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Post Office Board Agenda

Date
26th September 2017

Start Time	Finish Time
10.30hrs	15.00hrs

Location
Room 1.19 Wakefield

Present	In Attendance	Apologies
• Tim Parker (Chairman) • Richard Callard • Tim Franklin • Virginia Holmes • Ken McCall • Carla Stent • Paula Vennells • Alisdair Cameron	• Jane MacLeod • Steve Ashton (item 4) • Nick Kennett (item 4, 6 & 8) • Kevin Gilliland (item 6) • Rob Houghton (item 7) • Owen Woodley (item 8) • Representatives from McKinsey (item 8)	None

Agenda Item		Action Needed	Purpose	Lead	Timing
1.	**Minutes of previous Board held on 25th July 2017 and Committee meetings including Status Report**	Decision	Minutes of meeting held on 25th July to be formally agreed.	Jane MacLeod	10.30 – 10.35
2.	**CEO's Report**	For discussion and noting	CEO to update the Board on the report.	CEO	10.35 – 10.55
3.	**Financial Performance Report**	For noting	CFOO to update the Board on the report.	CFOO	10.55 – 11.10
4.	**POMS Performance against Strategy**	For noting	To update the Board on POMS' performance against strategy.	Steve Ashton / Nick Kennett	11.10 – 11.25
5.	**Approve Report & Accounts after recommendations from the ARC**	For approval	For Board to approve the Annual Report and Accounts following recommendations from ARC.	CFOO	11.25 – 11.50
BREAK					11.50 – 12.00
6.	**Chief Executive Retail Performance Report**	For noting	Chief Executive to update the Board on the Retail Performance Report.	Kevin Gilliland	12.00 – 12.25
7.	**Technology Strategy Update**	For approval	For Board to review and agree the proposals in the Technology Strategy Update.	Rob Houghton	12.25 – 13.15
LUNCH					13.15 – 13.45
8.	**Project Peregrine Update**	For discussion and potential decision	To update the Board on negotiations with the BoI and the options for 2023.	Nick Kennett / Owen Woodley / McKinsey Representatives	13.45 – 14.45

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Agenda Item		Action Needed	Purpose	Lead	Timing
9.	**Ratifications of decisions made by correspondence**				14.45 – 14.50
	9.1 Modern Slavery Act Statement	Ratification of statement	The ARC approved the statement at its meeting in May, but this was not brought to the Board for approval. Accordingly ratification is now required.	Jane MacLeod	
10.	**Items for noting**				14.50 – 14.55
	10.1 Sealings	For noting	Board aware of the affixing of the seal.		
	10.2 Health and Safety	For noting	To update Board on Health & Safety Report.		
	10.3 Health and Safety in the Agency Network	For noting	To note the report on Directors' Duties.		
	10.4 Future Meeting dates	For noting	For Board to note future meeting dates.		
11.	**AOB**				14.55 – 15.00
	CLOSE				15.00

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POLB 17(5th)
POLB 17/51 – 17/64

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

Minutes of a meeting of the BOARD
held at 9.30am on Tuesday 25th July 2017
at 20 Finsbury Street, London EC2Y 9AQ

Present:

Tim Parker	Chairman (TP)
Richard Callard	Non-Executive Director (RC) (Excluding minutes 17/51 and 17/52)
Tim Franklin	Non-Executive Director (TF)
Ken McCall	Senior Independent Director (KM)
Carla Stent	Non-Executive Director (CS)
Paula Vennells	Group Chief Executive (CEO)
Alisdair Cameron	Chief Financial and Operations Officer (CFOO)

In Attendance:

Alwen Lyons	Company Secretary (CoSec)
Martin Edwards	Group Strategy Director (ME) (Minutes 17/52 and 17/59)
Nick Kennett	Chief Executive Financial Services and Telecommunications (NK) (Minutes 17/57 and 17/58)
Rob Houghton	Group Chief Information Officer (RH) (Minute 17/59)
Jeff Smyth	CIO FS&T (JS) (Minute 17/59)
Andy Garner	CIO Retail (AG) (Minute 17/59)
Kevin Gilliland	Chief Executive Retail (KG) (Minutes 17/60 and 17/61)
Lucy Pink	Product Manager - Mails & Retail (LP) (Minute 17/60)
Tom Wechsler	Government and Payment Services Director (TW) (Minute 17/61)
Christian Muir	Client Director, Commercial (CM) (Minute 17/61)

Apologies for Absence: Virginia Holmes Non-Executive Director (VH)

POLB 17/51 INTRODUCTION

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

POLB 17/52 FUNDING UPDATE

(a) The Chairman welcomed ME to the meeting.

(b) ME provided a verbal update on the funding negotiations and the likely timetable for a response from the Shareholder.

(c) The CFOO explained that once the detail of the funding was known a cash flow forecast would be produced to prove sustainability, at which point the Annual Report and Accounts (ARA) could be finalised with the External Auditors including a subsequent events review. **If a letter was received before the**

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ACTION: CoSec **summer recess the ARA could be presented at an ARC in September, although an additional meeting might be needed.**

(d) ME explained that work was already underway on the Government's State Aid Submission.

(e) The format of the funding and the ongoing governance was also under discussion with the Shareholder. The Board stressed the importance that the Shareholder recognise and protect the independence of the Board and challenged the need for additional governance beyond that already incorporated in the Articles of Association.

(f) The Board thanked ME for his work to date and noted the funding update.

(g) ME left the meeting.

POLB 17/53 CONFLICTS OF INTEREST

(a) RC joined 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 17/54 MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

(a) The minutes of the Board meeting held on 25th May 2017 were approved and the Chairman was authorised to sign them as a true record.

ACTION: CoSec

(b) The actions status report was noted as accurate. **The Board asked the Company Secretary to ensure that Identity Services and IT Strategy were included on the September agenda.**

(c) The Board noted the paper on Health and Safety Directors' duties and recognised that the paper covered the duties to employees

ACTION: Jane MacLeod

(d) **The Board asked for a separate paper setting out any Directors' duties which apply to agents.**

POLB 17/55 CEO REPORT

(a) The CEO introduced her report, focussing on the following key points.

Financial Performance Period 3

(b) The CEO reported that the financial performance was on track.

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Awards and External Recognition

(c) The Business had received a number of awards and recognition over the last month. The CEO highlighted the change in attitude and positive report from Citizen's Advice. The report covered the effect of Network Transformation and the value of the Post Office to consumers and small businesses.

BBC tender

(d) The CEO was disappointed with the unsuccessful BBC tender and a legal challenge had been considered. After taking external advice it had become clear that the procurement decision had included transition costs which favoured the incumbent, and that Post Office were very unlikely to win any challenge. It was recognised that more work was needed to build relationships with big clients well in advance of any future procurement.

Branch Numbers and Technology Transformation

(e) The CEO recognised the adverse trend in branch numbers and explained that the work underway to tighten up the cash in the network including an increase in the number of risk based audits had identified a few large losses and meant some branch closures.

The CFOO believed that the work underway might find more losses in the short term but would mean reducing the risk for the future. The roll out if new kit in the Network was an opportunity to audit 10% of the branches during the work. The very limited number of audits to date had not highlighted any systemic issues.

The announcement on new white space branches would be made this week which would help to increase branch numbers especially in urban areas.

Royal Mail Group (RMG) Negotiations

(f) The Board discussed the pressure on RMG after the recent brokers report, the drop in share price, and the effect this might have on the negotiation.

HMRC Pre-Penalty Notice

(g) The Board noted that the HMRC were unlikely to publish details of the penalty in this instance. However HMRC would have to respond to any FOI request on the subject.

(h) The Chairman thanked the CEO for her report. The Board noted the report from the CEO.

POLB 17/56 FINANCIAL REPORT

(a) The CFOO presented the financial performance report for June 2017.

(b) The cash report comparing the June performance with March

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2017 was presented in the same format produced for the Board away day, and showed a deterioration in headroom. However the headroom remained £166m above target. The main change had been an increase in cash in transit awaiting processing at cash centres caused by higher inflows, work is underway to reduce the balance be deploying additional resource.

(c) The Board asked about the renegotiation of the security rules. The CFOO explained that discussion with Santander might produce some helpful changes.

(d) The Board discussed agent's debt and challenged why small branches were allowed to accumulate large amounts of cash. The CFOO explained that this was a complex issue reflecting inadequacies in systems and MI, compounded by the lack of prosecutions and the drive to ensure trading at all branches versus the impact of a few criminals. Work was underway to improve the situation but would some of the solutions would take longer to implement.

(e) The CEO explained that the decision not to prosecute agents if they could use the Horizon system as a defence would be reconsidered once Deloitte had completed their work on Horizon and could be used in court as an expert witness.

ACTION: CFOO

(f) **The Board asked that the lessons learned on agent's losses, including recruitment processes, be presented at the ARC.**

(g) The Board noted that Capital investment was £3.6m behind target and asked if the Business had the capacity to deliver the planned investment. The CEO recognised the scale of the investment and assured the Board that programmes would only be implemented if the pilots were successful, and this had slowed some of the investment.

(h) The CFOO recognised the capacity issue and explained that by September the Executive and the Board would have some critical choices to make on the investment for the rest of the year.

(i) The Board noted the financial performance report.

POLB 17/57 FS&T PORTFOLIO REVIEW

(a) The Chairman welcomed NK to the meeting to present a report on the Financial Services and Telecoms portfolio.

(b) NK explained the FS&T portfolio Direct Profit Contribution (DPC) and the advantage of having a mixed portfolio. The Board acknowledged the product contribution even where Post Office had small market share. NK explained that the FS market had a few large companies and then a lot of smaller providers.

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(c) The Board recognised that the Payments Services Directive (PSD2) offered opportunities to new entrants and challenges to large legacy businesses.

(d) The Board supported the FS&T portfolio approach but challenged the mortgage performance and asked whether Bank of Ireland (BOI) was the right partner in this market. NK acknowledged the under delivery in mortgages but recognised that both Post Office and BoI had some responsibility for the results. The current opportunity to grow in the broker market would be test of the online proposition.

(e) The Board noted the report findings and endorsed the strategy.

POLB 17/58 **IRRELEVANT**

(a) NK introduced the report.

(b) The Board debated the approach to the **IRRELEVANT**

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(c) The Board discussed the possible ownership models which could be considered including a joint venture with BoI or a different partner. The Board asked the Executive to ensure it had a clear view of the possible and what might be earned under a different model or contract.

(d) NK explained that as part of the work with BoI, enabling workshops were under way to understand the size of the prize and what changes would be need to be made to deliver the greater value. The Board asked NK to ensure that the analysis of future opportunities was realistic.

(e) **IRRELEVANT**

ACTIONL NK **NK was expecting a proposal from BoI in early September, which if it was good enough, would be discussed at the September Board, when NK would return with the options for 2023.**

(f) The Board recognised the challenge of running a BAU contract whilst negotiating a new deal and asked NK if he required external support. NK declined the offer and explained that he had passed the management of the BAU contact to the Managing Director Post Office Money.

(g) The Board asked the CFOO how damaging the loss of £16m would be to the business in 2023. The CFOO acknowledged

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that it would produce a gap in the plans, but that it would be managed for the right long term solution.

(h) The Board noted the update and reconfirmed the existing mandate and negotiating approach.

(i) NK left the meeting.

POLB 17/59 EMERGING TECHNOLOGY AND INNOVATION

(a) The Board joined RH, JS and AG for a presented of emerging technology and innovation.

POLB 17/60 RETAIL PRODUCT ARRANGEMENT FOR DMBs

(a) The Chairman welcomed KG and LP to the meeting

(b) KG described the retail product arrangement being proposed for DMBs and the change from the current commercial contract to an agency-type arrangement for future sales. He explained the change from the original procurement to enable a trial of the new approach with VOW, the incumbent, and WHSmith.

(c) LP explained the trial results to date and the negotiations currently taking place. KG assured the Board that any contract would include rights to veto products on grounds of quality.

(d) The Board endorsed the approach recommended in the report and delegated authority to the Post Office CEO and CFOO to sign a contract consistent with the parameters set out in the report.

(e) The Board thank LP for the work and LP left the meeting.

POLB 17/61 POST OFFICE CARD ACCOUNT (POca)

(a) The Chairman welcomed TW and CM to the meeting.

(b) KG reminded the Board of the position presented at the March 2017 Board meeting with a loss of £17.8m for POca in the 5 year plan. However recent negotiations look as if they will deliver a saving of £24m to 2021.

(c) The Board discussed the LIBOR position and the consideration being given to a 3 year interest rate SWAP. RC was unsure how the Shareholder would respond to the proposed SWAP. The CFOO reminded the Board that the Business already uses hedging for FOREX and fuel, and that there was no governance requirement to obtain Shareholder approval.

(d) **The CFOO stressed that no decision on the use of SWAPs would be taken without approval by the ARC, and offered to take the Shareholder through the rationale if it would be helpful.**

ACTION: CFOO

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(e) The Board delegated authority to the Group CEO to sign a new contract with DXC and to authorise the Group CFOO, following ARC approval, to execute an interest rate swap if considered advantageous.

(f) The Board thanked KG and the team for the improvements they had negotiated.

(g) KG, TW and CM left the meeting.

POLB 17/62 RESIGNATION AND APPOINTMENT OF THE COMPANY SECRETARY

(a) The Secretary presented the report.

(b) The Board noted with regret the resignation of Alwen Lyons as Post Office Company Secretary effective from 30 August 2017.

(c) The Board appointed Jane MacLeod as Post Office Company Secretary with effect from 31 August 2017 and authorised Alwen Lyons to make the appropriate filings at Companies House.

POLB 17/63 ITEMS FOR NOTING

Pensions Plan

(a) The Board noted the trustee proposal.

Register of Sealings

(b) The Directors resolved that the affixing of the Common Seal of the Company to documents numbered 1522 to 1543 inclusive in the seal register was confirmed.

Health and Safety

(c) The Board noted the health and safety performance, risks and mitigating activity within the Health and Safety report. The CFOO explained that the recent increase in accidents had been investigated and there was no systemic pattern. The main causes had been carelessness and additional communication had been issued.

The CFOO reported that Post Office had four properties categorised as high rise which were covered in cladding, including Finsbury Dials. Samples of the cladding at all four properties has been sent for testing.

Meeting Dates and Forward Agenda for September 2017

(d) The Board noted the future meeting dates and proposed forward agenda.

POLB 17/64 ANY OTHER BUSINESS

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

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Chairman **Date**

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Status Report as at: 20/09/2017

Post Office Limited Board

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
31 January 2017 POLB 17/11 (d)	Board Effectiveness Review Reconsider the proposal for an independent advisor to the Board after the IT strategy presentation at the July Board meeting.	**Ken McCall/ Rob Houghton**	October 2017 Board	Underway and there will be an independent review presented at the October Board.	Open
28 March 2017 POLB 17/25 (g)	FS Growth - Falcon A number of Fintech providers were being considered and due diligence was being completed. NK would return to the Board with a concept for consideration in July 2017.	**Nick Kennett**	July 2017 Board	Action closed - the Falcon paper was addressed at June Board Strategy Day.	Closed
28 March 2017 POLB 17/25 (j)	FS Growth - POMS IRRELEVANT	**Nick Kennett**	Board Date TBC	This is a long term strategic option and as such, a Board date has not been assigned. Nick will revert in due course as/when POMS are ready to proceed.	Open
25 May 2017 POLB 17/36 (d)	CEO Report - Identity Services The CEO explained the enhanced Verify product which would be launched in June and was likely to include a digital driving licence product. The new product would be helpful for vehicle rental companies and Ken McCall offered advice in accessing this market. Post Office as the Verify market leader had been chosen to launch this new service in advance of other suppliers and this would help cement the position in the market.	**Martin Edwards / Ken McCall**	October 2017 Board	Action originally assigned to Kevin Gilliland for September Board but this falls within Martin Edward's remit and has been reassigned accordingly, and is on the agenda for October.	Open
25 May 2017 POLB 17/36 (h)	CEO Report - Industrial Relations The CEO reported that the Company was still in dispute with the CWU and UNITE unions although the UNITE dispute was closer to resolution. The Board discussed the reduction in number of CWU reps paid for by the Business which had reduced from nineteen to six. The Board challenged the practice of paying for any union reps and asked the CEO to check why the union were not paying for their reps.	**Martin Kirke**	October 2017 Board	To be addressed in Industrial Relations Project Jay report at October Board.	Open

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
25 May 2017 POLB 17/39 (l)	Chief Executive Retail Performance Report The Board asked the Executive to consider an adequate sample of large branches measuring queue times to give more rigour to measurement of initiatives.	**Kevin Gilliland**	September 2017 Board	We now have in place a combination of cameras, voice of the customer measurement, mystery shopping and take a ticket machines. This will give us a comprehensive picture of waiting times across all branches.	To Close
25 May 2017 POLB 17/40 (e) (f)	Mails Strategy Update The Board asked KG and MS to continue to develop the next best alternative work in parallel with an emphasis on the technical integration, and to return to the Board with a view on how quickly they could be implemented if the negotiation do not deliver what is needed. The Board asked the CEO to ensure she had the strongest negotiation team possible.	**Kevin Gilliland / Mark Siviter**	November 2017 Board	Timescales for implementing our full next best alternative (NBA) (including USO/captive core volumes) is in the region of 30 months, driven by procurement, organisation capabilities and IT integration. As set out in our May Board paper, the decision to commence full NBA preparation would be needed by November 2017 in order to achieve a go live of early 2020, the point exclusivity falls away. Initiating the next phase of NBA preparation will entail discussions with the market for the provision of services and distribution. Given our recent progress with Royal Mail with the acknowledgment of complex interdependencies to deliver the USO, resulting in increasing interest in renewing long term exclusive arrangement (possibly by June 2018) such a decision would send a strong negative signal to both RM and the market, and would therefore require careful consideration. Update on the outcome from the Mid-Term review to come to the November Board.	Open
25 July 2017 POLB 17/52 (c)	Funding Update - The ARA The CFOO explained that once the detail of the funding was known a cash flow forecast would be produced to prove sustainability, at which point the Annual Report and Accounts (ARA) could be finalised with the External Auditors including a subsequent events review. If a letter was received before the summer recess the ARA could be presented at an ARC in September, although an additional meeting might be needed.	**Company Secretary**	September 2017 **ARC**	Included on the Agenda for the September ARC.	Closed
25 July 2017 POLB 17/54 (b)	Board Status Report The Board asked the Company Secretary to ensure that Identity Services and IT Strategy were included on the September agenda.	**Company Secretary**	September 2017 Board	There is an update on the IT Strategy at the September Board. Identity Strategy is on the Board agenda for October.	Closed

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
25 July 2017 POLB 17/54 (d)	Board Status Report The Board noted the paper on Health and Safety Directors' duties and recognised that the paper covered the duties to employees The Board asked for a separate paper setting out any Directors' duties which apply to agents.	**Jane MacLeod, General Counsel**	September 2017 Board	Paper included on the September Board agenda as item 10.3.	Closed
25 July 2017 POLB 17/56 (f)	Financial Report - Agent's Debt The CEO explained that the decision not to prosecute agents if they could use the Horizon system as a defence would be reconsidered once Deloitte had completed their work on Horizon and could be used in court as an expert witness. The Board asked that the lessons learned on agent's losses, including recruitment processes, be presented at the ARC.	**Al Cameron, CFOO**	September 2017 **ARC**	Deep dive on losses is on the September ARC agenda.	Closed
25 July 2017 POLB 17/58 (e)	Peregrine Update **IRRELEVANT**	**Nick Kennett**	September 2017 Board	Peregrine update to de discussed at September Board.	Closed
25 July 2017 POLB 17/61 (d)	Post Office Card Account – LIBOR Interest Rate SWAP The Board discussed the LIBOR position and the consideration being given to a 3 year interest rate SWAP. RC was unsure how the Shareholder would respond to the proposed SWAP. The CFOO reminded the Board that the Business already uses hedging for FOREX and fuel, and that there was no governance requirement to obtain Shareholder approval. The CFOO stressed that no decision on the use of SWAPs would be taken without approval by the ARC, and offered to take the Shareholder through the rationale if it would be helpful.	**Al Cameron, CFOO**	September 2017 **ARC**	Included on the Agenda for the September ARC.	Closed

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CEO's Report

Author: Paula Vennells

Meeting date: 26th September 2017

Executive Summary

Context

Our target for 2017/18 is to achieve EBITDAS of £28m. Our 3 year goals are to:

- → Accelerate the transformation of the Post Office.
- → Secure commercial sustainability for the long term.
- → Establish a business that can ultimately fund investments and the social purpose from profits rather than subsidy.

In summary, our strategy is to secure our position as the UK's number one parcels and letters retailer, grow in financial services and protect our network and social purpose – all supported by a much leaner central organisation.

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. Our underlying EBITDAS was marginally ahead of budget at the end of P5, and we are currently undertaking a full reforecast to identify and address the risks to hitting our full year target of £28m EBITDAS.
2. The confirmation in July that the Government will provide £210m of investment funding for the period 2018-2021 removed the most significant risk to our strategy. We can now focus on delivering what remains a challenging transformation agenda, with complex interdependencies related to IT, network and external partners.
3. The key topics for discussion at this month's Board relate to our negotiations with Bank of Ireland and future options in financial service including POMS. I am grateful to Steve Ashton who will share his views on POMS program and further opportunities. Rob Houghton will update us on the implementation of our IT strategy and Kevin Gilliand will present our quarterly review of retail performance.

Input Sought

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

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The Report

Looking Back

WHAT HAS GONE WELL?

- **Financial Performance – P5**
  - → At the end of P5 EBITDAS was £4.5m, £2.0m ahead of budget and £16.6m ahead of the same point last year. However, favourable timing differences mean that the underlying position is only marginally ahead of budget.
  - → Trading performance has continued in line with the trends reported in previous months, with gross income £5.9m ahead of budget; and £8.7m behind last year. Budget performance is driven primarily by mails and government services. Financial Services & Telecoms remain behind budget, partially offset by growth in banking services and travel money. The New Call acquisition has now been completed, delivering £1.5m of revenue a month.
  - → Staff costs were £3.8m adverse to budget over the year to date, £2.6m of which was driven by the delay in DMB conversions previously reported. Some challenges remain on costs over the remainder of the year, which we are addressing as part of the current re-forecast process.
  - → Network numbers remain under pressure because of increased network churn and higher numbers of postmaster suspensions due to losses. As set out in more detail in Kevin's report, a number of actions are underway to stabilise the network, including opening new branches in 'whitespace' locations with growing customer demand.

- **Government funding negotiations**
  - → Engagement has continued with UKGI, BEIS and HMT on the detail underpinning the £210m investment funding confirmed by the Secretary of State in July. The current expectation is that this will be provided as direct grant funding (in line with previous funding rounds), not a loan or equity. Rather than fix the profile of payments now, HMT and BEIS would prefer to take a more flexible approach where drawdown is phased quarterly based on the annual plan approved by the Board and shareholder each year. We would be comfortable with this approach provided we can rely on the reassurances given to date that the funding will be available on a front-loaded profile and we are guaranteed access to the full £210m over the period.
  - → Tim Parker met with Richard Callard and Justin Manson on 5 September to discuss our concerns around some of the additional governance proposals which had been floated in response to the Secretary of State's request to have greater control over funding drawdown. Richard will provide an update on the latest feedback from BEIS at next week's meeting.

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- → No date has been confirmed yet for the formal announcement of the funding, although UKGI are aware of the critical dependencies for publishing our annual report and are continuing to push internally for mid-October.
- → We are currently reviewing what updates need to be made to the Strategic Plan approved by the Board in May to take account of new information which has emerged since then (including the final outcome of the funding negotiations). The GE is reviewing this on 29th September and our expectation is that we will present the revised plan for approval at the October Board.
- → Our state aid notification was submitted in draft to the European Commission at the end of August, with the aim of keeping us on track for approval before the end of March 2018. We expect the next step will be to meet directly with the Commission in early October, to explain the strategy and answer their initial questions directly.

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Looking Ahead

FUTURE FOCUS

- **IT strategy implementation**
  - → The rollout of new branch technology is continuing, including over 1,300 routers and 2,200 counters successfully installed at the time of writing. The feedback from postmasters on the speed and performance of the new kit has been very positive to date. However, this remains a complex and challenging delivery programme, with particular challenges in three areas:
    - exiting from old internet lines (ISDN) in certain branches, which Vodafone are no longer willing to support beyond the end of September:
    - managing the concurrent software changes required for programmes like transaction simplification and EUM alongside the shift to HNGA; and
    - exploring the opportunity to switch to alternative retail devices for the second half of the programme, which would offer improved functionality for retailers but with risks to the momentum of deployment if not carefully handled.
  - → As originally agreed in the scope of the Computacenter contract, we are also now rolling out new printers, addressing the mounting services failures associated with the old printers. The overall investment is £9.4m, split into three tranches.

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- → The Back Office transition of Credence to new hardware to alleviate service issues continues to face problems due to legacy, undocumented code and dependencies on key individuals in an exiting supplier (CGI). A revised plan to deliver in October is currently tracking to plan. The historic service issues have largely been remediated through constant housekeeping and diligence by the new supplier (Accenture).
- → We have selected Verizon (over Fujitsu) to move forwards into preferred partner negotiation for implementation of the Security Operations Centre. This was on cost grounds as technically they were equal. The size of the award over 5 years is over £5m, so we will be requesting formal Board approval in October prior to contract signature.
- → We have now concluded our senior management IT appointments, with Michael Austin joining as our new CTO, Mick Mitchell appointed as our Security and Operations Director and Andy Garner confirmed as Retail CIO.
- → My thanks to Rob for progress to date and continually pushing the boundaries of what is possible.

RISKS OR CONCERNS?

- **Royal Mail industrial action**
  - → The CWU ballot regarding RM industrial action closes on 3rd October.
  - → Contractually under the MDA, RM are obliged to undertake all 'reasonable assistance' to ensure continuity of service.
  - → We are seeking to ensure that RM provide sufficient services so that the entire POL network remains open to sell mail services to avoid customers (especially higher value marketplace sellers) moving to competitors, and reassure customers the network is open. We are working closely with their Business Continuity teams and have had regular meetings and calls with them.
  - → RM have confirmed that maintaining POL collections is a priority for them. Currently their intention is to ensure all branches have at least one collection a day between 15:00 and 17:00. Work is continuing on providing higher volume branches with more collections. RM have also identified contingency cover should collections fail on the day.
  - → These plans will not finalised once Moya signs off RM's plan in the first week in October. (The earliest CWU can take action is w/c 16th Oct).

- **Postmaster Litigation**
  - → On 19 October there will be a Case Management Conference (CMC). At this Court hearing, a Judge will decide on the strategic direction of the Group Litigation for the next 6–24 months following representations from both parties. We will provide an update on the implications at the Board.

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August 2017
Financial Performance

Al Cameron
26 September 2017

Post Office Limited – Commercial in Confidence

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Trading performance continues in line with recent trends.

Context

- YTD P4 EBITDAS performance was £4.0m. £1.5m favourable to budget.
- At end of FY 16/17, cash in Network was £666m and balance sheet headroom was £189m
- P5 budget EBITDAS is £0.0m

Questions

- How is our scorecard performance in P5?
- What is the financial performance of the business in P5?
- Are we appropriately funded?

Conclusions

- Reporting EBITDAS of £0.5m in P5 (£0.5m favourable to budget) and YTD of £4.5m (£2.0m favourable to budget). Excluding favourable timing differences (£1.6m YTD) we are marginally ahead (£0.4m) on an underlying basis.
- Trading performance in the month was in line with performance of prior months, uplifted for the impact of New Call coming on line in P5. Some challenges remain in the cost base and a detailed re-forecast is underway for the balance of year.
- Balance sheet headroom in P5 was £81m, a decrease of £89m v prior month. This was caused by lower client funding (£56m), which is expected to reverse in P6 and a reduction in NRF (off balance sheet) usage of £32m as we manage to annual targets. Network cash remains comparatively high as a result of summer forex and the impact of absence on inward rems processing.

Input Sought

The Board is asked to note the financial performance.

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Branch numbers continue to track below targets

Key Performance Indicators	P5 Act	P5 Target	P5 Var.	YTD Act	YTD Target	YTD Var.	Full Year Target
Growth							
Total Gross Income (excl NSP) £m	73.3	71.4	2.0	391.0	385.1	5.9	945.0
EBITDAS £m	0.5	0.0	0.5	4.5	2.5	2.0	28.0
Headroom £m (vs Board minimum limit)	281	> 200	81	281	> 200	81	> 200
IRRELEVANT	IRRELEVANT						
Net profit £m [1]	TBC			TBC			
Customer							
Customer Effort	82%	76%	6%	78%	76%	2%	76%
Net Promoter score Financial Services	25	25	0	25	25	0	25
Acceptable Wait Time %	95%	95%	0%	93%	95%	(2)%	95%
Branch Compliance - Financial Services - basket of 11 measures	10	<=50	40.0	30	<=50	20	<=50
People							
Line Manager Engagement Index % (Once a year)[2]	Same as YTD			61%			
Representation (Senior Managers) - Gender	38.3%	37.0%	1.3%	38.3%	37.0%	1.3%	37%
Attendance	96.0%	96.7%	(0.7)%	96.6%	96.7%	(0.1)%	96.7%
IT Lost Time (Number of Sev1/Sev2 IT incidents)	11	13	2	37	65	28	<156
Safety LTIFR	0.166	0.180	0.014	0.303	0.180	(0.123)	0.180
Modernisation							
Number of branches (one month in arrears)	Same as YTD			11,574	11,633	(59)	>=11,700
NT and ND Branches Transformed in Year	32	40	(8.0)	214	177	37	400
IT Transformation (% of IT controls implemented)	59%	59%	0%	59%	59%	0%	All high risk gaps closed

1. Accounting estimate for impairment currently under review as part of FY 2016-17 year end process.
2. For comparison, prior year was 68%

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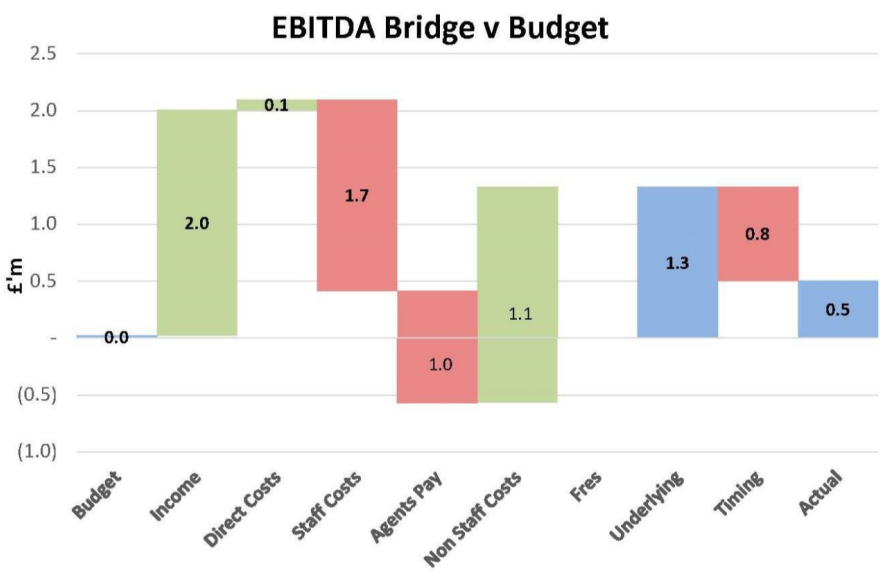
Digital Income below targets driven by Travel activity

- **Digital Net Income**
  - Digital Income, £(0.3)m adverse to target versus £(1.6)m YTD.
  - The shortfalls in the month were again driven by Travel, £(0.5)m adverse in the month and £(2.1)m adverse. Anticipated uplifts in volumes due to natural search increases have not been delivered leading.
  - Motor and Home Insurance continues to over perform and fill some of the gap.
- **Attendance**
  - There is an increasing trend of long term absence in Directly Managed Branches and Supply Chain.
  - Absences that have converted from short to long term over the past 60 days include a number of musculoskeletal cases in Supply Chain. This may reflect higher workloads and an ageing population: a causal review is underway. DMB absences have been more stress related but a number of long term stress related cases have returned to work early in P6.
- **Network**
  - Number of branches reduced by 8 in the month and is now 11,573, 60 behind target. Network Numbers remain under pressure from the increased number of postmaster suspensions for losses (88 branches ytd), together with a higher than anticipated level of churn in the Network overall.
  - A number of interventions are underway to deliver white space premises, a simpler appointment process and additional funding being made available to assist postmasters in converting premises.
  - In the month 32 branches were transformed which is 8 below the monthly target. YTD however we continue to significantly track ahead with 217 transformations against a target of 177. Full year targets are still expected to be delivered.

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P5 EBITDAS is £0.5m favourable to budget.

