and NI recovery re earlier years
In 2014-15 there were additional VAT recoveries relating to earlier years when the recovery rates were confirmed with HMRC, in addition NI recovery was recognised in 2014-15 relating to the decision by HMRC that the new postmaster contracts for Mains were subject to VAT rather than NI.

9. Pensions

9.1 Background

The Post Office participates in pensions schemes and detailed below:

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

* From 1 April 2015 the Post Office Pension plan replaced the Royal Mail Defined Contribution Plan. Royal Mail Pensions Trustees Limited manages the main defined benefit scheme Royal Mail Pension Plan (RMPP) which has circa 3,503 Post Office active members.

9.2 Assumptions

IAS 19 revised requires a number of assumptions. The choice of assumptions used for the calculations is the responsibility of the Directors, based upon advice given by an independent actuary. The key assumptions for the year to 27 March 2016 are set out in the table below.

Towers Watson has confirmed that the assumptions have been determined in a manner consistent with those used for the disclosures at 29 March 2015 and 27 September 2015.

% pa RMPP Post Office Section	**March 2016**	March 2015
Inflation (RPI)	**2.9**	3.0
Inflation (CPI)	**1.8**	1.9
Discount rate (i.e. bond rate)	**3.5**	3.5
Rate of increase in Pensionable salaries	**2.8**	2.8
Rate of pension increases – RMPP A/B	**1.8**	1.9
Rate of pension increases – RMPP C	**2.8**	2.8
Rate of increases in deferred pensions	**1.8**	1.9

Demographic assumptions, for example mortality, remain aligned with the assumptions used for the actuarial valuation and unchanged from those made in March 2015.

9.3 Movements in the defined benefit surplus

The movement in the RMPP defined benefit surplus during the year to 27 March 2016 is detailed below. Scheme assets are assessed at fair value at the balance sheet date. For example, quoted equities are valued at the latest 'bid' price. Scheme liabilities are discounted using a high quality corporate bond rate. The IAS 19R surplus/deficit is usually therefore different to the cash funding surplus/deficit (the "actuarial" valuation) assessed by the Trustees, for which the scheme liabilities are discounted using the expected returns available on scheme assets.

	Year ended 27 March 2016 £m	Year ended 29 March 2015 £m
Opening sectionalised RMPP net retirement bene surplus	**229**	170
Current service cost	**(27)**	(25)
Curtailment costs	**(1)**	(1)
Net financing credit	**8**	7
Employers contributions	**19**	21
Actuarial gains/(losses)	**(5)**	57
Closing RMPP net retirement benefit surplus	**223**	229
RMSEPP surplus	**3**	5
Total net retirement benefit surplus	**226**	234
Effect of asset ceiling	**(30)**	(29)
Closing net retirement benefit surplus	**196**	205

The current service cost is intended to represent the amount by which the liabilities will increase due to employing active members for one more year. The 2015-16 service cost, expressed as a percentage of pensionable pay is 28.5% for RMPP (March 2015 – 23%). Payments of £17m were made in respect of RMPP future service contributions at a rate of 17.1% (March 2015 - 17.1%) and £2m was paid in relation to 2015/16 in respect of enhancements on redundancy in early retirement (a further £1m was paid in respect of a balance accrued at the end of 2014/15). There has been a reduction in the surplus due to a £10m difference between the service cost and payments made in respect of RMPP future service contributions.

The net financing credit of £8m, a non-cash item, is reported under finance income and reassessed annually.

Actuarial gains and losses are recorded directly in the statement of changes in equity (and not the income statement). The actuarial loss of £5m during the year arose primarily due to a decrease in the value of assets which resulted in an actuarial loss of £8m; this was as a result of changes in market conditions. This actuarial loss was partially offset by an actuarial gain on the Defined Benefit Obligation of £3m, has been caused by an 'experience adjustment of liabilities' due to early leavers and lower than expected benefit increases.

The RMSEPP surplus has decreased to £3m due to actuarial losses of £3m (£2m loss on assets, £1m loss on liabilities) offset by contributions paid of £1m.

The charge in the income statement and cash contributions for the defined contribution scheme were £3m in the year to 27 March 2016.

9.4 Assessment of recoverability of surplus under IFRIC 14

In order to recognise a surplus it is necessary to prove that the Post Office could recover the surplus either through lower future contributions or through a refund. Royal Mail took legal advice both before and after sectionalisation. This confirmed that Post Office Limited and Royal Mail Plc have absolute rights to the assets left over in their individual sections after benefits have been secured if the RMPP terminates. There is no trigger for termination in the Trust Deed but that does not mean that the RMPP cannot terminate. It would be wound up by the courts, or the Regulator, or when the last beneficiary dies.

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Towers Watson has calculated that Post Office Limited would be able to recover £139m of the £223m surplus in RMPP through lower contributions and the remaining £84m could therefore be recovered through a refund together with the £3m surplus in RMSEPP. The element of surplus that is recoverable through a refund would be subject to a 35% withholding tax charge. Therefore the overall surplus on the balance sheet, (made up of a £223m surplus for RMPP and £3m surplus for RMSEPP), has been reduced by £30m to £196m. The element that is recoverable through lower contributions has resulted in a reduction to the deferred tax balance from £30m at 29 March 2015 to £25m at 27 March 2016. This has resulted in a credit directly to equity of £5m offset by a debit of £5m reported in the consolidated income statement.

10. Exceptional Items and Provisions

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

10.1 Exceptional items summary

The following exceptional items were recognised in the consolidated income statement for the years ended 27 March 2016 and 29 March 2015.

Exceptional items	**2015-16 £m**	2014-15 £m
Government Grants	**150**	170
Restructuring costs including postmasters' compensation	**(283)**	(301)
Impairments	**(136)**	(141)
Total operating exceptionals	**(269)**	(272)
Non-operating exceptionals:		
Profit on disposal of property	**-**	-
Net Exceptional gain/ (loss)	**(269)**	(272)

10.2 Government Grants – In April 2015 the Post Office received grants totalling £150m from the Government, (April 2014 £170m) to fund capital projects and transformation. The larger amounts utilised in the full year to March 2016 are: £66m against postmasters' compensation, £31m against capital spend and £53m against network transformation and IT transformation programme costs.

10.3 Restructuring costs - £200m of restructuring costs relate to Network and Crown Transformation. These programmes are being implemented to achieve a major change in the network. They include the introduction of new style agency offices and seek to improve the profitability of the Crown network. The overall figure includes £82m (broken down in the table below) - Network Transformation and Crown Transformation programme costs, £16m onerous property lease costs and £102m postmasters' compensation.

Redundancy costs for the full year amount to £29m and include £16m admin ("Wave") severance costs, £8m Crown severance and £5m Supply Chain severance costs.

Remaining restructuring costs include the following. IT Transformation programme costs of £30m have increased from £16m in the prior year largely due to £21m of costs incurred around the termination of the IBM contract. The remaining costs relate to finalising the IT infrastructure and are now decreasing due to the programme reaching the next phase where most related costs are being capitalised.

£10m of exceptional costs relate to the business separation programme, costs incurred in the current year are due to the set-up of new support services and short term support contracts. Business transformation programme costs of £9m have been incurred and relate to achieving the overall transformation strategy, including the costs of the business transformation team and £2m in relation to the Hawk acquisition, £1m of which was incurred within the subsidiary company POMS. Additionally costs of £4m relate to business transformation payments, £2m for Crown staff for meeting the Crown P&L break-even run-rate and £2m for Supply Chain staff for completing transformational depot reviews.

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Network and Crown Transformation costs (other than Postmasters' compensation) to March 2016 were made up as follows:

Network Transformation	**£m**
Programme Costs	22
Investments (e.g. enabling works)	22
Fixtures and equipment, non-capital	25
Other (Legal, Communications, consultation, IT projects)	6
Total Network Transformation	**75**
Crown Transformation	**7**
Total	**82**

11. Interest, Cash, Debt, Funding and Hedging

11.1 Net finance costs March 2016 £5m vs March 2015 £3m

Finance costs & investment income	**26 March 2016 £m**	29 March 2015 £m
Interest received on investments – UK	**-**	1
Total finance income	**-**	-
Interest charged on Government borrowings	**(2)**	(1)
Other finance costs	**(3)**	(2)
Total finance costs	**(5)**	(3)
Net finance cost	**(5)**	(2)

Interest payable on the BIS Loan has increased year on year (2015/16 £2m, 2014/15 £1m) due to higher draw-down.

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

11.2 Cash, cash equivalents and debt within the balance sheet

Net cash/debt analysis	Section	**26 March 2016 £m**	29 March 2015 £m
Cash in the Post Office Limited network	11.3	**653**	708
Short term bank deposits		**59**	93
Money market fund investments		**-**	20
Total cash and cash equivalents		**712**	821
Loans, repayable on demand or less than 1 year	11.4	**(465)**	(310)
Total		**247**	511

11.3 Cash within the Post Office Limited network (March 2016 £653m vs March 2015 £708m)

The decrease in Post Office network cash from March 2015 levels can be chiefly attributed to the cessation of NS&I products, and associated lower holdings of both cheques and debit card transactions.

11.4 Loans and borrowings (March 2016 £465m vs March 2015 £310m)

Total cash and cash equivalents decreased by £109m which, ceteris paribus, would have decreased the loan by that amount. This decrease is made up of a reduction in network cash of £55m (see above) and decrease in cash at bank and Money Market Funds of £54m due to more efficient treasury function.

Government funding of £280m was received on April 1st 2015 which would further offset the loan.

However both these factors were more than offset by Capital Expenditure of £(138)m and Exceptional spend of £(276)m due to the transformational projects, so the loan increased as outlined above. The remaining difference is working capital movements and miscellaneous.

11.5 Loan facilities

At the year end the Post Office had external borrowings of £465m.

12. Going concern

Post Office Limited has net cash and cash equivalents of £712m and a borrowing facility of £950m of which £465m was drawn down at 27 March 2016.

12.1 Background

On 27 November 2013, a funding agreement was announced providing:

- Funding of £280m for 2015-16 (received 1 April 2015)
- Funding of £220m for 2016-17 (received on 1 April 2016)
- Funding of £140m for 2017-18
- Extension of the existing working capital facility with BIS up to 31 March 2018 but at a reduced level of up to £950m.

State Aid approval for the funding for 2015-16 to 2017-18 was received on 19 March 2015.

On 28 March 2012 it was recognised that the working capital facility was no longer deemed State Aid.

The going concern analysis is based on the recent three year plan.

12.2 Assessment for the Post Office

The Post Office posted an operating profit before exceptional items for the first time for a number of years in 2008-09 and has continued to do so. The 2011-15 plan reversed the trend of an increasing Network Subsidy Payment (NSP) and the 2020 Strategy continues on the path to a sustainable Post Office supported by a much lower subsidy.

The 2016-17 budget and three year plan financials have been shown in Table 1, and show that Post Office has sufficient cash headroom to continue to trade. The available facility has been defined to include network cash, ATM cash, ATM debtor, POCA debtor and SGEI cheques in the past but has now been extended, as it has always been allowed under the Working Capital Facility agreement, to include uncleared debit/credit card payments, short term bank deposits and money market fund investments which also meet the definition. Downside scenarios have been overlaid reflecting the lower cash flows if the three year operating plan does not materialise. The working capital facility was deemed not to be State Aid in 2012 so does not require further clearance and is now available (at the reduced level of £950m) through to March 2018.

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

12.3 Summary conclusion

Based on the analysis, there is available borrowing headroom until March 2019. Royal Mail Plc is a key trading partner with Post Office Limited and, in arriving at the conclusion that Post Office Limited is a going concern, the assumption is made that Royal Mail Plc is a going concern or that an alternative mails provider would work similarly with Post Office Limited providing a similar level of income. Post Office Ltd and

Royal Mail entered into a ten year agreement (Mails Distribution Agreement) in 2012 for the provision of mails products through post offices.

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

Post Office Limited Funding Analysis

Table 1: March 2016

£m (cumulative apart from free cash flow)	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Opening Funds	(197)	(406)	(526)	(548)
Borrowing facilities	950	950	950	950
Restriction due to level of network cash and other security	(100)	(100)	(100)	(100)
Borrowings from other sources - finance leases, bank overdraft etc				
Latest plan free cashflow before assumed non NSP grant injection	(359)	(260)	(92)	9
Non NSP grant injection per October 2013 plan	150	140	70	
Closing Funds Headroom	**444**	**324**	**302**	**311**
Remove NSP beyond 2018 funding agreement				(60)
Adjusted Headroom pre risk	**444**	**324**	**302**	**251**

Table 2: Risks, with management actions

£m (cumulative)	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Headroom pre risk (as above)	**444**	**324**	**302**	**251**
Risks				
Income growth in 3 year plan does not materialise		(20)	(64)	(148)
Cost savings from income shortfalls (at 50% assumed)		10	32	74
Cost savings don't materialise		(29)	(79)	(63)
Income decline 100% faster than plan		(22)	(63)	(121)
Cost savings from income shortfalls (at 50% assumed)		11	32	61
Headroom post risks pre management actions	**444**	**274**	**160**	**54**
Management actions		**59**	**92**	**100**
Sell Corporation tax losses to FRES		9	17	
Reduce or postpone investment and discretionary opex		50	75	100
Headroom post risk and management actions	**444**	**333**	**252**	**154**

Table 1

This table shows the budget and plan projections for 2016-17 and beyond. It demonstrates positive headroom throughout the plan period.

Table 2

This table sets out the impact of theoretical downside scenarios if the plan does not generate the income streams anticipated or the anticipated cost savings do not materialise.
There are further actions that could be taken but are not required. These include the sale of property.

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

13.1 Net Book Values

The net book value (NBV) of land and buildings, plant and fixtures and intangible fixed assets at March 2016 was £53m (March 2015 £10m). All assets are impaired on acquisition except land and buildings and POMS assets. Movements during the year were as follows:

Movement in NBV	Land and buildings £m	Vehicles, plant and fixtures £m	Intangible fixed assets £m	Total £m
NBV at 29 March 2015	10	-	-	10
Add capital expenditure	1	41	137	179
Less disposals	-	-	-	-
Less depreciation	(1)	-	-	(1)
Less impairment	(1)	(41)	(93)	(135)
NBV at 29 March 2016	9	-	44	53

Intangible fixed assets includes £44m goodwill in connection with the acquisition during the year of the general insurance business from the Bank of Ireland.

13.2 Capital expenditure

The table below summarises the larger capital items by category:

	£m
Hawk insurance business	44
EUC programmes	39
IT Risk & Resilience	29
Network Transformation	20
Front Office IT	17
IT Networks	6
Digital	4
Separation	3
Other	17
Total	179

14. Goodwill, investments and intangibles

14.1 Investments in joint ventures and associates

	27 March 2016 £m	29 March 2015 £m
Investment in joint ventures	**67**	67

Joint ventures

Post Office Limited's joint venture investment is a 50% interest in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change.

Post Office Limited's share of FRES' 2015-16 post tax profit was £35m, the same amount being received as a dividend during the year, hence no overall movement in the carried value in the balance sheet.

15. Working capital

15.1 Inventories (March 2016 £6m vs March 2015 £6m)

	27 March 2016 £m	29 March 2015 £m
Scratchcards	**4**	4
Retail	**2**	2
Total	**6**	6

15.1.1 Inventory written off

The provision for stock write downs and discrepancies is £0.6m (March 2015 £0.5m). Shrinkage and obsolete stock written off at year end was £0.4m.

15.2 Trade receivables (Current)

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

Receivables

	Section	**27 March 2016 £m**	29 March 2015 £m
Trade receivables	15.2.1	**93**	101
Client receivables	15.2.2	**229**	162
Prepayments and accrued income	15.2.3	**73**	106
Other receivables	15.2.4	**14**	28
Total		**409**	397

15.2.1 Trade receivables: Current (due within one year)

Trade receivables

	27 March 2016 £m	29 March 2015 £m
Sales ledger	**35**	22
Homephone debtors	**8**	6
Postmaster debt	**5**	7
Uncleared debit, credit cards	**35**	53
Bank of Ireland, FRES cost recovery	**8**	12
Other	**2**	1
Total	**93**	101

The largest decrease relates to uncleared debit and credit card receivables which have been reclassified from Cash into receivables for both the current and prior years. This balance has decreased on account of the cessation of NS&I products.