£m	P5 Act	P5 Var Bud	P5 Var PY
Gross Income	**73.3**	**2.0**	**2.2**
Direct Costs	(9.8)	0.1	(1.6)
Net Income	**63.6**	**2.1**	**0.6**
Staff Costs	(15.1)	(1.7)	3.3
Agents Pay	(28.6)	(1.0)	0.4
Non-Staff Costs	(22.2)	1.1	(0.1)
Expenditure	**(66.0)**	**(1.6)**	**3.6**
FRES - Share Of Profits	2.9	(0.0)	(0.1)
EBITDAS	**0.5**	**0.5**	**4.1**



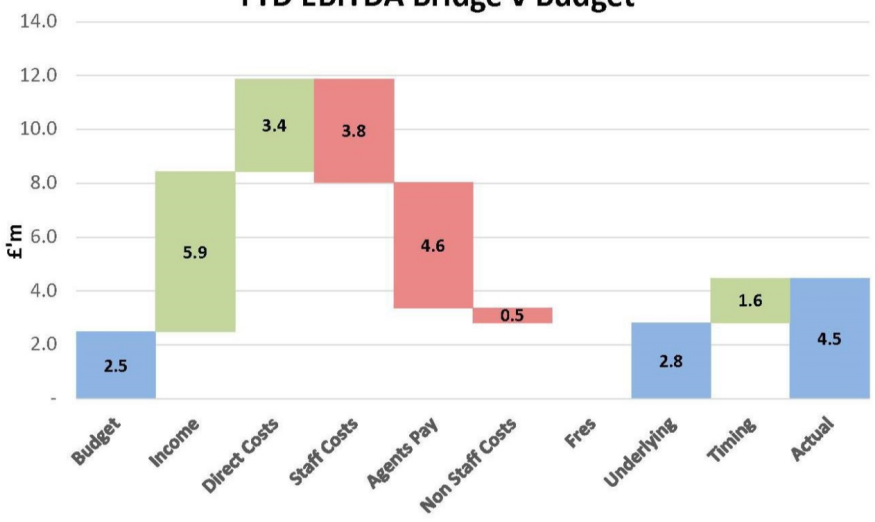
- **Gross income** – £2.0m favourable. Continuing overperformance in Retail (+£2.6m). FS&T revenues (+£0.7m) due to telecoms and banking. New Call revenue (£1.5m) came online in the month and performed in line with budget. Shortfall in POMS (£1.3)m due to budget phasing. Further details provided on slides 7&8.
- **Staff costs** – £(1.7)m adverse. Overspends in Retail £(0.9)m due to continuing delays in branch conversions and ongoing Supply Chain challenges £(1.0)m. Further details on slide 9.
- **Agents pay** – £(1.0)m adverse and continuing to track in line with YTD trends due to favourable revenue variances in Retail and the channel/product mix.
- **Non-staff costs** – £1.1m favourable including:
  - £1.0m benefit from Property including £0.4m rent rebate on Old Street
  - £0.5m benefit from impact of payment plans on provisioning.

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YTD EBITDAS is £2.0m favourable to budget. £0.3m on an underlying basis.

£m	YTD Act	YTD Var Bud	YTD Var PY
Gross Income	**391.0**	**5.9**	**(8.7)**
Direct Costs	(49.8)	3.4	(2.7)
Net Income	**341.2**	**9.4**	**(11.5)**
Staff Costs	(77.0)	(3.8)	20.3
Agents Pay	(155.2)	(4.6)	7.9
Non-Staff Costs	(118.3)	1.7	3.2
Expenditure	**(350.4)**	**(6.8)**	**31.4**
FRES - Share Of Profits	13.7	(0.6)	(3.4)
EBITDAS	**4.5**	**2.0**	**16.6**

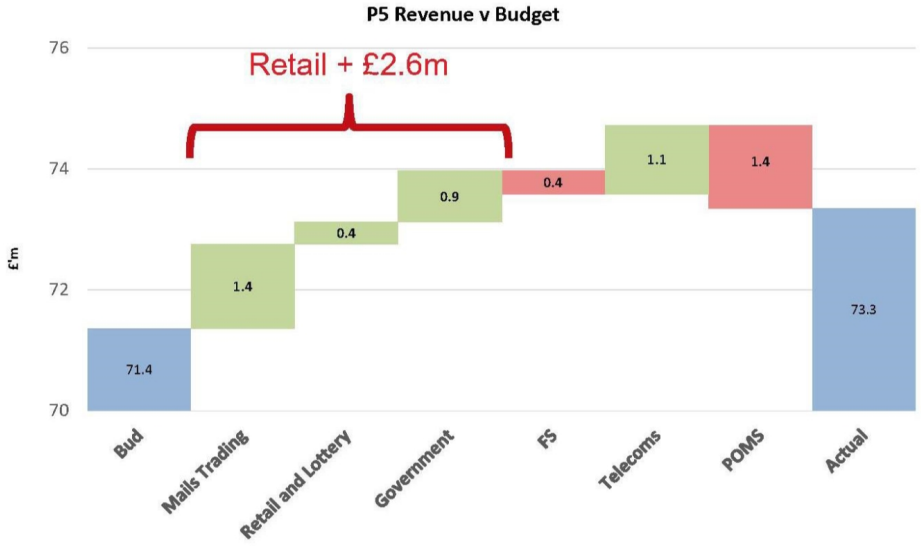


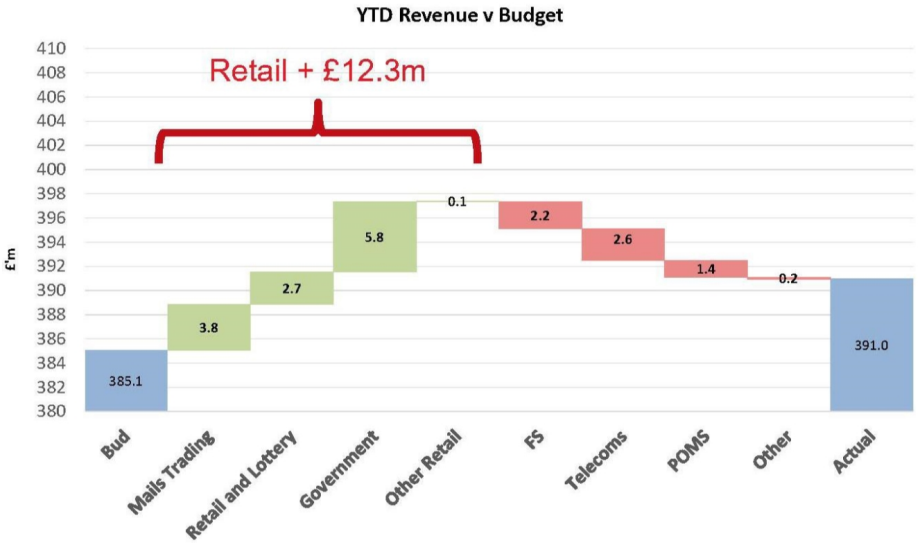
- **Gross income** – £5.9m favourable.
  - Retail +£12.3m with strong performance in Parcelforce, RM Signed for, Lottery and Government Services.
  - Significant year on year decline £(13.0)m driven by Government Services £(9.5)m.
  - FS&T £(4.8)m adverse to budget driven by delays in New Call launch £(6.0)m ytd and declines in Moneygram revenues £(1.8)m due to drop in volumes following Brexit.
  - Strong performance in other Telco areas due to c.32,000 additional customers (driven by closing 2016/17 base) partially offsetting these declines.
- **Staff costs** – £(3.8)m adverse. Overspends in Retail £(2.6)m due to continuing delays in branch conversions and Supply Chain challenges £(1.6)m.
- **Agents pay** – £(4.6)m adverse and continuing to track in line with YTD trends due to favourable revenue variances in Retail.
- **Non-staff costs** – £1.7m favourable with significant underspends in marketing £2.4m which are currently anticipated to reverse over the remainder of the year. Marketing plans and spend phasing will be reviewed as part of the P5 Forecast process.
- **FRES** – £(0.6)m shortfall ytd but action plans in place and currently expecting to deliver full year targets.

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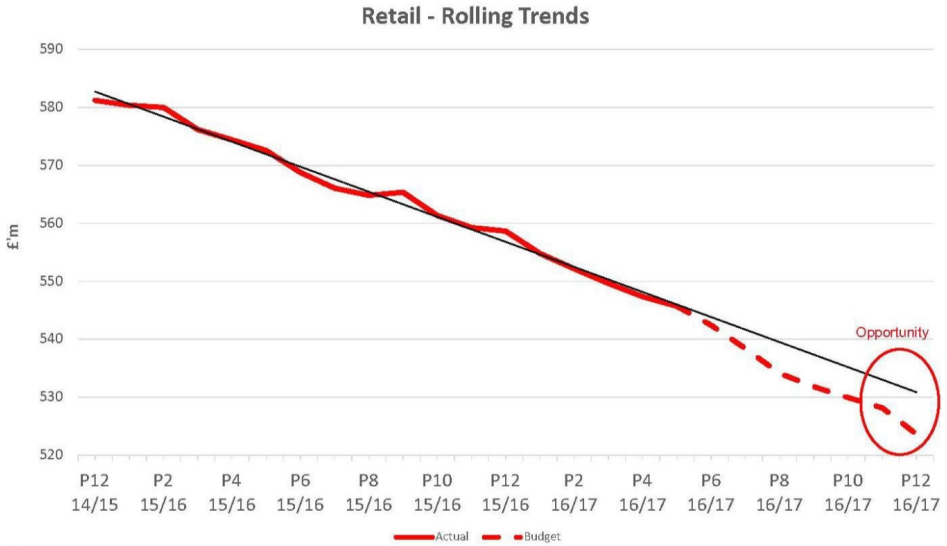
Retail revenues +£12.3m favourable to budget. FS&T £(4.8)m adverse with shortfalls in Moneygram and Telecoms





Retail

- Continued strong performance in the month following recent trends across all revenue pillars.
- As called out in the R&O, trends suggest there will be a revenue opportunity in the remainder of the year. Additional revenues will be offset by continuing cost pressures.



FS&T - Further details provided on next slide

POMS

- Shortfall in the month due to budget phasing. YTD position correct with a £1.4m gap v target but £2.0m y-o-y growth. POMS still on track to deliver full year EBITDA target.

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IRRELEVANT

£m	P5 Act	P5 Var Bud	P5 Var PY	YTD YTD Actual	YTD Var Bud	YTD Var PY
Mortgages						
Credit Cards and lending						
Savings						
Travel Money						
MoneyGram						
Post Office Money						
Banking Services						
Telecoms						
Postal Orders						
Other Income						
FS&T						
POMS						
Total FS&T						

IRRELEVANT

IRRELEVANT **- £(0.6)m mth and £(1.8)m ytd**

- Continued post-Brexit impact with ongoing decline in send transactions following decline in the £/Euro exchange rate.
- Money laundering regulations came into effect in June requiring ID to be requested for every transaction.
- Measures to counter this trend include branch visits to assess promotional opportunities, better customer retention and targeted marketing spend.

Banking Services - £0.4m mth and £1.2m ytd

- Additional volumes driven by the Banking Framework

Telecoms - £1.1m mth and £(2.6)m ytd

- New Call acquisition live in month delivering £1.5m of revenue (in line with budget). YTD shortfall of £(6.0)m reflects timing of acquisition.
- Homephone and Dual continue to over perform +£1.1m due to c. 32,000 additional customers and price rise impact

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Delay in branch conversions and challenges in supply chain lead to overspend in staff costs

Total	Month			YTD		
£'m	Actual	Bud	Var Bud	Actual	Bud	Var Bud
Wages & Salaries	10.2	10.1	(0.1)	53.6	55.2	1.5
Overtime	0.5	0.3	(0.2)	2.0	1.7	(0.4)
Contractors & Temporary Resource	0.6	0.0	(0.6)	2.2	0.3	(1.9)
Employers NI	1.4	1.3	(0.2)	7.6	6.8	(0.8)
Pension	1.4	1.2	(0.2)	6.9	6.6	(0.3)
Staff Costs - Run Rate	**14.1**	**13.0**	**(1.1)**	**72.3**	**70.5**	**(1.8)**
Bonus & Productivity	0.9	1.2	0.3	4.7	6.1	1.4
Staff Costs Efficiency Target	-	(0.8)	(0.8)	-	(3.4)	(3.4)
Staff Costs - Total	**15.1**	**13.4**	**(1.7)**	**77.0**	**73.1**	**(3.8)**
Staff & Agency Related Costs	0.8	0.1	(0.7)	4.4	3.8	(0.5)
Consultancy & Advisory Services	(0.0)	0.5	0.5	0.8	0.1	(0.7)
Brand & Marketing	0.9	1.6	0.8	6.3	8.7	2.4
Legal Costs	0.4	0.3	(0.1)	1.9	1.8	(0.1)
Property & Facilities Management	2.5	3.6	1.2	17.6	19.3	1.7
Vehicles	0.4	0.3	(0.1)	1.6	1.8	0.1
IT Infrastructure & IT Services	8.2	8.6	0.4	43.5	42.8	(0.6)
Finance & Losses	1.9	2.5	0.5	11.0	11.0	0.0
Other Operating Costs	7.2	5.8	(1.4)	31.3	30.7	(0.6)
Non staff Costs	**22.2**	**23.3**	**1.1**	**118.3**	**120.0**	**1.7**
Total Costs	**37.3**	**36.7**	**(0.6)**	**195.2**	**193.1**	**(2.1)**

Staff costs £(3.8)m adverse YTD:

	Retail	F&O	Other	Total
Salaries, NI& Pension	(0.9)	(0.3)	1.9	0.6
Contractors & Overtime	(0.8)	(0.5)	(1.0)	(2.3)
Staff Costs - Run Rate	**(1.7)**	**(0.9)**	**0.9**	**(1.6)**
Bonus	-	-	0.4	0.4
Efficiency	(0.9)	(1.3)	(0.4)	(2.6)
Staff Costs - Total	**(2.6)**	**(2.2)**	**1.0**	**(3.8)**

- £(2.6)m driven by delay in branch conversions. For the full year there will be a partial mitigation in agents pay. The gap is anticipated to continue throughout the financial year.
- Of the £(2.2)m variance ytd in F&O, £(1.6)m is due to Supply Chain with budget task £(0.7)m not achieved, adverse overtime costs £(0.3)m due to sick leave and £(0.3)m of project costs to transferred.
- The remaining overspend in F&O is due to £(0.3)m payrise impact (budget held centrally) and £(0.2)m of contractor costs in financial control and change for vacancies.
- £1.0m of benefits in Other include costs budgeted centrally for pensions and payrise £0.7m which are currently absorbed within the divisions.

Non-staff costs (excluding YTD marketing underspend of £2.4m) are in line with budget

- Benefits in property costs +£1.7m (leases and rebates) offset overspends in other areas.

Phasing of marketing spend will be revisited as part of the P5F.

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Significant Capital and Investment cost in month following the announcement to close 48 DMB

£m	P5 Act	P5 Var Bud	P5 Var PY	YTD Act	YTD Var Bud	YTD Var PY
EBITDAS	**0.5**	**0.5**	**4.1**	**4.5**	**2.0**	**16.6**
Depreciation	(5.4)	-	(5.4)	(17.8)	-	(17.6)
Network Payment	5.4	-	(0.8)	29.6	(0.0)	(4.2)
EBIT pre exceptionals	**0.4**	**0.5**	**(2.1)**	**16.3**	**2.0**	**(5.2)**
Interest	(0.4)	0.2	(0.5)	(1.6)	1.3	(2.2)
Impairment	-	-	7.3	-	-	41.5
Capital & Investment	(17.9)	(10.1)	(8.5)	(39.5)	0.7	8.9
Government Grant Utilisation	5.8	-	(51.4)	29.2	-	(86.6)
Profit/(Loss) On Asset Sale	(0.0)	(0.0)	0.0	1.9	1.9	0.3
Profit/(Loss) Before Tax	**(12.0)**	**(9.4)**	**(56.5)**	**6.3**	**5.9**	**(43.3)**

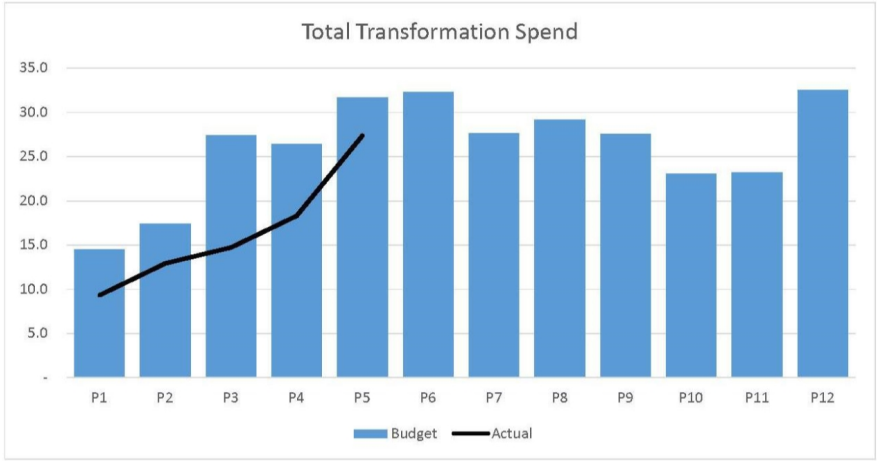
- Assumes that Post Office no longer impairs assets on acquisition, and that assets are depreciated over their useful life.
- Depreciation charge is £5.4m in the month and includes a ytd adjustment following the finalisation of the accounting for fixed assets as part of the FY16/17 audit process.
- Capital & Investment (previously exceptional) expenditure is £17.9m in the month following the creation of a £13.0m Onerous Property provision in month following an announcement regarding the closure of 48 DMB.
- In period spend on capital assets was £10.3m, £42.7m YTD.
- A further breakdown of the capital and investment spend is provided on the next slide.
- **Note:** The sale of Great Portland Street has been removed from 2017/18 financials as completion was in March 2017. This disposal is now reflected in the 2016/17 financial statements.

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Transformation is tracking below budget and is c.£83m ytd

	P5			YTD			FY
	Act	Bud	Var Bud	Act	Bud	Var Bud	Bud
IT & Digital	5.4	11.4	6.0	21.8	43.9	22.0	112.7
Network Development Programme	4.4	4.4	(0.0)	18.4	20.2	1.8	70.8
DMB Network Development	13.3	1.6	(11.8)	17.3	6.9	(10.4)	21.6
FS & T	0.5	9.4	8.8	7.0	18.4	11.4	34.4
Back Office Transformation	1.9	1.4	(0.5)	5.1	6.3	1.2	20.1
LEAN Centre	0.2	-	(0.2)	2.9	3.2	0.3	4.7
Retail	0.6	1.8	1.1	2.6	8.3	5.7	18.1
Supply Chain	0.2	0.2	0.0	2.4	0.4	(2.0)	3.9
People and Engagement Transformation	0.7	0.2	(0.5)	1.9	2.6	0.7	5.0
POMS	1.0	0.5	(0.5)	1.4	1.5	0.1	3.4
Property	0.4	0.3	(0.1)	1.3	1.1	(0.2)	4.0
Other Transformation	0.1	0.3	0.1	0.5	1.3	0.8	3.0
Corporate Services Transformation	0.0	0.1	0.1	0.2	0.6	0.4	2.3
Identity		-	-		0.4	0.4	4.7
Finance		0.1	0.1		0.3	0.3	0.5
Digital & marketing		0.2	0.2		0.7	0.7	2.3
Network Operations	-	-	-	(0.0)	1.5	1.5	1.8
Central Adjustments	(0.0)		0.0	(0.0)		0.0	
Total	**28.8**	**31.7**	**2.9**	**82.7**	**117.4**	**34.7**	**313.3**
Capital	10.9	23.9	13.0	43.2	77.2	34.0	210.3
Investment	17.9	7.8	(10.1)	39.5	40.2	0.7	103.0
Total	**28.8**	**31.7**	**14.6**	**82.7**	**117.4**	**90.6**	**313.3**

Prioritisation and phasing work is ongoing as part of the P5 forecast process.



Transformation Spend

- IT & Digital continues to see delays in the rollout of a number of projects as issues with programs and suppliers are worked through. YTD spend is £22m behind budget.
- Network Development Programme includes £14.4m of agents compensation costs ytd.
- DMB spend in the month includes £13m provision for property costs following the announcement to close 48 DMB.
- FS&T includes £6.1m ytd for the acquisition of New Call v budget of £10.3m. Project Finch and Peregrine delays drive additional budget underspend.
- YTD Back Office Transformation costs include £2.0m for the Sales and Finance Transformation programmes and £1.3m for Cash Processing.

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P5 balance sheet shows a net asset position which reflects the reversal of impairment accounting policy

£m	August 2017	Mar 2017	Variance
Fixed Assets	429	390	39
Debtors	326	339	(13)
Cash	790	680	110
Creditors	(618)	(582)	(36)
Pension surplus	1	1	0
Provisions	(74)	(88)	14
Other	9	8	1
Loan	**(669)**	**(561)**	**(108)**
Net Assets/(Liabilities)	**193**	**187**	**6**
Capital and Reserves	**193**	**187**	**6**

- The increase in the cash balance since the year end (see slide 13) is largely offset by the increase in creditor and loan balances.
- Increase in creditors driven by the government grant which is received in April, recognised on the balance sheet as a creditor and released to the income statement over the year.
- Reduction in provisions balance due to OSOP and agents compensation payments. Additional provisions in the month have been made for £13.0m following the DMB closure announcement.

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Network cash has increased by £68m since year end funded by higher RCF balances

(1) Where was our cash?

£m	Branches	CViT	Cash Centres	Total
March	648	139	160	947
August	669	146	225	1,040
Variance	21	7	65	93

(2) How was it funded?

£m	RCF	Clients	"Network Cash"	NRF	Total
March	561	130	691	256	947
August	669	90	759	281	1,040
Variance	108	(40)	68	25	93

(3) What was our facility headroom on the RCF?

£m	Cap	Board Buffer	Net Limit	RCF	Facility Headroom
March	950	(200)	750	(561)	189
August	950	(200)	750	(669)	81

(4) What was our security headroom on the RCF?

£m	Network cash	Other net assets	Total Security	RCF	Security Headroom
March	691	227	918	(561)	357
August	759	227	986	(669)	317

(5) What was our actual headroom?

Given we do not apply £200m buffer to Security headroom our actual headroom is £81m. (lower of £81m facility and £317m security headroom)

- Within branches, Foreign exchange holdings have increased from £85m in March to £120m in P5 in line with summer demand.
- Cash centre balances have increased since the year end as we continue to see higher cash in transit awaiting processing at the cash centres (Inward Rems) and across the business as more banking cash is received.
- Inward Rems were £84m in March 2017, rising to £144m in P3. Initiatives to reduce the inward rems balance reduced the P5 closing balance to £121m. Pending recruitment, this is volatile to sick absence and overtime.

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Appendix

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In P5 Gross Profit margin is on budget

	P5 Actual				P5 Var				YTD Actual				YTD Var			
	Retail	**FS&T**	**Other**	**Total**	**Retail**	**FS&T**	**Other**	**Total**	**Retail**	**FS&T**	**Other**	**Total**	**Retail**	**FS&T**	**Other**	**Total**
Gross Income	**38.8**	**33.5**	**1.0**	**73.3**	**2.6**	**(0.6)**	**(0.1)**	**2.0**	**218.6**	**166.6**	**5.9**	**391.0**	**12.3**	**(6.2)**	**(0.2)**	**5.9**
Directly Attributable	(2.6)	(7.2)	-	(9.8)	(0.2)	0.2	-	0.1	(12.9)	(36.9)	(0.0)	(49.8)	(0.3)	3.6	(0.0)	3.4
Supply Chain	(2.3)	(1.2)	-	(3.5)	(0.3)	(0.2)	-	(0.5)	(10.9)	(5.7)	-	(16.6)	(0.8)	(0.4)	-	(1.2)
DMB Costs	(4.7)	(1.4)	-	(6.1)	(0.5)	(0.2)	-	(0.7)	(24.2)	(7.1)	-	(31.2)	(1.6)	(0.5)	-	(2.0)
Agents Pay	(22.4)	(6.2)	(0.0)	(28.6)	(1.0)	0.0	(0.0)	(1.0)	(123.8)	(31.3)	(0.0)	(155.2)	(6.8)	2.1	(0.0)	(4.7)
Gross Profit	**6.9**	**17.5**	**1.0**	**25.4**	**0.5**	**(0.6)**	**(0.1)**	**(0.1)**	**46.8**	**85.6**	**5.8**	**138.1**	**3.0**	**(1.3)**	**(0.2)**	**1.5**
Gross Margin %	**17.7%**	**52.3%**		**34.6%**	**0.2%**	**(0.9%)**		**(1.1%)**	**21.4%**	**51.4%**		**35.3%**	**0.2%**	**1.1%**		**(0.2%)**

- **Gross profit margin** is on budget YTD at 35%. In P5;
  - Retail gross margin is slightly favourable as gross income flows through,
  - FS&T margin in P5 impacted by POMS revenue adjustment (c.2% impact). Excluding adjustment P5 is inline with ytd trends.
- **Supply Chain** costs adverse to budget due to non-delivery of staff efficiency task.
- **Other income** relates to Supply Chain and Gamma.

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POMS Performance Report – Submission to the Shareholder of Full Year 2016/17 Results

Author: Rob Clarkson Sponsor: Nick Kennett, Steve Ashton Meeting: September 2017

Executive Summary

Context

Post Office Management Services Limited ("POMS") is a subsidiary of Post Office Limited and undertakes the business of insurance intermediation. It is regulated as an insurance intermediary by the Financial Conduct Authority ("FCA"). Under its Articles of Association, POMS is required to submit a performance report every half year to its shareholder. This paper is the report for the year 2016/17; as it is submitted after P5 we have included brief comments on current performance and prospective actions.

Questions this paper addresses

- What are POMS' strategic objectives and shorter term goals?
- Is POMS delivering what it said it would do?
- What are the constraints and considerations for future profit growth?

Conclusion

POMS' strategy is to build a sustainable competitive advantage to deliver value by understanding the needs of target customers, building propositions that meet those needs, optimising the operating models and building long term profitable relationships.

POMS is now well established and performing broadly in line with business case expectations; the key building blocks that were planned are in place and being embedded. The business model has settled following Hawk and shown flexibility to respond to market/sales conditions to deliver profitable outcomes.

In POMS, Post Office has a strategic asset that can generate significant value. In 2021 the current plan aims to generate Group returns of £35m and create a business with an estimated value of c£200m[1]. However, there are challenges from evolving regulation and changes to distribution. In light of these, and following the Post Office Board strategy away day discussion in June 2017, POMS is reviewing and is updating its five year plan.

Input Sought

The Board is requested to review and note the report.

1 *Based on 11-12 times EBITDA*

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The Report

1. 2016-17 Financial delivery

1.1. POMS trading profit ("EBITDA") was £7.8m, which was £(1.3)m adverse to Plan and £0.2m better than the Forecast.

£m	Actual	Full Year Var to Plan	Var to Forc
Gross Income	43.0	(5.0)	(0.5)
Cost of Sales	(5.5)	0.1	(0.1)
Net Income	**37.5**	**(4.9)**	**(0.6)**
People Cost	(3.3)	0.8	0.1
Marketing Costs	(3.0)	(0.4)	(0.0)
Non Staff Costs	(11.6)	1.6	0.5
IB Costs	(11.8)	1.5	0.2
Total Expenditure	**(29.7)**	**3.6**	**0.8**
EBITDA	**7.8**	**(1.3)**	**0.2**
Other	(0.2)	0.6	0.2
EBT	**7.7**	**(0.7)**	**0.5**
Capex	**(6.6)**	**(1.7)**	**0.1**

** "IB costs" are Inter-business amounts for Commissions and Services paid to POL*

** "Forecast" is the forecast outturn for the full year made at the end of the third quarter*

1.2. Income was £(4.9)m lower than Plan, principally due to weak travel insurance sales £(3.3)m in the first half of the year, the impact of project Finch (£0.4)m and new initiatives not meeting the overlaid income target £(1.7)m:

- Travel insurance performance was a result of lower sales in branches in Q1. This was reversed in Q2 by the introduction of a promotional discount aligned to the purchase of travel money. However, there was an impact on margins, which were c. 20% below plan.
- Travel insurance performance in the second half of the year was in line with budget.

1.3. Costs were £3.6m ahead of Plan, with:

- Staff costs £0.8m lower than Plan due to the release of a bonus provision for 2015/16 and vacancies not being filled.
- Marketing costs were £0.4m higher than Plan from increased spend to support the travel insurance online promotions.
- Non-staff costs (excluding Marketing) were £1.6m lower than Plan, mainly due to contact centre costs being £0.8m less following lower travel insurance volumes and the renegotiation of the contract.
- Commissions payable to Post Office were £1.5m lower, reflecting lower sales and reduced margins.
- Other costs were £0.7m less than Plan due to lower depreciation charges from the later delivery of Zeus.

1.4. Capital expenditure was higher than Plan due to higher project costs.

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1.5. POMS is regulated by the FCA and in the year was required to maintain a minimum £0.7m of qualifying capital at all times. At the year-end, POMS' regulatory capital of £3.4m exceeded the FCA minimum by £2.7m[2].

1.6. At the year-end POMS had cash of £13.4m, balanced by amounts due to Post Office for commissions and recharges of £2.0m, £2.2m due to Insurance third parties, £7.3m of reserves and £1.9m for working capital.

1.7. In 2016/17, as the business model has settled following Hawk, POMS has shown flexibility to respond to market/sales conditions to deliver profitable outcomes.

1.8. 2017/18 EBITDA is targeted to be £7.3m, with net income of £44.4m. After P5:

- POMS generated an EBITDA of £2.8m, £0.8m adverse to Plan; £0.5m of the variance relates to timing (commissions and cost classifications) and £0.1m to unbudgeted costs.

2. Building the future model

POMS strategic objectives

2.1.

IRRELEVANT

2.2.

2 *A full balance sheet is set out at Appendix 1.*

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Progress to deliver the strategic objectives

2.3.

2.4.

2.5.

IRRELEVANT

2.6.

2.7.

Next steps in the strategy

2.8.

IRRELEVANT

2.9.

IRRELEVANT

2.10.

2.11.

IRRELEVANT

2.12.

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IRRELEVANT

Intracompany agreements

2.13. POMS and Post Office are currently renegotiating the Master Services and Distribution Agreements under which certain services are provided by Post Office to POMS. This review does not include the commission arrangements under which POMS pays Post Office 30% of its net income.

3. Governance

3.1. A Board effectiveness review has been undertaken and the recommended changes are being implemented, including the appointment of an additional independent NED.

4. Risk management

4.1. Risk management framework and governance structures are in place. Embedding these structures and ensuring they are effective is the future focus.

4.2. Risks currently classed as being outside of POMS' risk appetite are:

- Appointed Representative (AR) (see 4.3 & 4.4);
- Marketing Capability/Performance – following the restructure of the Post Office Marketing function there have been delays in the delivery of marketing plans. With a new marketing director joining POMS shortly and the completion of recruitment in Post Office's central marketing, it is hoped that this risk will soon revert to within appetite; and
- Strategy/Business Plan – a review of the 5 year business plan will be complete by the end of the year. It is anticipated that this risk will be within appetite following the review.

4.3. The POMS-Post Office relationship structure is unusual as Post Office is both POMS' sole shareholder and AR. POMS works closely with Post Office to ensure issues of regulatory concern are addressed and managed.

4.4. The relationship with Post Office as both AR and service provider is in place; as discussed over the course of the past year at the Post Office ARC, the biggest risk is the operational oversight of branches. Progress has been made to improve the systems and controls. Actions are being developed by both Post Office and POMS to further improve the levels of conduct risk. Bringing these risks into appetite requires the effective delivery of the Enhanced User Managent project and a focus on those actions agreed and designed to address any identified conduct risk. The POMS Board regularly assesses whether enough progress has been made, or anticipated, for it to be comfortable to continue to allow Post Office to sell POMS' products in branches.

4.5. There have been no notifiable issues to the FCA in the period.

5. Performance of the "Titan" and "Hawk" projects

5.1. At the Post Office Board away day POMS was asked to provide an update on the performance of the two core business builds to deliver the long term insurance strategy – Titan (establishment of POMS and re-engineering the travel business model) and Hawk (the acquisition of the Bank of Ireland's share in Post Office

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Insurance). The third component was the acquisition of the activities undertaken by Junction.

5.2. Following discussions at the Post Office Board from 2012-14, POMS was established in late 2014 and from January 2015 took over the management of travel insurance. Project Titan included the establishment of POMS as a trading entity (including gaining FCA approval), the migration of travel insurance business from AON to POMS; the establishment of a dedicated call centre; and the building of the policy management system (Zeus).

5.3. Core components of Titan have been delivered and are operational; however there have been challenges, in particular:

- Zeus delivery was delayed and project costs were higher;
- in branch sales of travel insurance have slowed, but the margin generated is 15% higher; and
- the business case assumed an aggressive growth in online sales, in particular through aggregators. This channel was delayed due to contractual issues with the interim platform manager and the delay in launching Zeus. The business case assumed 1.0m sales in 2017/18 against the current budget/forecast of 700k.

5.4. The net impact has been that the business case is currently £2.3m adverse, although we are confident that that gap will be closed as digital sales grow.

		2013/14	2014/15	2015/16	2016/17	2017/18 P	Total
Actual	Revenue £m		2.4	12.7	11.8	15.3	42.1
	Cost £m	-1.9	-3.1	-9.5	-7.1	-8.0	-29.7
	EBITDA £m	**-1.9**	**-0.7**	**3.2**	**4.7**	**7.3**	**12.5**
Bus. case	**EBITDA £m**	**-1.9**	**-3.6**	**5.1**	**6.5**	**8.7**	**14.8**
	Net Difference £m	0.0	2.8	-1.9	-1.8	-1.4	**-2.3**

Performance of the "Hawk" business acquired from Bank of Ireland

5.5. In November 2015, POMS acquired Bank of Ireland's interests in Post Office's general insurance business (Project Hawk). Since acquisition, the business has performed ahead of the plan by £1.8m:

EBITDA	2015/16	2016/17	Total
Actual £m	1.6	4.3	5.9
Bus. Case £m	0.3	3.8	4.1
Net £m	**1.3**	**0.5**	**1.8**

5.6. The business case also incorporated further benefits in the years past 2016/17:

- The initiative to take on more of the value chain through buying-out main general insurance supplier ("Junction") now has lower gross benefits, but a greater certainty of delivery. The net impact of these factors on the value case was a drop in NPV of c£(10)m.

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- Slower growth in existing business and slower growth in new products versus the business case, but with an increased certainty of delivery for both. These resulted in a £4m improvement in NPV.

5.7. As a result of the above, the review showed NPV incremental to the cost of acquisition NPV of £24m versus the original £29m.

5.8. The holding value of Hawk remains at £43.9m, the acquisition price.

6. Conclusion

6.1. POMS is now well established and performing broadly in line with expectations.

- The key building blocks that were planned are in place and being embedded.
- Current income and profit outcomes exceed the original Hawk business case (acquisition of the insurance business from the Bank of Ireland), confirming the significant opportunity that POMS provides to its shareholder.
- POMS is undertaking a review of this strategy to reflect the impact of market, regulatory and distribution changes. This is likely to result in a pivot to a digital driven model, with concomitant increase in marketing and in-year EBIT impact.

6.2. In POMS, Post Office has a strategic asset that will provide financial growth and long term value to its shareholder.

Rob Clarkson, POMS Managing Director
Nick Kennett, POMS Deputy Chair
Steve Ashton, POMS Chair

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Appendix 1: POMS Balance Sheet

£k	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Non-current assets					
Intangible assets	45,789	46,979	48,369	49,621	52,196
	45,789	46,979	48,369	49,621	52,196
Current assets					
Amounts owed by group undertakings	202	381	0	0	0
Other debtors	142	126	293	98	115
Accrued income	4,552	4,830	4,250	3,767	5,620
Prepayments	41	23	130	142	121
Cash at bank and in hand	14,576	13,483	17,170	12,999	13,441
	19,512	18,844	21,843	17,006	19,298
Total assets	65,301	65,823	70,212	66,628	71,493
Creditors: amounts due within one year					
Trade creditors	(738)	(663)	(1,203)	(611)	(746)
Amounts owed to group undertakings	(6,638)	(3,231)	(5,853)	(2,208)	(2,043)
Other creditors	(1,082)	(1,859)	(1,880)	(885)	(1,525)
Accruals	(4,115)	(5,054)	(3,537)	(4,141)	(6,797)
Provisions	(994)	(1,121)	(1,182)	(856)	(991)
Tax Creditor	0	(432)	(965)	(1,265)	(1,567)
	(13,567)	(12,361)	(14,619)	(9,966)	(13,669)
Total assets less current liabilities	51,734	53,462	55,593	56,662	57,824
Creditors: amounts due in more than one year					
Amounts owed to group undertakings	(500)	(500)	(500)	(500)	(500)
	(500)	(500)	(500)	(500)	(500)
Net assets	**51,234**	**52,962**	**55,093**	**56,162**	**57,324**
Capital and reserves					
Share capital	50,000	50,000	50,000	50,000	50,000
Retained earnings	1,234	2,962	5,093	6,162	7,324
Total equity	**51,234**	**52,962**	**55,093**	**56,162**	**57,324**

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Annual Report and Accounts 2016/17

Author: Amanda Radford Sponsor: Al Cameron Date: 26th September 2017

Board Papers

We have created a suite of documents for review at the September 2017 Board in relation to the Annual Report and Accounts for 2016/2017. These comprise:-

1. **Annual Report and Accounts Cover Note**
   This paper covers the following:-
   a. Changes to the financial statements since the May 2017 ARC
   b. Details of the fixed asset impairment reversal of £272m and associated impairment review
   c. Post balance sheet review
   d. Status of audit work
   e. Post balance sheet events including Pension buy-in, liquidation of the holding company and acquisition of the New Call customer base
   f. Going concern, including funding status

2. **Ernst & Young Audit Results Update Paper to the ARC**
   EY have updated their audit findings and this paper covers:-
   a. Conclusion of audit items which were outstanding as at May 2017
   b. EY's conclusions on the fixed asset impairment reversal, impairment review and going concern
   c. Summary of audit differences
   d. Status of audit work

3. **ARA financials ("Back section")**
   The primary statements and notes to the financial accounts for the Group and Company only accounts.

4. **ARA "Front section"**
   This covers the CEO and Chairman's Statement, Finance and Business Review and Governance sections of the ARA. This is in early draft and is subject to EY Review. EY will provide a verbal update on the status of their review to the ARC. The ARC will report on their update.

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Annual Report and Accounts 2016/17

Author: Amanda Radford Sponsor: Al Cameron Date: 26th September 2017

Executive Summary

Context

1. In May the ARC reviewed the draft financial statements, briefing book and Ernst & Young ("EY") audit findings to 18th May 2017. At the point of the report, the clarity on the timing of the value of investment funding was uncertain and there were a number of key matters on which neither POL nor EY were able to conclude. These included:-
   a. Fixed asset impairment reversal
   b. Going concern
   c. Subsequent events review to the date of signing the accounts
2. In May we reported an underlying operating profit of £93m and an EBITDAS profit of £13m with net assets of £165m.
3. After concluding on funding, the draft 2016/17 Annual Report and Accounts (ARA) has been reviewed by the ARC and is presented to the Board for approval, subject to finalization of outstanding matters.
4. The papers comprise the Board ARA cover note, ARA and a report from Ernst & Young on their findings as at 18th September.

Questions addressed in this report

5. The following questions are addressed in this report:
   a. In summary, what were the changes to POL's final financial results since May 2017?
   b. What is the effect of the fixed asset impairment reversal on the financial statements?
   c. How did we determine that Post Office can maintain the new fixed asset value on the balance sheet?
   d. What adjustments have been identified as a result of the post balance sheet event review undertaken by Post Office and EY?
   e. What is the status of the audit work on the ARA?
   f. What other significant accounting judgements have been concluded?

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Conclusion

6. Since the Board in May 2017, a number of matters have been concluded. These include:-
   a. Completion of the work on the reversal of the fixed asset impairment. This has resulted in the reversal of an impairment charge of £272m in FY16/17. In addition, we have undertaken an impairment review and concluded that the future cash flows generated by these assets support their value on the balance sheet
   b. POL and EY have undertaken post balance sheet event reviews resulting in a small number of adjustments.
   c. A number of Post balance sheet events have been identified including Pension buy-in, liquidation of the holding company and acquisition of the New Call customer base
   d. We have undertaken a Going concern review and given (1) the confirmation in principle of the final year of the NSP and up to £210m of investment funding and (2) continued forecast profitability of Post Office, we can demonstrate our longer-term commercial sustainability which support going concern. The accounts have been prepared accordingly.
   e. There has been no change to the Quality of Earnings as a result of the completion of the post balance sheet reviews by POL and EY.

7. As at 18th September, EY have not completed all their audit procedures and will give an update at the ARC on 25th September. A summary of outstanding matters is given in this report. We do not currently anticipate any material changes. The ARC will update the Board accordingly.

8. The cumulative effect of the adjustments posted to the accounts since the May 2017 do not affect EBITDAS and hence the bonus position is unchanged. There would be no impact on the bonus position if we were to post the purchase order accrual credit (£221k) identified by POL or the adjustments which EY have identified for the discount rate on onerous leases as they are an adjustment to capital and investments. If we were to accept the judgmental adjustment for gift vouchers, EBITDAS would increase by £1m.

Input Sought

9. The Board is requested to approve the ARA subject to finalisation and to approve delegation of authority to Tim Parker, Paula Vennells and Alisdair Cameron to finalise any outstanding matters, the front end and sign thereafter.

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The Report

In summary, what were the changes to POL's financial results since the May Board?

10. There has been no change to the EBITDAS of £13m or operating profit of £93m since the May Board.

11. On the Post Office Group balance sheet, there has been an increase in net assets by £20m to £186m since the presentation of the financial statements to ARC in May (£165m). This principally represents an increase in the impairment reversal of £17m and £4m from the disposal of Great Portland Street.

What is the effect of the fixed asset impairment reversal on the financial statements?

12. Following appropriate procedures to confirm existence, depreciation rates and value of assets, an adjustment to the impairment charge of £272m has been calculated and agreed with EY, subject to finalisation by EY of their impairment testing procedures. As this is a change in accounting estimate, there is no prior year adjustment required to the accounts. We have credited the P&L under the "Capital and Investment" heading and debited fixed and intangible assets on the Balance Sheet. POL has a resulting net assets position of £186m. Subject to annual impairment testing, fixed assets will be capitalised and depreciated from the beginning of FY17/18.

13. The change in accounting estimate resulted from the financial performance of Post Office and a profitable EBITDAS position. Confidence in the delivery of the profitable position became apparent during the final quarter of the FY16/17 together with confirmation of the funding position for the next three years and, supported by the value in use calculations, we have reversed the impairment as at 26 March 2017.

14. Following the completion of the POL review and audit testing by EY there were, as expected, a number of adjustments made which increased the initial impairment reversal estimate from £255m to £272m. The net adjustment of £17m principally relates to the completion of our procedures on Assets Under Construction.

15. Following the completion of the impairment review, the net book value of major categories of asset and significant assets within those categories are as follows:-
    a. Fixtures and equipment (£104m) which includes fit-out of agency branches (£58m); equipment within the DMB network (£13m); and end user equipment (£20m).
    b. Software (£137m) which includes Horizon (£49m); Back office transition and transformation (£14m); upgrades to Credence, CFS, Success Factors, Moneygram and other Post Office Systems (£23m)
    c. Land & Buildings (£40m) which includes Finsbury Dials fit-out (£8m); fit-out of DMB network (£24m) and other properties (£9m).

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How did we determine that Post Office can maintain the new fixed asset value balance sheet value?

16. Under accounting standards, we are required to demonstrate that the carrying value of the fixed and intangible assets that we have recognised on the balance sheet can be supported by a value in use calculation for POLs cash generating units ("CGUs"). Essentially, we need to demonstrate that the future cash flows from the assets support their value on the balance sheet.

17. This requires Post Office to undertake a number of specific procedures (1) divide Post Office into appropriate CGUs (2) identify the carrying value of assets (3) estimate the future pre-tax cash flows of the CGUs (4) determine an appropriate discount rate and apply to the cash flows and (5) compare the carrying value of the assets with the future discounted cash flows

18. As part of our work we concluded the following:-

    a. POL has 2 CGU's – POL and POMS
    b. Pre-tax cash flows were calculated using the strategic plan as a basis. As required by accounting standards, capital expenditure and associated benefits were restricted to maintenance and replacement capex only.
    c. By using appropriate comparator companies, we determined the POL discount rate to be 9% for POMS and 12% for POL.

19. We have completed the impairment review and, subject to the completion of EY testing procedures, we have concluded that there is sufficient headroom to maintain our tangible and intangible assets on the balance sheet.

What adjustments have been identified as a result of the post balance sheet event review undertaken by Post Office and EY?

20. As part of the finalisation of the financial statements POL have conducted additional procedures which have identified a number of adjustments. EY have also substantially completed their outstanding audit procedures and post balance sheet review which have resulted in a small number of judgmental and factual misstatements.

21. The POL review focused on testing the material Receivables and Payables balances as at FY16/17 year end, with a focus on testing the clearing of balances (i.e. receipts or payments) after the year end, and reviewing support for any un-cleared items. The review has identified a number of adjustments, these net to a credit to the P&L of £156k. Of this, a net £65k debit has been posted to the accounts. We have not adjusted the £221k credit which relates to purchase order accruals.

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22. EY have noted 3 potential adjustments which are:-
    a. Judgmental credit of £1,040k in relation to Gift Voucher accrued income. If accepted this credit would increase EBITDAS.
    b. Judgmental debit (£709k) and factual misstatement (£663k)– both relate to the discount rate applied to the onerous lease provision. If posted, these would increase the cost disclosed under capital and investments but would not affect underlying EBITDAS

What is the status of the audit work on the ARA?

23. Subject to the completion of the matters outlined below, we expect that EY which will issue an unqualified audit opinion on the ARA for FY16/17.
    - Finalisation of audit procedures in a limited number of areas including fixed asset impairment reversal assessment and update on provision for legal claims
    - Going concern assessment, in particular, letter of comfort from BEIS in relation to investment funding for FY18/19 to FY20/21 and NSP for FY20/21
    - Review of the front half of the ARA and completion of review on financials
    - Finalisation of pension plan assets testing in respect of Blackrock investment fund (£365m)
    - Letter of representation
    - Completion of subsequent events review

What other accounting judgments have been concluded?

Post Balance Sheet Events

24. The following items have been identified as non-adjusting post balance sheet events which have been disclosed in the financial statements

    a. **Pension buy-in –** On 20th July 2017, the Trustees of the pension scheme entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected.

       Under the bulk annuity purchase agreements, the Trustees of the pension plan have effectively bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to e.g. inflation and longevity.

       As a result of this transaction, the FY17/18 accounting entries in relation to the balance sheet pension position net to nil. The data risk premium of £2.1m, paid by the insurer, will be a debit to the P&L in FY 17/18 but the opposite side of the entry is also to reserves and has no effect on the net asset position of the Group.

    b. **Postal Services Holding Company Limited placed into liquidation –** on 12th June 2017, Post Office's parent company, Postal Services Holdings Limited, was placed into liquidation and all of the ordinary shares that were held by Postal Services Holdings Limited in Post Office Limited were transferred to the ownership

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of the Secretary of State for Business, Energy and Industrial Strategy. We expect the process to be complete and the company dissolved by March 2018.

c. **Acquisition of New Call -** On 30 March 2017, the Group acquired the residential broadband and home phone customer base, along with certain other assets, of New Call Telecom Limited, for cash consideration of £2m. Further consideration of £6m is contingent on the number of New Call customers that successfully migrate to the Group's systems by a particular date. We have disclosed the provisional fair value of the net assets acquired (£6m) and goodwill (£2m) in the FY16/17 accounts. We will finalise these values as part of completing the accounts for FY17/18.

Going Concern

25. The financial statements have been prepared on the basis that POL is a going concern.

26. On 27 November 2013, a funding agreement was announced providing:
    - Funding of £280m for 2015-16 (received April 2015)
    - Funding of £220m for 2016-17 (received April 2016)
    - Funding of £140m for 2017-18 (received April 2017)
    - Extension of the existing working capital facility with BEIS to 31 March 2018 of £950m.

27. As the previous funding round expires as at March 2018, POL has been working with BEIS on securing funding for the next 3 years. On 30 March 2017, POL and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility confirming that the following funding package will be made available to POL from April 2018.

    - Extension of the existing working capital facility of £950m with BEIS to 31 March 2021
    - Network subsidy payment of £60m for 2018-19
    - Network subsidy payment of £50m for 2019-20

28. In addition the Secretary of State for BEIS has confirmed in principle in a letter dated 25th July 2017 (and BEIS will be providing a letter of comfort) that the following additional funding will be also be made available to POL
    - Network subsidy payment of £50m for 2020-21
    - Investment funding of up to £210m for the period April 2018 to March 2021

29. Consistent with previous years, the network subsidy payment and investment funding will be received in the form of grants and are non-refundable.

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30. Consistent with the previous funding round, the network subsidy payment and investment funding are conditional on European Commission approval. Known as State Aid approval, POL has always received the required consent and, as in previous years, we expect this to be a formality and do not expect the funding to be withheld. The application for State Aid has been submitted and we anticipate confirmation in Spring 2018. The working capital facility is not classified as state aid and requires no further approval.

31. Using budget for FY17/18 and the first year of the strategic plan, we have undertaken going concern analysis which requires us to sensitise the assumptions around growth rates and delivery of cost reduction. On the basis of the funding outlined in sections 26 to 28, we have concluded that Post Office Limited will be able to meet its liabilities as they fall due for at least the next 12 months from the date of signing of the financial statements and that it is therefore appropriate to prepare accounts on a going concern basis.

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Audit Results Update Report to the Audit, Risk and Compliance Committee

for the 52 week period ended 26 March 2017

Post Office Limited

19 September 2017

The better the question. The better the answer.
The better the world works.

Building a better working world

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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 ARC 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 ARC 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 ARC 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

The Audit, Risk and Compliance Committee
Post Office Limited
20 Finsbury Street
London
EC2Y 9AQ

19 September 2017

Members of the Audit, Risk and Compliance Committee,

2016/17 Audit Results Update Report

We are pleased to present our Audit Results Update Report for the forthcoming meeting of the Audit, Risk and Compliance ("ARC") Committee. This report summarises our updated conclusions in relation to our audit of Post Office Limited's (the "Group") financial position and the results of its operations for the 52 week period ended 26 March 2017 ("the year").

This report provides an update to the report issued on 12 May 2017 (the "Audit Results Report") and should be read in conjunction with that report. This report also contains our final summary of audit differences and communications regarding our independence.

This report is intended solely for the information and use of the ARC Committee, Board of Directors and management. It is not intended to be and should not be used by anyone other than these specified parties without or specific written consent.

We welcome the opportunity to discuss this report with you at the ARC Committee meeting on 25 September 2017.

Yours faithfully,

GRO

Peter McIver
Partner

For and on behalf of Ernst & Young LLP

Appendices Contents

2 Executive summary
3 Accounting matters and judgements: significant risks
10 Other accounting matters and judgements
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14 Control environment
15 Detailed list of open items
16 Draft Management representation letter

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1 | Executive summary

At the date of this report our audit work is substantially complete. Subject to the finalisation of the outstanding matters outlined in Appendix A, we anticipate issuing an unqualified audit opinion on the financial statements. This report provides an update since the issuance of our Audit Results Report on 12 May 2017, on the four key risks in our audit, as identified in our planning report – improper revenue recognition, classification and completeness of capital and investment items, improper valuation and completeness of Postmasters' compensation provision and going concern – and other areas important to our audit.

Our opinion and status of our audit

Our audit work in respect of the group and parent company is substantially complete. The significant open items required to finalise our audit procedures are:

- Finalisation of our audit procedures in a limited number of areas, including fixed assets impairment reversal assessment and review of documentation in respect of provision for legal claims;
- Finalisation of our audit procedures in respect of the going concern assessment;
- Finalisation of our procedures relating to the group's annual report and accounts;
- Finalisation of pension plan assets testing in respect of BlackRock investment fund with the total value of £365m;
- Receipt of the signed management representation letter (draft in Appendix B); and
- Completion of subsequent events review.

We have included an update on the status of matters which were included in Audit Results Report (dated 12 May 2017) and we have set out below the main updates since our previous report:

- Post Office Limited agreed a total network payment subsidy of £110m for 2018/19 and 2019/20 and extended the £950m working capital facility to 31 March 2021. In addition, Post Office Limited has agreed in principle a network subsidy payment of £50m for 2020/21 and investment funding up to £210m for the period to 2020/21.
- Post Office Limited finalised its assessment of tangible and intangible assets impairment as at 26 March 2017. Following the improved performance, management recognised a reversal of £272m impairment of tangible and intangible assets.

We also included the status of matters that are still open (Appendix A). We will provide an update on the status of our work at the ARC Committee meeting.

On the basis of our work performed to date, we anticipate issuing an unqualified audit opinion in the form that was included in Appendix B of our Audit Results Report. There has been no change to format or content of the report.

Our audit of the group's financial statements for the year ended 26 March 2017 has been performed in accordance with International Standards on Auditing (UK and Ireland) in order to provide reasonable assurance that your financial statements are free of material misstatements.

Audit scope and audit approach for the year ended 26 March 2017

There has been no change to our audit scope and audit approach from that reported in our Audit Results Report.

Accounting matters and judgements

There has been no change to the significant risks or other accounting matters or judgements from those identified in the Audit Results Report.

In Sections 2 and 3 of this report we have included an update on the status of matters which were open at the time that our Audit Results Report was issued including more extensive discussion on going concern and the impairment of tangible and intangible assets given the majority of the work on these two risks had not been performed at that stage.

Summary of audit differences

We have identified some audit differences which were greater than our threshold for reporting audit differences of £472,000. Further detail, including the turnaround effect of a prior year adjustment, can be found in Section 4 of this report.

Control environment

We finalised our substantive leavers testing and the final conclusion on our evaluation of IT general controls was that we are able to rely on the IT process for the relevant applications for our 2016/17 audit. Further details can be found in Section 5 of this report.

Independence, non-audit services and fees

There has been no change to our independence, non-audit services and fees from that presented in the Audit Results Report.

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For each of the judgements in this report, this graphic represents our view of the degree of optimism or conservatism in management's judgement. The extreme ends of this scale correspond with an adjustment on our summary of audit differences ('SAD').



2 | Accounting matters and judgements: significant risks

Going concern

Going concern was identified as a significant risk due to historical losses generated by Post Office Limited, uncertainty around the Government funding for the period 2018/19 to 2020/21 and beyond and uncertainty around the working capital facility with the Department for Business, Energy and Industrial Strategy (BEIS). Post Office Limited agreed a total network payment subsidy of £110m for 2018/19 and 2019/20 and has extended the £950m working capital facility to 31 March 2021. In addition, Post Office Limited has agreed in principle a network subsidy payment of £50m for 2020/21 and investment funding up to £210m for the period to 2020/21. Management performed a detailed analysis of the cash position and business performance and concluded that the group is a going concern. Subject to finalisation of our audit procedures we are satisfied with management's conclusion.

What is the risk?

Going concern was identified as a significant risk for the FY2016/17 audit due to the following reasons:

- Uncertainty regarding Government funding;
- Significant judgement involved in future cash flow projections;
- Ongoing Network Transformation project;
- History of losses.

What judgements are we most focused on?

- Significant judgements around future cash flow projections.

What did we do?

We received supporting legal documentation for the further Government funding package (FY2018/19 and onwards) which the Post Office has obtained. This included the extension of the existing working capital facility of £950m with Department for Business, Energy & Industrial Strategy (BEIS) to 31 March 2021 and the network subsidy payments of £60m for 2018/19 and £50m for 2019/20.

We have received the signed letter from BEIS (dated 25 July 2017) confirming in principle that future funding will be made available which will consist of subsidy funding of £50m in 2020/21 (which supplements the subsidy already agreed in the two preceding years) and investment funding of up to £210m for the period to 2020/21. We are currently awaiting receipt of a letter from Richard Callard which provides further clarification on the terms under which the investment funding will be made available.

We received the going concern assessment model prepared by management. We checked the assumptions used in the model, i.e. average draw down of working capital facility on a monthly basis and the maximum available balance.

We understood that in determining the working capital facility headroom the model assumes a flat usage of the Note Recirculation Facility (NRF). The NRF is used to manage network cash and in particular can be used in peak times of network cash to reduce reliance on the RCF, for example during bank holidays, particularly Christmas and Easter, Post Office Limited pre-funds the network which, together with reduced cash collections, leads to an increase in required funding.

We also checked the cash flow model prepared by management for the 4 year period up to 2020/21 and noted significant available headroom of c. £100m average during the period.

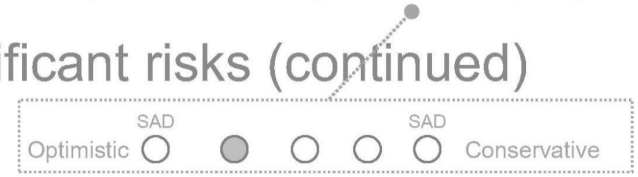
We also note that the EBITDAS forecasts used for the purposes of the going concern assessment do not take account of some further initiatives which are expected to be cash flow positive such as the improvements in cash management and the expected securing of a £50m revolving credit facility.

As the network subsidy payment and investment funding are conditional on European Commission approval we have requested that Note 1 of the financial statements includes appropriate disclosure of this fact.

Subject to finalisation of our audit procedures and the receipt of the letter from Richard Callard referred to above, we are satisfied with management's assessment that the Post Office will be able to meet its liabilities as they fall due for at least 12 months from the date of signing of the financial statements and that it is therefore appropriate to prepare the financial statements on a going concern basis.

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For each of the judgements in this report, this graphic represents our view of the degree of optimism or conservatism in management's judgement. The extreme ends of this scale correspond with an adjustment on our summary of audit differences ('SAD').



2 | Accounting matters and judgements: significant risks (continued)

Impairment of tangible and intangible assets

Management revised its accounting estimate in respect of the impairment of tangible assets and intangible assets following their review of the Group's 2016/17 performance, timeline of transformation program and the Group's forecast performance going forward. Based on the analysis performed, management reversed £135m impairment in respect of tangible assets and £137m in respect of intangible assets. This was recorded as a credit to "capital and investment" items. At the date of this report we are yet to finalise our documentation procedures and remaining testing in respect of the impairment model prepared by management.

What is the risk?

Impairment of tangible and intangible assets was identified as a significant risk for the FY2016/17 audit due to the following reasons:

- Significant judgement is involved in management's assumptions regarding the discount rate and long-term growth rate;
- Risk of inappropriate valuation methodology applied;
- Significant judgment involved in future cash flow projections;
- History of losses and previous accounting estimate whereby POL impaired their fixed assets in full..

What judgements are we most focused on?

- Judgement involved in re-instatement fixed assets register and existence verification;
- Judgement involved in future cash flow projections
- Judgement involved in management's assumptions regarding the discount rate and long-term growth rate.

What did we do?

We focused our work in respect of impairment of tangible and intangible assets on the two main areas:

- Assessment of impairment analysis performed by management;
- Assessment and check of impairment reversal of £272m, recorded in FY2016/17.

During 2016/17 management reassessed Post Office Limited group business performance going forward, following their review of Post Office Limited's transformation program and the actual results for the year ended 26 March 2017. Management expects the transformation program to be finalised by the end of Q1 2018. During 2016/17 Post Office Limited generated EBITDAS of £13m (2015/16: loss £17m).

Management prepared an impairment test of tangible and intangible assets as at 26 March 2017. We checked the impairment test in conjunction with a summary memo outlining the main assumptions applied.

We concurred with management's approach to the identification of Cash Generating Units (CGUs). There are two CGUs, namely Post Office Limited and Post Office Management Services Limited (POMS). We audited the POMS impairment model as part of our statutory audit and were satisfied with management's conclusion. We noted that there is a significant headroom of £77m, compared to POMS assets of £51m, which includes goodwill of £44m. Therefore we focused on Post Office Limited CGU with a headroom of £213m and assets value of £275m, including tangible and intangible assets of £272m.

We challenged the cash flows forecast by checking the 5 months ended 27 August 2017 actual results annualised with the estimated 2017/18 results, and checked the changes in forecast in comparison with 2015/16 5 year plan, particularly focusing on significant or unexpected changes.

EBITDA was forecast to decline at a 47% CAGR over 4 years, mainly as a result of a reduction of network subsidy from £70m budgeted for 2017/18 to £50m in 2020/21.

We challenged the short term growth rates applied against the group's strategy, supporting documents and our understanding of the business and performance gained as part of our audit of other areas.

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2 | Accounting matters and judgements: significant risks (continued)

Impairment of tangible and intangible assets (continued)

We engaged our valuations experts to assist us with the assessment of the discount rate (9%) and long term growth rate (0%) applied to the impairment model. We concluded that both rates are within an acceptable range. However we noted that the same discount rate was applied to different Post Office Limited's revenue streams, particularly financial services, which has different dynamics and features compared to other revenue streams. Given significant headroom for FY2016/17 impairment test, this will not have a material impact, however we recommend management monitors the discount rate going forward.

We noted that the EBITDA in perpetuity (£56m) is in line with 2020/21 EBITDA and is based on the assumption that the £50m network subsidy will be available going forward and the savings going forward will be in line with the savings in 2020/21 (£45m net). We challenged management's assumptions and received the following explanations:

1) Network subsidy

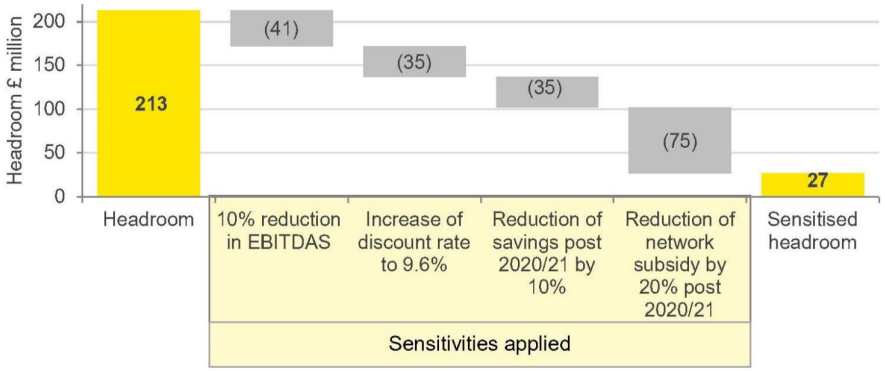
Post Office Limited continues to receive a network subsidy payment from the Government to maintain the network. Post Office Limited does not believe, and Government has not indicated, that the network subsidy will be removed.

2) Savings post 2020/21

The cost savings identified over the course of the four year plan which are delivered by projects to replace or maintain capital expenditure will become embedded within the cost base and therefore management expects the cost savings implemented in 2020/21 will continue going forward.

We were satisfied with management's position in respect of Network subsidy and cost savings assumptions applied for the EBITDA in perpetuity calculation.

Having considered each of the individual inputs above, we sensitised the cash flows of the valuation to a reduction in EBITDAS, an increase in the discount rate, a reduction of savings post 2020/21 and a reduction of network subsidy post 2020/21:



At the date of our report we are yet to finalise our audit procedures and will provide a verbal update to the Audit Committee at the meeting.

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For each of the judgements in this report, this graphic represents our view of the degree of optimism or conservatism in management's judgement. The extreme ends of this scale correspond with an adjustment on our summary of audit differences ('SAD').



2 | Accounting matters and judgements: significant risks (continued)

Impairment of tangible and intangible assets (continued)

Review of amount of reversal of impairment recognised in FY2016/17

Given the significant judgment, the level of uncertainty and the material amount of tangible and intangible assets impairment reversal, we re-assessed the level of risk in relation to tangible and intangible assets existence and revised it to significant.

Following the re-assessment of the risk, we concluded that we would perform additional audit procedures in respect of the existence of re-instated tangible and intangible assets as at 26 March 2017.

We performed the following procedures:

1) We received management's summary memo of reversal of impairment (£272m) recognised as at 26 March 2017 with the detailed analysis of re-instated tangible [£931m] and intangible assets [£433m] gross book value and accumulated depreciation [£787m] and amortisation [£389m] as at 26 March 2017.

2) We checked the basis and timing for the change in accounting estimate. During 2016/17 Post Office Limited generated positive EBITDAS of £13m. Following careful considerations of future business performance, the status of transformation program and agreement on the network subsidy up to 2020/21 of £160m, management revised its estimate in respect of intangible and intangible assets impairment. We checked management's analysis to the evidence we obtained as part of our audit procedures in respect of network transformation provision and going concern analysis.

3) We checked management's assessment of existence of tangible and intangible assets as at 26 March 2017. We tested a sample of assets from each group on a random basis by vouching to supporting documents, e.g. properties and vehicles registration documents and pictures of furniture and fittings obtained from Post Office branches.

4) We challenged management's benchmark analysis of useful life for all groups of tangible and intangible assets.

As a result of audit procedures we identified two adjustments which were corrected by management; these are summarised in Section 4 of our report.

We are satisfied with the net book value of tangible and intangible assets of £272m re-instated as at 26 March 2017. We are yet to finalise our audit procedures in respect of the gross book values of tangible and intangible assets, therefore these numbers are prelimiary. This will not impact the Group Balance Sheet and Income statement, but could result in an amendment to the disclosure notes in the Annual Report and Accounts.

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2 | Accounting matters and judgements: significant risks (continued)

Matter	Summary of the risk and work performed	Conclusion in our Audit Results Report dated 12 May 2017	Updated conclusion as at 19 September 2017
Postmasters' compensation provision (valuation and completeness)	Please refer to the Audit Results Report for details of the risk and the work performed on this risk as at 12 May 2017. We also completed the following procedures which were outstanding as of date of the last report: ***"Change in journey" release*** • We have agreed the consistency of the listing provided by management with the full list of branches. No issues were identified. • We received a breakdown of the total branches in the Termination provision where management had categorised the branches into six categories based upon the probability of the provision being utilised. We have reviewed the probability assigned to each of these branches to ensure these are a reasonable basis for management's estimate; • We have recalculated the weighted value of the provision for each category, referring to the total branches and total provision values (the values of which have been verified in our testing of the Termination provision). We have then recalculated the provision to check mathematical accuracy with no differences noted. ***Closing balance as at 26 March 2017*** • We have sampled five payments from the full breakdown of cash payments made during P1 and P2 of 2017/18. We matched selected payments by vouching to the bank statements and payslips. No issues were noted through this testing.	We challenged management's assumptions with respect to the release in provision relating to "hard to place" branches. As part of our audit procedures performed we did not identify any differences above our SAD posting threshold. Our audit work in respect of the release of the £12m provision related to "changes in journey", including the branches reconciliation, and our audit procedures in respect of subsequent cash payments testing are in progress.	As part of our audit procedures performed we did not identify any differences above our SAD posting threshold. We have concluded that the provision utilised during the year, and the provision releases of the "Hard to place" branches and "changes in journey" during the year are all appropriate. Accordingly, we concluded that the closing balance in respect of the Postmasters' compensation provision is fairly stated as at 26 March 2017.