IRRELEVANT

The increase in sales ledger chiefly reflects a higher debtor in respect of BOI (March 2016: £18m, March: 2015 £8m).

A profile of the sales ledger within trade receivables is as follows:

Trade receivables

	27 March 2016	29 March 2015
	£m	£m
IRRELEVANT	**18**	8
Bill payment partners	**7**	4
Others	**10**	10
Total	**35**	22

Ageing of Trade receivables:

Debtors over 60 days overdue: March 2016 £nil (March 2015: £nil).

The Post Office does not have a general risk in relation to bad debts due to the agency and business partner nature of our client base.

15.2.2 Client receivables

Analysis of client balances at year end is as follows:

Client receivables

	27 March 2016	29 March 2015
	£m	£m
ATM (Bank of Ireland)	**128**	100
Card Account (JP Morgan)	**62**	28
Partner banks	**32**	25
Others	**7**	9
Total	**229**	162

The main increases year on year are within Card account and ATM balances. The increase in ATMs is due to period end coinciding with Easter weekend, increasing banking activity. Card account increased as customers were able to claim a week's withdrawals in advance due to the bank holiday.

15.2.3 Prepayments and accrued income at 27 March 2016 total £74m (March 2015 £106m)

Prepayments and accrued income

	27 March 2016	29 March 2015
	£m	£m
Accrued income	**58**	87
Prepayments	**15**	19
Total	**73**	106

Accrued income represents the majority of this amount, the larger decreases are due the opening balance including £12m retrospective income for POCA relating to 2014/15 and which was billed in April 2015, and also opening included £2m for NS&I products.

Prepayments of £15m represent the remainder of the £74m total. The prepayment of telephony take-on costs with Fujitsu is £3m at March 2016 (March 2015: £6m), and additionally there is £5m of Computacenter prepaid licence costs (March 2015: £5m). Also at March 2016 there is £4m of property cost prepayments, (March 2015 £5m) and other prepayments of £3m (March 2015 £3m).

15.2.4 Other receivables at 27 March 2016 total £14m (March 2015 £28m)

Other receivables have decreased from £28m (March 2015) to £14m as at March 2016. The reduction is made up of: £4.7m debtor for sale of tax losses was received from Royal Mail, the £3.8m debtor for NI paid in respect of agency offices transferring to VAT-based contracts was received, and the £7m "Ultra" debtor was released and offsets an equivalent release in payables.

Remaining at March 2016 is: tax debtor for losses to be sold to FRES £10m and VAT recoverable £4m.

15.2.5 Non-current receivables at 27 March 2016 £11m (March 2015 £10m)

This represents prepayments in respect of telephony contracts with Fujitsu.

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

A summary of payables categories is:	Section	**27 March 2016 £m**	29 March 2015 £m
Trade payables	15.3.1	**51**	30
Accruals and deferred income	15.3.1	**161**	160
Client payables	15.3.2	**375**	454
Advance customer payments		**39**	29
Capital payables	15.3.1	**16**	25
Social security		**8**	9
Government grant deferred income (NSP)	15.3.4	**-**	-
Other payables		**3**	11
Total		**653**	718

15.3.1 Trade payables and accruals

Trade payables and general, capital accruals

	27 March 2016 £m	29 March 2015 £m
Trade payables	**51**	30
Accruals, GRNI	**86**	89
Postmaster, employee pay balances	**53**	53
Productivity, bonus schemes	**15**	12
Others	**7**	6
Accruals and deferred income	**161**	160
Capital accruals	**16**	25
Total Trade payables and accruals	**228**	215

The increase in Trade payables is driven by an adjustment for uncleared BACS payments of £14m which is transferred from Client payables (March 15 £22m, not transferred from Client).

The remaining Trade payables amount comprises of supplier invoices awaiting payment, the largest of which was Fujitsu £4m (March 15 £1m).

Postmaster and employee pay balances are stable and remain at £53m.

General expense accruals, GRNI (goods received, not invoiced) and capital accruals typically reflects project throughput of the business. Always a significant amount, GRNI accounts for £36m (March 15 £37m) of the total. Finally the reduction in capital accruals reflects the slower pace of capital additions in 15/16.

15.3.2 Client payables

	27 March 2016	29 March 2015
	£m	£m
Santander	**145**	127
NS&I	**-**	30
DVLA	**18**	27
Utility companies	**10**	10
Bank of Ireland	**13**	17
BACS	**27**	74
Royal Mail	**25**	29
Others	**138**	140
Total	**375**	454

The cessation of NS&I's products is the main reason for decrease in Client Payables, with a further £30m of NS&I included in the March 2015 BACS value, a combined £60m decrease. The remainder of the BACS reduction is due to £14m of the BACS adjustment being included in trade creditors at the half year and a general reduction in Client Payables.

The decrease in the DVLA balance represents the decline in payments to the DVLA in branch. Customers are increasingly moving towards purchasing directly from the DVLA online.

The increase in the Santander balance reflects Easter customer transactions, in particular business banking.

15.3.3 Advanced customer payments

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

Advanced customer payments

	27 March 2016	29 March 2015
	£m	£m
Advanced customer payments	**7**	1
Postal order liability	**11**	12
Drop and Go	**1**	1
Gamma	**4**	4
Telephony credit balances	**4**	4
Homephone line rental advance payments	**10**	7
Other	**2**	-
Total	**39**	29

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The largest movement in advanced customer payments (£5m) relates to an increase in Bill payments driven by the timing of invoicing to customers and correction of Transcash invoices. Additionally Homephone Line rental advance payments have increased by £3m due to higher customer numbers, price increases and re-phasing of billing.

The Postal order liability reflects a creditor for uncashed Postal orders. Postal orders are valid for 6 months but the liability has been retained at 12 months reflecting that they would normally be honoured up to this date.

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

Payables due after one year	**27 March 2016**	29 March 2015
	£m	£m
Rent-free incentives	**4**	2
Bank of Ireland deferred income (Gamma)	**21**	28
Total	**25**	30

The rent free incentive creditor relates to buildings with an initial rent free period where the cost are over the life of the lease is spread evenly. Over half of the balance relates to Finsbury Dials (£1.6m).

IRRELEVANT deferred income concludes in financial year 2022-23 and is recognised in line with an agreed amortisation schedule. The final instalment of £2m was received early in 2015/16.

IRRELEVANT

16. Provisions

Provisions (March 2016: £163m vs March 2015: £150m)

	Crown Conversion Vacant/ Onerous leases £m	Network Transformation £m	Other £m	Total £m
At 29 March 2015	7	127	16	150
Transferred			1	1
Charged/ (released) in operating exceptional items	16	102	33	151
Charged as discontinued operation			3	3
Charged/ (released) in operating costs			4	4
Utilisation	(5)	(95)	(42)	(142)
At 27 March 2016	18	134	15	167
Disclosed as: Current				151
Disclosed as: Non-current				16

The Network Transformation provision relates to compensation payments due to postmasters' who have signed up to the new contract terms or for a termination payment. However due to an error being identified in the calculation the opening provision was restated to £127m (formerly £40m).

Crown conversions at March 2016 relate to leasehold property costs for Crown branches franchised, mainly to WH Smith, and which have been vacated. The exceptional charge taken at half year is due to a fresh tranche of such properties which will be franchised at some point in the foreseeable future – a recent communication identified WH Smith as the partner for the majority of these properties - but which are not currently vacated and where the property costs are considered onerous.

Included within Other provisions is a severance provision of £3m (March 2015: £2m), Bank of Ireland sales capability investment (Eagle provision) £2m (March 2015: £1m), personal injury and motor accident claims of £1m (March 2015: £1m), a NFSP liability of £1m (March 2015: £nil), and a POMS provision of £1m (March 2015: £nil).

POL's mobile product was treated as a discontinued operation and a provision in respect of supplier termination and project closure costs was charged exceptionally at £3m.

Finally the total for Other provisions includes £1m for a legacy dilapidations liability (March 2015: £1m). The main reason for the balance being down on opening is due to the provision for DWP historical overpayment of £11m being settled in full in the year.

17. Litigation and Claims- Potential Claims regarding Horizon

Background

17.1 Post Office Ltd has received various claims from postmasters (PMs) alleging defects in the Horizon system and Post Office's internal processes.

17.2 Following discussions with James Arbuthnot MP and the "Justice for Subpostmasters Alliance" (JFSA), in July 2012 independent investigator Second Sight Support Services Ltd (Second Sight) was appointed to carry out a review of these claims.

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

17.4 Following Second Sight's July 2013 Report, on 27 August 2013 Post Office launched a Complaint Review and Mediation Scheme aimed at understanding and resolving individual complaints made about Horizon.

Mediation Scheme

17.5 The Scheme received 150 applications, 136 of which were investigated in detail (the remainder being either ineligible or swiftly resolved). The cases have now all progressed through the Scheme, which was formally closed on 31 March 2016.

Political Activity

17.6 The Scheme and allegations concerning Horizon have been the subject of Parliamentary debate, most notably the Westminster Hall Debate on 17 December 2014 and BIS Select Committee hearing on 3 February 2015.

17.7 There has been no recent significant political activity. Post Office teams continue to work closely with BIS officials and ministers to keep them appraised of developments.

Legal Activity

17.8 A Claim Form in *Bates & 90 Others v. Post Office Limited*, Claim No. HQ16X01238, was issued the in the High Court, Queen's Bench Division on 11 April 2016. The first named Claimant is Alan Bates of the JFSA.

17.9 Post Office is not yet required to take any action in response – the Claim Form has not been served on Post Office, and no Particulars of Claim have been provided. The Claimants have until 11 August 2016 to serve the Claim Form.

17.10 The Claim Form sets out the name of the 91 Claimants and brief details of the claims. Beyond asserting multiple legal causes of action and that the Claimants "expect to recover more than £200,000", very little information has been provided about the:

- factual basis for the claims;
- purported commonality between the claimants; or
- damages sought and how they are to be quantified.

17.11 Further detail of the claims have been provided in the "Letter of Claim", which Post Office received on 28 April 2016. The legal team are currently reviewing the document.

17.12 The Claimants' solicitors (Freeths LLP) have offered to mediate the disputes. Post Office is reserving its positon on this until it better understands the claim.

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17.13 Post Office agents may seek to rely on the *Bates* action to dispute repayment of shortfalls in branch cash holdings, e.g. in defence to BAU debt recovery action.

Media Activity

17.14 The Scheme and allegations concerning Horizon have been the subject of significant media coverage, most notably the BBC Panorama programme "Trouble at the Post Office" broadcast on 17 August 2015.

17.15 There has been no recent significant media activity. Post Office teams continue to manage media and communications activity.

Regulatory Activity

17.16 Post Office is engaging with the Criminal Cases Review Commission (CCRC) in relation to 24 applications made by former PMs seeking a review of their convictions. The CCRC can refer a case to the Court of Appeal if its review identifies new evidence or legal argument which gives rise to a "real possibility" that the conviction would be overturned on appeal.

17.17 Post Office's Legal team is liaising with the CCRC so as to comply with its statutory obligations under the Criminal Appeals Act 1995, and continues to provide very substantial documentation to the CCRC for review. Although the CCRC has said it is nearing the end of its investigations, there is no estimated date for completion.

17.18 Post Office also received 49 simultaneous "Data Subject Access Requests" (DSARs). Post Office has substantively responded to all these DSARs and concluded this work stream. DSAR applicants can formally complain to the Information Commissioner's Office if they are not satisfied with the response they receive. To date, no such formal complaint has been made.

18. Taxation

18.1 Income statement

A breakdown of the tax credit for the year is shown below:

	2016 **£m**	2015 £m
Corporation tax credit for year	**(9)**	(10)
Tax under provided in previous years	**-**	(7)
Current tax	**(9)**	(17)
Deferred tax credit relating to the origin and reversal of tempora differences	**2**	(9)
Effect of change in tax rate	**3**	-
Income tax credit reported in the consolidated income statement	**(4)**	(26)

A deferred tax credit of £25m was recognised in the year to March 2015 in relation to the retirement benefit surplus as a proportion of this surplus was considered to be recoverable through future contributions. An equal and opposite entry was recognised through equity. In the year to March 2016 the proportion of the surplus recoverable through future contributions decreased and therefore a deferred tax debit of £5m has been recognised to account for the deferred tax effect of this.

The corporation tax credit for the period of £9m represents the losses that we expect to surrender to FRES through consortium relief for the period.

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

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19. Impairment

Post Office Limited (POL) was loss-making at its inception in 2001 and has impaired the majority of non-current assets in all years since 2002/3. POL has continued to impair assets on the basis of operating losses (excluding Network Subsidy Payment), net cash outflows and the reliance on Government support and funding.

IAS 36 requires annual impairment tests where there is any indicator of impairment. The principle is that the assets are carried at no more than their recoverable amount (the higher of the amount which can be realised through the asset's use or sale.) An asset's recoverable amount represents the greatest value to the business in terms of the cash flows that it can generate.

As noted above, since the inception of POL some assets have been impaired as a combination of ongoing losses, cash outflows, and reliance on the government have meant that value in use is £nil i.e. that the assets are not generating cash flows, and fair value less costs to sell are £nil as the assets are not considered to be readily saleable due to their use being specific to POL (for example Horizon system and cash collection vehicles).

This approach is consistent with IAS 36 which includes a number of indications of impairments including forecasted operating losses or net cash outflows as well as any indicators that are relevant to specific business circumstances.

Asset categories are considered separately below:

19.1 Property, plant and equipment excluding freehold property, long leasehold property and land

These assets have a relatively short useful life (between 2 and 15 years) and are impaired in full.

19.2 Freehold property, long leasehold property and land

These assets have a long useful life and have a clear market value and could be sold, these assets are not impaired but are instead depreciated on a straight line basis over their useful lives:

	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

19.3 Intangible assets with a finite useful life

In POL all of these assets are software, the have a short useful life of between 1 and 6 years and are impaired to zero.

19.4 Intangible assets arising on acquisition or with an indefinite useful life

These assets are considered for impairment individually but are not automatically impaired. Goodwill is considered separately below.

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19.5 Goodwill

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. Goodwill is tested for impairment annually as well as when there are any indicators of impairment.

Goodwill held by POL Group at 27 March 2016 relates to the Hawk acquisition, a full impairment review has been carried out and due to Post Office Management Services (within which this Goodwill sits) being profit making, cash generative and forecast to continue to be so no impairment is considered necessary. Further to this the Goodwill is based on purchase price which was based on an external valuation, purchase was within the second half of the financial year.

19.6 Non-current assets within subsidiaries

Subsidiaries are considered separate cash generating units and the need for impairment of assets is considered within the subsidiary and is dependent on whether indicators of impairment exist within that subsidiary. At a Group level the impairment is adjusted on consolidation to be in line with Group policy.

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Post Office Limited

Audit Results Report to the Audit and Risk Committee

for the 52 week period ending 27 March 2016

19 May 2016

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Private and confidential

12 May 2016

Audit and Risk Committee
Post Office Limited
20 Finsbury Street
London
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Dear Members of the Audit and Risk Committee

Audit Results Report

We are pleased to present our Audit Results Report for the forthcoming meeting of the Audit and Risk Committee. This report summarises our preliminary audit conclusion in relation to Post Office Limited's financial position and results of operations for the 52 week period ended 27 March 2016 ("the period").

The audit is designed to express an opinion on the Post Office Limited ("Post Office") Group and Company financial statements for the period ended 27 March 2016 and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Post Office's accounting policies and judgments and material internal control findings.

This report also contains our preliminary summary of audit differences, communications regarding our independence and a summary of communications we are required to make to you.

This report is intended solely for the information and use of the Audit and Risk Committee, Board of Directors and Management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Risk Committee meeting scheduled on 19 May 2016.

Yours faithfully

Peter McIver
Engagement Partner
For and on behalf of Ernst & Young LLP

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Overview

Overview

This overview is intended for use as an outline agenda for our discussion at the Audit and Risk Committee meeting to be held on 19 May 2016 and includes a summary of our principal findings. Further details are contained within the main body of this report.

We conducted our audit for the 52 week period ending 27 March 2016 in accordance with International Standards on Auditing (UK and Ireland) in order to provide reasonable assurance that your financial statements are free of material misstatement, as set out in our engagement letter dated 22 January 2016.

Status of the audit (page 10)

A status of our work is included on page 10. We will provide the Audit and Risk Committee with a verbal update on the progress and conclusion of our audit at its meeting on 19 May 2016.

Materiality

We have recalculated our materiality based on 1% of actual revenue as per draft Group Consolidated Financial Statements. We did not identify significant changes compared to the materiality communicated to you in our Audit Planning Report dated 17 March 2016.

The overall materiality used remained at £10.8m. Our performance materiality was set at 50% of overall materiality and was £5.4m. Our reporting threshold for audit differences remained at £542k.

Scope update

There were no changes in our audit scope compared to that which was communicated in our Audit Planning Report dated 17 March 2016. As explained in our Audit Quality Enhancements paper dated 19 April 2016, we re-considered our audit approach in response to the identified significant risks.

Significant accounting and auditing matters (page 12)

We focused on accounting and auditing matters identified as significant for 2016 audit. We summarised the key areas of focus and preliminary findings from our audit procedures performed as of 12 May 2016 below.

Significant risks (page 13)

- **Completeness of Postmasters Compensation Provision (£134m):** As a result of our audit procedures, we identified an understatement of Postmasters Compensation provision by £1.0m. This understatement relates to 56 Post Office branches which are currently "being engaged", based on the average compensation of £17,396 per branch being forced to leave the network. This judgmental adjustment has been recorded by Management. No other significant differences were identified.
- **Revenue recognition across diverse range of revenue streams (£1,111m):** As a result of our audit procedures, we are satisfied that revenue for the group is materially correct and has been recognised in compliance with group policy and IFRS.
- **Classification of exceptional items relating to Transformation (£283m) and utilisation of Government Grant (£150m):** As part of our audit procedures, we concurred with Management's classification of exceptional items being consistent with group policy and IFRS. As part of our test of details we identified the following judgmental differences:
  - an understatement of a provision related to the IT Support services provided by Royal Mail Group to Post Office post separation under Master Services Agreement. The total amount of understatement is £0.8m. This adjustment has now been recorded by Management;
  - an overstatement of accrual balances related to Network Transformation: Project Enabling Works (£2.7m) older than 12 months and Operational Business Change ("OBC") (£1.2m) older than 6 months. Based on previous experience and historical data we would have expected these balances are utilised within respective period, therefore proposed to reverse these accruals. These have both been adjusted by Management.
- **Risk of management override around estimates and judgments:** We have performed various procedures to address the risk of fraud and management override throughout our audit focussing on revenue recognition, completeness of Postmasters' compensation provision, areas susceptible to judgements and estimates and unusual transactions. No issues were identified.

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Overview (cont'd)

Other areas of audit focus (page 22)

- **Horizon Subpostmasters Claim:** As part of our discussion with the Group Chief Financial Officer and the Group Legal Counsel we understand that Post Office Limited have received a formal Letter of Claim from Freeths Solicitors on behalf of 91 applicants on 28 April 2016. We have received the copy of this letter. It contains a number of allegations made against Post Office. We understand that there is no quantification of the claim for damages at this point of time. At the date of this report Management are in the process of reviewing this letter and will prepare the necessary response and the litigation strategy. There is no provision recognised as at 27 March 2016 for this claim. The financial statements now include a generic contingent liability note regarding receipt of such claims, stating no material impact is expected. We will update our assessment as part of subsequent events review procedures performed up to our sign-off date.

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- **Pension valuation and accounting (net surplus £196m):** As part of our audit procedures, we are satisfied with Management's assumptions used for pension liability valuation, being within the acceptable range. At the date of writing this report we are yet to finalise our audit procedures in relation to pension plan assets valuation. In February 2016, Post Office commenced a formal consultation with active members (and their representatives) of the Post Office section of the Royal Mail Pension Plan ("RMPP") with regards to the potential closure of the RMPP to future accrual with effect from 1 September 2016. The closure is subject to the outcome of the pensions consultation and no final decision will be made until the formal consultation is completed. The proposed closure will also require consent of the Trustee of the RMPP. This closure, if it occurs, could affect the pension average pay in the 2016/17 financial year.
- **IT and SAP CFS (Core Finance System):** We engaged our EY ITRA team to assist us in testing of IT General controls over in-scope IT applications for 2016 audit. This includes HNGX, POLSAP, SAP CFS and SAP HRP. We identified user access issues for POLSAP and SAP CFS. We instructed Management to perform alternative procedures to validate whether access maintained by the users of these two applications was appropriate throughout 2015/16 year. As at the date of this report this analysis is yet to be finalised.
- **Supply Chain Restructuring (Project Iris):** We discussed with the Supply Chain Director and the Network & Sales Finance Director the timing of the Supply Chain Restructuring project. Post Office Limited Management is preparing a detailed restructuring plan and consultation which is to be completed by 19 May 2017. We reviewed the Project Iris timetable and the Board of Directors minutes. Based on our audit procedures performed we are satisfied with Management's conclusion that there is no restructuring provision obligation as at 27 March 2016.

Our detailed comments and the results of our audit procedures on these items are included on pages 22 to 25.

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Overview (cont'd)

Summary of audit differences (page 27)

As at the date of this report, we have not identified any unadjusted audit differences above our reporting threshold of £542k for the year ended 27 March 2016. We summarised the audit adjustments identified as part of our audit which have been now recorded by Management on page 27.

Control themes and observations (page 29)

Our preliminary control observations and recommendations have been documented on page 29. These are currently being discussed with Management. We will be summarising our final observations in Management letter as there continues to be opportunities for further consistency and efficiency of processes and controls across the business.

Independence (page 32)

We consider ourselves to remain independent and objective. Please refer to our independence report in Appendix A.

Audit Opinion

Subject to finalisation of our audit work, we expect to issue unmodified audit opinion.

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Status of the audit

Status of the audit

The audit is well progressed with our procedures now primarily focussed on the audit of the financial statements and certain balances. Our audit work in respect of the opinion on Post Office Limited consolidated financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of drafting this report. We will provide the Committee with a verbal update at its meeting on 19 May 2016.

Item	Actions to resolve	Responsibility
Annual report and accounts	• Review of the final version of 'front end' of the annual report including review of aspects of the Directors' Remuneration Report, Chairman's and CEO's statements and completion procedures thereon; • Review of directors' emoluments disclosures once final bonus outturns confirmed; • Review of the final version of 'back half' including comments on financial statements and disclosure notes; and • Detailed review of subsequent events; • Financial statements to be approved by Management and the Audit Report to be signed by EY.	Management and EY
Postmasters' Compensation Provision	• Finalisation of audit documentation upon receipt of remaining supporting documentation as part of our sample selected for testing.	Management and EY
Exceptional items	• Finalisation of audit documentation upon receipt of remaining supporting documentation as part of our sample selected for testing.	Management and EY
Pension plan assets confirmations	• Follow up remaining pension plan assets confirmations; • Review and follow up the differences with confirmations received (if any).	Management and EY
IT Audit	• Finalisation of alternative procedures to support the appropriateness of user access for SAP CFS and POLSAP; • EY to review analysis prepared by Management.	Management and EY
Corporate tax	• Follow up on comments provided to date; • Review of final corporation tax supporting files and corporate tax financial statement disclosures.	Management and EY
Subsequent events procedures	To be completed through to the date of our audit opinion on the Group and Company financial statements (matters to be updated include: enquiries of Management, review of latest management accounts, unrecorded liabilities testing and board minute review to date of signing).	Management and EY
Letter of representation	To be signed/ dated contemporaneous with our audit opinion on the Group and Company financial statements, which is anticipated to be in June/July 2016.	Management and Audit committee
Journal entries testing	• Finalisation of audit documentation upon receipt of remaining supporting documentation as part of our sample selected for testing; • Follow up on queries to Company in relation to journal entries selected for testing.	Management and EY
FRES - Interoffice reporting deliverables	• Follow up on final signed deliverables from PwC FRES component audit team; • Review of PwC component team's working papers for FRES audit.	EY
Goodwill impairment analysis	Finalisation of EY review of Management's assumptions for analysis of CGU's identification and impairment of goodwill.	Management and EY
Going concern assessment	EY to finalise the review the Management's going concern assessment	Management and EY

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Significant accounting and auditing matters

Significant accounting and auditing matters

Introduction

Where there are significant transactions or matters arising during the year we have performed our audit procedures on these items as they arise. Our year end report only deals with new and open items. We have summarised below the key financial reporting matters that we have previously considered and reported to you during FY2016.

Accounting and auditing matters subject to significant judgements and estimates

Management is required to disclose significant estimates and judgements in the financial statements. The following outlines the basis for our assessment of the level of subjectivity involved in accounting matters reported to you.

Level of subjectivity

This rating applies only to significant estimates and indicates the level of subjectivity in the estimate as well as the reliability of the underlying data used to develop the estimate.

Subjectivity rating	Description
High	Estimate involves significant judgement and is made with little verifiable historical experience, current trend information or market and industry comparative information.
Medium	Estimate still involves some judgement and is made with verifiable historical experience, current trend information, or market industry comparative information.
Low	Estimate involves limited judgement and is made with verifiable historical experience, current trend information, or market industry comparative information.

The following 'dashboard' summarises the significant accounting and auditing matters set out in this report. It seeks to provide the Audit Committee with an overview of the subjectivity involved based on the above criteria. The detail of each accounting matter is set out after the dashboard.

Areas of audit emphasis	Level of subjectivity 2016
Completeness of Postmasters Compensation Provision* (page 13)	High
Revenue recognition across diverse range of revenue streams* (page 14)	Medium
Classification of exceptional items relating to Transformation and utilisation of Government Grant* (page 15)	High
Impairment of fixed assets and intangible assets, including goodwill (page 19)	Medium
Pension valuation (page 22)	Medium

* Identified as a significant risk under International Standards on Auditing and communicated in our Audit Planning Report in March 2016

Significant accounting and auditing matters (cont'd)

Significant risks

In our Audit Planning Report we identified four areas of audit risk that we deemed to be significant in the context of our audit of Post Office Limited. Auditing standards define significant risks as those with a high likelihood of occurrence and, if they were to occur, could result in a material misstatement of the consolidated financial statements. These significant risks are discussed below.

1. Completeness of Postmasters Compensation Provision of £133m (2015: £127m)

In August 2015 Management of Post Office Limited ("POL") identified that the Provision for Postmasters' Compensation had not been fully recognised in the financial statements for the half year ended 28 September 2014 and for the year ended 29 March 2015. The total amount of restatement recognised was £87 million and £67 million for the year ended 29 March 2015 and the half year ended 28 September 2014 respectively. We concurred with the accounting treatment of prior year adjustment and the amount of restatement recognised.

We have assessed the completeness of Postmasters Compensation Provision as a fraud risk (as defined by auditing standards) and thus as a significant risk (as fraud risks are also significant risks). Our focus has been specifically on the completeness of the provision recorded as at 27 March 2016. As part of our audit procedures we noted that Management recorded a £123m additional charge, which was offset by £95m payments made during the year and a release of provision totalling £21m (as explained below). The net provision now stands at £134m.

£m	Movements	52 week period ended 27 March 2016
Opening balance (as restated)		**127**
Charged during 1H 2016	*47*	
Charged during 2H 2016	*75*	
Total charged for the year		**123***
Provision utilised (payments made) 1H 2016	*(46)*	
Provision utilised (payments made) 2H 2016	*(49)*	
Total provision utilised (payments made)		**(95)**
Release of unused provision		**(21)***
Closing balance		**134**

In order to address this risk we performed our planned audit procedures as follows:

- To ensure that every branch has been accounted for and that the Postmasters' compensation provision is complete, we have performed an independent reconciliation of 100% of the branch population. This involved checking the status of each of the 12,471 branches at 27 March 2016 and understanding the journey they have made since the half year. We compared this to Management's results and used this to identify anomalies and challenge the provision analysis provided by Management. We have satisfied ourselves that the movement in the journey of the branches is reasonable.
- To ensure that every branch in the Post Office Network is classified correctly, we have independently categorised each branch into their categories into a specific type of journey at 27 March 2016, based on their individual attributes and challenged Management's assessment by comparing results. No exceptions were identified.
- To vouch the attributes and classification of the branches in the network we selected a sample of 594 branches and checked supporting documentation to check that where a provision is applicable, it has been recognised in the correct period by obtaining the signed contracts and checking that the dates of the signed agreements. We checked that branches selected for testing are not duplicated in any other category. Where we identified unusual items or categories, these were communicated to Management and adjusted where necessary.

Significant accounting and auditing matters (cont'd)

1. Completeness of Postmasters Compensation Provision of £134m (2015: £127m) (cont'd)

- To check the validity and accuracy of POL's records we selected a sample of 50 Conditional Resignation Pack (CRP) contracts and checked dates for correct cut off and sign off. We also traced the contracted amounts of these CRPs per POL's records to POL's cash utilisation reconciliation and bank statements, showing the amount being settled post year end.
- To further gain assurance on the completeness of the exceptional items charge we have challenged Management's charge by performing a reasonableness test on each category of the Postmasters compensation elements by comparing costs incurred to date against budgeted costs and estimated costs to complete for the various programmes. This involved understanding the number of open projects and how the estimated costs to complete are computed. At the date of this report this work is still in progress.
- We have had held discussions with the Director of Network (Sharon Bull) and other senior non finance members of the organisation to improve our knowledge and understanding of developments that could impact the Postmaster compensation provision and the progress the transformation is making against its planned targets, this enabled us to corroborate our testing results and Management explanations.
- We have performed an unrecorded liabilities test on 100% of the subsequent cash payments to Postmasters made post year end (for April 2016). This was done by checking that all payments to Postmasters made post year end are included in the provision at year end and we are now independently sampling 25 selected payments for May and June months post year end to actual bank statements. At the date of this report this work is still in progress.
- We have not identified any material differences as part of our test, with the exception of the following:

  As a result of our audit procedures, we identified an understatement of the charge for Postmasters Compensation provision of £1.0m. This understatement relates to a group 56 Post Office branches identified by Management as currently "being engaged". Following discussions with Management we understood these branched are likely to result in compensation once engagement concludes and therefore should be provided for as at 27 March 2016. We determined the £1.0m balance based on the average compensation of £17,396 per branch included within Fixed Pay Compensation (FPC). The FPC branches are those branches which had not confirmed to POL that they were to convert nor leave the Network and so were being forced out of the Network by POL. This judgemental adjustment has now been recorded by Management. No other significant differences were identified and this has been corrected by Management and is included in the provision of £134m.

As part of our audit procedures, we identified that in the second half of the year following a detailed analysis and new information received, Management released part of the provision totalling £21m.

- This represents Management's best estimate of the release to account for Post Office branches now unlikely to convert. These branches were advertised as leavers in the previous period and the Post Office has now not been able to find a replacement. The Postmaster's resignation obligation is conditional on Post Office finding a replacement. This detailed analysis was performed by Management and resulted in 501 branches identified as being unlikely to convert.
- This is in line with Management's expectation as the original programme was set out to transform up to 8,000 branches (non-community and non-pilot branches), which has been subsequently revised down to 7,500 branches due to Management's expectation that they will not be able to find a replacement for 500 branches.
- Management have put together a task force for the first half of FY2017 to further assist in finding replacements for these branches. At this stage, Management has predicted that it would sensible to reduce the provision for leavers payments by around 250 leavers, even considering a high success of the task force, management expects there to still be at least 250 unplaced branches.
- We acknowledge that this is an area of judgement and it illustrates the difficulty to assess this Postmasters' Compensation Provision. We recommend that Management performs regular review of the assumptions applied and revise accordingly when new information become available. For the purposes of 2016 audit we concurred with Management's assumptions to assess the amount of provision release. We will update our testing of the reasonableness of this assumption as part of subsequent events procedures.