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2 | Accounting matters and judgements: significant risks (continued)

Matter	Summary of the risk and work performed	Conclusion in our Audit Results Report dated 12 May 2017	Updated conclusion as at 19 September 2017
Revenue recognition	We refer to the Audit Results Report dated 12 May 2017 for the details of the revenue recognition risk and the audit procedures we performed. We received a paper supporting the change in estimate for Bill Payments deferred revenue as at 26 March 2017. We reviewed the paper and provided our comments to management. At the date of this report we are awaiting responses from management.	We have not identified any differences above our summary of audit differences threshold. At the date of this report the Group is yet to provide to us a paper supporting the change in estimate for Bill Payments deferred revenue as at 26 March 2017. Subject to finalisation of our audit procedures in respect of the change in estimate of Bill Payments deferred revenue, we conclude that revenue, accrued income and deferred income balances for the 2016/17 financial year are appropriately stated.	We identified one judgemental difference of £1.04m in relation to inappropriate accrual rate used for Gift Vouchers accrued income. Please see Section 4 for further details. We have requested this adjustment be corrected by management, as required by auditing standards. It has not been adjusted as management believes that it is immaterial to the financial statements as a whole. Subject to finalisation of our work on Bill Payments deferred revenue, we are satisfied with the revenue recognised during 2016/17.
Classification and completeness of "capital and investment" items	We refer to the Audit Results Report dated 12 May 2017 for the details of the risk and the audit procedures performed. We finalised our extended subsequent events procedures through review of cash payments for the period subsequent to 26 March 2017 in respect of "capital and investments" items.	As a result of our audit procedures performed we have identified one difference above our SAD posting threshold related to overstatement of Royal Mail separation provision by £1.1m. This was adjusted by management. We included this difference in our Summary of Audit differences in section 4. We have not yet completed our work in respect of the impairment of intangible and tangible assets, including the change in management's estimate and resultant reversal of £255m impairment recognised in previous periods.	As a result of our audit procedures performed we have identified one difference above our SAD posting threshold related to overstatement of Royal Mail separation provision by £1.1m. This was adjusted by management. We included this difference in our Summary of Audit differences in section 4. We are satisfied with the classification and completeness of capital and investment items, subject to finalisation of our audit procedures in respect of tangible and intangible assets impairment reversal of £272m. For further details please refer to slide 6 above. .

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3 | Other accounting matters and judgements

Matter	Summary of the risk and work performed	Conclusion in our Audit Results Report dated 12 May 2017	Updated conclusion as at 19 September 2017
Impairment of goodwill	Please refer to the Audit Results Report dated 12 May 2017 for the details of the risk and the work performed.	Based on our audit procedures we concurred with management that there is no goodwill impairment as at 26 March 2017.	No change to our conclusion from that included in our Audit Results Report
Pensions valuation and accounting	Please refer to the Audit Results Report dated 12 May 2017 for the details of the risk and the work performed. As at the date of this report we have not received pension plan assets confirmations in respect of the RPMSEPP scheme. We are also finalising the pension plan assets testing in respect of BlackRock investment fund valuation with the total value of £365m due to the fact this valuation is not publicly available. We are yet to conclude our audit procedures of the pension disclosure note in the Annual Report and Accounts.	We consider that the de-recognition of the pension surplus as at the date on which the MoU was signed on 21 March 2017 is in line with applicable accounting standards (IFRIC 14) given that, as a result of the terms included in the legally binding MoU, the Post Office no longer has an unconditional right of refund of any surplus. Based upon the audit procedures performed we are satisfied with management's accounting position in respect of pensions.	No change to our conclusion from that included in our Audit Results Report dated 12 May 2017.
Provision for legal claims, including Horizon Subpostmasters' litigation	We met with Post Office management and Group Legal, Risk and Governance Director in March 2017 and had a follow up meeting with her on 18 September 2017. We understood that there was a hearing of the claim at the end of January 2017 and the order was signed at the end of March 2017. No quantification of potential exposure can be estimated reliably.	We are yet to receive the supporting documentation and the most recent update in order to conclude on this matter and finalise our audit procedures.	We have received requested supporting documentation, including the most recent update on Postmasters' litigation on 18 September 2017. We will review the information provided and will provide a verbal update during the ARC meeting on 25 September 2017.

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3 | Other accounting matters and judgements (continued)

Matter	Summary of the risk and work performed	Conclusion in our Audit Results Report dated 12 May 2017	Updated conclusion as at 19 September 2017
Accounting for Supply chain restructuring ("Discontinued operation")	Please refer to the Audit Results Report dated 12 May 2017 for the details of the risk and the work performed.	As a result of our audit procedures performed we are satisfied with the management's position that the Retail Cash in Transit operation represents a separate and major operation and, accordingly, that it is appropriate to recognise Supply chain restructuring as discontinued operation.	No change to our conclusion from that included in our Audit Results Report
Accounting for Joint venture ("FRES") investment in Post Office Company financial statements	Please refer to the Audit Results Report dated 12 May 2017 for the details of the risk and the work performed.	We concur with management's rationale that this revised accounting policy provides more relevant and reliable information to the users of the financial statements as nearly all of the group's activities occur within the parent, so equity accounting in the parent closely aligns the parent and group financial statements. Accordingly, in our view this change in accounting policy is appropriate and permissible under accounting standards and UK company law. We are satisfied with the £66m investments balance value as restated.	No change to our conclusion from that included in our Audit Results Report

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4 | Summary of audit differences

We identified seven audit differences impacting profit that were individually greater than £472,000, including three differences which were not corrected. We also identified three reclassification differences individually greater than £472,000, including two differences not corrected. As required by auditing standards, we requested these items be corrected by management. They have not been adjusted as management believes that they are immaterial, individually and in aggregate, to the financial statements as a whole, as confirmed in the management representation letter. We agree that users' views of the financial statements would not be affected by the non-adjustment of these amounts. Our audit planning materiality was £4.7m.

Account 26 March 2017 (£'m)	Income statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non-current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)
Unrecorded audit differences					
Known differences					
• Adjustment to Onerous and Vacant Lease Provision (factual element) due to incorrect discount rate used (5.25% used vs POL rate of 3.5%), less overprovision of £194k for two leases which have ended *(Dr Admin Expenses (Capital & Investment) Cr Lease provision)*	0.66				(0.66)
Judgemental differences					
• Adjustment to account for inappropriate accrual rate for Gift Voucher accrued income of 3% when average billings since 2012 have been 3.91% (and more recent billings have been closer to 6% (3.91% rate applied by EY)) (Dr Accrued income Cr Revenue (Revenue Trading)).	(1.04)		1.04		
• Adjustment to Onerous and Vacant Lease Provision for judgemental element of discount rate used (POL should have used a rate of 3.5% per internal rates v EY rate of 2.2%) (Dr Admin expenses (Capital & Investment) Cr Lease provision).	0.71				(0.71)
Total effect of uncorrected misstatements, before turnaround effect	**0.33**	**-**	**1.04**	**-**	**(1.37)**
Less tax effect	*(0.07)*				
➢ Turnaround effect of an audit difference which was unrecorded in the prior year	**(1.53)**				
Cumulative effect of uncorrected misstatements, after turnaround effect	**(1.2)**				

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4 | Summary of audit differences (continued)

Unrecorded audit differences (cont'd)

Reclassification differences

- Reclassification between provision balance and payables for Mails Separation Agreement (MSA) (£2.18m).

Disclosure differences

- At the date of our report we have not identified any disclosure differences. We are yet to finalise our audit procedures in respect of the audit of disclosures in the Annual Report and Accounts.

Parent company differences

- We did not identify any additional adjusted or unadjusted audit differences in the parent company.

Corrected differences

Judgmental and factual differences:

- MSA Payment provision release through capital and investment costs (£1.09m).
- Reduction of impairment reversal of intangible assets (£15.2m).
- Reduction of impairment reversal of tangible assets (£23.7m).

Reclassification differences:

- Reclassification of seven months of accrued income for Gift vouchers from current assets to non-current due to timing of the billing which takes place 19 months after the sale (£1.5m).

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5 | Control environment

We have been able to rely on the group's IT general controls over the principal systems impacting the financial statements for our 2016/17 audit. As part of our audit work, we identified a number of control deficiencies and recommendation which were summarized in our Audit Results Report. We understand management is working on a plan to address these recommendations for 2017/18.

Scope

The scope of our work on the internal control environment was explained in our Audit Results Report.

We tested the change management, user access and IT operations controls over the applications listed in the table below. We performed additional procedures to mitigate the impact on our audit of the deficiencies identified which were communicated in our Audit Results Report.

Our conclusion is that we are able to rely on the IT process for the relevant applications for our 2016/17 audit.

System	Overall	Manage access	Manage change	Manage IT operations	ITCAs/ ITDMs
HNGX	●	Effective	Effective	Effective	Effective
CFS	●	Reliable*	Reliable	Effective	Effective
SAP HR	●	Reliable*	Reliable	Effective	Effective
POLSAP	●	Reliable*	Effective	Effective	Effective

** Conclusion was finalized after the completion of additional substantive leavers testing*

● *- no recommendations were noted.*

● *- control deficiencies/recommendations were identified.*

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Appendix A | Detailed list of open items

We summarised below the list of open items as of the date of this report. We expect the majority of these items to be closed by 25 September 2017. We will provide a verbal update at the ARC Committee meeting on 25 September 2017.

Item	Action to resolve	Responsibility
1. Going concern	► EY to finalise audit procedures in respect of review of management's going concern analysis and forecast ► Management to provide letter from Richard Callard in respect of £210m investment funding	Management and EY
2. Tangible and intangible assets impairment assessment and reversal of impairment of £272m	► EY to finalise the audit procedures in relation to testing of gross book value of tangible and intangible assets adjustments recorded as at 26 March 2017. ► Finalisation of detailed testing of cash flow forecast.	Management and EY
3. Finalisation of audit testing of pension plan assets	► Management to assist with receiving outstanding supporting information related to pension assets. ► EY to finalise the audit procedures once the documentation has been provided.	Management and EY
4. Finalisation of audit of legal claims	► Management to provide remaining supporting documentation for Postmasters litigation and assessment of potential exposure and some additional queries made by EY. ► EY to finalise the audit procedures once the documentation and assessment have been provided.	Management and EY
5. Annual Report and Financial Statements	► Management to provide Front half of the Annual Report. EY to review and tie to financial statements and other supporting documentation. ► Tie out and review of the financial statements to be finalised by EY.	Management and EY
6. Subsequent events procedures	► EY to finalise subsequent events procedures up to date of signing	Management and EY
7. Directors' emoluments certificates	► Provision of signed certificates by management	Management
8. Corporation Tax	► EY to update their audit procedures in respect of corporation tax to reflect agreed fixed asset reversal amount	EY
9. Letter of representation	► Management and EY to table the wording of the draft letter included in Appendix B of this report	Management and EY
10. Client receivables	► Management to provide supporting documents for additional sample. EY to finalise the audit procedures once required information will be provided.	Management and EY
11. FRES	► Management to provide responses on questions from EY. EY to finalise the audit procedures once answers have been received.	Management and EY
12. Merlin Cash Centre Paper	► EY to finalise the audit procedures.	EY
13. Network Cash	► Management to provide EY with support for cash declaration required for finalisation of tests of controls.	Management and EY
14. Paper to support the change in estimate for Bill Payments deferred revenue as at 26 March 2017	► Management to provide the updated paper and calculations to support the change in estimate. ► EY to review the paper and supporting documentation once it is prepared by management.	Management and EY

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Appendix B | Draft management representation letter

We include below our updated* draft management representation letter for the Group and Company's 2016/17 audits based on the current status of our audit work. *(* - all updated are added in bold italic)*

[●] 2017

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 26 March 2017. 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 26 March 2017 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, Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

We understand that the purpose of your audit of our Group and Company financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify – nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

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 Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, 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 Group and Company financial statements. We believe the Group and Company financial statements referred to above give a true and fair view of (or 'present fairly, in all material respects') the financial position, financial performance (or results of operations) and cash flows of the Group in accordance with International Financial Reporting Standards as adopted by the European Union and the Company in accordance with FRS 101 and are free of material misstatements, including omissions. We have approved the Group and 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 has a system of internal controls adequate to enable the preparation of accurate financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the European Union and the Company in accordance with FRS 101 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 financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor on this basis.***

Fraud

6. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
7. 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.
8. ***We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Group or Company (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the consolidated or parent company financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the consolidated or parent company financial statements.***

Compliance with laws and regulations

9. We have disclosed to you all known actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Group and Company financial statements.

Information provided and completeness of information and transactions

10. We have provided you with:
    a. 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;
    b. Additional information that you have requested from us for the purpose of the audit; and
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

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13. 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 period to the most recent meeting on [●] 2017.
14. 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 year, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Group and Company financial statements.
15. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
16. 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.

Liabilities and contingencies

16. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the Group and Company financial statements.
17. We have informed you of all outstanding and possible litigation and claims, as well as litigation and claims we consider likely to arise, whether or not they have been discussed with legal counsel.
18. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed the Group and Company financial statements all guarantees that we have given to third parties.

Subsequent events

19. Other than described in the Group and Company financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the Group and Company financial statements or notes thereto.

Other information

20. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Strategic Report and the Directors' Report of the Annual Report and Accounts.
21. We confirm that the content contained within the other information is consistent with the financial statements.

Accounting estimates

22. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
23. Accounting estimates recognised or disclosed in the financial statements:
    a. We believe the measurement processes, including related assumptions and models, we used to determine the accounting estimates have been consistently applied are appropriate in the context of International Financial Reporting Standards as adopted by the European Union.
    b. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with International Financial Reporting Standards as adopted by the European Union for the Group and FRS 101 for the Company.
    c. The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
    d. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent company financial statements due to subsequent events.

Income and indirect taxes

24. 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.

Group audits

25. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the accounts.
26. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent, subsidiary undertakings and associated undertakings.

Retirement benefits

27. 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.

Use of the work of the specialist

28. 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.

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Tangible and Intangible assets

28. We are satisfied with the basis of accounting for tangible and intangible assets impairment reversal of £272m as a change in accounting estimate recognised as at 26 March 2017.

29. We believe that the assumptions used in the tangible and intangible assets impairment assessment model are reasonable and represent management's best estimate as at 26 March 2017.

30. We confirm that it is our expectation that the network subsidy of £50m will be available to the Company after 2020/21 if the performance of the business means that it is still required.

Going Concern

31. 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.

Comparative information – comparative financial statements

32. In connection with your audit of the comparative consolidated and parent company financial statements for the year ended 27 March 2016, we represent, to the best of our knowledge and belief, the following:

- In preparing the Group financial statements for the current year, the comparative figures for the year ended 27 March 2016 have been restated. The Retail Cash in Transit operation has been discontinued during the current year and has been presented as part of discontinued operations. The comparatives in the Income Statement for the year ended 27 March 2016 have been restated and allocated to discontinued operations. The restatement affects revenue, people costs, and other operating costs. Within this report, the comparative income statement and statement of comprehensive income for the year ended 27 March 2016 have been restated. The operating profit from revenue trading on the cash flow statement has also been restated. There has been no effect on the balance sheet or statement of changes in equity.
- 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.
- In preparing the Parent Company's financial statement the comparative figures for the years ended 27 March 2016 and 29 March 2015 have been restated for a change in the accounting policy with respect to investment in joint ventures. The restatement is in the Parent Company Financial Statements only. The change in accounting policy is described in more detail in the accounting policies.
- The Group also voluntarily changed the presentation format of consolidated income statement to columnar format for 2016/17 and related comparative financial information.

Ownership of Assets

33. Except for assets capitalised under finance leases, the Group and Company has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Group and Company's assets, nor has any asset been pledged as collateral. All assets to which the Group and Company has satisfactory title appear in the balance sheet.
34. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
35. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note 14 to the consolidated and parent company financial statements, we have no other line of credit arrangements.

Yours faithfully,

_____

Alisdair Cameron, Chief Financial Officer

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Post Office Limited

Registered Number 2154540

Post Office Limited

Financial Statements

2016-2017

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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 judgements 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 LIMITED

We have audited the consolidated Financial Statements of Post Office Limited for the 52 week period ended 26 March 2017 which comprise the Group Consolidated Income Statement, the Group Consolidated Statement of Comprehensive Income, the Group Consolidated Balance Sheet, the Group Consolidated Statement of Cash Flows, the Group Consolidated Statements of Changes in Equity, the related notes 1 to 23, 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 19. 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. 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 [x], 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 26 March 2017 and of the Group's profit for the 52-week period then ended;
- the group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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:

- based on the work undertaken in the course of the audit
  - the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

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- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report

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.

Peter McIver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
[x] 2017

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Consolidated income statement
for the 52 weeks ended 26 March 2017 and 27 March 2016

		2017 £m				2016 (restated) £m			
	Notes	Revenue trading	Closure of activities	Capital and investment	Total	Revenue trading	Closure of activities	Capital and investment	Total
Continuing operations:									
Turnover		**957**	**-**	**-**	**957**	964	-	-	964
Network Subsidy Payment		**80**	**-**	**-**	**80**	130	-	-	130
Revenue		**1,037**	**-**	**-**	**1,037**	1,094	-	-	1,094
Costs	2,4,17	**(978)**	**19**	**(116)**	**(1,075)**	(1,016)	-	(283)	(1,299)
Investment funding	4	**-**	**-**	**140**	**140**	-	-	150	150
Impairment	4	**-**	**-**	**168**	**168**	-	-	(136)	(136)
Depreciation		**-**	**-**	**-**	**-**	(1)	-	-	(1)
Share of post-tax profit from joint venture	10	**34**	**-**	**-**	**34**	35	-	-	35
Operating profit / (loss) from continuing operations		**93**	**19**	**192**	**304**	112	-	(269)	(157)
Finance costs	6	**(6)**	**-**	**-**	**(6)**	(5)	-	-	(5)
Pensions net financing income	17	**8**	**-**	**-**	**8**	8	-	-	8
Profit / (loss) before taxation from continuing operations		**95**	**19**	**192**	**306**	115	-	(269)	(154)
Taxation credit / (charge)	7	**9**	**(25)**	**-**	**(16)**	4	-	-	4
Profit / (loss) for the financial year from continuing operations		**104**	**(6)**	**192**	**290**	119	-	(269)	(150)
Discontinued operations:									
Loss for the financial year after tax from discontinued operations	20	**-**	**(47)**	**-**	**(47)**	-	(17)	-	(17)
Profit / (loss) for the financial year		**104**	**(53)**	**192**	**243**	119	(17)	(269)	(167)
EBITDAS		**13**				(17)			

Revenue trading represents the underlying trading of the business excluding the closure of activities, investment funding, restructuring and transformation costs, and impairment of capital expenditure.

Closure of activities is the £48 million net loss of the Retail Cash in Transit operation which has been discontinued during the year less the £1 million provision release from the Mobile operation that was discontinued in prior year (note 20), plus £19 million one-off pension gain resulting from the closure of the defined benefit plan. The reversal of £25 million tax losses asset has also been allocated to closure of activities as this is related to the closure of the defined benefit plan (note 7). Prior year results have been restated to show the Retail Cash in Transit net loss as discontinued, the impact of this on prior year revenue and costs has been summarised within note 1.

Capital and investment (note 4) includes investment funding, impairment of capital expenditure and transformational spend. In the current year there has been a reversal of impairment to the value of £272 million, further detail is given in note 1.

EBITDAS is one of the Group's key financial measures and is calculated by taking Revenue excluding the Network Subsidy Payment, less costs from revenue trading excluding depreciation, plus joint venture share. For the year ended 26 March 2017 EBITDAS was £13 million (2016 restated: EBITDAS loss of £17 million).

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Consolidated statement of comprehensive income
for the 52 weeks ended 26 March 2017 and 27 March 2016

	Notes	**2017 £m**	2016 (restated) £m
Profit / (loss) for the financial year from continuing operations		**290**	(150)
Loss for the financial year from discontinued operations	20	**(47)**	(17)
Profit / (loss) for the financial year		**243**	(167)
Other comprehensive income not to be reclassified to profit or loss in future periods			
Remeasurements on defined benefit surpluses	17	**(249)**	(9)
Withholding tax effect		**30**	-
Income tax effect	7	**25**	5
Total comprehensive profit / (loss) for the year		**49**	(171)

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 26 March 2017 and 27 March 2016

	Notes	2017 £m	2016 (restated) £m
Cash flows from operating activities			
Operating profit from revenue trading from continuing operations		**93**	112
Operating loss from discontinued operations	20	**(47)**	(17)
Total profit before capital and investment		**46**	95
Adjustment for:			
Share of profit from joint venture	10	**(34)**	(35)
Pension operating costs	2	**24**	30
Working capital movements:		**(6)**	(81)
Decrease/(increase) in trade and other receivables		**81**	(16)
Decrease in trade and other payables		**(95)**	(59)
Increase in inventories		**(1)**	-
Increase in provisions for discontinued operations	20	**5**	3
Increase/(decrease) in revenue trading provisions	15	**4**	(9)
Pension operating costs paid		**(22)**	(23)
Cash payments in respect of capital and investment items:		**(50)**	(109)
Investment funding		**140**	150
Restructuring costs		**(190)**	(253)
Other		**-**	(6)
Net cash outflow from operating activities		**(42)**	(123)
Income tax recovered	7	**9**	9
Cash flows from investing activities			
Dividends received from joint ventures	10	**35**	35
Acquisition of insurance business		**-**	(44)
Purchase of tangible and intangible non-current assets		**(115)**	(136)
Net cash outflow from investing activities		**(80)**	(145)
Net cash outflow before financing activities		**(113)**	(259)
Cash flows from financing activities			
Finance costs paid		**(7)**	(5)
Payments to finance lease creditors		**(8)**	-
Proceeds of borrowings from BEIS	14	**96**	155
Net cash inflow from financing activities		**81**	150
Net decrease in cash and cash equivalents		**(32)**	(109)
Cash and cash equivalents at the beginning of the year	12	**712**	821
Cash and cash equivalents at the end of the year	12	**680**	712

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Consolidated balance sheet
at 26 March 2017 and 27 March 2016

	Notes	**2017 £m**	2016 £m
Non-current assets			
Intangible assets	8	**181**	44
Property, plant and equipment	9	**144**	9
Investments in joint venture	10	**66**	67
Retirement benefit surplus	17	**1**	196
Trade and other receivables	11	**13**	12
Total non-current assets		**405**	328
Current assets			
Inventories		**7**	6
Trade and other receivables	11	**329**	411
Cash and cash equivalents	12	**680**	712
Total current assets		**1,016**	1,129
Total assets		**1,421**	1,457
Current liabilities			
Trade and other payables	13	**(563)**	(655)
Financial liabilities - interest bearing loans and borrowings	14	**(561)**	(465)
- obligations under finance leases		**-**	(8)
Provisions	15	**(58)**	(151)
Total current liabilities		**(1,182)**	(1,279)
Non-current liabilities			
Other payables	13	**(22)**	(25)
Provisions	15	**(31)**	(16)
Total non- current liabilities		**(53)**	(41)
Net assets		**186**	137
Equity			
Share capital	18	**-**	-
Share premium	18	**465**	465
Retained earnings		**(281)**	(330)
Other reserves	18	**2**	2
Total equity		**186**	137

The financial statements on pages [x] to [x] were approved by the Board of Directors on [x] 2017 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 26 March 2017 and 27 March 2016

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	**Total equity £m**
At 27 March 2016		465	(330)	2	**137**
Profit for the year		-	243	-	**243**
Remeasurements on defined benefit surplus	17	-	(249)	-	**(249)**
Withholding tax effect		-	30	-	**30**
Income tax effect	7	-	25	-	**25**
At 26 March 2017		**465**	**(281)**	**2**	**186**

	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 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 26 March 2017 (2016: 52 weeks ended 27 March 2016).

Basis of preparation

The Group financial statements on pages [x] to [x] 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.

The presentational format of the income statement has been changed in the current year to a columnar format presenting the results of the Group in total and split between Revenue trading, Closure of activities, and Capital and investment. The prior year results have also been presented in the new format. The change in format was considered appropriate this year because of the discontinued operation and the closure of the defined benefit plan, which are significant items requiring separate presentation.

Revenue trading represents the underlying trading of the business excluding the closure of activities, investment funding, restructuring and transformation costs, and impairment of capital expenditure. Closure of activities includes the net loss of the Retail Cash in Transit operation which has been discontinued in the year, including all revenue and costs in the year which relate directly to the operation. Closure of activities also includes the one-off pension gain resulting from the closure of the defined benefit plan. Capital and investment includes investment funding from the Government, impairment of capital expenditure and reversal of previous impairment, and transformational spend.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertaking as at 26 March 2017. 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 set of financial statements has been prepared for Post Office Management Services Limited (subsidiary) for the 52 weeks ended 26 March 2017. The year end date is in line with the Company. The subsidiary uses consistent accounting policies where appropriate and 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, become effective after the current year–end and have not been early adopted by the Group.

These standards have already been endorsed by the EU excluding amendments to IFRS 16 Leases, amendments to IAS 7, and amendments to IAS 12 which are all expected to be endorsed in Q4 2017 as per the 13 July 2017 EFRAG Endorsement Status Report.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was first issued in November 2009 and has 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. The Group expects to complete its analysis of the expected impact during 2017.

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 are 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. The Group expects to complete its analysis of the expected impacts on revenue recognition and disclosure requirements during 2017. A summary of the types of revenue recognised by the Group is summarised in note 1.

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Amendments to IFRS 16 Leases

The scope of IFRS 16 includes leases of all assets, with certain exceptions. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17, except for two exemptions which are leases of low value assets and short-term leases (leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the asset. Lessees will be required to re-measure the lease liability upon the occurrence of certain events as an adjustment to the asset value. The amendments are effective for annual periods beginning on or after 1 January 2019. The Group is currently considering the impact of the new standard; a material impact is expected as a number of arrangements that are currently accounted for as operating leases will come onto the Group's balance sheet. The Group's current lease commitments are disclosed in note 19.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendment is effective for annual periods beginning on or after 1 January 2017. The Group is currently considering the impact of this change.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. The change is effective for annual periods beginning on or after 1 January 2017. It is anticipated that the application of these amendments will have no significant impact on the Group's income statement or balance sheet.

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 £186 million at 26 March 2017 (2016: £137 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, Energy & Industrial Strategy (BEIS) with a limit of £950 million from 30 March 2015 up to 31 March 2018.

At 26 March 2017 £389 million of the working capital facility was undrawn (2016: £485 million).

Post Office and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility confirming that the following funding package will be made available to Post Office from April 2018:

- Extension of the existing working capital facility of £950 million with BEIS to 31 March 2021
- Network subsidy payment of £60 million for 2018-19
- Network subsidy payment of £50 million for 2019-20.

In addition the Secretary of State for BEIS has confirmed in principle in a letter dated 25 July 2017 that the following additional funding will be also be made available to Post Office:

- Network subsidy payment of £50 million for 2020-21
- Investment funding of up to £210 million for the period April 2018 to March 2021.

The network subsidy payment and investment funding will be received in the form of grants and are non-refundable.

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State aid approval for the funding for 2018-19 to 2020-21 has not yet been received. The working capital facility is not classified as state aid and requires no further approval.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider 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 27 March 2016 have been restated. The Retail Cash in Transit operation has been discontinued during the current year and has been presented as part of discontinued operations. The comparatives in the income statement have been restated and allocated to discontinued operations. The restatement affects revenue and costs.

Within this report, the comparative income statement and statement of comprehensive income for the year ended 27 March 2016 have been restated. The operating profit from revenue trading on the cash flow statement has also been restated. There has been no effect on the balance sheet or statement of changes in equity.

The following table shows the impact of the restatement on the income statement for the year ended 27 March 2016:

	As previously reported	Restatement	27 March 2016 Restated
	£m	£m	£m
Turnover	981	(17)	964
Costs*	(1,040)	24	(1,016)
Loss for the year from continuing operations	(157)	7	(150)
Loss for the year from discontinued operations	(10)	(7)	(17)
Loss for the year after discontinued operations	(167)	-	(167)

*Costs exclude £1 million of depreciation which is separated on the face of the income statement in the current year.

The presentational format of the income statement has been changed in the current year to a columnar format presenting the results of the Group in total and split between Revenue trading, Closure of activities, and Capital and investment. The definition of these headings is defined within a memorandum to the consolidated income statement. The prior year results have also been presented in the columnar format which is different to the format they were presented in the last set of financial statements.

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.

The Post Office section of the Royal Mail Pension Plan (RMPP) was closed to future accrual on 31 March 2017. A Memorandum of Understanding was executed on 21 March 2017 which removed the unconditional right to refund from the Plan. As a result of these events there has been a one-off credit to the income statement, and the surplus has been written off through other comprehensive income. This is described in further detail within note 17.

The values of these adjustments 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.

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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 Postmasters agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for Postmasters' compensation at the year end date represents management's best estimate of the future obligation. Provisions are detailed in note 15. 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.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Group has made a profit from continuing operations and this is expected to be sustainable. In addition, the Group has secured a Network Subsidy Payment to March 2021, and continued investment funding over that period from Government. In this circumstance the Group no longer considers there to be indicators of impairment, and there has been a change in accounting estimate to reflect this. An impairment test was performed at the year end to support this; details of this are in note 9.

The change in accounting estimate has resulted in a reversal of impairment losses in the current year, and the carrying value of assets has been increased. The reversal is no more than the depreciated historical cost if the impairment had not been recognised. The reversal of the impairment loss has been recognised in the income statement for the current year and the change will be applied in future years subject to a continuous review of trading and funding.

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 in previous periods due to ongoing operational losses (excluding Network Subsidy Payment) they have been impaired to zero on acquisition. In the current year the impairment loss was reversed at the year end, and depreciation will be recognised going forwards on a straight-line basis over the following useful lives:

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

In the current year the asset lives for Motor vehicles and trailers and Fixtures and equipment have been changed to range from 3 years, not 2 years as reported in prior years. This is to reflect the range of asset lives actually in use for the current asset portfolio.

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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 have not been impaired on acquisition but would be considered for impairment if indicators existed. They are 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. In previous periods these assets were impaired to zero for the reasons noted above. In the current year the impairment loss was reversed at the year end, and amortisation will be recognised going forwards on a straight-line basis over the following useful life:

Software	3 to 6 years

In the current year the range of asset lives for Software has been changed to start from 3 years, not 1 year as reported in prior years. This is to reflect the range of asset lives actually in use for current Software assets.

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. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

- significant underperformance compared to historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy of the overall Group; and
- significant negative micro- or macro-economic trends.

Goodwill was not considered to be impaired at the date of the last review.

Non-current assets within subsidiaries

Post Office's subsidiary is considered a separate cash generating unit. The need for impairment of assets is considered within the subsidiary and is dependent on whether indicators of impairment exist within that subsidiary.

Discontinued operations

The Group has treated the closure of its Retail Cash in Transit operation as a discontinued operation in the year. The prior year results have also been restated for this. The Retail Cash in Transit operation was considered to be a separate component of Post Office, as its revenue, costs and cash flows were distinguishable from the rest of the Group and the nature of the operation was different to the rest of the business.

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Revenue
Turnover from Retail, Financial Services 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.

Post Office Management Services turnover comprises the value of services provided from the principle activities in providing insurance intermediary services through its network of Post Office branches across the UK, online and contact centre channels. Turnover comprises commissions received from provision of the intermediary services excluding taxes.

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, Energy & Industrial Strategy considers appropriate.

Capital and investment expenditure
Capital and investment 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 capital and investment expenditure helps to provide a better picture of the Group's underlying performance. Capital and investment expenditure comprises investment funding, restructuring and transformation costs, and impairment of capital expenditure.

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.

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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 Group. 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 Post Office section of the RMPP closed to future accrual on 31 March 2017. A Memorandum of Understanding was executed on 21 March 2017 which removed the unconditional right to refund from the Plan. As a result of these events the surplus relating to this Plan has been derecognised in the year, in line with IFRIC 14 which states that if the entity does not have an unconditional right to refund then an asset shall not be recognised.

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 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). As noted above, the RMPP Plan has been closed and no future refunds will be made to the Group. Therefore in accordance with IFRIC 14 the pension asset has been derecognised.

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. In the current year there are further impacts on the income statement and statement of comprehensive income as a result of the closure of the RMPP Plan; these have been described within note 17.

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.

Investment funding
Investment funding is from the Government and includes the Network Subsidy Payment and Government grant. The Government grant is shown separately in the income statement to match the expenditure to which it relates.

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

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

Financial assets
Financial assets are 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

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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.

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 on 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 current deposit accounts 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, these 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 within revenue trading:	**2017** **£m**	2016 (restated) £m
Wages and salaries	**157**	164
Social security costs	**21**	19
Pension costs (note 17)	**24**	30
Total people costs within revenue trading	**202**	213
Other operating costs within revenue trading	**776**	803
Total revenue trading costs	**978**	1,016

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There is a People costs credit within closure of activities of £19 million (2016: £nil) relating to a one-off past service adjustment in respect of the closure of the RMPP defined benefit pension plan.

People costs within capital and investment relate to severance costs as part of restructuring and are disclosed within note 4.