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Significant accounting and auditing matters (cont'd)

2. Revenue recognition across diverse range of revenue streams (£1,111m)

The Company continues to sell a large variety of products/services across a number of revenue streams. Most of these revenue streams will have their own specific rates, commissions and calculations for allocating the amount of revenue owing to Post Office, which are defined in the specific underlying contracts.

As detailed in our planning board report, the main risk associated with the diverse range of revenue streams is ensuring the correct contractual terms are being applied to the revenue lines. We also note that reward and incentive schemes based on achieving profit targets may place undue pressure on Management to achieve revenue forecasts. We have therefore identified revenue recognition and management override as a significant and fraud risks both of which impact our revenue testing.

The main focus of our testing to address the risk of revenue recognition is summarised as follows:

- We performed system walkthroughs over POL's revenue lines and also performed detailed test of controls work on those revenue lines, this testing involved checking correct contractual rates and volumes data in their calculations. No issues were identified and we have taken a controls-based approach to all revenue lines.
- We performed detailed testing on over 19 key customers giving us a coverage totalling 95% of the group revenue. Our detailed tests included checking that revenue rates and commissions for each revenue line is being appropriately applied in accordance with the terms of the relevant sales contracts. Further we checked all revenue transaction with these key customers back to invoice and cash receipts.
- Where a revenue estimate is made for a revenue line for a month prior to actual sales volumes and billing reports being available, we have checked invoices subsequently posted in order to check that adjustments were made for the estimated revenue figure to reflect the actual sales for all periods tested.
- Our audit procedures also considered the accounting treatment for significant products or revenue streams where applicable by reviewing all new significant revenue contracts and any changes to existing contracts with customers. We did not identify any exceptions in relation to Management's application of its revenue recognition policy.
- To ensure that revenue has been included in the correct period, in addition to the procedures above, we have performed detailed cut-off procedures over revenue postings before and after period end, and checked that the amounts recognised as revenue are appropriate, and that where appropriate they have been correctly recognised in trade debtors, accrued revenue or deferred revenue in the appropriate period.
- We also examined the fluctuations of revenue against budget and prior year by corroborating variances to the relevant evidence obtained through our other testing procedures. In addition, where appropriate we have corroborated Management's explanations for movements using our knowledge of developments in the industry and business.
- Post Office Management Services Limited ("POMS") is a full scope component and a fully owned subsidiary and comprises £30m (3%) of the POL Group revenue. We performed similar audit procedures on the POMS revenue to the procedures performed above for POL sample, which included 55 key items with a coverage of 99% of total POMS revenue. No issues were identified. The materiality used remained set at £323,000 and the performance materiality at 50% of overall materiality (£161,500).

Based on the procedures performed, we conclude that revenue, accrued income and deferred income balances for the FY16 financial year are appropriately stated.

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant

Post Office is executing a Transformation across its network in order to modernise it as part of the overall strategy to make the Post Office competitive for the future. This one-off programme is expected to continue until FY2017-18. Management note that the costs of Network Transformation are exceptional in nature given that a branch modernisation programme of this scale has not been carried out before. As such, Management believe this requires separate presentation on the face of the Income Statement to allow a better understanding of financial performance in the year.

Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

In addition, the Department of Business, Innovation & Skills ('BIS') provides a government grant to POL to subsidise network transformation expenditure, agents compensation and related capital expenditure. POL offsets this government grant against the related expenses in the exceptionals section of their Income Statement, in line with IAS 20 Government Grants.

Please refer to the table below for the details on exceptional items recorded for 2016 year:

	Note	FY2016 £m	FY2015 £m
Network Transformation costs	3.1	(75)	(73)
Agents Compensation	3.2	(102)	(154)
Network transformation including subpostmasters compensation		**(177)**	**(227)**
Crown Transformation	3.1	(23)	(10)
Redundancy	3.3	(29)	(25)
Separation	3.4	(11)	(8)
Total Network and Crown transformation costs		**(240)**	**(270)**
IT Transformation costs	3.5	(30)	(16)
Business Transformation Programme	3.6	(9)	(12)
Business Transformation costs		(4)	(1)
Other		-	(3)
Total restructuring costs		**(283)**	**(301)**
Intangible and tangible assets impairment	3.8	**(136)**	**(141)**
Government Grants	3.9	**150**	**170**
Total operating exceptional expense, net		**(269)**	**(272)**

3.1 Network Transformation (£75m) and Crown Transformation costs (£23m)

The Network Transformation and Crown Transformation costs are attributable to the modernisation of Post Office's existing branches as part of the transformation programme.

The network transformation has reached approximately **75%** of completion, tracking in line with budget.

Management note that the costs of network and crown transformation are exceptional in nature given that a branch modernisation programme of this scale has not been carried out before and it is not treated as business as usual within the Post Office. We agree with Management's conclusion that this transformation is significant in nature, and an one off event, subsidised by the government grant (also an exceptional item) and therefore is appropriately presented on the face of the income statement to allow a better understanding of financial performance in the year.

Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

3.1 Network Transformation (£75m) and Crown Transformation costs (£23m) (cont'd)

Substantive audit procedures performed:

- In additions to discussions held with Management as part of our audit procedures we have also had held discussions with the Director of Network (Sharon Bull) and other senior non finance members of the organisation to improve our knowledge and understanding of developments that could impact the both the Network and Crown transformation and understand how it is tracking to plan. This has enabled us to corroborate our testing results and Management explanations.
- We selected a sample of 57 transactions giving us a coverage of 49% for Network Transformation cost in the year and we tested over 50% of the Crown transformation costs. Our tests involved obtaining the details and the nature of the costs incurred against the overall strategy of the programme and we checked each transaction to supporting documentation such as invoices and project approvals to validate that they are directly related to transformation costs and not related to routine expenses related to the normal course of the business.
- As a result of our audit procedures, we initially identified two judgemental adjustments relating to the overstatement of accrual balances with Network Transformation Exceptional items, relating to Project Enabling Works (£2.7m) and Operational Business Change (OBC) (£1.2m). We identified that the Project Enabling Works accruals were older than 12 months, these costs relate to costs incurred by Postmasters that are to be reimbursed by POL. For the OBC accrual we have identified the costs relating to accruals older than 6 months, these accruals are for works that POL have placed with suppliers for equipment services, which we would expect to have been settled. These have both been adjusted by Management now.

Management's overall treatment is consistent with the approach followed in the prior year and the basis on which the government grant, which partially funds the Post Office Transformation spend, was agreed.

3.2 Agents Compensation expense (£102m)

Postmasters compensation charge continues to be significant in the year. The postmasters continued to be incentivised and compensated for ensuring their branches take part in the Network Transformation programme. We coordinated our testing approach with the audit procedures we performed to address identified significant risk in relation to completeness of Postmasters' compensation provision. Please refer to respective section on page 13.

3.3 Redundancy costs (£29m)

Redundancy costs largely related to the Crown Transformation programme and the redundancy of staff as part of cost saving initiatives and as such are treated as exceptional.

We reviewed the respective signed conditional resignation notices given to agents and vouched a sample of 17 items to termination payments to notices submitted and concluded the cost is appropriate. We have also obtained the breakdown of the redundancy plans and checked corroborated the charge against Management's formal plans.

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Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

3.4 Separation (£11m)

Separation costs comprise of costs incurred to achieve separation from Royal Mail. In line with prior year, POL has continued to incur separation costs with respect to building internal functional capabilities and implementing new commercial relationships. Since the separation Royal Mail Group ("RMG"), the Company has had a Master Services Agreement(MSA) in place which relates to an agreement with RMG to provide IT support services to POL post-Separation. These costs are part of a defined programme and are designed to bring about significant changes to the business. The MSA was supposed to end in September 2015.

However, due to delays in separating out some of the IT services, there was a need to extend this arrangement to 31 March 2016. POL have now formally separated all of the services and the Separation programme has been formally closed down. POL have estimated internally that the maximum extension costs and penalty charges which RMG could try to levy on them is approximately £3.0m plus irrecoverable VAT (c£0.3m). POL have accrued for £2.5m of these costs (including irrecoverable VAT) in exceptional items as it arises as a result of the Separation Programme, which has been consistently accounted for as exceptional. The costs are still under negotiation with RMG to finalise a settlement. We proposed to increase the provision by £0.8m which has been recorded by Management.

We would not expect any further costs next year, however have confirmed costs are of the same nature as the prior year.

3.5 IT Transformation Costs (£30m)

The IT transformation was one of Post Office's key programmes to deliver the commitments made in 2010 in the Government Funding and Strategic Plan. During the year Management terminated an agreement with IBM who were contracted to perform IT Transformation work in respect of Front Office software for the POL branches. The agreement with IBM was terminated for commercial reasons and this work has been contracted to Fujitsu in the year. Termination costs of £20.7m have been incurred and are included in the exceptional items in the year. Management's view was that this cost arose as part of the Transformation programme and was fundamental in achieving the objectives of the POL Transformation.

We selected a sample of 17 transactions giving us a coverage of 79% of IT Transformation cost. Our tests involved obtaining the details and the nature of the costs incurred against the overall strategy of the programme and we checked each transaction to supporting documentation such as contracts, invoices and project approvals to validate that they are directly related to IT transformation costs and not related to routine expenses related to the normal course of the business.

We have held various meetings across the business with the Heads of the Network and IT Transformation programmes to corroborate our testing results.

Consistent with prior year, Management treats this specific transformation project as an exceptional cost given the project results in a fundamental change to the entire Post Office IT model. In our view we would not generally expect IT upgrades to be considered as exceptional items, however due to the unique IT environment POL finds itself in post separation from Royal Mail and the IT infrastructure required to create an independent group, we can accept these IT costs being treated as exceptional. Given the continuing rationale of impairing assets, these costs have been impaired as an exceptional item. Management noted that the changes in the Network Transformation project would not be achievable without the IT transformation project. Management continues to be consistent in its treatment of IT Transformation costs.

We have revisited the appropriateness of classifying such costs as exceptional and reviewed supporting documents to satisfy ourselves that these costs link to one-off major IT project costs relating to transformation.

We concurred with Management's treatment of these costs in FY16 as exceptional and we have challenged Management to continue to assess these future costs on a specific basis to determine when they become business as usual costs.

Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of

3.6 Business Transformation Programme (£9m)

The Business Transformation Programme is a wide reaching programme tasked with delivering £300m of cost savings. As such, it is expected to radically transform the structure of the business. The Business Transformation Programme has begun its work and has already identified medium term costs saving opportunities of £100m which, owing to the one-off nature of the events giving rise to them, were deemed appropriate by Management to include as an exceptional item.

We checked the nature of the costs that make up the £9m to supporting invoices. We checked £6.2m which is c.69% of the total vouched that this it consist of consultancy costs related to the Business Transformation Programme cost saving initiative payable to consultants. We concur with Management's treatment of these costs in FY16 as exceptional, but we have challenged Management to continue to assess these future costs on a specific basis to determine when they become business as usual costs.

3.7 Intangible and Fixed Asset Impairment

Post Office continue to adopt a policy of fully impairing all intangible and fixed asset and long leasehold additions made during the year in which they are purchased, except for freehold land and buildings. Management's justification for adopting this policy is due to the fact that Post Office has historically been, and continues to be a loss making entity excluding the Network Subsidy Payment and Government grant it receives and in its current form is not a viable commercial business (without the government support).

As an additional factor in the decision to impair, Post Office has been working on a major programme of network change that will cost approximately £500m. We observed the transformation spend and strategy is included within the current State Aid funding package and investment of this scale will lead to significant cash outflows for the immediate future. The resulting transformational change is specifically designed to impact the longer term profitability of the organisation and accordingly Management believes that Post Office will continue to be loss making entity in the near to medium term.

We have challenged Management on the appropriateness of this policy. Management's view is that there is no current evidence to support the profitability of the business without state aid. On the basis of our discussions with Management we believe Management's approach is appropriate and prudent in 100% impairing all assets on acquisition, reflecting value in use and cost.

The fixed asset impairment charge for the year is £136m (PY: £141m). The year on year increase in fixed asset additions is mainly a consequence of network and crown transformation related capital expenditure to modernise POL branches.

For the reasons noted above we continue to agree that Post Office's accounting policy for impairment and disclosure of the charge as an exceptional item is reasonable, and in line with IAS 36, Impairment of Assets.

We discussed with Management the impact on the financial statements and forecasting as it becomes more likely that Post Office will be cash generative without reliance on government grants. We recommend Management should continue to review its impairment policy at each reporting period in relation to these assets, produce full DCF impairment models and ensure the fixed asset registers are appropriately maintained.

We have received a full impairment considerations analysis for Goodwill related to Bank of Ireland insurance business combinations and we are finalising our review. Based on our discussions with Management we understood this Goodwill is covered by an individual Cash Generating Unit (CGU) for the insurance business segment. Based on the preliminary analysis prepared by Management and reviewed by us there is no impairment required. We will finalise our review once the full analysis is received. Please also refer to "Other areas of focus" section of this report on page 23.

Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

3.7 Government grant - State Aid Funding

On 19 March 2015, POL received confirmation that its application for State Aid funding for 2015/16 to 2017/18 had been approved. This approval entitles POL to receive the following funding from the Department of Business, Innovation & Skills ('BIS') by way of grants: FY2015/16 - £280m, FY2016/17 - £220m, FY2017/18 - £140m.

Of the amounts above, £130m (2015/16), £80m (2016/17), and £70m (2017/18) were agreed to be made by way of a network subsidy payment, which has been regularly paid by the government to POL over the last few years, enabling the company to keep branches open that would otherwise not be viable. We have confirmed receipt of the government grant and reviewed updates to the terms and conditions of the funding agreement, no issues identified. POL received the full funds for FY2015/16 grant allocation from BIS in April 2015; £130m by way of a draw down of the network subsidy and an additional £150m to fund capital projects and transformation costs. We have confirmed receipt of the government grant and have confirmed that there have not been any updates to the terms and conditions of the funding agreement. The full £150m which is classified as exceptional has been utilised in the year to date against capital spend, network transformation and IT transformation costs and subpostmasters compensation.

Based on our procedures performed, we conclude that the government grant has been appropriately recognised in the income statement in accordance with the contract from BIS.

4. Risk of management override around estimates and judgements

During the normal course of an audit, we are required to perform procedures to address risks that could result in material misstatement due to fraud and error including the risk of management override of controls. There are both specific and tailored procedures performed to ensure that sufficient consideration is given to these risks.

The risk of fraud and management override exists in all businesses and is heightened where the economic environment is challenging and where there is significant change being implemented across a business potentially giving rise to the opportunity, pressure or incentive to perpetrate a fraud. Areas of focus from an audit perspective to address the risk of management override include:

- Revenue recognition
- Estimates and judgements; and
- Unusual transactions

The table below highlights the specific areas which we believe are more susceptible to the risk of management override or bias for Post Office and the procedures we have performed to address the risk.

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Significant accounting and auditing matters (cont'd)

4. Risk of management override around estimates and judgements (cont'd)

Area of focus	Details of procedures performed/cross reference to detail included in this report.
Revenue recognition – Our focus was on cut off via manipulation of revenue recorded close to yea rend.	Refer to page 15 for details.
Impairment of goodwill – There is subjectivity relating to the assumptions used to value acquired intangible assets.	Refer to page 19 for details.
Valuation of provisions – There is subjectivity in management's determination of their best estimate of amounts provided.	Refer to page 13 for details.
Journal entries – By their nature, there is the potential for the risk of management override of the financial statements through processing of journal entries.	We have performed journal entry testing at the group level and at component level focussing on: ▸ Entries made near to the year end; ▸ Post – closing adjustments; ▸ Entries made in relation to transactions outside the normal course of business; ▸ Analysis of journal entries by user profile and the posting day of the week; ▸ Entries relating to our fraud risk around revenue recognition (Refer to page 15).
Entity level controls – There is a risk that controls operating at the centre are not implemented consistently across the group.	We performed various procedures to assess the 'tone from the top' and the design and implementation of key entity level controls and assessed the overall control environment to be effective.