Period end and average employee numbers were as follows:

	Period end employees		Average employees	
	2017	2016	**2017**	2016
Total employees	**5,302**	6,605	**6,054**	6,667

Total employee numbers can be categorised as follows:

	2017	2016
Administration	**1,275**	1,261
Directly managed branches (DMB)	**2,807**	3,344
Supply Chain	**833**	1,360
Network and DMB transformation programmes	**387**	640
Total	**5,302**	6,605

3. Operating profit from continuing operations before capital and investment

Operating profit from continuing operations before capital and investment expenditure is stated after charging:

	2017 £m	2016 £m
Postmasters' fees	**388**	413
Depreciation	**-**	1
Cost of inventories recognised as an expense	**4**	3
Operating lease charges – Land and buildings	**14**	17
Fees payable to the group's auditor for audit and other services:	**£000**	£000
-parent company and group audit	**524**	346
-audit of subsidiary	**60**	70
-audit related assurance services	**38**	40
-other assurance services	**106**	106

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4. Capital and investment

	2017 £m	2016 £m
Investment funding	**140**	150
Restructuring:		
Business transformation	**(6)**	(13)
Network transformation including Postmasters' compensation	**(36)**	(177)
Directly managed branch transformation	**(18)**	(23)
IT transformation	**(9)**	(30)
Restructuring – severance	**(46)**	(29)
- other	**(1)**	(11)
Total restructuring costs	**(116)**	(283)
Impairment:		
Impairment of intangible assets (note 8)	**(78)**	(93)
Impairment of property, plant and equipment (note 9)	**(26)**	(43)
Reversal of impairment on intangible assets (note 8)	**137**	-
Reversal of impairment on property, plant and equipment (note 9)	**135**	-
Total impairment reversal / (charge)	**168**	(136)
Total capital and investment income / (loss)	**192**	(269)

Restructuring:

Restructuring costs are those incurred in order to implement the major transformation programmes, primarily the Directly Managed Branch and Network programmes which are discussed further in the Financial Review on page [x]. Network transformation includes the costs of Postmasters' compensation of £10 million (2016: £102 million) which are payments made to Postmasters as a result of the ongoing programme. Postmasters' compensation costs in 2017 were £10 million but these were offset by a release in the provision of £34 million (credit to the income statement); this is due to a change in the accounting estimate as the programme nears completion and the expected number of branches to convert decreases.

Impairment and reversal of impairment:

See the accounting policies on page [x] for details.

5. Directors' emoluments

The Directors received the following emoluments:

	2017 £000	2016 £000
Emoluments, excluding pension contributions and LTIP*	**1,231**	1,194
Contributions to pension schemes	**4**	4
Amounts receivable under Long-Term Incentive Plans	**229**	44

*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:	2017 Number	2016 Number
Defined benefit schemes	**-**	-
Defined contribution schemes	**1**	1

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The highest paid Director received the following emoluments:

	2017 £000	2016 £000
Emoluments and LTIP, excluding pension contributions but including cash supplements received in lieu of pensions	**672**	620
Company contributions to pension schemes	**-**	-

Remuneration for each director for the financial year 2016/17

Name	Annualised salary/fees 2016-17 (note 1)	Actual salary/fees 2016-17	Benefits 2016-17	Cash in lieu of pension 2016-17	STIP 2016-17	LTIP 2016-17	Total 2016-17	Total 2015-16
Non Executive Directors								
Tim Franklin	40,000	40,000	-	-	-	-	40,000	40,000
Virginia Holmes	35,000	35,000	-	-	-	-	35,000	40,000
Alasdair Marnoch (note 2)	-	-	-	-	-	-	-	15,000
Ken McCall (note 3)	50,000	50,000	-	-	-	-	50,000	12,500
Neil McCausland (note 4)	-	-	-	-	-	-	-	25,000
Tim Parker (note 5)	75,000	75,000	-	-	-	-	75,000	37,500
Alice Perkins (note 6)	-	-	-	-	-	-	-	33,333
Carla Stent (note 7)	45,000	45,000	-	-	-	-	45,000	8,833
Richard Callard (note 8)	-	-	-	-	-	-	-	-
Executive Directors								
Paula Vennells	250,000	250,000	9,900	62,500	198,000	151,200	671,600	619,752
Alisdair Cameron	240,000	240,000	14,100	55,800	160,080	77,760	547,740	510,254

Note 1: The annualised fees are shown as at 26 March 2017 or at the date of leaving.

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

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

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

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

Note 6: Alice Perkins resigned from the Board and left on 31 July 2015

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

Note 8: Richard Callard is an employee of the Shareholder Executive of the Department for Business, Energy and Industrial Strategy.

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Remuneration Policy Summary

The table below describes the STIP and LTIP available for the Executive Directors. 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 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 objectives. The target opportunities for the Chief Executive and Chief Financial Officer are 48% and 40% with a maximum for stretch performance of 80% and 66.66% 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%, with stretch performance of 98% and 70% 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

	2017 £m	2016 £m
Interest payable on loans	**(4)**	(2)
Finance charges	**(2)**	(3)
Total	**(6)**	(5)

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7. Taxation

(a) Taxation gains recognised in the year

	2017 £m	2016 £m
Corporation tax credit for year	**(9)**	(9)
Deferred tax credit relating to the origin and reversal of temporary differences	**24**	2
Effect of change in tax rate	**1**	3
Income tax charge / (credit) reported in the consolidated income statement	**16**	(4)

Deferred income tax of £25 million (2016: £5 million) has been credited to other comprehensive income relating to actuarial movements in the retirement benefit surplus. This offsets the deferred tax debit of £25 million (2016: £5 million) that has been reported in the consolidated income statement.

The net charge recognised in the income statement is £16 million (2016: net credit of £4 million). Of this net charge, a credit of £9 million relates to normal revenue trading. The remaining £25 million charge is linked to the closure of the defined benefit plan and therefore has been recognised within Closure of activities in the income statement.

(b) Factors affecting current tax charge on profit on ordinary activities
The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	2017 £m	2016 (restated) £m
Profit / (loss) on ordinary activities before tax from continuing operations	**306**	(154)
Loss on ordinary activities before tax from discontinued operations	**(47)**	(17)
Accounting profit / (loss) before taxation	**259**	(171)
Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%)	**52**	(34)
Net decrease in tax charge as a result of recognition of deferred tax assets	**(44)**	8
Expenditure disallowable for tax	**-**	1
Losses from disposals ineligible for relief	**(1)**	-
Effect of unutilised losses carried forward	**16**	28
Joint venture profit after tax included in Group pre-tax profit	**(7)**	(7)
Total current tax (see above)	**16**	(4)

(c) Deferred tax

Deferred tax assets relate to the following:

	Balance sheet		Income statement	
	2017 £m	2016 £m	2017 £m	2016 £m
Pensions temporary differences	**-**	(25)	**(25)**	(5)
Losses available for offset against future taxable income	**-**	25	**-**	-
Total deferred tax asset	**-**	-	**(25)**	(5)
Income statement	**-**	-	**(25)**	(5)

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(d) Factors that may affect future tax charges
The Group has unrecognised deferred tax assets of £181 million (2016: £166 million), comprising £54 million (2016: £78 million) relating mainly to fixed asset timing differences, £6 million (2016: £1 million) relating to timing differences on provisions and £121 million (2016: £87 million) relating to tax losses that are available to offset against future taxable profits. The Group has rolled over capital gains of £2 million (2016: £2 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.

8. Intangible assets

	Software		Goodwill		Total	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m
Cost						
At 27 March 2016, 29 March 2015	389	297	44	-	433	297
Reclassifications	(53)	-	-	-	(53)	-
Additions	78	93	-	44	78	137
Disposals	(91)	(1)	-	-	(91)	(1)
At 26 March 2017, 27 March 2016	**323**	**389**	**44**	**44**	**367**	**433**
Amortisation and impairment						
At 27 March 2016, 29 March 2015	389	297	-	-	389	297
Reclassifications	(53)	-	-	-	(53)	-
Amortisation and impairment (note 4)	78	93	-	-	78	93
Impairment reversal (note 4)	(137)	-	-	-	(137)	-
Disposals	(91)	(1)	-	-	(91)	(1)
At 26 March 2017, 27 March 2016	**186**	**389**	**-**	**-**	**186**	**389**
Net book value						
At 26 March 2017, 27 March 2016	**137**	**-**	**44**	**44**	**181**	**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. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Management determined that no impairment was necessary for the current year (2016: £nil).

Refer to note 9 for details of the impairment review performed for Software.

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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 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
Reclassification*	(12)	8	-	-	-	57	53
Additions	1	-	-	-	-	25	26
Disposals	(21)	(25)	(67)	(17)	-	(130)	(260)
At 26 March 2017	**45**	**41**	**23**	**26**	**1**	**795**	**931**
Depreciation and impairment							
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
Reclassification	(12)	8	-	-	-	57	53
Depreciation and impairment (notes 3 and 4)	1	-	-	-	-	25	26
Impairment reversal (note 4)	(5)	(26)	-	-	-	(104)	(135)
Disposals	(21)	(25)	(67)	(17)	-	(130)	(260)
At 26 March 2017	**32**	**14**	**23**	**26**	**1**	**691**	**787**
Net book value							
At 26 March 2017	**13**	**27**	**-**	**-**	**-**	**104**	**144**
At 27 March 2016	8	1	-	-	-	-	9

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £3 million (2016: £3 million) of the total cost of properties.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Group has made a profit from continuing operations and this is expected to be sustainable. In addition, the Group has secured Network Subsidy Payments to March 2021, and continued investment funding over that period from Government of up to £210 million. In these circumstances the Group no longer considers there to be indicators of impairment, and there has been a change in accounting estimate to reflect this. The change in accounting estimate has been made as at the year end date as this is the point at which there was sufficient evidence of a value in use.

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An impairment test was performed at the year end to support this. Software and property, motor vehicles and fixtures and equipment were tested for impairment at the year end by comparing the carrying amount of each Cash Generating Unit (CGU) with the recoverable amount determined from value in use calculations.

The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of the CGU's identified, being Post Office Limited and Post Office Management Services Limited. Value in use is determined using the Group's net cash inflows from the continued use of the assets within each CGU over a four year period, with no nominal growth rate assumed outside of this period. A pre-tax discount rate of 9% (Post Office Limited) and 12% (Post Office Management Services Limited) has been used to discount the forecasted cash flows.

A sensitivity analysis has been performed in assessing the value in use of software and property, motor vehicles and fixtures and equipment. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to two per cent and a decrease in the growth rate by up to two per cent. The sensitivity analysis showed that no impairment would arise under each scenario.

Management therefore believes that any reasonably possible change in the key assumptions would not cause the carrying amount of any CGU's to exceed their carrying value.

As a result of the conclusions made, there has been a reversal of impairment losses in the current year, and the carrying value of assets has been increased. The reversal is no more than the depreciated historical cost if the impairment had not been recognised. The reversal of the impairment loss has been recognised in the income statement for the current year and the change will be applied in future years subject to a continuous review of trading and funding.

10. Investments in joint ventures

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

Joint ventures

During 2016-17 and 2015-16, 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, Brentford, Middlesex, TW8 9DF.

	2017 Joint venture £m	2016 Joint venture £m
Share of net assets		
Total net investment at 27 March 2016, 29 March 2015	**67**	67
Share of post tax pre dividend profit	**34**	35
Dividend	**(35)**	(35)
Total net investment at 26 March 2017, 27 March 2016	**66**	67

	2017 Joint venture	2016 Joint venture
Share of assets and liabilities:	**£m**	£m
Current assets	**222**	187
Non-current assets	**7**	6
Share of gross assets	**229**	193
Current liabilities	**(163)**	(126)
Share of net assets	**66**	67
Share of revenue and profit:		
Revenue	**82**	79
Profit after tax	**34**	35

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11. Trade and other receivables

	2017 £m	2016 £m
Current:		
Trade receivables	**70**	95
Prepayments and accrued income	**97**	73
Client receivables	**144**	229
Other receivables	**18**	14
Total	**329**	411
Non-current:		
Prepayments	**13**	12

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 26 March 2017 trade receivables of £14 million (2016: £18 million) were impaired and fully provided for. During the year £13 million (2016: £4 million) of the provision has been utilised and an additional £9 million (2016: £8 million) has been provided for. Trade receivables of £13 million (2016: £23 million) were past due but not impaired. The aging analysis of the trade receivables are as follows:

	2017 £m	2016 £m
Not yet overdue	**57**	72
Past due not more than one month	**4**	12
Past due more than one month and not more than two months	**3**	3
Past due more than two months	**6**	8
Total	**70**	95

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

12. Cash and cash equivalents

	2017 £m	2016 £m
Cash in the Post Office Limited network	**666**	653
Short-term bank deposits	**12**	57
Fiduciary cash balances held on behalf of insurance third parties	**2**	2
Total cash and cash equivalents	**680**	712

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.

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13. Trade and other payables

	2017 £m	2016 £m
Current:		
Trade payables	**51**	51
Accruals	**161**	163
Deferred income	**33**	39
Social security	**10**	8
Client payables	**296**	375
Capital payables	**11**	16
Other payables	**1**	3
Total	**563**	655
Non-current:		
Other payables	**22**	25

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

14. Financial liabilities – interest bearing loan and borrowings

	2017 £m	2016 £m
Department for Business, Energy & Industrial Strategy	**561**	465

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year end (2016: 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 £389 million (2016: £485 million). The average interest rate on the drawn down loans is 0.8% (2016: 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	Onerous Leases £m	Severance £m	Other £m	Total £m
At 27 March 2016	134	19	3	11	167
Charged to capital and investment	10	20	50	3	83
Charged to revenue trading	-	-	-	5	5
Charged for discontinued operation	-	-	-	44	44
Utilisation	(68)	(7)	(43)	(38)	(156)
Unused amounts in the year – capital and investment	(34)	(11)	(1)	(7)	(53)
Unused amounts in the year – revenue trading	-	-	-	(1)	(1)
At 26 March 2017	**42**	**21**	**9**	**17**	**89**

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	Network Transformation £m	Onerous Leases £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 26 March 2017					
Current	**28**	**7**	**9**	**14**	**58**
Non – current	**14**	**14**	**-**	**3**	**31**
	42	**21**	**9**	**17**	**89**
At 27 March 2016					
Current	132	6	3	10	151
Non-current	2	13	-	1	16
	134	19	3	11	167

The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page [x] for further details of this provision. The reduction in the provision from prior year reflects a change in the accounting estimate as the programme nears completion and the expected number of branches to convert decreases.

Other provisions of £17 million (2016: £11 million) include £9 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 £8 million (2016: £3 million) in relation to the discontinued operation as disclosed in note 20.

16. Financial assets and liabilities

a. Financial assets and liabilities by category

The breakdown of the Group's financial instruments at 26 March 2017 and 27 March 2016 is shown below:

	2017			2016		
	Current	**Non current**	**Total**	Current	Non Current	Total
	£m	**£m**	**£m**		£m	£m
Financial assets						
Trade and other receivables	**320**	**-**	**320**	396	-	396
Cash and cash equivalents	**680**	**-**	**680**	712	-	712
Financial liabilities						
Trade and other payables	**(520)**	**(4)**	**(524)**	(608)	(4)	(612)
BEIS loan	**(561)**	**-**	**(561)**	(465)	-	(465)
Finance leases obligations	**-**	**-**	**-**	(8)	-	(8)
Total financial assets/ (liabilities)	**(81)**	**(4)**	**(85)**	27	(4)	23

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.

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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 2 in the fair value hierarchy.

The Group has no Level 1 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 and 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 current account balances. 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 an £8 million favourable impact on the Group's equity and income statement. A 50 basis point decrease would have resulted in a £2 million 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.

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) US dollar rate	Effect on profit before tax	Effect on equity	Strengthening / (weakening) in euro rate	Effect on profit before tax	Effect on equity
	% Increase / (decrease)	£m Increase / (decrease)	£m Increase / (decrease)	% Increase / (decrease)	£m Increase / (decrease)	£m Increase / (decrease)
2017	**10**	**2**	**2**	**10**	**4**	**4**
	(10)	**(2)**	**(2)**	**(10)**	**(4)**	**(4)**
2016	10	2	2	10	4	4
	(10)	(2)	(2)	(10)	(4)	(4)

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% (2016: less than 2%) of turnover.

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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 reserves to meet operating requirements in the next 12 months.

At 26 March 2017 the Group has unused facility of £389 million (2016: £485 million). The current facility expires in 2018. An extension of the working capital facility to March 2021 was agreed on 30 March 2017.

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.

At 26 March 2017	**12 Months £m**	**1-2 Years £m**	**Total £m**
Financial assets			
Trade and other receivables	320	-	**320**
Cash and cash equivalents	680	-	**680**
Financial liabilities			
Trade and other Pavables	(520)	(4)	**(524)**
Interest bearing loan	(561)	-	**(561)**
Finance leases obligations	-	-	**-**
Total financial liabilities	**(81)**	**(4)**	**(85)**

At 27 March 2016	12 Months £m	1-2 Years £m	Total £m
Financial Assets			
Trade and other receivables	396	-	396
Cash and cash equivalents	712	-	712
Financial Liabilities			
Trade and other Pavables	(608)	(4)	(612)
Interest bearing loan	(465)	-	(465)
Finance leases obligations	(8)	-	(8)
Total financial assets/ (liabilities)	27	(4)	23

There were no financial assets or liabilities in the current or prior year that were due to mature after 2 years.

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17. Pensions

The disclosures in this note reflect the two defined benefit schemes: the Post Office section of the Royal Mail Pension Plan (RMPP) which is independent from the Royal Mail section of the RMPP, and a 7% share of the Royal Mail Senior Executive Pension Plan (RMSEPP). Royal Mail Group Ltd is the principle employer of RMSEPP and Post Office Ltd became a participating employer with effect from 1 April 2012. This disclosure also includes the Post Office Pension Plan (POPP), which is a defined contribution scheme.

The disclosures in this note show the value of the assets and liabilities that have been calculated at the balance sheet date.

Post Office participates in pension schemes as detailed below.

Name	Eligibility	Type
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

*The RMPP closed to future accrual on 31 March 2017.

Defined Contribution

The charge in the income statement for the defined contribution scheme and the Group contributions to this scheme were £3 million (2016: £3 million) during the year. New employees joining the Group are able to pay contributions to POPP after they have worked for the Group for a year.

Under the Pensions Act 2008, from 1 May 2017 the Group will auto-enrol all eligible employees into POPP regardless of their length of service.

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate Trust administered funds. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans. The latest full actuarial funding valuation of the RMPP was carried out as of 31 March 2015 using the projected unit method. For RMPP, this valuation was concluded at £62.7 million surplus (2012: £135 million surplus) on a Technical Provisions basis. Valuations are carried out triennially and the next one for the RMPP is due to be carried out as at 31 March 2018. 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 Section A members 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.

The latest full actuarial funding valuation for RMSEPP was carried out as at 31 March 2015 using the projected unit method. For 100% of RMSEPP, the valuation concluded at £17 million surplus on a Technical Provisions basis. The next full valuation for RMSEPP is expected to be carried out as at 31 March 2018.

A series of changes to RMPP and RMSEPP have taken effect since 1 April 2008.

The changes encompassed are:

- The Plans closed to new members from 31 March 2008;
- All pensions and benefits earned before 1 April 2008 retained a link to final pensionable salary, benefits accrued from 1 April 2008 were earned on a "career average pensionable salary" basis;
- RMPP employees can continue to take their pension on reaching age 60 but the normal retirement age increased to age 65 for benefits earned from 1 April 2010;
- From 1 April 2010 it was possible to draw pension earned before the change to normal retirement age at age 55 (subject to an actuarial reduction in the pension benefit), and continue working while still contributing to the RMPP until the maximum level of benefits was reached;
- RMSEPP was closed to future accrual on 31 December 2012;

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- In relation to RMPP only, from 1 April 2014 pensionable salary was amended to the amount in force as at 31 March 2014, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases; and
- The Post Office section of the RMPP closed to future accrual on 31 March 2017 and so no further defined benefits accrue in respect of Post Office employment after that date; however for as long as a member remains in employment with the Group or has not taken pension, pre-1 April 2012 pension benefits are linked to pensionable salary and post-31 March 2012 benefits receive in-deferment increases (linked to CPI).

Payment to the RMPP of £14m (2016: £17 million) was made by the Group during the year in respect of regular future service contributions. The regular future service contributions for RMPP expressed as a percentage of pensionable pay, has remained at 17.1% (2016: 17.1%) effective from April 2010. Following formal consultation with employees in 2016, the Trustee agreed to Post Office's request for the closure of the Post Office section of the RMPP to future accrual. Closure to future accrual means that no contributions in respect of normal service accrual will be made after 31 March 2017. However it is expected that there will be redundancy payments to be made to the RMPP during 2017/18.

Even though RMSEPP had a funding surplus on a Technical Provisions basis at 31 March 2015, under the Schedule of Contributions agreed for the 2015 valuation, payments of £11m per annum will be made. Post Office's share of these payments will be 7% which is £1m per annum. A payment of £1 million was made by the Group during the year. The payments will continue to the later of 30 September 2018 and the date the 31 March 2018 valuation is completed.

A current liability of £1 million (2016: £nil) has been recognised for payments to the RMPP and RMSEPP schemes relating to redundancy. During the year payments of £3 million (2016: £3 million) relating to redundancy were made.

The weighted average duration of the Post Office section of the RMPP is around 26 years, and for RMSEPP is around 20 years.

On 21 March 2017 Post Office executed a Memorandum of Understanding with the Trustee of the RMPP. This clarified the Trustee's powers to distribute surplus without Post Office's agreement and Post Office has concluded that as a result of the Memorandum of Understanding, Post Office no longer has an unconditional right to refund from the Plan. In light of this, in accordance with IFRIC 14 the RMPP pension surplus was derecognised as at 26 March 2017, and the resulting loss has been recognised in Other Comprehensive Income.

The following disclosures relate to the gains/losses and surplus/deficit in respect of Post Office's obligations to RMPP and RMSEPP:

a) Major long-term assumptions

The size of the defined benefit obligation shown in the accounts is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on this value. The overall income statement charge and past service adjustment in the income statement are also sensitive to the assumptions adopted.

The major long-term assumptions in relation to both RMPP and RMSEPP were:

	At 26 March 2017 % pa	At 27 March 2016 % pa
Increases to benefits that retain a link to pensionable pay	**3.4**	2.8
Rate of pension increases – RMPP sections A/B	**2.3**	1.8
Rate of pension increases – RMPP section C	**3.4**	2.8
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**2.3**	1.8
Rate of pension increases – RMSEPP all other members	**3.4**	2.8
Rate of increase for deferred pensions	**2.3**	1.8
Discount rate	**2.3**	3.5
Inflation assumption (RPI) – RMPP & RMSEPP	**3.4**	2.9
Inflation assumption (CPI) – RMPP & RMSEPP	**2.3**	1.8

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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 bonds and swaps, which mitigate 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 benefits retaining a link to pensionable pay in RMPP. 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 can be expected to be partially offset by an increase in the value of any corporate bond holdings and, potentially, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would be greater than currently anticipated because pensions would be paid for over a longer time than assumed.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were largely 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 value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP of changes in key assumptions:

	2017 £m	2016 £m
Changes in RPI and CPI inflation of +0.1% pa	**(9)**	(5)
Changes in discount rate of +0.1% pa	**9**	5
Changes in real salary growth of +0.1% pa	**-**	(2)
Changes in CPI assumptions of +0.1% pa	**(4)**	(1)
An additional 1 year life expectancy	**(10)**	(6)

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 used to calculate the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP are based on the latest self-administered pension scheme (SAPS "S2" series) mortality tables as shown in the following table:

Base mortality tables	**2017**	2016
Males	**100% x S2PMA**	106% x S1PMA
Female members	**100% x S2PFA**	101% x S1DFA
Female dependants	**100% x S2DFA**	101% x S1DFA
Future improvements	**CMI 2015 Core Projections with a 1.5% pa long-term trend**	Medium Cohort Projections with a 1.25% pa floor

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Average expected life expectancy from age 60:	**2017**	2016
For a current 60 year old male RMPP member	**28 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	**30 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 2017 £m**	Market value 2016 £m
Corporate bonds*	**394**	233
Property	**13**	11
Private Equity	**7**	10
Cash and cash equivalents	**68**	41
Bond/fixed interest funds	**25**	41
Other loan/debt funds	**17**	28
Alternative asset funds	**8**	43
Fair value of RMPP assets	**532**	407
Present value of RMPP liabilities	**(322)**	(184)
Surplus in plan before asset ceiling adjustment	**210**	223
Less effect of asset ceiling	**(210)**	(29)
Surplus in plan after asset ceiling adjustment	**-**	194

*£4 million relates to UK Government Bonds, £365 million to an LDI investment containing UK Government Bonds (a liability driven investment) and £25 million relates to infrastructure debt holdings and collateralised liability obligations holding which are a combination of GBP, AUD, EUR and USD denominated and are fixed interest.

Share of RMSEPP	**Market value 2017 £m**	Market value 2016 £m
UK equities	**1**	1
Overseas equities	**12**	10
Government bonds	**2**	15
Alternative asset funds	**2**	2
Property	**2**	2
Bulk annuity policy*	**13**	-
Fair value of share in plan assets for RMSEPP	**32**	30
Present value of share in plan liabilities for RMSEPP	**(31)**	(27)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**1**	3
Less effect of asset ceiling	**-**	(1)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**1**	2

*RMSEPP holds a bulk annuity policy with Scottish Widows. The value ascribed to this policy has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

As described above, no surplus is recognised for RMPP because the Group has concluded that as a result of the Memorandum of Understanding signed on 21 March 2017, the Group no longer has an unconditional right to refund from the Plan. A retirement benefit surplus of £1 million is disclosed on the balance sheet, representing the surplus in the RMSEPP Plan only.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. With the exception of the bulk annuity policy described above, all RMPP and RMSEPP assets are securities with a quoted price in an active market.

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c) Movement in plans' assets and liabilities

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

Assets	**Sectionalised RMPP 2017 £m**	Sectionalised RMPP 2016 £m
Assets in sectionalised RMPP at beginning of period	**407**	379
Contributions paid	**17**	19
Employee contributions paid	**5**	6
Finance income	**15**	14
Actuarial gains/(losses)	**92**	(8)
Benefits paid to members	**(4)**	(3)
Assets in sectionalised RMPP at end of period	**532**	407

Assets	**Share of RMSEPP 2017 £m**	Share of RMSEPP 2016 £m
Share of assets in RMSEPP at beginning of period	**30**	31
Contributions paid	**1**	1
Finance income	**1**	1
Actuarial gains/(losses)	**1**	(2)
Benefits paid to members	**(1)**	(1)
Share of assets in RMSEPP at end of period	**32**	30

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

Liabilities	**Sectionalised RMPP 2017 £m**	Sectionalised RMPP 2016 £m
Liabilities in sectionalised RMPP at beginning of period	**(184)**	(150)
Current service cost	**(23)**	(27)
Curtailment costs*	**2**	(1)
Finance cost	**(7)**	(6)
Employee contributions	**(5)**	(6)
Experience adjustments on liabilities	**6**	3
Financial assumption changes	**(129)**	-
Demographic assumption changes	**(5)**	-
Benefits paid	**4**	3
Effect of closure of RMPP*	**19**	-
Liabilities in sectionalised RMPP at end of period	**(322)**	(184)

Liabilities	**Share of RMSEPP 2017 £m**	Share of RMSEPP 2016 £m
Share of liabilities in RMSEPP plans at beginning of period	**(27)**	(26)
Finance cost	**(1)**	(1)
Experience adjustments on liabilities	**7**	(1)
Financial assumption changes	**(11)**	-
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(31)**	(27)

*The gain on curtailment of £2 million is due to redundancies in the year. It is equal to a cost of £3 million in respect of enhanced retirement benefits granted to certain members, offset by a saving of £5 million due to RPI-linked in-service revaluation being replaced by CPI-linked deferred pension revaluation. The effect of the closure

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of RMPP of £19 million is a past service adjustment as a result of the closure of the Plan and is a one-off adjustment. Both of these adjustments have been allocated between revenue trading (net credit of £2 million relating to adjustments linked to current year service) and closure of activities (net credit of £19 million relating to adjustments linked to prior years' service).

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 2017 £m	Sectionalised RMPP 2016 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit from		
revenue trading:		
Current service cost	**23**	27
Loss due to curtailments	**2**	-
Effect of the closure of the RMPP	**(4)**	-
Total charge to revenue trading	**21**	27
Analysis of amounts charged to closure of activities:		
(Gain) / loss due to curtailments	**(4)**	1
Effect of the closure of the RMPP	**(15)**	-
Total charge to operating profit	**2**	28
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**7**	6
Interest income on plan assets	**(15)**	(14)
Net pensions credit to financing	**(8)**	(8)
Net (credit) / charge to the income statement before deduction for tax	**(6)**	20
Analysis of amounts recognised in the statement of comprehensi income		
Actual return on plan assets	**107**	6
Less: expected interest income on plan assets	**(15)**	(14)
Less: taxation on surplus recoverable through plan refunds	**-**	(2)
Actuarial gains/(losses) on assets (all experience adjustments)	**92**	(10)
Actuarial gains arising from changes in demographic assumptions	**6**	3
Actuarial losses arising from changes in financial assumptions	**(129)**	-
Actuarial losses arising from experience adjustment	**(5)**	-
Actuarial (losses)/gains on liabilities	**(128)**	3
Effect of the asset ceiling	**(210)**	-
Total actuarial losses recognised in the statement of comprehensive income	**(246)**	(7)

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	Share of RMSEPP 2017 £m	Share of RMSEPP 2016 £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 comprehensive income		
Actual return on plan assets	**2**	(1)
Less: expected interest income on plan assets	**(1)**	(1)
Less: taxation on surplus recoverable through plan refunds	**-**	1
Actuarial gains/(losses) on assets (all experience adjustments)	**1**	(1)
Actuarial gains arising from changes in demographic assumptions	**7**	-
Actuarial losses arising from changes in financial assumptions	**(11)**	(1)
Actuarial losses on liabilities	**(4)**	(1)
Total actuarial losses recognised in the statement of comprehensive income	**(3)**	(2)

18. Equity

Called up share capital:

	2017 £	2016 £
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 (2016: £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 issued in return for £313 million cash paid by 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, Energy and Industrial Strategy. A share premium of £151,999,998 resulted from this subscription.

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19. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £64 million (2016: £51 million).

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

	Land and buildings	
	2017 £m	2016 £m
Within one year	**13**	14
Between one and five years	**34**	35
Beyond five years	**35**	29
Total	**82**	78

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.

On 11 April 2016, a High Court claim was issued on behalf of a number of postmasters against Post Office in relation to various legal, technical and operational matters ("the Post Office Group Litigation"). The Generic Particulars of Claim does not quantify the value of the claims.

Post Office is defending the claim, which is proceeding under a Group Litigation Order and is at a nascent stage.

The Directors do not currently consider, but continue to keep under review whether, the outcome of any current claim or action will have a material adverse impact on the consolidated position of the Group."

20. Discontinued Operations

In August 2016 the Group decided to discontinue its Retail Cash in Transit operation. The results of this operation are disclosed below. 2016 includes the prior year results relating to the mobile discontinued operation, restated to include the prior year results of the Retail Cash in Transit operation.

The mobile operation results included in the below table are a credit of £1 million for 2017 relating to unutilised provision, and a cost of £10 million for 2016 relating to the closure (split between Other operating costs of £4 million and Capital and Investment of £6 million).

	2017 £m	2016 (restated) £m
Revenue	**9**	17
People costs excluding restructuring costs	**(19)**	(20)
Other operating costs	**(2)**	(8)
Operating loss before capital and investment	**(12)**	(11)
Operating capital and investment expenditure	**(35)**	(6)
Loss before taxation	**(47)**	(17)
Taxation	**-**	-
Loss for the year from discontinued operation	**(47)**	(17)

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Balances on the balance sheet at year end in respect of discontinued operations are shown in the table below. The current year balance relates entirely to the Retail Cash in Transit operation closure and is in respect of provisions for severance costs (£3 million), other restructuring costs (£2 million) and vacant leasehold properties (£3 million). The prior year balance relates to provisions for the Mobile operation closure costs and termination charges.

	2017 **£m**	2016 (restated) £m
Land and buildings	**-**	1
Trade receivables	**-**	2
Accrued income	**-**	1
Total assets	**-**	4
Provisions (note 15)	**(8)**	(3)
Total liabilities	**(8)**	(3)
Total net (liabilities) / assets	**(8)**	1

The comparatives in the Income Statement for the year ended 27 March 2016 have been restated and allocated to discontinued operations. The restatement affects revenue, people costs, and other operating costs. Within this report, the comparative income statement and statement of comprehensive income for the year ended 27 March 2016 have been restated. The operating profit from revenue trading on the cash flow statement has also been restated. There has been no effect on the balance sheet or statement of changes in equity.

The table below shows the impact of the restatement on revenue trading and closure of activities for the year ended 27 March 2016:

	As previously reported	Restatement	27 March 2016 Restated
Turnover	981	(17)	964
People costs	(233)	20	(213)
Other operating costs	(808)	4	(804)
Loss for the year from continuing operations	(157)	7	(150)
Loss for the year from discontinued operations	(10)	(7)	(17)
Loss for the year after discontinued operations	(167)	-	(167)

21. 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:

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	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	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
First Rate Exchange Services Holdings Limited	**32**	26	**121**	122	**9**	10	**5**	7

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the year end are unsecured, interest free and settlement is made by cash. First Rate Exchange Services Holdings Limited is a joint venture of the Group.

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

Separately:

- the Group has certain loan facilities with Government (note 14);
- the Group has received investment funding from the Government of £140 million, all of which was recognised through the income statement; and
- the Group has received the Network Subsidy Payment from Government (note 1).