During the course of our audit, we found no evidence of material, or potentially material fraud or error in the financial statements.

We have not been made aware of any further material instances of known fraud within the group in addition to those previously reported.

In addition, for provisions we have challenged senior management to understand the material movements in provisions in the year. We considered the aspects and attributes of each provision individually, assessing whether its accounting treatment meet the requirements of IAS 37. Material movements within provisions related mainly to utilisation and charge of severance and agents' compensation provisions.

We have vouched a sample of provision charges to supporting documents such as formal redundancy and severance plans for severance provision increases and signed voluntary and/or compulsory redundancy notifications for increases in agent's compensation provision in the year. This enabled us to check the validity of charges to provisions in the year. Where provisions have been utilised in the year we have vouched a sample to evidence of payment.

We concluded that each individual provision meets the criteria of provisions as per the requirements of IAS 37 – Provisions, and have therefore been appropriately provided for at the end of the year.

POL00030888

Significant accounting and auditing matters (cont'd)

Other areas of audit focus

In addition to the significant risk areas highlighted in the previous section, there were a number of other accounting and auditing matters which have arisen during the year. Details of each are provided below:

Horizon Subpostmaster claim

As part of our discussion with Group Chief Financial Officer and Group Legal Counsel we understand that Post Office Limited have received a formal Letter of Claim from Freeths Solicitors on behalf of 91 applicants on 28 April 2016. We have received the copy of this letter. It contains the number of allegation made to Post Office. We understood that there is no quantification of the claim for damages at this point of time. At the date of this report Management is in process of reviewing this letter and will be preparing the necessary response and will be preparing the litigation strategy. There is no provision recognised as at 27 March 2016 for this claim. The financial statements now include a generic contingent liability note regarding receipt of such claims, stating no material impact is expected. We will update our assessment as part of subsequent events review procedures performed up to our sign-off date.

Pensions valuation and accounting

Pensions accounting can be a highly subjective area given the impact that relatively minor changes in assumptions can have on the valuation of the defined benefit liability. Based on current calculations, Post Office has a net surplus at the year end of £196m (2015: £205m) as follows:

£m	FY2016		FY2015	
	RMPP	RMSEPP	RMPP	RMSEPP
Fair value of pension plan assets	407	30	379	31
Pension liabilities	(184)	(27)	(150)	(26)
Surplus in plan before assets ceiling adjustment	223	3	229	5
Effect of assets ceiling	(29)	(1)	(27)	(2)
Surplus in plan after assets ceiling adjustment	194	2	202	3

We have confirmed that the approach and methodology applied by Management are consistent with previous reporting periods. We have reviewed and challenged Management's calculations, specifically with respect to the pension assumptions. The key assumptions are noted in the table below along with our assessment of where these assumptions are within our acceptable range of outcomes.

Financial assumptions		Prudent	Central	Optimistic
Discount rate			3.50%	
Price inflation (RPI)			2.90%	
Price inflation (CPI)			1.80%	
Salary increases (above RPI infl) (1)			-0.10%	
Pens incs in payt (above infl)	LPI 5% (RPI) (1) (3)		-0.10%	
	CPI (2) (4)		+0.00%	
Pens incs def (above CPI) (2)			+0.00%	
Demographic		**Prudent**	**Central**	**Optimistic**
Mortality in retirement	Males		106% S1PMA MC 1.25% u/pin	
	Females		101% S1DFA MC 1.25% u/pin	
Retirement age			60	
Commutation (5)			15% of Pension	

Consistent with prior years, we used an EY actuarial specialist to evaluate these assumptions and we consider them to be within an acceptable range, albeit the inflation assumption continues to be at the upper end of the acceptable range.

Significant accounting and auditing matters (cont'd)

IRRELEVANT

VAT Considerations

The business has been fairly stable over the past year in terms of service offerings and the market. In light of this, the VAT processes and systems have not had any major changes in the year.

The work carried our by our VAT specialists included;

- Review of POL process notes for Accounts Payable and Accounts Receivable and VAT return compilation.
- Review of the quarterly VAT records throughout the year, including the January - March 2016 VAT submission and the reconciled the draft (unsubmitted) VAT figures to the year end VAT ledger balance
- Understand and review of any changes to the VAT group during FY16.
- Check of any VAT assessments and disclosures to HMRC, along with confirmation that there are no outstanding issues.
- Enquiring about any complex, unusual or significant transactions that have occurred during FY16.

The above work was carried out by reviewing the relevant documentation, taking part in detailed discussions with Carl Nielsen (Head of VAT) and Ian Lakin (Tax Compliance Manager), and walking through the AP/AR processes with the relevant POL finance staff.

We have also reviewed correspondence with HMRC on other complex, unusual, or significant transactions or issues with VAT, and note that there are no outstanding queries with HMRC or other VAT provisions. Management has also confirmed that there are no further unusual transactions or VAT planning arrangements apart from those disclosed to us.

POL00030888

Significant accounting and auditing matters (cont'd)

VAT Considerations (cont'd)

Based on the work performed, including by our VAT experts, no errors were identified on the returns in respect of POL's inputs and outputs compared to the overall turnover and expenses figures. The partial exemption recovery method agreed with HMRC in July 2014 has not been amended in FY16. The method allows for direct attribution of fully taxable supplies followed by an allocation of the residual input VAT based on the value of POL's supplies in relation to 'mail' and 'non-mail' services for that period. The provisional rate of residual input VAT recovery for FY16 has been set at 55%. This rate has been hardcoded into the POL's IT platform (CFS) during the year as recommended by us in the prior year. Based on the work performed we consider the current VAT processes to be robust and responsive to changes in the legislation and HMRC's approach.

We would advise Management to continue to assess the VAT recovery rate on a regular basis to ensure VAT is appropriately monitored and recorded through out the year.

As a result of our work, we believe that the financial statements are free from material misstatement in this area.

Corporation Tax Considerations

Current tax

POL outsource the preparation of their tax computations to Wilkins Kennedy. We have audited the tax charge, involving experts from our EY tax team where appropriate.

Our testing focused on the following key areas:

£m	FY2016	FY2015
(Loss)/Profit before tax	(169)	(167)
Tax Credit in Income Statement	(4)	(26)
Tax charge – items taken directly to equity	(5)	9

A eness and correct classifications in accordance with IAS 12 is still in progress.

Deferred tax assets and liabilities

At 27 March 2016, the Group has a net deferred tax balance of £nil on the balance sheet (2015: £nil). A deferred tax liability of £5m in respect of the movement in the pension surplus has been recorded through OCI. This is offset by the recognition of an equal deferred tax asset in respect of tax losses carried forward at 29 March 2015 which has been recorded in the income statement.

The deferred tax liability referred to above relates to the pension surplus of £226m (before withholding tax) recognised for accounting purposes. We understand that it is Management's expectation that £139m of the pension surplus will be recovered solely through a reduction in future pension contributions over the life of the scheme as advised by actuaries. The reduction in future pension contributions will increase the future current tax liabilities of Post Office and, therefore, a taxable temporary difference arises in respect of which a deferred tax liability is recognised. It is Management's intention that the remaining element of the surplus of £87m will be recovered through refunds from the scheme. Accordingly, the surplus has been shown on the face of the balance sheet net of a 35% withholding tax of £30m. We agree this treatment is appropriate and in line with EY's interpretation of IFRIC 14. Consistent with prior years, no deferred tax assets have been recognised in respect of losses and other temporary differences for the year ended 27 March 2016 (other than to match the deferred tax liability arising on the pension surplus), due to uncertainty around the availability of future taxable profits.

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Significant accounting and auditing matters (cont'd)

Supply Chain Restructuring (Project Iris)

We discussed with the Supply Chain Director and Network & Sales Finance Director the timing of Supply Chain Restructuring project. Post Office Limited Management has prepared a detailed restructuring plan and consultation which is to be approved by 19 May 2017. We reviewed Project Iris timetable and conducted a Board of Directors minutes review. Based on our audit procedures performed we are satisfied with Management conclusion that there was no restructuring provision obligation as at 27 March 2016 as no formal decision was made pre 27 March 2016 therefore POL was not demonstrably committed to the restructure at year end.

Going concern considerations

POL continues to operate in a net liability position and continues to experience net cash outflows (excluding government State Aid funding). POL therefore continues to be reliant on State Aid to remain a going concern. State Aid approval for the funding for 2015-16 to 2017-18 was received on 19 March 2015 as detailed above. In addition to State Aid approval POL has an existing working capital facility with BIS with a limit of £950 million from 31 March 2015 up to 31 March 2018.This working capital facility is used to finance network cash requirements.

Management's cash flow forecast up to 2020-21 indicates that POL will continue to see cash outflows until 2016/17, even including State Aid. We have received Management's year end going concern assessment. At the date of this report we are yet to finalise our review. The draft financial statements include a going concern note covering the above.

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Summary of audit differences

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Summary of audit differences

Summary of audit differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and amounts actually recorded

These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

We have identified five judgmental audit differences, including Network transformation Project Enabling accrual over older than 12 months and Operation Business Change over 6 months, understatement of Postmasters Compensation Provision, understatement of provision for Royal Mail Separation costs and impairment for software intangible assets of POMS. All these adjustments have been now recorded by Management.

We also identified one reclassification audit difference in relation to reclassification of Royal Mail Separation contract costs from accrued liabilities to provisions which has been corrected by Management.

Misstatements (£m)	**Assets current**	**Assets non-current**	**Liabilities current**	**Income/ expenses**
Judgemental	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/(Credit) Current period
Corrected misstatements:				
Network Transformation OBC Accrual - This is a release of an accrual where projects have no dates or are over 6 months old. These are for vendor costs where it is generally expected that the costs should be paid within 2 months.			1.2	(1.2)
Network Transformation Project Enabling Works Accrual - This relates to an accrual for agents claiming back for work carried out in order to convert branches. This is the release of any costs greater 12 months old as it would be expected that these costs are claimed back within this time frame.			2.7	(2.7)
Understatement of Postmasters Compensation Provision for all branches that are currently being engaged (56 branches at an average amount of £17,396).			(1.0)	1.0
Understatement of provision for the costs related to Royal Mail Separation contract (maximum exposure of £3.3m) and reclassification from accruals to provisions line.			(0.8)	0.8
Impairment of POMS assets within POL Group accounts		(2)		2
Reclassification audit difference:				
Transfer of £2.5m from accruals to provisions for the costs related to Royal Mail Separation contract and reclassification from accruals to provisions line.			2.5 (2.5)	
Balance sheet totals	-	**(2)**	**2.1**	**(0.1)**

Conclusion: Subject to our outstanding items, there are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 27 March 2016.

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Control themes and observations

Control themes & observations

As part of our audit of the financial statements, we obtain an understanding of the internal control and IT environment sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you any significant deficiencies in internal control.

We can confirm that on the basis of our audit work performed, we did not identify any significant deficiencies in internal controls. However we have identified certain control deficiencies below from this year's audit cycle. We anticipate providing a detailed Management Letter incorporating certain recommendations for process improvements noted by us in the performance of our procedures.

The following is a summary of our considerations:

1. Financial statements implications:

Revenue

- We recommend Management maintains robust and detailed analytical review of revenue fluctuations and deviations during the year in comparison with historical data and industry data on a individual revenue lines basis. We expect this to cover the precision level and expectations developed by Management. We understood Management is working on formalising this analysis.

Exceptional items

- As part of our audit procedures we noted that the company maintains large volume of information related to exceptional items in Excel spreadsheets. This may result in manual errors and completeness issues as a result of various sources of information used. We recommend the Company to develop a uniformed database and standardised procedures for exceptional items recordkeeping.

2. Observations on the IT Environment

The following IT applications are in scope for our audit: HNGX, POLSAP, SAP CFS and SAP HRP.

HNGX and POLSAP are supported by third party service providers Fujitsu and Steria. Our audit approach was to rely on the ISAE 3402 report commissioned by Fujitsu over the controls it operates, and independently test controls operated by Atos, Steria and POL.

HRP has previously been tested as part of the Royal Mail (RM) audit. With the separation of the RM and POL IT environments, this year, HRP was tested as part of the POL audit procedures. Due to the separation of IT infrastructure supporting POL and RM applications, the ISAE 3402 report provided by CSC did not cover the SAP HRP application. As we were unable to rely on this report for the 2016 audit, we have independently tested the controls operated by CSC, Steria and POL for this application.

CFS is supported by CGI and Steria. As no ISAE 3402 reports were available, we performed independent testing of controls operated by CGI, Steria and POL.

- In respect of Fujitsu-operated controls, no significant findings were noted in the ISAE 3402 report, and we have therefore been able to rely upon it as part of our audit approach.
- Our testing of the Post Office operated controls confirmed that some of the control observations raised last year have been remediated and/or the risk formally accepted by Management, whilst some of the observations have recurred.
- Although we noted that a periodic review of users' access rights were implemented in the year for POLSAP covering Supply Chain (SC) and Financial Service Centre (FSC) POLSAP users, the SC review which was initiated in September was incomplete as not all line manager responses had been received. Additionally, we noted that the periodic review had been initiated for CFS users only in January 2016, however such review was also not completed. We recommend Management should ensure that the access for all application users is periodically reviewed and evidence retained.

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Control themes & observations (cont'd)

Observations on the IT Environment (cont'd)

- As a result of the incomplete periodic review of users' access rights, we performed alternative procedures to validate that access held by users at the time of our testing was appropriate. Although these additional procedures are currently incomplete, we have observed exceptions that prevent us from being able to fully rely on the controls around appropriateness of access for the CFS and POLSAP applications. These exceptions are currently being validated and discussions being held to determine the effect on the overall audit approach.
- We also observed during our employee leavers testing, that there were a number of active POLSAP, CFS and SAP HRP accounts belonging to leavers that were not removed in a timely manner. We were however able to perform additional procedures to validate that these accounts had not been used after the leaving date and therefore concluded the control deficiency have not significantly impacted our audit of the financial statements. Management should revoke the access of terminated employees immediately and perform investigations to identify the root cause of leavers retaining their access.
- During our change Management procedures on the CFS and HRP applications, we observed that a number of changes had been developed and implemented by the same user which violated the principle of segregating incompatible duties within the change Management process. We are in the process of performing additional procedures to mitigate the risk of inappropriate changes being implemented into the live environment. Management should work with the third parties (CGI and CSC) in implementing a control to segregate incompatible duties when developing and implementing system changes.

Appendices

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Appendix A Independence update

We confirm there are no changes in our assessment of independence since our previous confirmation in our planning board report. We complied with the APB Ethical Standards and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 19 May 2016.

Relationships, services and related safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Description of relationship or service and related independence threat	Period provided/duration	Safeguards adopted and reasons considered to be effective
Service 1: Fujitsu ISAE 3402 report – ISAE3402 report for the Fujitsu services supporting the POL account. This report will provide an assessment of the Fujitsu controls supporting POL business critical systems. We have placed reliance on the ISAE3402 as part of the 2015-156financial statement audit.	Performed on continued annual basis	► Not a prohibited service ► A separate team from the POL IT team has been engaged for the review of the ISAE3402 report, and standard ring fencing applied between two teams. ► Went through review exercise to ensure in line with EY independence rules
Service 2: ISAE 3000 report on POL Note Circulation Scheme related services to the Bank of England for the FY2015-16 period and to be performed in May 2016.	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.
Service 3: Agreed-upon procedures performed which relate to testing of covenants relating to the loan from the Department of Business, Innovation and Skills (BIS).	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.
Service 4: Agreed-upon procedures performed to ensure that the amount which is collected by Post Office Limited on behalf of the DVLA for road tax is subsequently paid over to the DVLA.	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.
Service 4: Agreed-upon procedures performed to ensure that the amount which is collected by Post Office Limited on behalf of the DVLA for road tax is subsequently paid over to the DVLA.	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of the audit engagement partner and the audit engagement team have not been compromised.

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Appendix A Independence update (cont'd)

Fees update

As part of our reporting on our independence, we set out below a summary of fees for the year ended 27 March 2016.

£	2016
- Post Office Limited core audit fee*	346,000
Total audit fees	**346,000**
-IAS34 Half year review of consolidated accounts	40,000
- Note Circulation Scheme ISAE 3000 Report	78,000
- BIS Agreed Upon Procedures Report	12,000
- DVLA Agreed Upon Procedures Report	13,000
Total non-audit services	**143,000**
Total*	**489,000**

*Excludes out of pocket expenses incurred

We confirm that none of the services have been provided on a contingent fee basis.

Ernst & Young LLP has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. See below for a summary of our firm wide policies.

Appendix A – Independence report (cont'd)

Firm-wide policies

Ernst & Young LLP has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Listed below are some of the key policies and processes in place within Ernst & Young LLP for maintaining objectivity and independence.

Further details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Ernst & Young LLP Transparency Report which the Firm is required to publish by law. The most recent version of this Report is for the 2015 year and can be found at http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015

Service	Timing
Financial interests	Our Partners and client facing (technical) staff are prohibited from investing in any audit client around the World. All partners and staff are required to confirm their compliance each year with the firm's independence policies. Monitoring of compliance in respect of all partners and professional managers takes place through a worldwide investment tracking system. New starters are required to confirm their compliance with the firm's independence policies on commencement of their employment.
Training	All partners and professional staff are required to undergo regular mandatory training on our Independence and Ethical policies and processes.
Partner rotation	The firm has detailed policies on the rotation of the audit partner, and in the case of listed clients key audit partners, the independent partner and 'other partners and staff in senior positions'.
Consultation	The firm requires consultation outside the audit team on complex accounting, auditing and ethical matters. Major issues of principle arising on all audits are referred to a panel of independent experienced audit partners.
Independent partner reviews	Before listed company audit opinions are issued, an audit partner independent of the audit team reviews the nature of the relationship with the client, aspects of the accounts that are subject to significant estimates and judgements, and the adequacy of the presentation of information in the accounts.
Quality reviews	The firm operates a worldwide programme under the direction of senior partners that annually assesses the quality of our work. Over a three year period, a proportion of the work of all audit partners is reviewed. The results of the programme help us to evaluate the firm's quality controls and personnel performance and identify areas for improvement. As with other firms, EY's audit practice is subject to annual review by the Audit Inspection Unit (AIU) and the Quality Assurance Directorate (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) for compliance with Audit Regulations. As part of its visits, the AIU/QAD evaluates the system of quality control operated by the firm for its audit practice.
Business relationships	EY UK has implemented a centralised process for the review and pre-approval, by our quality and risk management team, of all new business relationships. A submission must be made and approved for each new business relationship before committing the firm. In addition, all new business relationships must be notified and approved by the lead audit or client service partner before committing the firm.
Ethics	Our Global Code of Conduct provides an ethical framework on which we base our decisions and our actions – as individuals and as members of our global organisation. Ernst & Young LLP has also established the EY/Ethics hotline which will allow any person, inside or outside of EY, to confidentially and anonymously report an activity that they believe may involve conduct that is unethical, illegal, in breach of professional standards, or is otherwise inconsistent with EY's established policies and Code of Conduct.
Non-audit services	Our audit engagement partners must approve any non-audit services offered to their clients. This allows them to: ► Ensure the objectives of the proposed engagement are not inconsistent with the objectives of the audit of the financial statement; ► Identify and assess any related threats to our objectivity; and ► Assess the effectiveness of available safeguards to eliminate such threats or reduce them to an acceptable level. Where no satisfactory safeguards exist we do not carry out the non-audit service.

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Appendix B Management representation letter for statutory reporting

June 2016

Ernst & Young

1 More London Place

London SE1 2AF

Attn: Peter McIver, Audit Partner

Post Office Limited – Financial Statements for the 52 week period ended 27 March 2016

Dear Sirs,

This letter of representations is provided in connection with your audit of the consolidated and parent company financial statements of Post Office Limited ("the Group and Company") for the 52 week period ended 27 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent company financial statements give a true and fair view of (or 'present fairly, in all material respects,') the Group and Company financial position of Post Office Limited as of 27 March 2016 and of its financial performance and its cash flows for the 52 week period then ended in accordance with, for the Group, International Financial Reporting Standards as adopted by EU ("IFRS"), and for the Company , FRS101.

We understand that the purpose of your audit of our consolidated and parent company financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records.

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 22 January 2016, for the preparation of the financial statements in accordance with, for the Group IFRS, and for the Company FRS 101.
2. We acknowledge, as members of management of the Group and Company, our responsibility for the fair presentation of the consolidated and parent company financial statements. We believe the consolidated and parent company financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group in accordance with IFRS and for the Company in accordance with FRS 101, and are free of material misstatements, including omissions. We have approved the consolidated and parent company financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Company financial statements are appropriately described in the Group and Company financial statements.
4. As members of management of the Group and Company, we believe that the Group and Company have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with IFRS for the Group and FRS 101 for the Company that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and parent company financial statements taken as a whole.

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Appendix B
Management representation letter for statutory reporting (continued)

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the Group and Company financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Company's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or parent company financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or parent company financial statements or otherwise affect the financial reporting of the Group or Company.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and parent company financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and parent company financial statements.
3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 52 weeks ended 27 March 2016 to the most recent meeting on the following date: *[list date]*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Company's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the 27 March 2016. These transactions have been appropriately accounted for and disclosed in the consolidated and parent company financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Company has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and parent company financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. In accordance with FRS 101 paragraph 5, we have notified our shareholders in writing, in accordance with reasonable timeframes and format requirements, of our intention to take advantage of disclosure exemptions in paragraph 8 of FRS 101 (in accordance with paragraphs 6 to 7 of FRS 101) in the company individual financial statements.

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Appendix B
Management representation letter for statutory reporting (continued)

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and parent company financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 20 to the consolidated and parent company financial statements all guarantees that we have given to third parties.
4. We confirm that we have disclosed all relevant information relating to the ongoing challenges and actions in relation to the Horizon Subpostmasters claim to allow an assessment of the financial implications. In addition we have discussed with you any additional information that has come to light subsequent to 29 March 2015. The judgments that we have made reflect the most current advice received from external legal counsel.

F. Subsequent Events

1. Other than the receipt of funding for the financial year 2016/17 described in Note 25 to the consolidated and parent company financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent company financial statements or notes thereto.

H. Comparative information – comparative financial statements

In connection with your audit of the comparative consolidated and parent company financial statements for the year ended 29 March 2015, we represent, to the best of our knowledge and belief, the following:

In preparing the financial statements for the current year, the comparative figures for the year ended 29 March 2015 have been restated. The provision for postmasters' compensation, included in network transformation had not been fully recognised in the financial statements for the year ended 29 March 2015. The restatement affects exceptional costs, provisions and retained earnings due to the loss in the year changing as a result of a restatement to the exceptional charge. Within this report, the comparative income statement, statement of comprehensive income, balance sheet and statement of changes in equity for the year ended 29 March 2015 have been restated. There has been no effect on the cash flow statement.

The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's consolidated and parent company financial statements. There have been no significant errors or misstatements, or changes in accounting policies, other that the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and parent company financial statements.

Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and parent company financial statements for the year ended 29 March 2015 are solely the result of reclassifications for comparative purposes.

I. Going Concern

1. Note 1 to the consolidated and parent company financial statements discloses all of the matters of which we are aware that are relevant to the Group and Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J. Equity

1. We have properly recorded or disclosed in the consolidated and parent company financial statements the share/capital stock repurchase options and agreements, and shares/capital stock reserved for options, warrants, conversions and other requirements.

Appendix B
Management representation letter for statutory reporting (continued)

K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the Group and Company financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the Group and Company financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

L. Income and Indirect Taxes

1. We acknowledge our responsibility for the tax accounting methods adopted by the Group and Company, which have been consistently applied in the current period, and for the current year income tax provision calculation (and *Value added Tax*)
2. We also acknowledge our responsibility for the plans with respect to future taxable income, which represent our estimates as to the outcome of those plans, based on available evidence, and for the significant assumptions used in our analysis. We would implement such strategies as necessary to prevent a tax operating loss or credit carryforward from expiring.
3. We have disclosed to you all tax opinions, correspondence with tax authorities, or other appropriate information that served as support for the accounting for potentially material matters.

M. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the corporate taxation and pension valuations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and parent company financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

N. Estimates

- Completeness of Postmasters compensation provision;
- Classification of exceptional items relating to Transformation and utilisation of Government Grant;
- Impairment of fixed assets and intangible assets, including goodwill;
- Pension valuation .

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of IFRS for the Group and FRS101 for the Company.
2. We confirm that the significant assumptions used in making the above estimates appropriately reflect our intent and ability to carry out the specific courses of action in relation to those entities on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and parent company financial statements with respect to the accounting estimate(s) are complete and made in accordance with IFRS for the Group and FRS101 for the Company.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and parent company financial statements due to subsequent events.

O. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Appendix B
Management representation letter for statutory reporting (continued)

P. Completeness of Postmasters Compensation Provision

1. We have provided to you with access to all information and additional information you have requested in relation to Postmasters Compensation Provision and access to persons within the Company involved in Postmasters Compensation Provision calculation and analysis from whom you determined it necessary to obtain audit evidence.
2. We have not provided you with signed contracts for 140 Pilot branches as these are not retained by us. Prior to the launch of the Network Transformation Programme, the concept was tested through a series of Pilot branches and funded by a separate initial budget and therefore does not need to be provided for within the Network Transformation provision at 27 March 2016.
3. We believe the £21m release of Postmasters Compensation Provision is the best estimate based on the most recent assessment of the branches fail to convert.

Q. Impairment of fixed assets and intangible assets

1. We confirm we assessed the indicators of impairment for fixed assets and intangible assets as at 27 March 2016. We believe the assumptions used in determining the carrying value of the goodwill recorded on a group level are appropriate and not impairment is required as at 27 March 2016.

Yours faithfully,

____________________________ ____________________________

Chief Executive Officer

____

Chief Financial Officer

Appendix C Required communications with the Audit and Risk Committee

There are certain communications that we must provide to the Audit and Risk Committees. We have detailed these here together with a reference of where and when they were covered:

	Communicate when event occurs	Communicate on a timely basis, at least annually	Planned/actual timing of communication to the Audit and Risk Committee
Communications required on all audits			
Overview of planned scope and timing of the audit		✓	Refer to our 2016 Audit Planning Report
Major issues discussed with management in connection with initial or recurring retention	✓		Refer to our 2016 Audit Planning Report
Other information in documents containing audited financial statements		✓	Discussed within this report.
Significant audit adjustments		✓	Discussed within this report.
Unrecorded misstatements considered by management to be immaterial		✓	Discussed within this report.
Expected modifications to the audit report		✓	Not applicable, we do not anticipate any modifications to our audit report.
Our judgements/views about qualitative aspects of the Company's accounting practices and financial reporting		✓	Discussed within this report.
Disagreements with management	✓		Not applicable, no such instance noted during our audit.
Consultations with other accountants	✓		Not applicable, no such instance noted during our audit.
Serious difficulties encountered in dealing with management when performing the audit	✓		Not applicable, no such instance noted during our audit.
The adoption of, or a change in, an accounting policy	✓		Not applicable, no such instance noted during our audit

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Appendix C Required communications with the Audit and Risk Committee (cont'd)

	Communicate when event occurs	Communicate on a timely basis, at least annually	Planned/actual timing of communication to the Audit and Risk Committee
Communications required on all audits (cont'd)			
Methods of accounting for significant unusual transactions and for controversial or emerging areas	✓	✓	Discussed within this report.
Events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern	✓	✓	Not applicable - no such events and conditions to communicate to the committee.
Sensitive accounting estimates		✓	Discussed within this report.
Consideration of laws and regulations		✓	Discussed within this report.
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	✓		No such instances of fraud to communicate.
Significant matters arising during the audit in connection with the entity's related parties		✓	Not applicable - no such matters to communicate to the committee.
Management's refusal for us to request external confirmations or our inability to obtain relevant and reliable audit evidence from other procedures		✓	No such instances to communicate.
Representations that the auditor is requesting from management		✓	We have attached a draft management letter of representation in an appendix to this report.
Significant deficiencies and material weaknesses in internal control over financial reporting		✓	This will be included, as necessary, within our Controls, Themes and Observations Report which will be shared with you after the conclusion of our audit.
Group audits ► An overview of the type of work to be performed on the financial information of the components ► An overview of the nature of the Group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ► Instances where the Group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the Group audit, for example, where the Group engagement team's access to information may have been restricted		✓	Discussed within this report.
Fraud or suspected fraud involving Group management, component management, employees who have significant roles in Group-wide controls or others where the fraud resulted in a material misstatement of the Group financial statements.	✓	✓	No such instances of fraud to communicate.

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Appendix C
Required communications with the Audit and Risk Committee (cont'd)

	Communicate when event occurs	Communicate on a timely basis, at least annually	Reference
Audit and Risk Committee pre-approval of services, including specific pre-approval of internal control-related services and non-prohibited tax services		✓	Discussed within this report.
Critical accounting policies and practices. ISA 260 (UK and Ireland) requires the auditor to communicate the auditor's views on the qualitative aspects of the Company's accounting practices and financial reporting		✓	Discussed within this report.
All material alternative accounting treatments discussed with management		✓	Discussed within this report.
Fees		✓	Discussed in our Audit Planning report dated and in this report.
Other material written communications with management		✓	Discussed within this report.
Communication of independence matters		✓	Discussed within this report.
Other findings or issues regarding the oversight of the financial reporting process		✓	Discussed within this report.

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Crown Network Strategy Update

Author: Julie Thomas   Sponsor: Kevin Gilliland   Meeting date: 24 May 16

Executive Summary

Context

In July 2015, the Post Office (POL) Board approved the current strategy for the Crown network, covering the period 2015-18. This was established with the aim of moving the Crowns through the breakeven point during FY15/16 and on to sustainable profitability thereafter. The first year of this strategy has exceeded expectations (with Crowns out-turning FY15/16 at a £2.7m profit), and the programme team has also gained new insights which can be used to enhance the strategy. Concurrently the pace of simplification, cost reduction and profitability improvement sought across the wider business has accelerated. Furthermore, our wider Network strategy is being refreshed in advance of the June 2016 Board, together with important aspects of the business' longer-term commercial strategy. In this context, opportunities are now being explored to further enable profitability improvements via changes to Crowns.

Questions addressed in this report

1. Is the 2015 strategy for the Crown Network still a "no regret" approach?
2. What are the opportunities and challenges associated with substantially fewer Crowns?
3. What are the key questions for our long-term Crown strategy?

Conclusion

1. The fundamental themes of the current 2015-18 Crowns strategy are "no regret" and are being successfully delivered.
2. The Crown Network is now profitable and 100 of our 314 Crowns are classified as strategically-important, flagship, branches. However the majority of Crowns are still run under commercially sub-optimal, or loss-making, models. Our target is to make all branches in the Network cash-generative and the Crowns are no exception. Whilst direct ownership provides stability and strong brand prominence in our most important locations, it also consumes significant management time and drives in central costs. Transition away from Crowns is politically and operationally challenging, and a simple proposition of like-for-like franchising will not enable us to fully optimise the profitability of the Crowns. High levels of investment are required for any fundamental change above that already approved (£100-£150m additional spend) but this must be balanced with the opportunity cost of sub-optimised branches (c.£18m p.a. EBITDAS).
3. The key questions to address are; how branch models could be re-engineered to enable easier franchising; what this would mean for our customer proposition and commercial strategy; what the plan would be to enable Crowns-driven cost reduction from the wider business; the choices available when engaging Government on any fundamental Crown network changes; how the costs and risks of transition could be reduced; and the consequences around people and I.R.

Input Sought	Input Received
Does the Board have appetite for a transformation programme to much further reduce the Crown network considering the levels of investment required and likely return? If so, a fuller business case will be developed for a decision at the September Board.	Board endorsement of 2015-18 Crown Strategy, July 2015. Board approval of Paddington (WH Smith deal), April 2016. GE review of more radical Crown options, April - May 2016

The Report

What is the opportunity and why now?