22. Post balance sheet events

On 20 July 2017, Post Office Limited and Trustees of the Royal Mail Pension Plan (POL fund) ("Trustees") entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected for the Royal Mail Pension Plan defined benefit pension scheme.

Under the bulk annuity purchase agreement, the Trustees of the pension plan have effectively bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation.

The accounting surplus will reduce by the difference between the insurance premium and the value of the insured liabilities. This loss will be recognised in Other Comprehensive Income in 2017-18. As described in note 17, Post Office no longer has an unconditional right to refund from the Plan and, in accordance with IFRIC 14, the RMPP pension surplus is no longer recognised on the balance sheet, with an asset ceiling applied which reduces the balance to nil. As a result of the reduction of the surplus through the pension buy-in, there will an equal and opposite adjustment to the asset ceiling also through Other Comprehensive Income. As a result, there is no effect on Other Comprehensive Income or the net assets position of the Group.

In addition, a data risk premium of £2.1 million has been paid by the Trustees in relation to the buy-in. As these premiums are not directly attributable to insuring the pension liability, these amounts will be taken to profit and loss under Capital and Investment in 2017-18. The corresponding entry is through Other Comprehensive Income and, as a result, there is no effect on the net assets position of the Group.

On 12 June 2017, Post Office's parent company, Postal Services Holding Company Limited, was placed into liquidation. It is expected that the process will be complete and the company will be dissolved by the end of March 2018. On 12 June 2017, all of the ordinary shares that Postal Services Holding Company Limited held in Post Office were transferred to direct ownership of the Secretary of State for Business, Energy and Industrial Strategy.

On 30 March 2017 the Group acquired the residential broadband and home phone customer base, along with certain other assets, of New Call Telecom Limited, for cash consideration of £2 million. Further consideration estimated to be £6 million is contingent on the number of New Call customers that successfully migrate to the Group's systems by a particular date. The acquisition will be accounted for under IFRS 3 Business Combinations.

The provisional fair value of the net assets acquired is £6 million. The only major class of assets acquired are the intangible assets associated with residential and home phone customer base acquired from New Call Telecom Limited. Fair values are described as provisional due to the proximity of the acquisition to the 2016-17 year end.

The goodwill arising from the acquisition, provisionally valued at £2 million, represents the opportunity to grow the New Call customer base by exploiting the Post Office branch network. The goodwill arising on acquisition is not deductible for income tax purposes. Associated acquisition expenses have been charged to the income statement in FY2017-18.

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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 £140 million of funding on 3 April 2017.

23. Immediate and ultimate parent company

At 26 March 2017, 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

Parent Company Financial Statements

2016-2017

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Post Office Limited

Company statement of comprehensive income
At 26 March 2017

	Notes	2017 £m	2016 (Restated) £m
Profit / (loss) for the financial year from continuing operations		**283**	(150)
Loss for the financial year from discontinued operations		**(47)**	(17)
Profit / (loss) for the financial year		**236**	(167)
Other comprehensive income not to be reclassified to profit or loss in future periods			
Remeasurements on defined benefit surplus	11	**(249)**	(9)
Withholding tax effect		**30**	-
Income tax effect		**25**	5
Total comprehensive profit / (loss) for the year		**42**	(171)

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

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Post Office Limited

Company balance sheet
at 26 March 2017

	Notes	2017 £m	2016 (Restated) £m
Non-current assets			
Intangible assets	2	**128**	-
Property, plant and equipment	3	**144**	9
Investment in subsidiaries	4	**50**	50
Investments in joint venture	5	**66**	67
Retirement benefit surplus	11	**1**	196
Trade and other receivables	6	**13**	12
Total non-current assets		**402**	334
Current assets			
Inventories		**7**	6
Trade and other receivables	6	**327**	413
Cash and cash equivalents	7	**667**	698
Total current assets		**1,001**	1,117
Total assets		**1,403**	1,451
Current liabilities			
Trade and other payables	8	**(554)**	(650)
Financial liabilities - interest bearing loans and borrowings	9	**(561)**	(465)
- obligations under finance leases		**-**	(8)
Provisions	10	**(57)**	(150)
Total current liabilities		**(1,172)**	(1,273)
Non-current liabilities			
Other payables	8	**(22)**	(25)
Provisions	10	**(30)**	(16)
Total non-current liabilities		**(52)**	(41)
Net assets		**179**	137
Equity			
Share capital	12	**-**	-
Share premium	12	**465**	465
Retained earnings		**(286)**	(328)
Total equity		**179**	137

The financial statements on pages [x] to [x] were approved by the Board of Directors on [x] 2017 and signed on its behalf by:

P A Vennells
Chief Executive

A Cameron
Chief Financial Officer

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Post Office Limited

Company statement of changes in equity at 26 March 2017

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 27 March 2016 (restated)		**465**	**(328)**	**137**
Profit for the year		**-**	**236**	**236**
Remeasurements on defined benefit surplus	11	**-**	**(249)**	**(249)**
Withholding tax effect			**30**	**30**
Income tax effect		**-**	**25**	**25**
At 26 March 2017		**465**	**(286)**	**179**

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 30 March 2015 (restated)		465	(157)	308
Loss for the year		-	(167)	(167)
Remeasurements on defined benefit surplus	11	-	(9)	(9)
Income tax effect		-	5	5
At 27 March 2016		465	(328)	137

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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 26 March 2017.

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 26 March 2017 (2016: 52 weeks ended 27 March 2016).

Authorisation of financial statements

The parent company financial statements of Post Office Limited (the 'Company') for the year ended 26 March 2017 were authorised for issue by the Board of Directors on [x] 2017 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). These 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 £236 million profit (2016: £167 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

The Company had net assets of £179 million at 26 March 2017 (2016: £137 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, Energy & Industrial Strategy (BEIS) with a limit of £950 million from 30 March 2015 up to 31 March 2018.

At 26 March 2017 £389 million of the working capital facility was undrawn (2016: £485 million).

Post Office and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility confirming that the following funding package will be made available to Post Office from April 2018:

- Extension of the existing working capital facility of £950 million with BEIS to 31 March 2021
- Network subsidy payment of £60 million for 2018-19
- Network subsidy payment of £50 million for 2019-20.

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In addition the Secretary of State for BEIS has confirmed in principle in a letter dated 25 July 2017 that the following additional funding will be also be made available to Post Office:

- Network subsidy payment of £50 million for 2020-21
- Investment funding of up to £210 million for the period April 2018 to March 2021.

The network subsidy payment and investment funding will be received in the form of grants and are non-refundable.

State aid approval for the funding for 2018-19 to 2020-21 has not yet been received. The working capital facility is not classified as state aid and requires no further approval.

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 Directors consider 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 27 March 2016 have been restated for the Retail Cash in Transit operation which has been discontinued during the current year. The comparatives in the Income Statement for the year ended 27 March 2016 have been restated and allocated to discontinued operations in both the Group and Parent Company financial statements. The restatement affects revenue, people costs, and other operating costs. Within this report, the comparative income statement and statement of comprehensive income for the year ended 27 March 2016 have been restated. There has been no effect on the balance sheet or statement of changes in equity.

The comparative figures for the years ended 27 March 2016 and 29 March 2015 have also been restated for a change in the accounting policy with respect to the investment in joint venture. The restatement is in the Parent Company Financial Statements only. The change in accounting policy is described in more detail in the accounting policies.

The restatement affects the Investments in joint venture shown on the Company balance sheet. The investment value has been increased by £66 million as at 27 March 2016, which reflects the Company's share of the joint venture in line with the equity accounting method which is also adopted by the Group. This has also resulted in a restatement in Retained earnings as at 27 March 2016 and as at 29 March 2015.

The tables below shows the impact of both restatements on the income statement and balance sheet at 27 March 2016 and at 29 March 2015.

	As previously reported £m	Restatement for discontinued operation £m	27 March 2016 Restated £m
Loss for the year from continuing operations	(157)	7	(150)
Loss for the year from discontinued operations	(10)	(7)	(17)
Loss for the year after discontinued operations	(167)	0	(167)

	As previously reported £m	Restatement for change in joint venture accounting £m	27 March 2016 Restated £m
Investments in joint ventures	1	66	67
Retained earnings	(394)	66	(328)

	As previously reported £m	Restatement for change in joint venture accounting £m	29 March 2015 Restated £m
Retained earnings	(223)	66	(157)

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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.

The Post Office section of the RMPP closed to future accrual on 31 March 2017. A Memorandum of Understanding was executed on 21 March 2017 which removed the unconditional right to refund from the Plan. As a result of these events there has been a one-off credit to the income statement, and the surplus has been written off through other comprehensive income. This is described in further detail within note 11. The values of these adjustments 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 year end 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 Company 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.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Company has made a profit from continuing operations and this is expected to be sustainable. In addition, the Company has secured a Network Subsidy Payment to March 2021, and continued investment funding over that period from Government. In this circumstance the Company no longer considers there to be indicators of impairment, and there has been a change in accounting estimate to reflect this. The change in accounting estimate has been made as at the year end date as this is the point at which there was sufficient evidence of a value in use.

The change in accounting estimate has resulted in a reversal of impairment losses in the current year, and the carrying value of assets has been increased. The reversal is no more than the depreciated historical cost if the impairment had not been recognised. The reversal of the impairment loss has been recognised in the income statement for the current year and the change will be applied in future years subject to a continuous review of trading and funding.

An impairment test was performed at the year end to support this. Details of this are given in note 3.

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 in previous periods due to ongoing operational losses (excluding Network Subsidy Payment) they have been impaired to zero on acquisition. In the current year the impairment loss was reversed at the year end, and depreciation will be recognised going forwards on a straight-line basis over the following useful lives:

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

In the current year the asset lives for Motor vehicles and trailers and Fixtures and equipment have been changed to range from 3 years, not 2 years as reported in prior years. This is to reflect the range of asset lives actually in use for the current asset portfolio.

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 have not been impaired on acquisition but would be considered for impairment if indicators existed. They are 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. In previous periods these assets were impaired to zero for the reasons noted above. In the current year the impairment loss was reversed at the year end, and amortisation will be recognised going forwards on a straight-line basis over the following useful life:

Software	3 to 6 years

In the current year the range of asset lives for Software has been changed to start from 3 years, not 1 year as reported in prior years. This is to reflect the range of asset lives actually in use for current Software assets.

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.

Discontinued operations

The Company has treated the closure of its Retail Cash in Transit operation as a discontinued operation in the year. The prior year results have also been restated for this. The Retail Cash in Transit operation was considered to be a separate component of Post Office, as its revenue, costs and cash flows were distinguishable from the rest of the Company and the nature of the operation was different to the rest of the business.

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.

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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 venture

Investments in joint ventures within the Company's financial statements were in previous years stated at cost less any accumulated impairment losses.

In the current year the Company has voluntarily changed its accounting policy with respect to investments in joint ventures in order to apply the equity accounting method, consistent with that adopted by the Group.

This change in accounting policy is permitted by the amendment to IAS 27: Equity Method in Separate Financial Statements. The amendment allows entities to use the equity method to account for investments in joint ventures in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements are required to apply that change retrospectively. The amendments are effective for annual periods beginning on or after 1 January 2016.

The Company now applies equity accounting, under which the investment is carried in the Balance Sheet at cost plus post-acquisition changes in the Company's share of net assets of the joint venture less any impairment in value. Prior to this change in accounting policy, the Company measured investments in joint ventures within the Company's balance sheet at cost less any accumulated impairment losses.

The Company considers the new policy is appropriate as it provides the user of the financial statements with more relevant and reliable information and aligns the accounting between the Group and the Parent Company financial statements.

The impact on each line item of the primary financial statements is shown within the Prior year restatements section on page [x].

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

- 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 RMPP defined benefit Plan was closed to future accrual on 31 March 2017.

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 RMPP Plan was closed on 31 March 2017. A Memorandum of Understanding was executed on 21 March 2017 which removed the unconditional right to refund from the Plan. As a result of these events the surplus relating to this Plan has been derecognised in the year, in line with IFRIC 14.

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

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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). The RMPP defined benefit plan has been closed and no future refunds will be made to the Company.

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. In the current year there are further impacts on the income statement and statement of comprehensive income as a result of the closure of the RMPP Plan; these have been described in further detail within note 17 to the Group accounts.

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.

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.

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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.

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	**2017 £m**	2016 £m
At 27 March 2016, 30 March 2015	387	297
Reclassifications	(53)	-
Additions	71	91
Disposals	(91)	(1)
At 26 March 2017, 27 March 2016	314	387
Impairment		
At 27 March 2016, 30 March 2015	387	297
Reclassifications	(53)	-
Impairment	71	91
Impairment reversal in the year	(128)	-
Disposals	(91)	(1)
At 26 March 2017, 27 March 2016	186	387
Net book value		
At 26 March 2017, 27 March 2016	128	-

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 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
Reclassification*	(12)	8	-	-	-	57	53
Additions	1	-	-	-	-	25	26
Disposals	(21)	(25)	(67)	(17)	-	(130)	(260)
At 26 March 2017	**45**	**41**	**23**	**26**	**1**	**795**	**931**
Depreciation and impairment							
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
Reclassification	(12)	8	-	-	-	57	53
Depreciation and impairment (notes 3 and 4)	1	-	-	-	-	25	26
Impairment reversal (note 4)	(5)	(26)	-	-	-	(104)	(135)
Disposals	(21)	(25)	(67)	(17)	-	(130)	(260)
At 26 March 2017	**32**	**14**	**23**	**26**	**1**	**691**	**787**
Net book value							
At 26 March 2017	**13**	**27**	**-**	**-**	**-**	**104**	**144**
At 27 March 2016	8	1	-	-	-	-	9

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £3 million (2016: £3 million) of the total cost of properties.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Group has made a profit from continuing operations and this is expected to be sustainable. In addition, the Group has secured Network Subsidy Payments to March 2021, and continued investment funding over that period from Government of up to £210 million. In these circumstances the Group

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no longer considers there to be indicators of impairment, and there has been a change in accounting estimate to reflect this. The change in accounting estimate has been made as at the year end date as this is the point at which there was sufficient evidence of a value in use.

An impairment test was performed at the year end to support this. Software and property, motor vehicles and fixtures and equipment were tested for impairment at the year end by comparing the carrying amount with the recoverable amount determined from value in use calculations.

The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of Post Office Limited as a CGU. Value in use is determined using the Company's net cash inflows from the continued use of the assets over a four year period, with no nominal growth rate assumed outside of this period. A pre-tax discount rate of 9% has been used to discount the forecasted cash flows for Post Office Limited.

A sensitivity analysis has been performed in assessing the value in use of software and property, motor vehicles and fixtures and equipment. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to two per cent and a decrease in the growth rate by up to two per cent. The sensitivity analysis showed that no impairment would arise under each scenario.

Management therefore believes that any reasonably possible change in the key assumptions would not cause the carrying amount to exceed its carrying value.

As a result of the conclusions made, there has been a reversal of impairment losses in the current year, and the carrying value of assets has been increased. The reversal is no more than the depreciated historical cost if the impairment had not been recognised. The reversal of the impairment loss has been recognised in the income statement for the current year and the change will be applied in future years subject to a continuous review of trading and funding.

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.

5. Investments in joint ventures

	2017 £m	2016 (restated) £m
Investment in joint ventures	**66**	67

During 2016-17 and 2015-16, 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 £66 million (2016 restated: £67 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.

The comparative figures for the years ended 27 March 2016 and 29 March 2015 have been restated for a change in the accounting policy with respect to the investment in joint venture. The restatement is in the Parent Company Financial Statements only. The change in accounting policy is described in more detail in the accounting policies.

The restatement affects the Investments in joint venture shown on the Company balance sheet. The investment value has been increased by £66m as at 27 March 2016, which reflects the Company's share of the joint venture in line with the equity accounting method which is also adopted by the Group.

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6. Trade and other receivables

	2017 £m	2016 £m
Current:		
Trade receivables	**69**	95
Amounts owed by group undertakings	**4**	6
Prepayments and accrued income	**93**	68
Client receivables	**144**	229
Other receivables	**17**	15
Total	**327**	413
Non-current:		
Prepayments and accrued income	**13**	12

7. Cash and cash equivalents

	2017 £m	2016 £m
Cash in the Post Office Limited Network	**666**	653
Short-term Bank Deposits	**1**	45
Total	**667**	698

8. Trade and other payables

	2017 £m	2016 £m
Current:		
Trade payables	**42**	51
Accruals	**163**	159
Deferred income	**33**	39
Social security	**10**	8
Client payables	**295**	375
Capital payables	**11**	16
Other payables	**-**	2
Total	**554**	650
Non-current:		
Other payables	**22**	25

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9. Financial liabilities – interest bearing loans and borrowings

	2017 £m	2016 £m
Department for Business, Energy & Industrial Strategy	**561**	465

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year end (2016: 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 £389 million (2016: £485 million). The average interest rate on the drawn down loans is 1.0% (2016: 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. The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page [x] for further details of this provision.

10. Provisions

	Network Transformation £m	Onerous Leases £m	Severance £m	Other £m	Total £m
At 27 March 2016	134	19	3	10	166
Charged to capital and investment	10	20	50	3	83
Charged to revenue trading	-	-	-	5	5
Charged for discontinued operation	-	-	-	44	44
Utilisation	(68)	(7)	(43)	(39)	(157)
Unused amounts in the year – capital and investment	(34)	(11)	(1)	(7)	(53)
Unused amounts in the year – revenue trading	-	-	-	(1)	(1)
At 26 March 2017	**42**	**21**	**9**	**15**	**87**

	Network Transformation £m	Onerous Leases £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 26 March 2017					
Current	**28**	**7**	**9**	**13**	**57**
Non – current	**14**	**14**	**-**	**2**	**30**
	42	**21**	**9**	**15**	**87**
At 27 March 2016					
Current	132	6	3	9	150
Non-current	2	13	-	1	16
	134	19	3	10	166

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The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page [x] for further details of this provision. The reduction in the provision from prior year reflects a change in the accounting estimate as the programme nears completion and the expected number of branches to convert decreases.

Other provisions of £45 million (2016: £32 million) include £37 million for continuing operations, this includes £21 million onerous lease obligations, £9 million severance and £7 million of smaller provisions including £1 million for personal injury claims. It also includes £8 million in relation to the discontinued operation as disclosed in note 20 to the Group financial statements.

11. Pensions

The disclosures in this note reflect the two defined benefit schemes: the Post Office section of the Royal Mail Pension Plan (RMPP) which is independent from the Royal Mail section of the RMPP, and a 7% share of the Royal Mail Senior Executive Pension Plan (RMSEPP). Royal Mail Group Ltd is the principle employer of RMSEPP and Post Office Ltd became a participating employer with effect from 1 April 2012. This disclosure also includes the Post Office Pension Plan (POPP), which is a defined contribution scheme.

The disclosures in this note show the value of the assets and liabilities that have been calculated at the balance sheet date.

Post Office participates in pension schemes as detailed below.

Name	Eligibility	Type
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

*The RMPP closed to future accrual on 31 March 2017.

Defined Contribution

The charge in the income statement for the defined contribution scheme and the Company contributions to this scheme were £3 million (2016: £3 million) during the year. New employees joining the Company are able to pay contributions to POPP after they have worked for the Company for a year.

Under the Pensions Act 2008, from 1 May 2017 the Company will auto-enrol all eligible employees into POPP regardless of their length of service.

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate Trust administered funds. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans. The latest full actuarial funding valuation of the RMPP was carried out as of 31 March 2015 using the projected unit method. For RMPP, this valuation was concluded at £62.7 million surplus (2012: £135 million surplus) on a Technical Provisions basis. Valuations are carried out triennially and the next one for the RMPP is due to be carried out as at 31 March 2018. 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 Section A members 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.

The latest full actuarial funding valuation for RMSEPP was carried out as at 31 March 2015 using the projected unit method. For 100% of RMSEPP, the valuation concluded at £17 million surplus on a Technical Provisions basis. The next full valuation for RMSEPP is expected to be carried out as at 31 March 2018.

A series of changes to RMPP and RMSEPP have taken effect since 1 April 2008.

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The changes encompassed are:

- The Plans closed to new members from 31 March 2008;
- All pensions and benefits earned before 1 April 2008 retained a link to final pensionable salary, benefits accrued from 1 April 2008 were earned on a "career average pensionable salary" basis;
- RMPP employees can continue to take their pension on reaching age 60 but the normal retirement age increased to age 65 for benefits earned from 1 April 2010;
- From 1 April 2010 it was possible to draw pension earned before the change to normal retirement age at age 55 (subject to an actuarial reduction in the pension benefit), and continue working while still contributing to the RMPP until the maximum level of benefits was reached;
- RMSEPP was closed to future accrual on 31 December 2012;
- In relation to RMPP only, from 1 April 2014 pensionable salary was amended to the amount in force as at 31 March 2014, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases; and
- The Post Office section of the RMPP closed to future accrual on 31 March 2017 and so no further defined benefits accrue in respect of Post Office employment after that date; however for as long as a member remains in employment with the Company or has not taken pension, pre-1 April 2012 pension benefits are linked to pensionable salary and post-31 March 2012 benefits receive in-deferment increases (linked to CPI).

Payment to the RMPP of £14 million (2016: £17 million) was made by the Company during the year in respect of regular future service contributions. The regular future service contributions for RMPP expressed as a percentage of pensionable pay, has remained at 17.1% (2016: 17.1%) effective from April 2010. Following formal consultation with employees in 2016, the Trustee agreed to Post Office's request for the closure of the Post Office section of the RMPP to future accrual. Closure to future accrual means that no contributions in respect of normal service accrual will be made after 31 March 2017. However it is expected that there will be redundancy payments to be made to the RMPP during 2017/18.

Even though RMSEPP had a funding surplus on a Technical Provisions basis at 31 March 2015, under the Schedule of Contributions agreed for the 2015 valuation, payments of £11 million per annum will be made. Post Office's share of these payments will be 7% which is £1m per annum. A payment of £1 million was made by the Company during the year. The payments will continue to the later of 30 September 2018 and the date the 31 March 2018 valuation is completed.

A current liability of £1 million (2016: £nil) has been recognised for payments to the RMPP and RMSEPP schemes relating to redundancy. During the year payments of £3 million (2016: £3 million) relating to redundancy were made.

The weighted average duration of the Post Office section of the RMPP is around 26 years, and for RMSEPP is around 20 years.

On 21 March 2017 Post Office executed a Memorandum of Understanding with the Trustee of the RMPP. This clarified the Trustee's powers to distribute surplus without Post Office's agreement and Post Office has concluded that as a result of the Memorandum of Understanding, Post Office no longer has an unconditional right to refund from the Plan. In light of this, in accordance with IFRIC 14 the RMPP pension surplus was derecognised as at 26 March 2017, and the resulting loss has been recognised in Other Comprehensive Income.

The following disclosures relate to the gains/losses and surplus/deficit in respect of Post Office's obligations to RMPP and RMSEPP:

a) Major long-term assumptions

The size of the defined benefit obligation shown in the accounts is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on this value. The overall income statement charge and past service adjustment in the income statement are also sensitive to the assumptions adopted.

The major long-term assumptions in relation to both RMPP and RMSEPP were:

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	At 26 March 2017 % pa	At 27 March 2016 % pa
Increases to benefits that retain a link to pensionable pay	**3.4**	2.8
Rate of pension increases – RMPP sections A/B	**2.3**	1.8
Rate of pension increases – RMPP section C	**3.4**	2.8
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**2.3**	1.8
Rate of pension increases – RMSEPP all other members	**3.4**	2.8
Rate of increase for deferred pensions	**2.3**	1.8
Discount rate	**2.3**	3.5
Inflation assumption (RPI) – RMPP & RMSEPP	**3.4**	2.9
Inflation assumption (CPI) – RMPP & RMSEPP	**2.3**	1.8

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 bonds and swaps, which mitigate 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 benefits retaining a link to pensionable pay in RMPP. 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 can be expected to be partially offset by an increase in the value of any corporate bond holdings and, potentially, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would be greater than currently anticipated because pensions would be paid for over a longer time than assumed.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were largely transferred to the Royal Mail Statutory Pension Scheme. These liabilities are substantially 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 value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP of changes in key assumptions:

	2017 £m	2016 £m
Changes in RPI and CPI inflation of +0.1% pa	**(9)**	(5)
Changes in discount rate of +0.1% pa	**9**	5
Changes in real salary growth of +0.1% pa	**-**	(2)
Changes in CPI assumptions of +0.1% pa	**(4)**	(1)
An additional 1 year life expectancy	**(10)**	(6)

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.

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Mortality: The mortality assumptions used to calculate the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP are based on the latest self-administered pension scheme (SAPS "S2" series) mortality tables as shown in the following table:

Base mortality tables	**2017**	2016
Males	**100% x S2PMA**	106% x S1PMA
Female members	**100% x S2PFA**	101% x S1DFA
Female dependants	**100% x S2DFA**	101% x S1DFA
Future improvements	**CMI 2015 Core Projections with a 1.5% pa long-term trend**	Medium Cohort Projections with a 1.25% pa floor

Average expected life expectancy from age 60:	**2017**	2016
For a current 60 year old male RMPP member	**28 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	**30 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 2017 £m**	Market value 2016 £m
Corporate bonds*	**394**	233
Property	**13**	11
Private Equity	**7**	10
Cash and cash equivalents	**68**	41
Bond/fixed interest funds	**25**	41
Other loan/debt funds	**17**	28
Alternative asset funds	**8**	43
Fair value of RMPP assets	**532**	407
Present value of RMPP liabilities	**(322)**	(184)
Surplus in plan before asset ceiling adjustment	**210**	223
Less effect of asset ceiling	**(210)**	(29)
Surplus in plan after asset ceiling adjustment	**-**	194

*£4 million relates to UK Government Bonds, £365 million to an LDI investment containing UK Government Bonds (a liability driven investment) and £25 million relates to infrastructure debt holdings and collateralised liability obligations holding which are a combination of GBP, AUD, EUR and USD denominated and are fixed interest.

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Share of RMSEPP	**Market value 2017 £m**	Market value 2016 £m
UK equities	**1**	1
Overseas equities	**12**	10
Government bonds	**2**	15
Alternative asset funds	**2**	2
Property	**2**	2
Bulk annuity policy*	**13**	-
Fair value of share in plan assets for RMSEPP	**32**	30
Present value of share in plan liabilities for RMSEPP	**(31)**	(27)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**1**	3
Less effect of asset ceiling	**-**	(1)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**1**	2

*RMSEPP holds a bulk annuity policy with Scottish Widows. The value ascribed to this policy has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

A retirement benefit surplus of £1 million is disclosed on the balance sheet, representing the surplus in the RMSEPP Plan only. As described above, no surplus is recognised for RMPP because the Company has concluded that as a result of the Memorandum of Understanding signed on 21 March 2017, the Company no longer has an unconditional right to refund from the Plan.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. With the exception of the bulk annuity policy described above, 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 2017 £m**	Sectionalised RMPP 2016 £m
Assets in sectionalised RMPP at beginning of period	**407**	379
Contributions paid	**17**	19
Employee contributions paid	**5**	6
Finance income	**15**	14
Actuarial gains/(losses)	**92**	(8)
Benefits paid to members	**(4)**	(3)
Assets in sectionalised RMPP at end of period	**532**	407

Assets	**Share of RMSEPP 2017 £m**	Share of RMSEPP 2016 £m
Share of assets in RMSEPP at beginning of period	**30**	31
Contributions paid	**1**	1
Finance income	**1**	1
Actuarial gains/(losses)	**1**	(2)
Benefits paid to members	**(1)**	(1)
Share of assets in RMSEPP at end of period	**32**	30

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

Liabilities	**Sectionalised RMPP 2017 £m**	Sectionalised RMPP 2016 £m
Liabilities in sectionalised RMPP at beginning of period	**(184)**	(150)
Current service cost	**(23)**	(27)
Curtailment costs*	**2**	(1)
Finance cost	**(7)**	(6)
Employee contributions	**(5)**	(6)
Experience adjustments on liabilities	**6**	3
Financial assumption changes	**(129)**	-
Demographic assumption changes	**(5)**	-
Benefits paid	**4**	3
Effect of closure of RMPP*	**19**	-
Liabilities in sectionalised RMPP at end of period	**(322)**	(184)

Liabilities	**Share of RMSEPP 2017 £m**	Share of RMSEPP 2016 £m
Share of liabilities in RMSEPP plans at beginning of period	**(27)**	(26)
Finance cost	**(1)**	(1)
Experience adjustments on liabilities	**7**	(1)
Financial assumption changes	**(11)**	-
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(31)**	(27)

*The gain on curtailment of £2 million is due to redundancies in the year. It is equal to a cost of £3 million in respect of enhanced retirement benefits granted to certain members, offset by a saving of £5 million due to RPI-linked in-service revaluation being replaced by CPI-linked deferred pension revaluation. The effect of the closure of RMPP of £19 million is a past service adjustment as a result of the closure of the Plan and is a one-off adjustment. Both of these adjustments have been allocated between revenue trading (net credit of £2 million relating to adjustments linked to current year service) and closure of activities (net credit of £19 million relating to adjustments linked to prior years' service).

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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 2017 £m	Sectionalised RMPP 2016 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit from revenue trading:		
Current service cost	**23**	27
Loss due to curtailments	**2**	-
Effect of the closure of the RMPP	**(4)**	-
Total charge to revenue trading	**21**	27
Analysis of amounts charged to closure of activities:		
(Gain) / loss due to curtailments	**(4)**	1
Effect of the closure of the RMPP	**(15)**	-
Total charge to operating profit	**2**	28
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**7**	6
Interest income on plan assets	**(15)**	(14)
Net pensions credit to financing	**(8)**	(8)
Net (credit) / charge to the income statement before deduction for tax	**(6)**	20
Analysis of amounts recognised in the statement of comprehensi income		
Actual return on plan assets	**107**	6
Less: expected interest income on plan assets	**(15)**	(14)
Less: taxation on surplus recoverable through plan refunds	**-**	(2)
Actuarial gains/(losses) on assets (all experience adjustments)	**92**	(10)
Actuarial gains arising from changes in demographic assumptions	**6**	3
Actuarial losses arising from changes in financial assumptions	**(129)**	-
Actuarial losses arising from experience adjustment	**(5)**	-
Actuarial (losses)/gains on liabilities	**(128)**	3
Effect of the asset ceiling	**(210)**	-
Total actuarial losses recognised in the statement of comprehensive income	**(246)**	(7)

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	Share of RMSEPP 2017 £m	Share of RMSEPP 2016 £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 comprehensive income		
Actual return on plan assets	**2**	(1)
Less: expected interest income on plan assets	**(1)**	(1)
Less: taxation on surplus recoverable through plan refunds	**-**	1
Actuarial gains/(losses) on assets (all experience adjustments)	**1**	(1)
Actuarial gains arising from changes in demographic assumptions	**7**	-
Actuarial losses arising from changes in financial assumptions	**(11)**	(1)
Actuarial losses on liabilities	**(4)**	(1)
Total actuarial losses recognised in the statement of comprehensive income	**(3)**	(2)

12. Equity

Called up share capital:

	2017 £	2016 £
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 issued in return for £313 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. 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, Energy and Industrial Strategy. 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 £64 million (2016: £51 million).

Details of the Company commitments under non-cancellable operating leases are disclosed in the Group financial statements (note 19).

14. Related party disclosures

Details of transactions with related parties are disclosed in the Group financial statements (note 21).

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15. Capital and investment expenditure
Details of operating capital and investment expenditure is disclosed in the Group financial statements (note 4).

16. Taxation
Details of the taxation gains recognised in the year are disclosed in the Group financial statements (note 7a).

17. Discontinued operations
Details of the discontinued operation are included in note 20 in the Group financial statements.

18. Post balance sheet events
On 20 July 2017, Post Office Limited and Trustees of the Royal Mail Pension Plan (POL fund) ("Trustees") entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected for the Royal Mail Pension Plan defined benefit pension scheme.

Under the bulk annuity purchase agreement, the Trustees of the pension plan have effectively bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation.

The accounting surplus will reduce by the difference between the insurance premium and the value of the insured liabilities. This loss will be recognised in Other Comprehensive Income in 2017-18. As described in note 17, Post Office no longer has an unconditional right to refund from the Plan and, in accordance with IFRIC 14, the RMPP pension surplus is no longer recognised on the balance sheet, with an asset ceiling applied which reduces the balance to nil. As a result of the reduction of the surplus through the pension buy-in, there will an equal and opposite adjustment to the asset ceiling also through Other Comprehensive Income. As a result, there is no effect on Other Comprehensive Income or the net assets position of the Company.

In addition, a data risk premium of £2.1 million has been paid by the Trustees in relation to the buy-in. As these premiums are not directly attributable to insuring the pension liability, these amounts will be taken to profit and loss under Capital and Investment in 2017-18. The corresponding entry is through Other Comprehensive Income and, as a result, there is no effect on the net assets position of the Company.

On 12 June 2017, Post Office's parent company, Postal Services Holding Company Limited, was placed into liquidation. It is expected that the process will be complete and the company will be dissolved by the end of March 2018. On 12 June 2017, all of the ordinary shares that Postal Services Holding Company Limited held in Post Office were transferred to direct ownership of the Secretary of State for Business, Energy and Industrial Strategy.

On 30 March 2017 the Company acquired the residential broadband and home phone customer base, along with certain other assets, of New Call Telecom Limited, for cash consideration of £2 million. Further consideration estimated to be £6 million is contingent on the number of New Call customers that successfully migrate to the Company's systems by a particular date. The acquisition will be accounted for under IFRS 3 Business Combinations.

The provisional fair value of the net assets acquired is £6 million. The only major class of assets acquired are the intangible assets associated with residential and home phone customer base acquired from New Call Telecom Limited. Fair values are described as provisional due to the proximity of the acquisition to the 2016-17 year end.

The goodwill arising from the acquisition, provisionally valued at £2 million, represents the opportunity to grow the New Call customer base by exploiting the Post Office branch network. The goodwill arising on acquisition is not deductible for income tax purposes. Associated acquisition expenses have been charged to the income statement in FY2017-18.

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 £140 million of funding on 3 April 2017.

19. Immediate and ultimate parent company

At 26 March 2017, 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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CE's Retail Report – September 2017

Author: Cathy Mayor Sponsor: Kevin Gilliland

Meeting date: 26 September 2017

Executive Summary

Context

The Period 5 YTD Retail Commercial Performance Report for the Board.

Questions this paper addresses

1. How are our sales and revenues performing against our targets and prior year?
2. What are the implications for our outlook and plans?
3. Competitor Information

Conclusion

1. Retail trading continues to perform ahead of budget with footfall remaining consistently 16.7m +/- 0.1m for the last 12 months.
2. The decline in mail volumes has slowed over the last quarter. Variable income continues stronger than expected from price effects (RPI and barcoding).
3. Competition continues to evolve in the mails and parcel market. Royal Mail reported weak business confidence behind increased decline in letter volumes, while parcel growth continues. Major operators, including Amazon and eBay, continue to evolve their offerings with the need to differentiate in a crowded market.
4. As previously reported, delays to conversions in the DMB programme has caused a £1.5m in year shortfall. We have advertised 46 more opportunities to strengthen the pipeline to commence delivery of the targeted £17m recurring benefits as part of the DMB Strategy.
5. There is a £4.0m in year shortfall against targeted savings of £6.3m arising from the simplification programme.
6. Stronger income trends than budgeted offset the programme downsides so Retail is confident it will meet or exceed budget.

Input Sought

For the Board review and note.

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The report

Overview of Financial performance

Gross Income (£m)

	Period 5 YTD					Full Year		
	Actual	Budget	Var	PY	YoY	Budget	PY	YoY%
Mails Fixed	IRRELEVANT		(0.1)	IRRELEVANT				(8.5)%
Mails Variable			3.9					(2.3)%
Government Services			5.8					(23.1)%
Payment Services			0.2					(11.8)%
Retail & Lottery			2.7					(11.6)%
Retail Total			**12.4**					**(9.1)%**

Retail Profit (£m)

	Period 5 YTD					Full Year		
	Actual	Budget	Var	PY	YoY	Budget	PY	YoY%
Mails	IRRELEVANT		(0.1)	IRRELEVANT				(3.3)%
Government Services			3.9					(41.2)%
Payment Services			3.3					(52.9)%
Retail & Lottery			0.9					6.2%
Retail Total DPC			**8.0**					**(14.6)%**
Fixed Agents Pay	IRRELEVANT		(0.6)	IRRELEVANT				12.0%
Sales and Trade Marketing			(2.0)					16.5%
Retail Programme Costs			(0.1)					(59.3)%
Retail Central Costs			2.0					163.6)%
Retail Profit			**7.3**					**(23.0)%**

1. Whilst all areas are in volume decline, Retail continues to perform well versus budget. Mails income is benefiting from price effects; in particular higher levels of barcoding items than expected and the failure of delivery confirmation to reduce Signed For volumes. All key Home Office services continue to perform ahead of budget. Most notably, digital take-up on passports has been far lower than predicted by HMPO and we have maintained 41% market share (43% in July 2016).

2. The income trends are projected to continue for the remainder of the year (subject to strike risk at Royal Mail) and fully mitigate the £5.5m programme benefit in year delivery gaps and other downsides, with Retail currently forecasting +£1m net R&O upside.

Market Update

3. The convenience market in which most of our agents compete has seen recent trends continue this quarter: growth; cost pressures and big plays in the market which tend towards consolidation. IGD's recent upgrade of their growth forecast for the UK food and grocery market to 2021 from 9.9% to 18% is driven by the convenience, on-line and discount sectors. The continued strength of convenience (c50,000 convenience stores in the UK) is good news given our dependency on this market.

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4. Set against continued growth is an ever greater focus on costs. The CEO's of McColl and OneStop both cited national living wage, rates and inflation as major concerns when we met recently and want to work with us to improve profitability. Simplification and automation will help here but this is also a clear indication that we should avoid any further remuneration reductions that would make Post Office less profitable than rival categories for space in stores such as Subway (which is now the UK's largest fast-food chain and intends to open a further 500 stores by 2020, all of which would likely be in retailers suitable for Post Offices).

5. Fierce competition in the food and convenience market continues. Amazon acquired Whole Foods in June for £10.7bn and Co-op have recently announced their intention to bid for Nisa, a symbol group which operates 2,500 convenience stores and has recently lost its wholesale contract for McColls stores to Morrisons. Tesco's £3.7bn takeover of Booker is still progressing, itself following Booker's purchase of Musgrave's GB business (c2,000 Budgens and Londis stores) in 2016.

6. Royal Mail's share price has been under sustained pressure since May reflecting stronger than expected decline in letters (-9%), continued competitive pressure in parcels and the risk of industrial action over pensions. This resulted in RM moving out of the FTSE 100 on 30th August.

7. Ofcom's latest market report revealed that although 88% of people value the option to use the post and the majority (64%) consider stamps as good value for money, the use of mail continues to decline notably in younger demographics, presenting a long term challenge to POL.

8. eBay's shipping platform is beginning to progress with signs of a likely launch before Christmas 2017. Hermes have launched a £2 small parcel promotion on eBay and RM are expected to launch their new retail Tracked product in mid-October in response. This presents a potential risk to Post Office from income loss to competition or dilution from sale to accept rates.

9. RM are undertaking a 3 month price promotion of medium parcels bought online (not via POL). This is aimed at testing their ability to win back volume from competitors who dominate the >2kg parcel market. myHermes responded with a similar summer promotion. To date there has been no evidence of loss of POL volumes, reinforcing the view this is impacting existing online customers.

Mails performance

10. Negotiations with Royal Mail have concluded with a IRRELEVANT to the IRRELEVANT IRRELEVANT

11. The realisation of industrial action by the CWU may challenge mails performance over peak subject to the type and timing of action taken. CWU will ballot on 6th Sept, RM have started their contingency planning and we are engaged with them on the minimising the impact on the network.

12. The long standing Drop and Go settle to cash (STC) issue has been successfully resolved with instances of locked customer accounts reduced by >90%. This facilitates the immediate increasing of the number of branches offering the service.

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Governments Services performance

13. Further to the discussion at July's Board meeting, we have entered into detailed legal and contractual discussions with DXC and JP Morgan in order to complete the ongoing POca procurement. We aim to reach a conclusion on the new contract during September 2017 although there is a risk of slippage to October given the need to take account of forthcoming regulatory changes and their associated complexity.

Payment Services performance

14. We have processed 24.5m transactions to date, +1% ahead of budget.
15. We have retained the Welsh Water business on IRRELEVANT IRRELEVANT. We are finalising the renewal of the BT post-pay contract IRRELEVANT and concluding the extension of the SSE energy pre and post-pay contract IRRELEVANT, our IRRELEVANT Contractual discussions with Payzone on IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT are being finalised.
16. We have agreed revised commercials terms and concluded technical and reseller agreement for the provision of smart energy solutions with allpay IRRELEVANT IRRELEVANT. This will enable us to deliver the deployment of smart energy pre-paid solutions for SSE in September and target new "challenger" energy companies eg, Co-op Energy, Ovo Energy. We have detailed business planning workshops during September and October with Capita and Santander, our two other reseller partners.
17. Further to the discussion at the Board strategy sessions, we have commenced formal due diligence of the Payzone business and a dedicated project team are working through an assessment of their financial health, convenience network (14k locations), IT infrastructure, bill payment content and capability, brand, organisation competencies, alongside determining the optimum corporate structure. We will keep the Board updated of progress.

Network Transformation Programme

18. The programme remains green and ahead of target with 7,382 branches transformed to date. We have already over-delivered our contracts target for the year (106 against a target of 93) and so far have delivered 212 NT branches, leaving 138 branches to open to deliver this year's target. The programme decommissioning remains on track with three tranches of staff redundancies planned for September, December and March 18. Employees will be redeployed to Network Development or elsewhere if possible however the majority will take voluntary redundancy.

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Directly Managed Branches (DMB) Programme

19. We are on track to fully deliver the 17/18 in year benefits of £2.2m (£4m EBITDAS), in line with the GE deep dive review and subsequent refreshed business case. The programme needs to deliver a minimum of 27 activities in 2017/18 and 26 contracts are now signed with a further 6 agreed subject to contract. The pipeline for 2018/19 (the final year for Network Shape business case) is well underway with 22 branches in advanced planning to replace the DMB with 1 or more Main and Local and 8 branches already in recruitment. This activity, along with 5 x 1:1 franchises to be carried forward from 2017/18 activity put the programme in a good place to deliver next year's 25 DMB closure target.

20. Activity has commenced for the new DMB Strategy with 46 adverts placed at the end of July for Local or Main operators close to 46 DMB branches. Opening new branches in the next year will facilitate the final closure of the 46 DMB over the next 2-3 years giving a £5.6m EBIT value. We have received 80 registrations of interest across 37 Post Districts. A Trade Marketing communications plan is in development to further boost interest across the DMB estate in addition to the POL website advert.

Network Development Programme

21. To date we have identified 926 new locations without Post Offices and our field teams are using our new pitch pack to engage with potential new operators. Of these, 668 have been contacted and made a decision with 229 progressing, a 34% conversion rate to date compared to c20% using the old approach. 48 contracts have been signed against a P5 cumulative target of 91 so we are behind and Amber on contracts signed.

22. The pipeline of potential new Postmasters is positive and we are urgently reviewing how we can open branches more quickly. Practically this includes trialling replacing the face-to-face interview process with a telephone interview which should reduce timescale and improve the applicant journey, and reviewing all financial information as it comes in rather than waiting until a full business plans is submitted.

23. On openings, we are on track for the year to date target of 20 with 11 scheduled and 9 open.

24. The plan to implement Phase 1 of Simplification (quicker mails transactions and resulting remuneration reduction) on 31st August was hit by a Fujitsu error which result in a delay to September and a £400k in-year benefit reduction, increasing the total gap to £4m.

25. The initial response to simplification is likely to be negative, particularly from Multiples. We have risk assessed and have a mitigation plan in place. Each Multiple will have bespoke support with their branches and we have developed a new Retail Value Proposition, to which Multiples have so far responded well, which demonstrates the commercial value of Post Office. We are also engaging Multiples in our automation plans, which will start with machines in selected trial branches before Christmas. Our aim is to develop a fully automated solution and we will work with postmasters to develop this.

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Customers

KPIs	SOURCE	CURRENT PERIOD (P5)	LAST PERIOD (P4)		YTD	P5 Last Year	Target
Effort (% saying Post Office is Easy to do business with)	VOC	82%	81%	+1	78%	76%	76%
Wait time Acceptability	VOC	95%	94%	+1	93%	93%	95%

26. Network customer sessions continue to be stable at approximately 10.3m per week to the end of P4. Year on year the decline in session numbers has slowed to about 2% which continues to reflect the footfall reductions seen in H1 16/17 but also the relative stability we began to see from July 2016 and since when customer sessions have been pretty consistent.

27. P5 has seen continued improvements in both the 'Effort' and 'Waiting Times', hitting the period target for the latter for the first time this year. Network is now ahead of the YTD target for Effort but still slightly behind on Waiting Times. The continued focus on these aspects from the Task Force and 'Customer Champions have driven improvements in Effort scores of a further 1% vs P4, with waiting time performance strong and improving in DMBs at 95% exactly as in Agency, and WHSmith also improving by 1% to 93%.

28. The absolute wait time trial continues to roll out in 10 branches, with live data now being collected. Cost indications per branch are expensive (£3-£10k) so we are exploring a blend of options to include Take a Ticket branches, Voice of the Customer programme and customer research before substantially extending the size of the trial.

29. The trial of the new role in 10 DMB branches as part of NQAC is underway. We have had some teething issues which have reduced the number of branches in the trial to 7 but training is complete and marketing materials are in place. We are now increasing the size of the trial to circa 50 branches so that we will have meaningful data, and we are aiming to have the first of the increase in place by mid October.

30. The agreed improvements to some of the customer journeys on SSKs, such as removing the need for host interventions when a customer requires confirmation of posting, making it clearer how to buy a single stamp, and changes to Horizon are on track for implementation before Christmas. We have also commissioned the production of 5 short films for uploading to social media showing customers how to 'help us to help them', by, for example, explaining the Dangerous Goods restrictions so they know what can be sent through the post and what cannot.

31. Following the Grenfell Tower tragedy, where we rapidly provided access to cash and other government services for affected residents, we met with Central Government officials and fed back the lessons learned and proposed solutions going forward. The feedback was positively received and a meeting is scheduled for early September to plan for any future disaster, and will include DCLG, BEIS, Cabinet Office CitA and POL.

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Technology Strategy Update

Author: Rob Houghton Sponsor: Paula Vennells Meeting date: 26 September 2017

Executive Summary

Context

This document is the third in a series of updates to the Technology Strategy (previous updates were presented in July 16 and January 17). We are now deep into execution of the strategy with course correction as appropriate. This update is more focussed on business areas and has greater emphasis on digital transformation.

Questions addressed in this report

1. What progress are we making in improving our operational risk profile?
2. What is the progress on our run cost reductions and 5-year plan?
3. What are our Digital Transformation plans?
4. Is IT delivering against the intended business outcome?
5. What is our Operating Model to underpin the delivery of the Technology Strategy?

Conclusion

- We have now moved solidly into execution across all the strategy areas; we have passed 2,200 counters on branch technology change, strengthened our security posture and started our Digital Transformation agenda.
- We remain outside risk appetite and will remain so until second half of 2018; the key activities are the data centre refresh and migration of core legacy applications (Credence, POLSAP, HRSAP and HNGX).
- We are progressing supplier negotiations to drive a lower, flexible cost base and more agile delivery model.
- We have gained further confidence from proving the architecture for Thin Client which presents a tremendous retail network transformation opportunity.
- Our scale up of digital capability and investigations now presents a business opportunity to transform the way we work through digital enablement and proposition development.
- Our executive talent hiring is complete, ATOS discussions are close to finalisation and plans are in place to strengthen our permanent capability.

Input Sought

The board is asked to support the direction set out in this document and progress will be reported in six months.

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The Report

Reminder of Key Strategy Messages

1. Since January 17 we have refined the Technology Strategy messages into the following core objectives which will transform the way that the business operates internally and externally:
    - **Digital Transformation** - deliver excellent digital services and transform the way Post Office operates from front-end to back-office, in a modern and efficient way. This requires re-architecting of systems, cultural change, increasing digital enablement of business processes and driving innovation.
    - **Protect Service** – we will build secure and resilient systems by default, ensuring that we create protection against service disruption and cyber-crime through every stage of our Digital Transformation. This requires delivery of IT infrastructure change programmes, Security Transformation programmes and improved Environment Monitoring/Management.
    - **Cost Reduction** – we will drive our cost base to a competitive level in order for the business to reinvest in change. We will do this through supplier renegotiations, counter rationalisation and service differentiation. We will continuously rethink the engagement model between Post Office central and Post Masters to drive a different cost profile.
    - **Deliver with Excellence** – our intent is to drive fundamental change to the delivery model whilst avoiding service disruption. Architecture changes, operating model shifts and focus on agile delivery are key enablers.
    - The strategy is underpinned by developing and hiring **great people within the right operating model**. The key to this is building our own strong technical capability and helping non-digital specialists to understand the potential of new or different ways of working.
2. Since January 17 we have moved solidly into execution of the roadmap:
    - The senior team recruitment is complete.
    - We have delivered technology change to over 2,200 counters with HNGA and network delivery in full progress and very positive feedback.
    - We continue to deliver to move ourselves within risk appetite. Significant improvements include the migration of Credence into cloud infrastructure in the next month, stronger control around Disaster Recovery, and the strengthening of our IT Security Controls, including Security Operations Centre (SOC) selection.
    - Control gaps are now understood and remediation activities underway.
    - A "Thin Client" proof of concept was successfully proved in 4 months.
    - Security Transformation execution is ongoing with BYOD, stronger patching regime and establishing the SOC.
    - We have established solid negotiation positions with ATOS and Fujitsu.
    - We have outlined and made headway on a Digital Transformation agenda.

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- We have initiated re-procurement of our digital hosting environment and delivery partner.

3. Our profile of spend in current and prior periods is predominantly on operational risk and cost reduction. 62% of spend is on essential upgrades and separation activities, with 30% on branch and admin IT enablement only 8% on enabling the business. Our submission for the government funding shifts the balance of spend to 55% (£55.4m) enabling the business and remainder on completion of rollout, pivot to retail transformation through Thin Client deployment and continued investment on Risk and Resilience activities, Cyber Security and Back Office transformation.
4. The next 3 years therefore involves "completing the job" and transforming the architecture and supplier base of the organisation. We increasingly:
    - Provide a strong customer facing digital presence (with true agility and pace of change) either through retail stores or online.
    - Radically speed up the velocity of change and market responsiveness.
    - Lessen supplier strangleholds on our cost base and strategic intent through architecture layering.
    - Create an appropriate, predictive and responsive operational and security profile.
5. We have validated the Technology Strategy through a number of low cost, technical expert engagements on the cost base, operating model, cloud architecture, network and retail IT strategy; findings are available on request. Independent assurance is an ongoing feature both at the technical level and overall strategy.

What progress are we making on our operational risk profile and has our risk profile shifted?

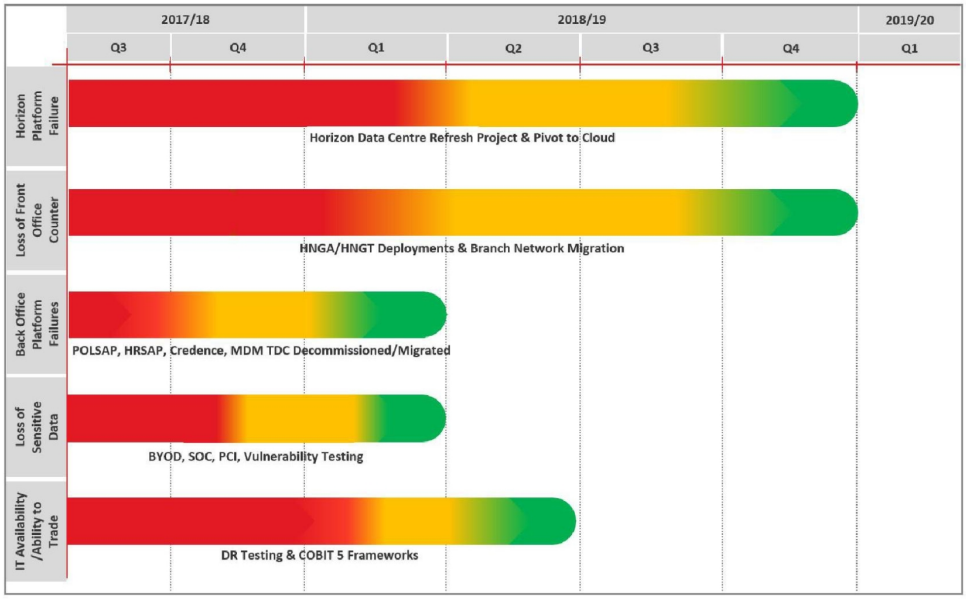
6. In January 17 we outlined that we remain outside our operational risk appetite. Since then we have made solid progress on moving towards a better risk profile.
7. Our main operational risks relate to the Fujitsu supported infrastructure:
    - The hardware frames and network routers on which some of our critical services exist (POLSAP/ HNGX) are significantly beyond life. Delivering Back Office Transformation, Data Centre Refresh and Branch Rollout mitigates this risk.
    - At present we have today sufficient spares to recover service in the event of a failure. However, falling below a minimum criteria or increased risk of outage will mean we instigate emergency service recovery (re-platform of POLSAP). We have already instigated emergency measures on the routers to lower the risk profile.
    - We have a number of systems that haven't successfully completed disaster recovery (DR) for a period of time. This includes the complete failure and failover of the Horizon Data Centre. The test can only be carried out once

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we have moved off the POLSAP and HNGX platforms as these are susceptible to failure on power down. This risk will be fully mitigated when we migrate all the Fujitsu estate to the cloud in 2018/19.

- We have increased the governance around all DR testing across our estate, implemented a revised DR Framework, and are constructing mitigation plans for all our critical systems.

8. These factors mean the business is still exposed to the critical risks below. The potential for these to materialise is high but we remain confident that we can recover service in a reasonable time (albeit not within the Recovery Time objectives):
    - Complete or partial failure of the branches operating on HNGX devices. As of today 90% of the network is still on HNGX, but this is declining each month with HNGA rollout.
    - Failure of the Supply Chain and the Cash Management processes operating on POLSAP.
9. The ongoing delivery of the IT infrastructure programmes are essential mitigating strategies aimed at moving us within our risk appetite.
10. We have also implemented a more proactive stance around IT Security. The widely publicised security breaches such as the Wannacry virus (which affected the NHS in May) have underlined the need for an improved security posture. We have created an IT Security function, articulated an IT Security roadmap, selected a Security Operations Centre (SOC) and implemented improved tools (e.g. Digital Shadows for threat detection, Ironscales for Email Phishing protection, Intune for BYOD) and governance to ensure our estate is made secure.
11. The aim is to move us to within our risk appetite within the next 10-18 months:



12. In January 17 we also highlighted that achieving effective IT risk management, requires the use of well-defined controls and processes. Since then, to help

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manage our key operational risks, we have worked in partnership with KPMG to implement the COBIT5 Control Framework which defines industry best practice.

13. Out of the 37 COBIT5 processes within scope, we identified 11 priority processes that have proved to be effective countermeasures in reducing our exposure to both internal and external IT operational risks.

What is the progress on our run cost reductions and 5-year plan?

14. Our cost base is targeted to reduce from £105m last year to £71-85m; retail benchmarking would appear to suggest a target of £40-50m, but as previously outlined we don't believe this is achievable because:
    - PO provides a combination of specialist retail, financial and government services which makes it difficult to find an appropriate sector benchmark.
    - We have an extremely high number of users and branches; a lot of retail businesses we might compare against have low central IT costs and move costs to every branch operating them as independent P&Ls.
15. Given the benchmark challenge, we will validate our cost base by benchmarking our unit rates, moving to a variable cost base with our suppliers and introduce a flexible architecture. All of this is in progress. In addition, we will examine all business drivers and continuously challenge the cost being driven into IT (e.g. AEI machines, SSK, product design).
16. The drivers of the IT cost base are:
    - Historic high, fixed level contracts with Tier 1 suppliers, based on outdated operating models.
    - Service Levels: price is informed by service levels and these are too uniform across Post Offices; offering tiered/ reduced/ improved service levels would reduce/shift costs.
    - PO has been designed on dated and expensive "fixed capacity" in the infrastructure. Moving to "elastic compute" with virtualised network, Thin Client and cloud based solutions significantly matches cost to usage and reduces costs.
    - The SIAM model has introduced complexity, overhead and cost into every process.
17. In January our view was based on FY16/17 OPEX figures of £107m. We went on to close FY16/17 at £103m, which was underpinned by £1.5m one-off accrual releases.
18. For our FY20/21 OPEX target we presented a range of between £71m to £85m; and forecasted FY20/21 to achieve £71m, the most extreme end of this target, which included many assumptions.
19. We are now able to make a more informed reforecast for FY20/21 of £75.8m:
    - Fujitsu overall savings are now anticipated to be midrange (Everest negotiation, Pivot to Cloud) and arrive later than anticipated.
    - Atos and Computacenter are adjusted to be midrange

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5 Year Forecast	OPEX £m				
	16/17	17/18	18/19	19/20	20/21
	Underlying Result	Budget	Forecast	Forecast	Forecast
Jan-17	104.5	98.7	78.6	70.8	70.5
Sep-17	104.5	98.7	85.8	79.0	75.8

NB FY 17/18 includes additional budget tasking of £1.2m. All years exclude Depreciation and Inflation.

20. The plan still faces a number of risks, including:
    - Successful completion of Fujitsu (to be covered in an October Board paper) and ATOS negotiations.
    - Computacenter and Verizon contractual assumptions and expectations against the revised baseline.
    - Back Office Transformation projects delay: a SafeHaven delay may impact our costs by £2.5m-£4m in F18/19.
    - Branch Technology or Network rollout delay cause Fujitsu/ BT extensions.
    - Severe service failure on the existing infrastructure requires us to spend unallocated funds to restore service.
    - Conflicting or contentious Business Change inhibits IT's ability to enact OPEX reducing change e.g. Transaction Simplification, Receipt Printer.

What are our Digital Transformation plans?

21. The scale and pace of digital disruption continues and represents a genuine competitive threat. We need to move to being "Digital on the inside", tremendously customer centric and data powered. The tools, techniques, technology and approaches of the internet age give us greater opportunities than ever before to transform our delivery of services; assemble services faster at lower cost; and continuously improve services based on data and evidence.
22. We recognise as a Group Executive that a Digital Transformation is a major undertaking and we need to do more work as a team to form a delivery framework around it.
23. We have pivoted the organisation around three main digital experiences: the agent, the customer and our employees. We believe that the opportunities delivered through these areas drives a profound and deep transformation primarily focused on customer and productivity improvements.
24. Many digital initiatives require a significant improvement to our data quality and analytics capability. Post Office's data governance, tools/architecture and data quality need to improve dramatically. A roadmap has been proposed leading to the eventual replacement and consolidation of our current reporting solutions.
25. A profound talent and cultural shift across the Post Office is required.

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- People who 'think digital' – our preeminent mindset is based on traditional leadership and analogue-thinking models (both in operational and change mindsets). Changing this is our greatest opportunity.
- Agile and digitally aware product managers to lead functional prioritisation of digital initiatives.
- Digital Operations specialists to create and maintain fast changing content.
- We will make a significant investment in our internal digital IT permanent skill base to drive the pace and breadth of expertise that we require to succeed across digital initiatives.

26. We also continue our agenda of innovation and emerging technology. In particular we are exploring:
    - Blockchain and distributed ledgers due to the opportunity within Identity Services.
    - Predictive Analytics/ Machine learning/ AI due to both the huge consumer disruption it will cause but also due to applicability in Back Office.

Is IT delivering against the intended business outcomes?

"RETAIL SERVICES"

27. We have now developed our Retail IT Strategy which aligns the Mails, Payments and Network Development goals with the 2017-2021 technology roadmap. The strategy is aligned on our strategic customer objective to reduce queue time and failure demand, extend our network reach, make our customer experience more enjoyable and improve efficiency of service performance.
28. A core enabler of this is the development of HNG-T (technology that allows us to run a very modern Horizon client in the Post Office on a web browser i.e. a Thin Client version of the existing Horizon). We have increased confidence, having proven our Thin Client concept in four months through the HNGT development of our Telephony E-top Up service. We are also engaging with our partners and have a reasonable degree of confidence that they will want to take this solution into their estates if we get it right.
29. We also intend to digitise business processes critical to the running of retail branches by implementing self-service capabilities. Many processes are manually laborious and require intensive support with complex remediation. Our first pilot application will be Horizon Self Service which will automate and deliver agent sales and transactional MI in near real time; currently full data is provided by CDROM to retail partners 3 months in arrears! Subsequent business prioritised user stories include the raising of branch IT incident tickets via the portal and providing real time service updates, and the ordering of cash/coins and stamp stock management.
30. A differentiated service proposition for agents is being developed, with the aim of delivering new service revenue, reduced operational costs and provide enhanced customer propositions through a channel where IT has previously been provided free of charge. The intent is to charge for "Premium Service"

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offerings which will provide more choice and flexibility in the running of their business.

"FINANCIAL SERVICES AND TELECOMS"

31. The Customer Hub described to the Board in June is a core enabler of the Financial Services strategy supporting digital financial products and Open Banking Framework. We believe that this will be a key enabler for customers in the omni-channel environment. We are developing the roadmap and customer facing digital agenda by working with the Financial Services and Identity teams to finalise the MVP for the hub.
32. We will build a reusable, portable Customer Identity capability linked to an easy purchasing experience for customers. In doing this, we enable a fast-track purchasing experience for all branch customers for all branch transactional branch products. In parallel, this will allow pre-branch data entry steps for Drop and Go, International Mail or Bill Payment transactions.
33. We successfully ran a hackathon in June which built a retail mobile application for the business in 48 hours. This proved our capability to rapidly prototype our ideas using a Low Code Development tool and integrate a broad range of external API services such as Open Banking and facial identity verification. These hackathon initiatives will continue.
34. We are going to build our 'Digital Factory' around the "low code" capability and use it to transform our business approach to change. In addition, we will invest in engineering skills to support scalable agile delivery, enterprise digital architecture, enterprise Cloud hosting, mobile application development and API service engineering.

"OUR COLLEAGUES"

35. We are changing our back-end platforms which in itself will drive change in the ways we do business:
    - Consolidation of Back Office systems on to CFS and Transtrack providing a stable and robust financial system.
    - SuccessFactors migration will fully remove HR SAP from our environment and enable staff to update their own data, make requests and ensure managers get better visibility of their team.
    - Review of our MI and Data Warehouse capability (Credence) in a Big-Data world is required to evaluate suitable analytics capability.
    - Contact Centre Case management will enable web, phone and social interaction with Post Masters, employee and clients for our call centres.
36. The ability to 'systems think' the processes and digitise/ automate will fundamentally change the shape and size of Back Office centres whilst significantly improving service.
37. Concurrently we are investing in internal resource in our Process Centre of Excellence; already we have a number of activities run by software robots,

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processes brought online using workflow, e-signatures replacing paper and structured SharePoint sites and forms replacing personal inboxes.

What is our Operating Model to underpin delivery of the Technology Strategy?

38. We previously outlined an Operating Model which includes PO taking back control of business-critical services and building up our own technical capability. The landing position for the operating model is appropriate based on existing contracts, however we will need to make more choices on further insourcing as contracts come to an end. Our supplier base have all changed Account Management and Delivery teams on our recommendations and are now moving from "cash cow" mentality to an increased partnership model.
39. We discussed the negotiations with ATOS and have now agreed a Letter of Intent. The Letter of Intent outlines:
    - Agreement for Atos to embark on an improvement plan to the Service Desk services which will have clearly defined set of measures.
    - Post Office taking back responsibility for managing Change Demand services with Atos providing a systems integration role where required.
    - Agreement on pricing adjustments that reflect redesigned service requirements, providing full year cost reduction on FY17/18 costs of £1.2m.
    - Cessation and suspension of certain lines of services which have been identified as no longer required.
    - Formal Legal agreement expected to be signed end of September.
40. The ability of the IT eco-system to deliver the Change Portfolio is critical to Post Office achieving its strategic goals and 5-year plan. The scale of change across the organisation (both business and IT) is unprecedented and it requires a high degree of coordination, effort and planning to deliver a high volume of change across a complex "none owned" retail organisation
41. The risks to the strategy delivery and their mitigations are tracked monthly and fall into the following categories:
    - The ability of the network and back office operations team to absorb the scale of change for both the retail and IT transformation.
    - The bespoke and legacy nature of our systems which require specialist/experienced resources which are in limited supply.
    - The ability of the suppliers to "step up" to the strategy demands from a resource quality and pace of change.
42. We have implemented an IT Portfolio Office, including the deployment of the "ServiceNow" demand management tool. This will ensure stronger adherence to the Post Office Gating process at project level to gain visibility, early engagement and manage demand effectively.
43. We have also identified critical digital technical capability gaps in the operating model regarding architecture, agile and security skills. We anticipate medium

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term needs in Machine Learning, Predictive Analytics and Big Data manipulation domains. Our strategy for developing this capability is:

- Making Post Office a leader in attracting a diverse workforce for digital, data and technology roles.
- Supporting non-digital specialists in understanding the potential of new or different ways of working.
- Working to make sure that current and future leaders have the right training and experience to manage digital projects effectively, work in an agile way and manage digital-age organisations.

44. Our Engagement Survey results indicated the requirement to focus on four key areas to improve engagement and buy-in to our strategy:
    - Communication and decision making: increase collaboration between CIO and other functions and increase visibility of CIO lead team.
    - Company strategy: deliver against our vision with speed and conviction.
    - Working environment: improve workplace processes with digital solutions.
    - Employee wellbeing: resource more effectively; improve PDR process.
45. We have taken the opportunity to define our new diversity agenda which is made up of key initiatives around greater gender balance and we have recently set up a partnership with FDM Group, an IT talent supplier that work directly with ex-Armed Forces individuals.