1. The objective is to refresh the Crown strategy in light of new opportunities and challenges arising since the 2015 Crown strategy was established. This will lead to the development of an outline business case for a more aggressive reduction in the size of the Crown branch network than was set out by the 2015 strategy.
2. The 2015 Crown strategy set out the rationale for, and benefits of, a directly-run flagship network. However it noted that only 100 Crowns have a good fit against the strategic vision that was set out. For the remainder, the only rationale for retaining them under a direct ownership model was that the costs and benefits of transition to any alternative model (or closure) would exceed the 3 year payback period which was targeted at the time the current strategy was approved.
3. The 2015 strategy looked at the costs and benefits of changes to improve the profitability of Crown (or replacement Agency) branches, but was deliberately agnostic to any cost reductions across the wider business which could be enabled by a much-reduced Crown network. This was a deliberate choice because of the degree of uncertainty at the time about the business' intentions and the mechanisms which would be available for large-scale cost reduction beyond the Crowns area. There is now increasing clarity about this.
4. During FY15/16 significant progress has been made in terms of delivering change in Crowns and improving our "flagship" presence on the high street using the WH Smith branch network:
   a) The Project Paddington deal with WH Smith (WHS) has been negotiated and signed. This will see 28 unprofitable, un-strategic Crown branches franchised; 33 Crown branches hosted in order to reduce their property costs; contracts extended on 97 of our largest Mains (which are operated by WHS); significantly up-weighted Post Office brand prominence across the WHS branch estate; and POL ATMs and Self-Service Kiosks introduced into the WHS estate. This deal has helped POL gather valuable insights on how the commercial and operational model for large franchising deals will need to evolve in future in order to be successful.
   b) A further 11 Crown branches have been advertised as franchise opportunities, and applicants are currently being assessed for their suitability. Demand has been received from the market for every one of these branches. Preparatory work has been completed on 42 additional branches, of which 21 are ready to be advertised for franchise as part of the current strategy.
   c) 2 un-profitable, un-strategic branches have closed, where there was surrounding network capacity in place to absorb demand. Public consultations have commenced (or are about to commence) for a further 4 closures.
   d) Trials of a new retail offer in Crowns have been run with both WHS and VOW Retail (the incumbent provider) and both trials have seen strong growth in retail sales. A public procurement exercise is in-flight to select and appoint a new retail supplier to Crowns. A renegotiation of the Photo Me contract and rollout of further machines has increased our ability to generate income from otherwise under-utilised square footage.
   e) A project to automate Post Office Card Account transactions on Self-Service Kiosks has been mobilised, with pilots of the new service planned for the end of this financial year. (This project is running later than originally planned, which has introduced a £1.5m in-year benefits gap for 16/17, to be mitigated by acceleration of other programme activities.)

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5. FY15/16 has also presented new opportunities and challenges for the Crowns strategy, namely:

a) The business has accelerated its simplification agenda. Progress has been made on the business' Target Operating Model and on mechanisms to achieve a Simpler to Run Network. The business' capacity to take out wider costs beyond the Crown network is now both increased and better understood.
b) The Government's introduction of the National Living Wage has made franchising large, labour-intensive, Crowns onto standard Mains contracts even less profitable for retailers. However the increasingly intense competitive pressures on the retail sector have added even more need to guarantee footfall into stores, and so demand for Crown franchises has still been seen. The quality of this demand has been variable, however, with WH Smith continuing to be the only national multiple with both experience of running large Post Offices and an appetite to take more in any significant numbers.
c) The increasing pressures of property cost on retailers, particularly in central London, mean it is now virtually impossible to franchise a Crown in zone 1 or 2 of London. The space required from the retailer is simply not available. The same property cost pressure is being felt by the agency network in central London, and Crowns which remain are proving essential for continuity of Post Office service.
d) To achieve large-scale franchising deals with retailers, without expensive inducements or over-scale fees beyond standard Mains terms, it is increasingly clear that we will need to move away from a standard like-for-like Crown to Main franchise pattern. Future deals will need to explore different branch models, with service potentially dissipated across multiple retail partners, and self-service automation forming a much higher part of the model offered.
e) Considering the array of people changes planned or in-flight in the wider business, there will be greater opportunities to reduce the cost of transition over future years (e.g. from adjusted redundancy terms), or to take out cost from the wider business as a result of changes in the Crown network.

What do we propose to do and why?

The proposal

6. The Crown Network Strategy will be refreshed and presented to the September Board meeting. In particular the refresh of the Crown Network Strategy will focus on:

a) The updated position of the Crown Network, following progress made in FY15/16.
b) The strategic and economic benefits of the Crown network considering the commercial needs of the wider business, but also any costs or constraints that the Crown network's existence imposes on the wider business.
c) A reduced target size and shape for the Crown network for both 2018 and 2020. This will take into consideration the business' Target Operating Model, our ambitions for a Simpler To Run Network, levers available to reduce the costs of change in the Crown Network, and commercial requirements of the business.
d) The change roadmap, considering the optimised balance of models, optimised EBITDAS benefits, the best use of investment funds, and co-ordination with other change activities across the business to manage both opportunities and risks.

Risks & mitigations

Industrial Relations, political and stakeholder reaction to change

7. Further franchising will lead to increased political and public pressures, including adverse media coverage where transformation of the network is viewed as job losses and back-door privatisation. For example, as a result of the announcement of POL's

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intention to Franchise 39 Crown branches, we are now answering Parliamentary Questions from MPs in the impacted constituencies, Freedom of Information requests from consumer groups and requests to attend either MP or Union-organised public meetings. Furthermore, some customers view a Crown as giving their town a particular status and will campaign against change for that reason. *Although this is resource hungry, POL's experience through 25 years of Franchising Crowns (from 1500 down to 300 now) and various Network Change programmes impacting Agency branches, means we know that the negative feedback and press coverage is usually localised to the area impacted and is short-lived. Once the change has taken place, the customer experience is generally improved through more modern, accessible premises and longer opening hours.*

8. Long-running industrial action significantly disrupts the Crown Network and or Supply Chain businesses (due to conflation of issues as a result of CWU representation across both parts of the business), delaying change and impacting short or medium term service and profitability. *The Crowns team will develop proposals together with the People and Engagement team and the Industrial Relations Steering Group in order to establish the right phasing and people approach, before reporting back.*

<u>Impact on Post Office commercial strategy & brand</u>

9. There is a risk that during the consultation period for franchises, customers are dissuaded to buy-in to the proposed change by staff who are negatively impacted themselves or by trade unions who campaign against the change. *This particularly impacts migration rates of the Travel and Telephony businesses where convenience and rates are key to customers and competition on the high street for this product is high. Marketing plans will be developed to attract customers to the new location as well as capability support at the new location. Experience has shown that the wider cost savings of franchising more than compensate for this revenue loss.*

10. The Personal Financial Services business relies on directly-employed staff generating business in branches. There is a risk that franchising Crown branches adversely impacts the wider FS strategy, resulting in reduced income. *The FS Strategy will identify the most important branches based on customer demand / opportunity. The existing network of branches in WHS stores includes private consultation rooms for Financial Services sales, and the number of such rooms is increasing with the recent Paddington deal. The current 'Hub & Spoke' trials will need to be developed into more formal ways of working to ensure the ownership model is less important to meet our FS growth aspirations. As above, revenue loss is included in all business cases so that we provide an accurate picture of the business impact of franchising or closure.*

The business case

11. The strategy refresh will recommend an outline business case for changes to the Crown network in terms of further projects to; increase automation, including counter-less operation of some branches; apply voluntary redundancy; deliver property deals; better monetise our retail space; and franchise or close branches.

12. Beyond this, the refreshed strategy will also provide guidance on what the improvements to the outline business case could be in scenarios where more radical levers were available for use such as; Compulsory Redundancy; major reductions in Voluntary Redundancy terms; reductions to service provision in urban deprived areas or conversely use of subsidy to maintain service in those areas; and/or a policy of active cannibalisation of the Crown network.

What options did we consider?

13. More radical options for the Crown Network are under review. A policy of wholesale, or very large scale, franchising or closure would be challenging without; changes to the commercial and operational proposition for potential franchise partners; increasing use of compulsory redundancy; and changes to terms available under voluntary redundancy.
14. Some indicative scenarios are modelled below in order to help frame a common understanding of the viability of certain radical options. These would require investment above and beyond that already approved by the Board for the current Crown strategy. The below scenarios work on the basis of potential changes to the 227 remaining Crown branches which are not subject to franchise or closure under business cases already approved by the Board:

Option	Indicative economics			
	One-off cost (£m)	One-off benefit (£m)	Recurring EBITDAS (£m p.a.)	Payback period (years)
Franchise all 227 branches	(157)	19	18	7.7
	Settlement agreements account for £62m of the one off costs in this scenario, based on our experience during recent change programmes. Central (i.e. indirect) cost reductions would contribute £11m of the recurring EBITDAS benefits.			
Franchise all 227 branches - best case	(132)	19	24	4.7
	If POL could significantly reduce staff exit costs without jeopardising the wider business transformation agenda the overall investment cost would drop by £25m (assumed 45% reduction in this scenario). Increasing central cost reductions by 50% beyond current assumptions would add another £6m to recurring EBITDAS.			
Franchise all 73 remaining loss-making branches	(56)	7	7	7.0
	In a more constrained investment environment we could take the less radical option of exiting just Crowns which are directly loss-making at a branch P&L level, still delivering EBITDAS benefit but only tackling a smaller amount of central cost (£2m). This would not optimise the profitability of every branch.			

15. A single deal to franchise the entire estate, either via a large scale procurement exercise or even under a Joint Venture has not been ruled out, however this is considered unlikely to produce a better economic return than is achievable via other mechanisms. WH Smith is the only national multiple chain with the experience of running large ex-Crown Post Offices and a significant geographic reach, however there are still over 100 Crowns which have no geographic alignment to an existing WH Smith presence, and in many cases these locations do not align with a local market which WH Smith wants to enter.

What do we need to do next to progress?

What is required to progress the preferred option?

16. We will report back to the June Board on how the Network, and the mix of branch models within it (including Crowns), will support the refreshed commercial strategy

of the business, the progress made with the Simple to Run Network initiative and our long term approach for Community and Outreach branches.

17. Subject to Board appetite, a refreshed version of the Crown Network Strategy will be developed, to cover the timeframe of 2016-2020 and this will be presented to the September 2016 Board meeting. This will take into account the latest Crown branch P&L budgets and Paddington (WHS deal) benefits; the medium to long-term roadmap for our people; and the wider business cost reduction opportunities.

What would the impact be of delaying or rejecting the decision to progress?

18. Delaying or rejecting a revision of the Crown Network strategy would result in missed opportunities for further cost reduction from the Crown network.

Postmaster Litigation

Author: Jane MacLeod / Rodric Williams Sponsor: Jane MacLeod Meeting date: 17 May 2016

Executive Summary – Subject to Legal Privilege

Context - *Bates & 90 Others v. Post Office Limited*

1. On 11 April 2016, 91 (mostly former) postmasters issued a High Court Claim formally starting a court case against Post Office (the "**Claim**").

2. The Claimants have until 11 August 2016 to "serve" the Claim Form, which will trigger Post Office's obligations to respond to the Claim through the Court. We have however been provided with a copy for information only.

3. The Claim Form contains very little information. However, on 28 April 2016 the Claimants' solicitors (Freeths LLP) sent a 53-page "Letter of Claim" setting out the allegations in more detail (the "Letter"). Court Protocol requires us to respond to the Letter before the Claim passes to the Court for formal case management.

4. The Claim potentially poses significant legal, financial, operational and reputational risk to Post Office.

5. This paper:
   - summarises the status of and next steps in the Claim; and
   - provides an initial overview of timing, costs and affected stakeholders.

Questions addressed in this report

- What are the Claimants alleging?
- What process will the Claim follow and over what time frame?
- What are the estimated costs of responding to the Claim?
- What are Post Office's objectives for the Claim?
- Who are the stakeholders?

What are the Claimants alleging?

6. The Letter sets out the bases on which the Claim will be made. Despite its length, there is nothing new or surprising in the Letter, and it does not set out how much the Claimants are claiming or how they propose calculating that amount.

7. Much of the Letter focuses on technical points of law, with the main focus being the relationship between Post Office and postmasters, seeking to place greater responsibility on Post Office for branch accounting difficulties.

8. Apart from some generalised statements, there is no allegation that there is a systemic failure in the Horizon software. Rather, the Letter claims that because

Horizon has the potential to cause discrepancies in branch accounts, Post Office should not have relied on it so heavily and done more to investigate it as a possible source of branch shortfalls.

9. Other familiar allegations include poor training/support, the ability of Fujitsu to alter remotely branch transactions, improper criminal prosecutions, and putting undue pressure on postmasters to make up shortfalls.

What process will the Claim follow and over what time frame?

The Letter

10. The Letter asks Post Office to respond to the issues raised and agree in principle to a "Group Litigation Order" ("**GLO**") so issues common to the Claimants can be efficiently managed through the Court.

    10.1. There are practical and tactical implications for agreeing to a GLO which will substantially influence the way the Claim proceeds. For example, Freeths may not be able to fund the litigation if we can show the individual claims are not sufficiently common for a GLO. Equally, an early favourable ruling on an issue we want to treat as common (e.g. the effect of a criminal conviction or limitation period) could reduce the number of claimants and thus the economic viability of the litigation.

    10.2. Post Office is therefore entitled to know more about the Claim and the purported common issues before making any decision about a GLO.

11. Freeths have questioned whether Post Office would be prepared to mediate these claims. At this stage it is not possible to form a view as to whether mediation would be viable in some or all of the cases. However we will keep under constant review whether options to mediate or settle would provide a better outcome for Post Office.

The Claim

12. Freeths need to decide by 11 August 2016 whether to serve the Claim Form and start the formal Court procedures.

13. Set out at the Appendix to this Report is an "Estimated Litigation Timetable", which sets out the main steps in standard litigation through to trial, assuming the Claim Form is served during August 2016.

14. The Court's procedures are designed to examine the issues rigorously, and accordingly take time. Assuming that this case follows standard procedures, the Claim might not come to trial until November 2018. Whether or not the Claim proceeds under a GLO could impact substantially this timeframe, e.g. the standard timetable may not start to run until the GLO issues are finalised, which could take some months, or the litigation may not proceed at all if no GLO is made.

15. The Court's procedures provide for regular assessment of the Claim and the risks and benefits of continuing with it, which ensures that the vast majority of cases are settled before trial.

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What are the estimated costs of responding to the Claim?

16. The Court actively manages costs due to the resources litigation consumes and the "loser pays" presumption which requires the unsuccessful side to pay a substantial portion of the other side's costs (typically 65% to 90%). The Court's processes also require "front end loading" where significant costs are incurred at the beginning of a claim to narrow down the issues and save costs overall.

17. We estimate that responding to the Letter in a robust and proportionate manner will incur external legal costs at approximately the same rate as during the Sparrow Mediation Scheme, i.e. £30,000 to £50,000 per month for the next three to six months. More detailed costings will be provided and updated as the Claim progresses.

18. Should the matter proceed to a full trial, Legal costs and expenses for the Claim could easily exceed £1million, particularly if the performance of the Horizon system itself becomes a key issue. By way of reference, Post Office successfully defended at trial a 2006 "Horizon"-related claim brought by one former agent, the costs of which exceeded £300,000.

What are Post Office's objectives?

19. The Claim challenges a critical part of Post Office's business - how we engage with our postmasters, and how we allocate risk and responsibility for the Post Office transactions, cash and stock they handle.

20. Even though most of the Claimants are former postmasters, the Claim raises issues in respect of current and future b.a.u. activities (e.g. branch accounting, agent contract management, and debt recovery) because it concerns the core branch accounting principles and systems, including Horizon, currently in use.

21. We therefore see two main objectives in responding to the Claim:

    21.1. Proportionately manage Post Office's legal defence.

    21.2. Protect the Network going forward so that Post Office and current agents have confidence in our systems.

Stakeholders

22. The Claim will have a wide impact on Post Office, affecting Network, Finance and the FSC, IT (including our relationship with Fujitsu), HR, Legal and Communications, each of which will help inform Post Office's defence.

23. Other stakeholders will be interested in the Claim, e.g. BIS and the NFSP. However, the involvement of external stakeholders should be limited to appropriate updates provided as part of an agreed communications plan so as to maintain legal privilege and confidentiality in the legal advice we receive and the strategy and tactics adopted in our defence of the Claim.

Input Sought

The Board is requested to note the content of this paper.

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Appendix - Estimated Litigation Timetable

Step	Estimated completion date	Proportion of overall work
1. Pre-Action Correspondence: Initial investigations into alleged issues and correspondence between the parties to establish the basis for the claim and the defence	August 2016	5%
2. Claim Form served: Legal proceedings are formally begun with service of the Claim Form on Post Office	August 2016	
3. Statements of Case: Each party produces formal Court documents setting out their legal positions. The SPMRs will produce a Particulars of Claim. Post Office will then produce a Defence. The SPMRs will then file a Reply to the Defence.	January 2017	10%
4. Case Management: The Court orders the steps to be undertaken before trial and a timetable for their completion. This may require multiple short Court hearings.	April 2017	5%
5. Formation of the Group: The SPMRs will apply for formal recognition that their claims form a Group Action. The Court will define the issues common to the Group and set a deadline by which further Claimants may join the Group.	June 2017	5%
6. Disclosure: All parties are required to search for relevant documents and provide those documents to the other parties.	November 2017	25%
7. Witness statements: All parties must draft and exchange statements setting out the evidence to be given by each of its witnesses.	March 2018	15%
8. Expert evidence: Parties commission experts to investigate and report on technical issues (eg. Horizon). Reports are exchanged and meetings held between experts to narrow the points of disagreement.	July 2018	15%
9. Trial: A trial will likely take several weeks and require several months of preparation.	November 2018	20%
10. Judgment. It will likely take a Judge several months to consider the case and draw up the judgment.	February 2019	

Notes

Step 5: Formation of the Group could occur at an earlier stage and possibly before Step 3: Statements of Case. This depends on how the SPMRs wish to proceed.

The above timetable assumes that all points of dispute will be considered in one single trial. It is possible that certain discrete or preliminary points may be dealt with separately at an earlier stage. If there are any preliminary hearings these will likely occur before Step 6 and will the delay the above timetable by 3 - 6 months.

Following Step 10: Judgment, there is the possibility of an Appeal and there will also be costs proceedings. These could take a further 6-12 months.

Modern Slavery Statement

Author: Nisha Marwaha   Sponsor: Jane MacLeod   Meeting date: 5 May 2016

Executive Summary

Context

The Modern Slavery Act 2015 (the Act) challenges slavery, domestic servitude, forced and compulsory labour and human trafficking. Post Office is required to produce an annual slavery and human trafficking statement (Statement) setting out what steps have been taken to ensure its business and supply chains are slavery free. This paper attaches the Statement which must be approved by the Post Office Board and signed by a Director.

Questions this paper addresses

1. What specific risks should the board be aware of?
2. What action have we taken so far?
3. What are other businesses doing and how do we compare?

Conclusion

- Post Office has been undertaking due diligence on its business and supply chains to identify any risk areas.
- Post Office has prepared a Statement which must be published within 6 months of year end.
- A steering group appointed in January 2016 is responsible for creating a project plan and undertaking due diligence on Post Office's and POMS supply chains.
- The steering group has identified that the highest level of risk is within our Agency network. We will be taking action to address this risk including amending our contracts with our Postmasters to require compliance with the Act.
- Post Office's Statement has been prepared using Home Office guidance and in consideration of other available Statements by UK and international companies.
- Post Office will have to take ongoing action to meet the requirements under the Act.

Input Sought

The Board is asked to approve the Statement.

The Report

What specific risks should the board be aware of?

- The requirement to publish a Statement applies to "commercial organisations" which (a) supply goods or services and (b) have a total turnover of not less than £36,000,000. It will therefore not apply directly to Postmasters if their turnover is less than £36 million per year.
  → However, Postmasters are part of the Post Office supply chain. Post Office must state what steps it has taken to ensure that slavery and human trafficking is not taking place in any of its supply chains or in any part of its business.

- To date we have not identified any direct relationship with an individual or company registered in a high risk country.

- The due diligence that we have undertaken so far indicates that there is a potential risk on non-compliance within our agency Network:
  → The reason for this is that there are a large number of people employed by Postmasters (including multiple partners) but who are not employees of Post Office or POMS. They work directly for the Postmasters (including multiple partners). We will be taking action to address this risk (see below) including working to amend our contracts with our Postmasters to require compliance with the Act and we will be delivering training to Postmasters as and where it is appropriate.

What action have we taken so far?

1. GE member Neil Hayward delegated responsibility for our Modern Slavery initiatives to a steering group lead by Hannah Dalton (Head of HR). The steering group was appointed in January 2016.

2. The steering group has developed a project plan to carry out due diligence of our business and implement change. Our ongoing work involves a risk analysis of our core business and its related supply chains.

What are other businesses doing and how do we compare?

1. We looked at statements for international companies with complex supply chains to get a flavour for content and examples of initiatives.

   ➢ For example: **Ford**
   - They have published a statement which is approx. 2 pages long.
   - Ford recognise their supply chain is extensive and complicated and that it presents challenges.
   - Some of Ford's initiatives are similar to ours - this is encouraging given that Post Office's business and supply chains are not as extensive as Ford.

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2. Many companies have not yet published their Statements, but we have looked at a variety to ensure that our approach is consistent. We are confident that the detail in our Statement and our project plan is appropriate at this stage, but we will monitor developments and keep the adequacy of the Statement under review.

3. We also looked at what some of our partners are doing:

WH Smiths

- Statement not yet published.
- They use the Ethical Trading Code of Conduct and Human Rights Policy. It incorporates the ILO Conventions to scope out the current position on Modern Slavery related matters.
- The policy specifies a person who takes responsibility for the Code.

Bank of Ireland

- Do not currently have a Modern Slavery statement.
- Publish a Responsible Business Report which currently makes no reference to Modern Slavery.
- As a key partner, Post Office should investigate directly with BOI as there appears to be very little in terms of Modern Slavery related matters.

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Post Office Limited (Post Office) & Post Office Management Services Limited (POMS)
Modern Slavery Transparency Statement 2015-2016
May 2016

Executive Summary

This statement sets out the steps we have taken during the last financial year to ensure that Modern Slavery is not taking place in any of our supply chains or any part of our business. It is made pursuant to section 54(1) of the Modern Slavery Act 2015 (MSA).

Our business

Post Office is the UK's largest retail network and the largest financial services chain in the UK with more branches than all of the UK's banks and building societies put together. We have provided services for more than 370 years and currently supply more than 170 products and services (mails & retail; financial services; governments services; and telephony) from a Network of more than 11,500 Post Office branches nationwide.

Post Office directly manages currently over 300 of the Network branches. The remainder of the branches are managed on an agency basis by Postmasters and multiple partners.

Our supply chains

We currently operate throughout the UK, however our supply chains connect with suppliers with a global reach.

Banking services

Our banking services are provided through a joint venture with the Bank of Ireland (BoI).

Postmasters

Postmasters can operate one or more branches. As agents they have control on how they run their branches on a day-to-day basis. All those working in an agency Post Office branch are employees of the Postmaster.

Multiple partners

A large proportion of the agency part of our network is run by multiple partners.

Trade Unions

In our Crown network, we work closely with the Communications Workers Union (CWU) and Unite (CMA) Communications Managers Association.

Third Party Suppliers/Procurement

We also procure products and services from a wide range of national and international businesses.

Responsibility and due diligence

Responsibility for our Modern Slavery initiatives currently resides with a steering group which was appointed in January 2016. It is tasked with the development of a project plan to carry out due diligence and implement change. Our ongoing work involves a risk analysis of our core business and its related supply chains.

Where are the risks of Modern Slavery at Post Office/POMS?
To date we have not identified any direct relationship with an individual or company registered in a high risk country. The due diligence that we have undertaken so far indicates that there could be a risk of non-compliance within our agency network because there are a large number of people employed by Postmasters (including multiple partners) but who are not employees of Post Office or POMS. They work directly for the Postmasters (including multiple partners). We will be taking action to address this risk (see below).

What we have done so far

- Our Whistleblowing Policy has been updated to include references to concerns about Modern Slavery.
- We have adapted the Post Office recruitment policy to address MSA requirements.
- We conducted an assessment of the Post Office procurement process to ensure it aligns with the MSA. As part of this process we conducted a review of the criteria used by Post Office to evaluate whether suppliers meet Post Office's minimum tendering requirements.

Next steps
Our work on Modern Slavery continues and we intend to introduce the following changes in the near future.

- Updating Postmaster's selection and appointment process to address MSA requirements.
- Amending our standard form procurement contracts.
- Developing a communication and training plan to ensure our suppliers, staff and agents are aware of Post Office's obligations in relation to Modern Slaver and informing them about the Modern Slavery Helpline.

Our policies
We currently operate the following policies that describe our approach to Modern Slavery:

- *Code of Business Standards*
- *Whistleblowing Policy*

Further information
If you have any concerns about the issues raised in this statement or if you think you have identified signs of Modern Slavery then please either contact us or call the Government's Modern Slavery Helpline on 0800 0121 700.

Signed: ....

Name: ....

Position: ....

Date: ....

POL00030888

Post Office Limited Sealings

Author: Alwen Lyons Meeting date: 24 May 2016

Executive Summary

Context

The Directors are invited to consider the seal register and to approve the affixing of the Common Seal of the Company to the documents set out against items number 1400 to 1421 inclusive in the seal register.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1400 to 1421 inclusive in the seal register is hereby confirmed.

POL00030888

POST OFFICE LIMITED

Date
16 May 2016

Register of Sealings

Company Number
21554540

Seal Number	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1400	07/03/2016	04/03/2016	TR1 relating to Ground Floor, 92 Station Road, West Wickham, BR4 0QE between Post Office Limited and Royal Mail Group Limited.	Alwen Lyons	Jean Reynolds
1401	07/03/2016	04/03/2016	TR1 relating to Ground Floor, Kirkby Post Office, Newtown Gardens, Liverpool, L32 8RN between Post Office Limited and Royal Mail Group.	Alwen Lyons	Jean Reynolds
1402	15/03/2016	14/03/2016	Licence to Assign relating to Lease of the Post Office forming part of the premises known as Otley Post Office, 21 Nelson Street, Otley, LS21 1ST between Post Office Limited, Martin Goldthorpe, Martin Goldthorpe Limited and Martin Goldthorpe and Pearl Janet Goldthorpe.	Victoria Moss	Jean Reynolds
1403	15/03/2016	14/03/2016	Rent Deposit Deed relating to the Post Office forming part of the premises known as Otley Post Office, 21 Nelson Street, Otley, LS21 1ST between Post Office Limited, Martin Goldthorpe Limited and Martin Goldthorpe and Pearl Janet Goldthorpe.	Victoria Moss	Jean Reynolds
1404	22/03/2016	22/03/2016	Deed of Surrender of Part and Deed of Variation relating to lease of 22-24 South Street, Romford, RM1 1RA between Golftee Nom A Limited and Golftee Nom B Limited and Post Office Limited.	Victoria Moss	Jean Reynolds
1405	23/03/2016	17/03/2016	Deed of Novation between Post Office Limited, NCC Group Escrow Limited, 3M Cogent Inc. and 3M United Kingdom PLC relating to the Single Licence Software Escrow Agreement dated 11th July 2011 between NCC Escrow International Limited, Post Office Limited and 3M Cogent Limited. Two copies sealed. Labelled (a) and (b).	Victoria Moss	Jean Reynolds
1406	24/03/2016	21/03/2016	Deed of Variation for "Safe Haven" Agreement between CSC Computer Sciences and Post Office Limited. Two copies sealed, labelled (a) and (b).	Alwen Lyons	Stan Kitchiner

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POST OFFICE LIMITED

Register of Sealings

Date
16 May 2016

Company Number
21554540

Seal Number	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1407	06/04/2016	06/04/2016	Underlease between Wildmoor (Hull) Limited and Post Office Limited relating to Unit 51A The North Point Shopping Centre, Kingston-Upon-Hull Humberside.	Victoria Moss	Jean Reynolds
1408	08/04/2016	09/03/2016	Second Deed of Variation of the Collaboration Agreement between Post Office Limited, WH Smith High Street Limited and WH Smith Travel Holdings Limited.	Victoria Moss	Julie Thomas
1409	12/04/2016	07/04/2016	Lease between Simpsons Paints Limited and Post Office Limited relating to ground floor and basement, 354 and 356 Edgware Road London W2	Victoria Moss	Jean Reynolds
1410	12/04/2016	12/04/2016	Framework agreement for the operation of Post Office concessions at WH Smith Two copies, labelled 1410a and 1410b.	Paula Vennells	Julie Thomas
1411	12/04/2016	12/04/2016	Master Framework Agreement. Two copies labelled 1411a and 1411b.	Paula Vennells	Julie Thomas
1412	12/04/2016	12/04/2016	Third deed of variation of collaboration agreement. Two copies labelled 1412a and 1412b.	Paula Vennells	Julie Thomas
1413	12/04/2016	12/04/2016	TR1 relating to Balham Post Office, 92a Balham High Road, London SW12 9AF, between Post Office Limited and RT Incorporated Limited.	Victoria Moss	Jean Reynolds
1414	12/04/2016	12/04/2016	Lease relating to the Post Office forming part of the premises known as 92A Balham High Road, London SW12 9AF between RT Incorporated and Post Office Limited.	Victoria Moss	Jean Reynolds
1415	12/04/2016	12/04/2016	Deed of variation relating to 92A Balham High Road, London SW12 9AF between Post Office Limited and RT Incorporated Limited.	Victoria Moss	Jean Reynolds
1416	12/04/2016	12/04/2016	Pre-emption agreement relating to Balham Post Office, 92a Balham High Road, Balham SQ12 9AF, between RT Incorporated and Post Office Limited.	Victoria Moss	Jean Reynolds

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POST OFFICE LIMITED

Register of Sealings

Date
16 May 2016

Company Number
21554540

Seal Number	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1417	14/04/2016	19/02/2016	Deed of amendment to the parent company guarantee between Fujitsu Services Limited and Post Office limited.	Alwen Lyons	Michelle McMahon
1418	21/04/2016	20/04/2016	TR1 relating to 121-125 Peckham High Street, London, SE15 5SF between Post Office Limited and Audenfield Limited	Alwen Lyons	Jean Reynolds
1419	21/04/2016	19/04/2016	TR1 relating to Ground Floor Post Office, 243-245, Selhurst Road London, SE25 6XR between Post Office Limited and Agadir Limited	Alwen Lyons	Jean Reynolds
1420	03/05/2016	15/04/2016	Settlement deed between Post Office Limited and Jonathan Brenton and Nicholas Sutton in respect of a dispute between Mr Brenton and Post Office Limited by which Post Office Limited will make an ex gratia payment totalling £75,920 without admission of liability.	Victoria Moss	Jessica Madron
1421	06/05/2016	06/05/2016	TR1 relating to 2-4 Gratton Road, London, SW17 0SQ between Post Office Limited and Tasklane Limited.	Victoria Moss	Jean Reynolds

Project Paddington

Author: Alwen Lyons Sponsor: Alwen Lyons Meeting date: 24 April 2016

Executive Summary

Context

The Board were asked by email on 5 April 2016 to delegate authority to the CEO to sign a variation to the existing Collaboration Agreement, a Master Franchise Agreement and a Framework Concession Agreement with WHSmith (WHS) in connection with Project Paddington.

The Board approved this request by email response and the CEO signed the agreements on 12 April 2016.

The Board's delegation now requires formal ratification.

Input Sought

1. The Board is asked to ratify the decision by the Board to delegate authority to the CEO to sign the Collaboration Agreement, a Master Franchise Agreement and a Framework Concession Agreement with WHSmith.