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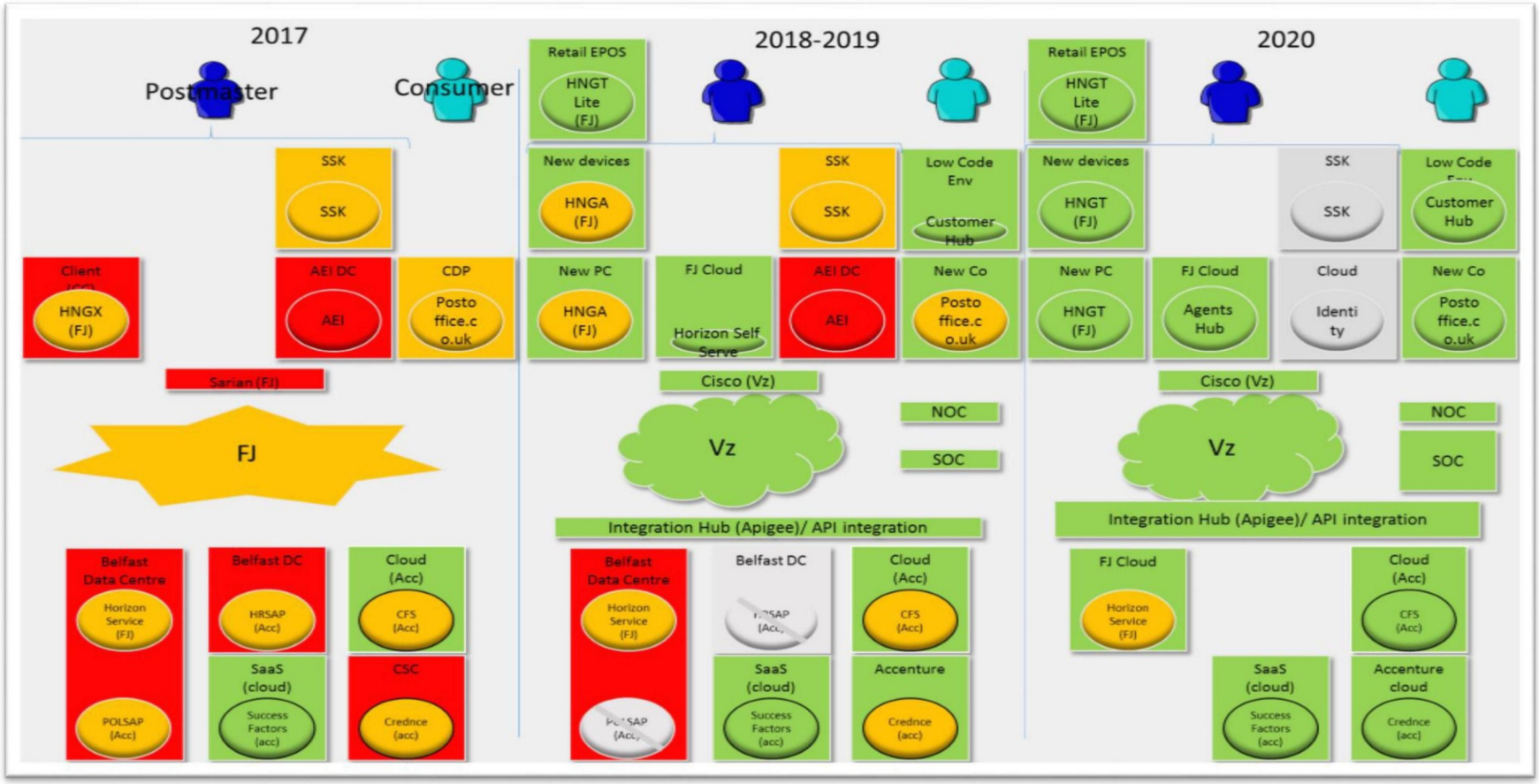
Appendix A: Progress against Measurement of Technology Strategy

Measure	Activity	July 2016	Sept 2017	Target 2020
Lower Cost	Aim to meet budget in first year and with target investment reduce costs by 5-10% beyond that without increases. Note that business change (rightly) increases IT cost	£104.8M	Current Year Forecast £101.9m	£70-£80M Dependent on growth
Faster speed to market (Flash to bang):	Previous experience dictates that this requires end-to-end change. Aim to halve end to end cycle teams across the system	12-18 months	In-house Demand Management & Engineering in progress	3-6 months incremental value
Increased productivity	Requires end to end change but through agile and systems thinking the process – from initial view; aim to save at least 30-50% on cost of delivery	Expensive, layered, waterfall	HNGT, Customer Hub and Horizon Self-Service all being established as agile	Agile, cheaper, high quality
Security Effectiveness	Use a capability measure from Deloitte's against 5 key risk areas to assess and gain an accurate measure of IT/Cyber security maturity.	Limited visibility; limited testing; low risk profile;	Security Operations Centre in progress	High understanding ; robustly tested; higher risk profile
Digital Capability Maturity	Our current capability is well behind leading retail peers. The development work over a year should be to get us amongst our peers	Web site "brochure ware"; immature; limited transactions	Agent & Customer portal in progress	High transactional capability; online/ offline journeys; MyPostOffice/ SME
Always On service	Aim for a consistent reduction in lost business revenue year on year for key services and avoidance of lost hours through predicting events.	Regular Sev 1/ Sev 2 per month (last 6 months - Severity 1 = 16 Severity 2 = 67 Total = 83)	Q1 High Severity Incidents = 30 Q2 High Severity Incidents = 21	20% reduction on critical business hours lost
Colleague Feedback	Aim to establish a mechanism across the company on how technology is performing from a branch, end user and business change perspective. Improve and resolve root cause	Low trust; business/ supplier attitude; low expectations	Engagement action plans in development	High trust; IT as a partner driving value and innovation

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B: Architecture Roadmap

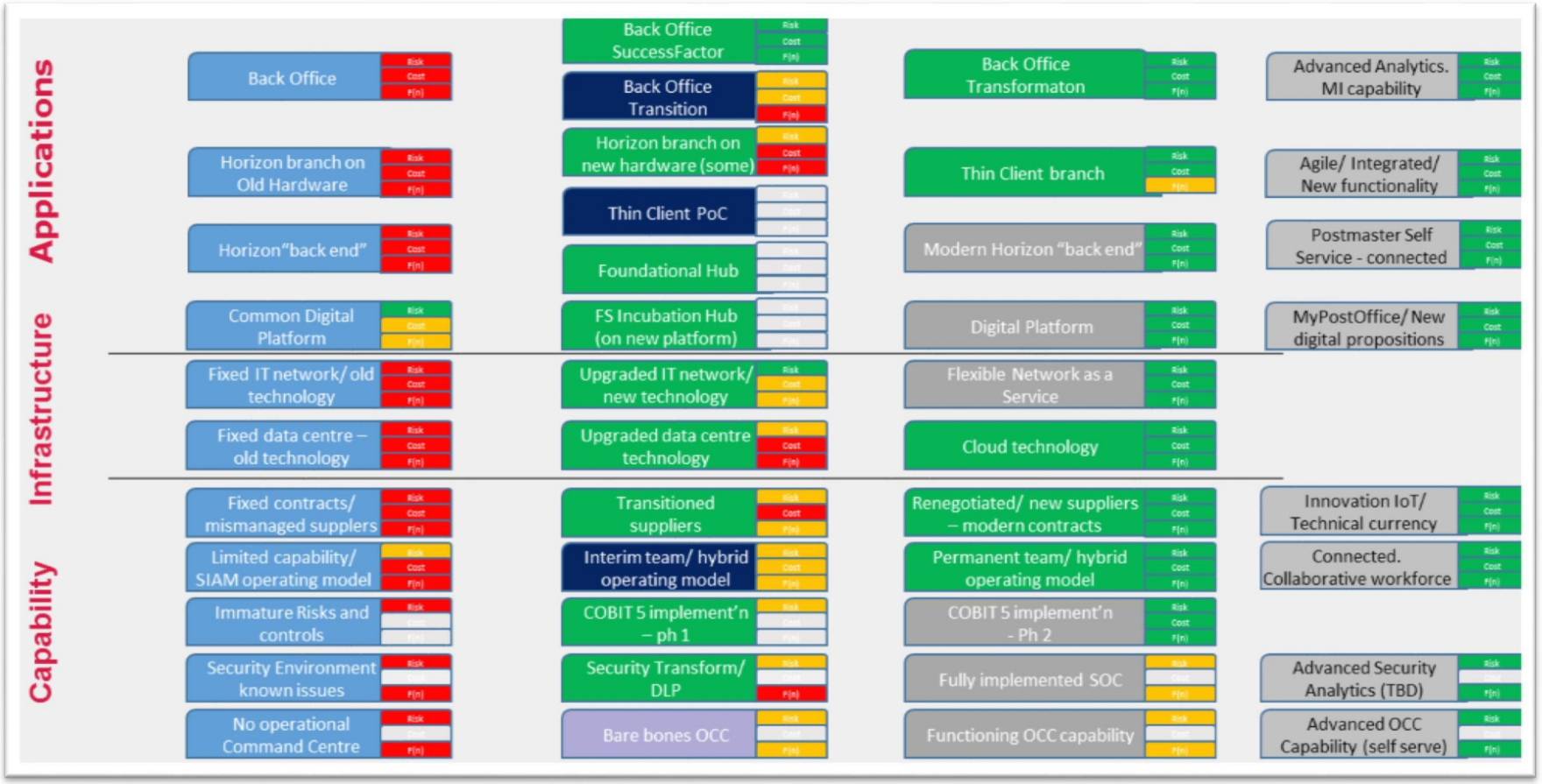
The following shows the roadmap and shifting risk profile as we improve the estate (the circles represent the application and the square represents the platform). It also demonstrates the Digital Transformation with the shift of the ability to access the architecture through a variety of portals.



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C: Plan on a page

The following shows the progress by years as we implement the outcomes of the transformation. Grey boxes remain unfunded and blue is complete. We have split across applications, infrastructure and capability.



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Peregrine Update

Author: Jonathan Hill; Owen Woodley Sponsor: Nick Kennett Meeting: 26th September 2017

Executive Summary

Context

The exclusive contract with Bank of Ireland (BoI) expires in 2023; the closeness of this date is impacting BoI's IRRELEVANT and thence ability to deliver IRRELEVANT IRRELEVANT. This, combined with major concerns about the IRRELEVANT on IRRELEVANT and IRRELEVANT and IRRELEVANT, encouraged the Parties to agree to renegotiate core components of the FSJVA (Project Peregrine).

At the July Board meeting management presented an update on progress, concluding that the "chances of concluding a satisfactory agreement are, at best, balanced". On 13th September BoI presented its proposal in response to ours of August 2016.

In anticipation of finally receiving this proposal, Post Office engaged consultants to give context to our analysis - IRRELEVANT IRRELEVANT (answering the Board question "what could be the size of our ambition?"), and KPMG to assess the potential costs/risks that Post Office could suffer if we do not reach agreement with BoI.

Questions addressed in this report

1. What are the alternative model options for Post Office?
2. How important is Post Office to BoI UK and to BoI Group?
3. What has BoI proposed and what is Post Office's assessment?
4. What are the negotiating options?
5. What is the comparative value of the BoI proposal and McKinsey options?
6. What actions could/will BoI take; what are Post Office's options?
7. What are Post Office's key protective actions?
8. What are the key risks?

Conclusion

1. The McKinsey review concludes that there are significant opportunities for Post Office, ranging from owning a (or a share of a) bank to distribution partnerships. IRRELEVANT IRRELEVANT
2. BoI UK has to date been seen by BoI Group and the market as being a core component of the "BoI story". However with growth of the UK business flat-lining and medium term prospects uncertain, the strategic importance of BoI UK may reduce. IRRELEVANT IRRELEVANT

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3. The BoI proposal does not meet our core objectives; with a wide gap between the parties, satisfactory conclusion is unlikely. While we have been absolutely clear with BoI throughout the process as to our minimum requirements, the proposal may still be an initial negotiating position (we have received mixed messages).

4. The negotiating strategy seeks to IRRELEVANT IRRELEVANT IRRELEVANT Therefore we intend to reject the proposal and move to the next stage of our negotiating strategy, which initially is to restate our minimum requirements and retest BoI's appetite to meet them; if this is rejected, we will follow the subsequent stages as set out in this paper.

5. IRRELEVANT

6. We will start to deploy our counter-plays as we understand BoI's reaction and actions and continue to build key long term capabilities (in particular the Hub); there are likely to be medium term financial and business implications of rejecting the proposal which are set out below.

Input sought

The Board is asked to note the status of Project Peregrine and support management's recommendations.

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The Report

What are the alternative model options for Post Office's financial services?

1. We engaged McKinsey & Co to assess alternative options for the future Post Office financial services business in 2023 if IRRELEVANT he over-riding question covered is – *"How big could the Post Office (consumer banking) Financial Services business be, leveraging its unique brand and consumer base?"*

2. McKinsey concludes that there is a significant opportunity, highlighting three alternative models; in each case the forecast returns range from IRRELEVANT IRRELEVANT IRRELEVANT While the analysis is inevitably high level and assumption based, this uplift is considerable and compares to the IRRELEVANT (see next section).

3. The conclusions also highlight the criticality of Post Office keeping options open for the next 2-3 years – the optionality is set out in Exhibit 4.

4. Below is the executive conclusion from McKinsey – the exhibits referenced are attached in the appendix and the detailed workings are in the Board Reading Room.

PERSPECTIVES ON THE UNCONSTRAINED OPPORTUNITY FOR POST OFFICE MONEY BEYOND 2023
- A REPORT FROM MCKINSEY & CO (SEPTEMBER 2017)

As UK Retail banking landscape undergoes a revolution; with Open banking disaggregating the banking value chain, technological advancements lowering barriers to entry and a crowded Fintech/ Attacker market providing unprecedented partnership and acquisition options, Post Office has a unique opportunity to play at scale in the UK retail banking market.

- Post Office's core strengths of Brand and reach are becoming increasingly rare and valuable in a crowded market, while Post Office's historic capability gaps across data/ analytics, Digital UX, and core banking capabilities are becoming increasingly accessible and commoditised. For example, the costs of core banking system have dropped by 80-90% due to the advent of cloud platforms, while over 50 new Fintechs including at least 12 new Challenger Banks were launched in the UK in past 3 years, most lacking a brand and established customer base but with strengths in Digital UX, data analytics. These provide Post Office a plethora of partnership and small-scale acquisition opportunities to close traditional capability gaps.

- Open Banking, coupled with API technology, is accelerating the disaggregation of the banking value chain into "originators" and "customer interface providers". Originators hold the balance sheet and manufacture products, (£5.8bn in flow revenues p.a. but shrinking at 2% p.a.) while "customer interface providers" (smaller revenue pool of £2.2+bn but growing at 14% p.a.) offer an aggregated account management interface and serve as gateways into broader digital ecosystems that span financial services and beyond (e.g., utilities, digital ID) **[Exhibit 1]**. Post Office has an undeniable right to play in this customer interface market, given its brand strength, existing customer base and hard to replicate ecosystem relationships **[Exhibit 2]**. However, given uncertainty and risks of pure customer interface play, and the significant size of revenue pools for balance sheet banking, Post Office should seek to tap into both the customer interface as well as origination pool revenues via a series of innovative partnerships and selected acquisitions

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Assessing the full spectrum of options across potential size of prize as well as feasibility and achievability for Post Office, we have shortlisted three viable winning models for Post Office.

1. **Customer interface provider with full market access including own branded products** ***"Your trusted and independent assistant to save you time and money"***:

   Post Office leverages its independent, trusted brand to provide a convenient, digital platform to aggregate and manage customers' financial accounts, as well as make transfers and payments. The platform proactively analyses customers' needs and compares across the market to recommend, with complete transparency, the right product in both financial and related non-financial services. The product offering includes the full market (via open APIs into the platform), including Post Office Money products (provided via a selection of profit-sharing partnerships with balance sheet players across product categories). Post Office also provides value added services like Digital IDs and webchat.

   Key advantages of this model are that it enables Post Office to effectively play in multiple revenue pools: the banking distribution revenue pool (based on commissions for product recommendations), the banking origination pool (based on profit sharing partnerships) and new revenue sources (digital servicing, KYC). It also de-risks a pure Customer Interface play, given the uncertainties around customer take-up of non-bank interfaces and potential regulatory scrutiny of commission based revenue structures.

   That said, for such a play to succeed, it is critical for Post Office to keep the distribution platform at arm's length and fully independent from the rest of the business, following the example of mutual fund providers like Fidelity.

   Given the need for best-in-class UX and analytics capabilities for a market-wide offer, Post Office should consider partnering with Fintechs offering similar services today but who lack brand and existing customer base (e.g., Pariti, Bud, Monzo), non-UK players who have experience offering ecosystems in their home markets (e.g., AliPay) or small-scale comparison players (e.g., Money Saving Expert).

2. **Banking partnership by category** ***"Building bridges between you and our trusted partners"***:

   Post Office leverages its brand and existing reach to provide customers with Post Office Money branded products via a selection of profit-sharing partnerships with "best of breed" balance sheet players across product categories. In this model, the customer hub is primarily a convenient digital gateway and account aggregation tool for Post Office Money's own customers and does not recommend products from across the market.

   The key advantage of this model is that it enables Post Office to play in the banking origination pool with a higher share of profits compared to model 1, while de-risking full balance sheet ownership. It also avoids the uncertainty and risks surrounding the, as yet unproven, pure customer interface and ecosystem play.

   In this model, Post Office would develop a larger range of partners compared to today, including monoliners (e.g., Capital One, Zopa), challenger banks with specific asset / liability needs (e.g. ING, Metro) and, potentially, the Bank of Ireland for specific products. This requires, however, Post Office to manage the complexity of such a range of partnerships, potentially via simple profit sharing contracts, with most aspects common across the full range of partnerships.

3. **Become a bank** ***"Your trusted challenger bank already on your high street":***

   Post Office leverages unprecedented opportunity to close key balance sheet capability gaps by acquiring a challenger bank at low cost (potentially with equity stake as first step). For own banking customers, Post Office provides a convenient hub to aggregate and manage their financial accounts.

   Key advantage of this model is that it allows Post Office to fully tap into the substantial origination revenue pools, and opens up SME banking opportunity in the future. This requires, however, that Post Office is allowed to hold balance sheet and take on credit risk.

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There are many paths to becoming a bank – ranging from organic growth, to taking (and building over time) a stake in a challenger bank, to outright, full acquisition.

Given the rapidly developing landscape for challenger banks with new entrants expected every year (e.g., Starling, Tandem, Atom are current new breed of banks), we believe a viable, affordable path for Post Office could be to acquire a stake in a fledgling challenger bank, and to grow that stake over time. When contractually able to, Post Office could leverage its brand and reach to accelerate the growth of this bank. For example, Portugal's post (CTT) created a bank in 2015 banco CTT. It leapfrogged the three major digital attacker banks within 2 years by leveraging the CTT brand and footprint. Today, Banco CTT has nearly 300,000 customers—more than all three digital attackers combined.

In all these cases, the returns are expected to be highly attractive, ranging from £150m-£300m+ annual revenues in year 5 post launch **[Exhibit 3]**, increasing its revenue 3-6x by 2028 compared to today's BOI revenues.

Given the dynamic nature of UK Financial Services market over the next 5-6 years, with new players entering at unprecedented pace, uncertainty about open banking adoption and evolving revenue models of customer data ownership, we believe Post Office should maintain optionality across these business models for the next 1-3 years **[Exhibit 4]**.

Once Open Banking is live, Post Office should monitor customer adoption to decide whether a Customer Interface play with full market access is viable, or alternatively, whether a more conservative model of Banking Partnerships is preferable. Post Office should note that going down the model 1 route continues to keep the other two options open to it. The one decision that is potentially more definitive is whether to make an opportunistic stake in a challenger bank, which would position Post Office more firmly towards Model 3 of "Becoming a bank".

However, regardless of option chosen, in the next 6 months there are a set of no regret moves, including

- Building the basics required to succeed across all these models (build customer interface platform, grow customer database, e.g., via FX)
- Explore "new sources of revenue", e.g., Digital ID/ KYC as value added service, non FS ecosystem possibilities leveraging existing Post Office relationships
- For future options, detail out and analyse: customer value proposition, fulfilment path, capability gap assessment, revenue model and investment/ return profile
- Carry out detailed market scan and develop value proposition for potential partners to deliver on these business models, including opportunistic stake in challenger bank
- Closely monitor Open Banking response by financial services players, regulatory scrutiny of commission model and customer take-up

How important is Post Office to BoI UK and to BoI Group?

5. Post Office is critical to the BoI (UK) plc business for assets and liabilities and is the cornerstone of its "partnership bank" strategy:

- **IRRELEVANT**
- Of £19.5 billion customer UK deposits, c£14.5 billion (74%) are from Post Office customers;

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- IRRELEVANT
- To date BoI UK has not found significant new channels to drive asset growth.

6. BoI UK had been the strategic retail growth driver for the Group, but last year was flat:
   - IRRELEVANT

7. Overall the Post Office has been critical to BoI's diversification and growth strategy. However, over the past year this may have changed as UK growth has flattened and the core focus of BoI may shift with the arrival of a new Group CEO.

What has BoI proposed and what is Post Office's assessment?

8. As set out in recent Board papers, we assessed the likelihood that BoI would table a proposal which would conclude in a satisfactory agreement as "at best, balanced".

9. The proposal was only very recently presented, giving minimal time for detailed analysis or discussions between the parties. However, the proposal included:
   - A twelve-year extension to 2035, with IRRELEVANT
   - A IRRELEVANT for mortgages and savings, with a transition arrangement to 2023, avoiding an immediate fall in Post Office revenues;
   - An annual contribution towards Post Office's costs (subject to an auditable demonstration of investment in the business by Post Office);
   - A IRRELEVANT in recognition of the FRES value imbalance;
   - A IRRELEVANT eduction in BoI's contribution to the IRRELEVANT
   - No changes to IRRELEVANT BoI proposes that Post Office would receive IRRELEVANT IRRELEVANT but that it would manage/control the product;
   - A guaranteed income to Post Office of IRRELEVANT IRRELEVANT followed by a formal review to assess the product's effectiveness;
   - The closing of the existing current account to new customers with a managed exit of the customer base and a review in eighteen months;
   - Extension of the contract notice period to five years (from two) plus IRRELEVANT operational support if Post Office exits financial services;
   - The right for BoI to IRRELEVANT at will, any Post Office generated assets.

[1] *Source: BoI Group Interim Results H1 2017*

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10. IRRELEVANT

11. BoI's proposal does not address the issues and requests tabled in Post Office's proposal of August 2016:

- There is no growth ambition – excluding the costs contribution, Post Office's commissions are effectively flat to 2023. There are no assumptions or comments on opportunities thereafter;
- There are no guarantees that we could get the products we want nor commitment to funding a Post Office-generated balance sheet; it still leaves us IRRELEVANT and shifting focus to their own or another partner brand;
- The proposal does not address the IRRELEVANT
- The retention of full IRRELEVANT precludes Post Office building alternative business opportunities (including Investments); and
- The proposed changes to IRRELEVANT and IRRELEVANT would make it virtually impossible for IRRELEVANT in the future.

What are the negotiating options?

12. In assessing the proposal we have sought to identify the points of maximum leverage to Post Office, as well as the short and long term implications and risks of how we would position a rejection. The table in appendix A sets out the negotiating options, their impact and risks/opportunities and potential chronology. These are summarised as:

- Option 1 – reject and seek to negotiate around the Bank's proposal, highlighting why it does not work and propose it is reworked to address Post Office's requirements; this would be a precursor to other options;
- Option 2A – reject the proposal and offer an IRRELEVANT for IRRELEVANT IRRELEVANT This would provide increased balance sheet and regulatory certainty to BoI and is the closest to Post Office's original proposal;
- Option 2B – as per 2A, but on a IRRELEVANT maintaining greater long term optionality for Post Office;
- Option 3A – comprehensive rejection of the Bank's proposal and IRRELEVANT IRRELEVANT
- Option 3B – comprehensive IRRELEVANT of the Bank's proposal and a clear IRRELEVANT IRRELEVANT in 2023.

13. We believe that the most effective route will IRRELEVANT IRRELEVANT, which will give Post Office the greatest short-term opportunity to support BAU delivery, particularly with the new BoI Group CEO arriving in October.

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14. If BoI does not significantly change its position to meet our basic requirements (which we regard as likely), we will move to Option 2B above and IRRELEVANT IRRELEVANT this also has significant overlap with the McKinsey options. It is possible that BoI might respond with Option 2A, which could still be acceptable based on IRRELEVANT IRRELEVANT

15. IRRELEVANT

16. The rationale for this staged approach is that:

- There is no immediate pressure on Post Office to conclude a deal, IRRELEVANT IRRELEVANT
- In the interim we would look to minimise the downside risks to customers and income;
- Option 2B would give Post Office a good outcome, in particular avoiding the challenges of migrating the balances and customers to an alternative provider and retaining optionality around the McKinsey scenarios;
- In Option 3A, IRRELEVANT IRRELEVANT

17. The FSJVA is clear as to the expectations and actions available to the parties at termination, but restricts Post Office's options before 2020:

- IRRELEVANT

What is the comparative value of the BoI proposal and McKinsey options?

18. While we have not had the opportunity to undertake a detailed financial analysis of the proposal, a brief review by McKinsey based on high level assumptions (we do not have those that underpin the BoI proposal) has estimated that:

- IRRELEVANT

What actions could/will BoI take; what are Post Office's options?

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IRRELEVANT

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IRRELEVANT

What are Post Office's protective actions?

20. To protect Post Office's short and medium term position we anticipate deploying a four-pronged strategy:

(i) **The FSJVA** gives key contractual rights and protections to Post Office:

- Restart the process IRRELEVANT IRRELEVANT (we are assessing whether there are any changes required to reflect competitive developments);
- Set out our requirements for a current account – this would be done with the intent of IRRELEVANT
- Require BoI to undertake a rolling two-year review of all products to ensure they remain fit for purpose. We can contend that BoI does not have IRRELEVANT
- Challenge BoI's IRRELEVANT: Post Office and BoI are obliged to set targets aligned to product IRRELEVANT BoI is required to take IRRELEVANT IRRELEVANT because of BoI actions outside of the joint business. This could

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limit BoI's attempt to IRRELEVANT IRRELEVANT

(ii) **Travel Money** – the FRES agreements are contractually extremely difficult to terminate or amend, with limited avenues open to us to take action to change the existing arrangements; Linklaters is exploring options.

Any options would need to include consideration of the impact on Post Office's revenue and agents, potential material harm to the FRES relationship, possible breaches to good faith obligations in the various contracts and potential allegations regarding directors' duties (the latter needs to be clarified prior to any actions).

(iii) Develop business IRRELEVANT

- Accelerate the development of the Post Office Hub, with initial products coming from insurance and travel (requiring FRES to link to the Hub);
- Fast track work on alternative transactional account products, in particular pre-paid debit cards (which is outside exclusivity);
- Identify acquisition targets for IRRELEVANT

IRRELEVANT

(iv) **Review costs** for delivering the existing BoI business

- A strong rejection of the proposal will inevitably reduce the prospect of a collaborative approach to product development and the distribution model (in particular on mortgages). This does not have a significant impact on the CRM role, but we are reassessing the value of Mortgage Specialists, which could result in their disbandment.
- As the relationship with BoI changes and IRRELEVANT IRRELEVANT it may be necessary to change the roles and composition of the Post Office Money team.

What are the key risks?

21. The potential consequences to Post Office from rejecting the proposal and failing to reach any satisfactory alternative position with BoI are:

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[2] *As assessed by Macquarie and presented to the Board in June 2016*

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- Loss of momentum (and likely skills) in financial services as a business;
- Deteriorating relationship with BoI that would be driven by firm adherence to the FSJVA terms;
- BoI may be unwillingly to make changes to existing product journeys to link into the Customer Hub;
- Uncertainty as to the options available in 2023, but the freedom to seek

IRRELEVANT

22. While remaining under the FSJVA will not have a detrimental impact on existing customers as both parties have contractual and regulatory obligations to look after customers, the lack of product innovation will reflect on the Post Office as a financial services brand.

23. IRRELEVANT

24. The potential impact for agents would be lower commissions and footfall as savings volumes are reduced.

Conclusion

25. Whilst management believed that an outcome along the lines set out in our original proposal would have generated the optimal medium and long term value for both parties, based on the IRRELEVANT of BoI's proposal, the gap to our minimal acceptable position and potential attractiveness of McKinseys' options we propose:
    - To reject BoI's proposal and restate our minimum requirements to test their appetite to shift position and close a deal, IRRELEVANT IRRELEVANT
    - On the assumption that our minimum requirements are not met we will seek a
    - IRRELEVANT

26. In all cases as above, we will build our optionality as set out by McKinsey and our existing Customer Hub strategy.

27. We expect BoI to apply direct pressure on Post Office to continue negotiations or to take actions IRRELEVANT

IRRELEVANT

Nicholas Kennett
Chief Executive, Financial Services & Telecoms

September 2017

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IRRELEVANT

X Margin, bps New revenue sources RETAIL BANKING

Revenue, £ billions

	In year flow, 2025	Incl stock[1]	Comments
Distribution (3rd party)	IRRELEVANT		IRRELEVANT
Payments			
Origination (core balance sheet banking)			

1 Revenue from holding stock for 5 years, including flow for that year

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IRRELEVANT

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PRELIMINARY

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Modern Slavery Act Statement

Author: Kelly Godden Sponsor: John Whitefoot Meeting date: 26 September 2017

Executive Summary

Context

The Modern Slavery Act 2015 challenges slavery, domestic servitude, forced and compulsory labour and human trafficking. Post Office is required to produce an annual slavery and human trafficking statement setting out what steps have been taken to ensure its business and supply chains are slavery free. The first statement was approved in May 2016.

At the ARC meeting in May 2017, the ARC considered and recommended for approval an updated statement which describes our progress on the previous year's commitments and outlines the actions that we will take during 2017 -18. Due to an oversight, this statement was not then brought to the Board for approval. We now require approval from the Board in order that the statement can be published within time by 30 September.

Questions addressed in this report

1. What are we required to do?
2. What progress have we made to date?
3. What do we need to do next to progress?

Conclusion

1. A steering group was appointed in January 2016 to develop and monitor our approach to the Modern Slavery legislation ('MSA').
2. We have undertaken further due diligence on our business and supply chains to identify any risk areas. The steering group has identified that the highest level of risk is within our Agency network. We have already begun to address this risk including drafting guidelines for Postmasters to follow. Postmasters are already required to comply with the Act.
3. Post Office's MSA Statement was prepared using Home Office guidance and after reviewing Statements by UK and international companies.
4. Post Office has prepared an updated Statement in line with the legislation which must be published within 6 months of financial year end.
5. The nature of the legislation allows for Post Office to build a robust approach to the MSA over time. Going forward, our annual MSA statement will outline progress on previous commitments and those actions we will take in the next twelve months.

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Input Sought

The Board is asked to approve the 2017/18 statement and endorse actions for the business to take forward this financial year.

The Report

What are we required to do?

6. The requirement to publish an annual 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.
7. 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. This includes the agency network.
8. Set out in Appendix 1 is the updated Statement approved by the ARC in May which documents our progress and outlines the actions that we are committed to taking this year 2017 -18. This must be approved by the Post Office Board and signed by a Director.

What progress have we made to date?

9. In 2016 we made three specific commitments and progress on these commitments is outlined below:

Commitments from 2016 Statement	Progress on 2016 commitments
Updating Postmaster's selection and appointment process to address MSA requirements	We have now reviewed the Postmaster's contract and believe that it is robust enough to cover the MSA legislation. We have also supplemented the contract process with a set of Guidelines for Postmasters
Amending our standard form procurement contracts.	We have reviewed our standard form procurement contracts and believe that our 'applicable laws' clause covers POL for breaches of MSA. Our Pre-Qualification Questionnaire (PQQ) procurement process has also been amended to take account of MSA and suppliers must confirm that they comply with their obligations under the MSA and provide a copy of their MSA Statement.

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Commitments from 2016 Statement	Progress on 2016 commitments
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.	We have now produced a communication plan which includes partnering with the NFSP for roll out in 2017. The MSA is also now referenced in our Whistleblowing Policy and our Code of Business Standards (which is currently being updated). A training plan remains under development. This year, however, our commitments are focussed on raising awareness. The Steering Group anticipate the training requirement to increase as we move towards 2018 as we begin to build a suitable due diligence and compliance capability.

10. In drafting the statement for this year we reviewed statements from a range of other companies including our key partners, to ensure that our proposals were consistent with emerging practices.

11. The statement for 2017-18 was developed by the MSA Steering Group which comprises of representatives from Legal, Network, Postmaster Contracts, Procurement, Risk, Employee Relations and Learning and Development. Members were heavily involved in the development of the statement and supporting documentation. There are no significant costs identified in fulfilling our commitments for 2017-18.

What do we need to do next to progress?

12. The new Statement must be signed by a Board Director and published on our external website within the first six months of the financial year.

13. We are confident that the detail in our Statement, our commitments documented last year and our proposed actions for this year are appropriate and compliant at this stage. We will monitor developments, however, and keep the efficacy of the Statement under review.

14. By not updating our Modern Slavery Act Statement every year the business could be liable to prosecution under the Act. This could, worst case scenario, result in a heavy fine and subsequent damage to our reputation and brand. The Act allows for organisations to evolve a robust approach and that is why reaffirming a renewed commitment every twelve months is required. By continuing to effect reasonable progress year on year, Post Office Limited will remain compliant with the legislation.

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Appendix

Post Office Limited (Post Office) & Post Office Management Services Limited (POMS)
Modern Slavery Transparency Statement 2017-18

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). The Statement also sets out our commitments for the next twelve months with regards to the legislation.

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; government services; and telephony) from a Network of more than 11,500 Post Office branches nationwide.

Post Office directly manages around 2% 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
Post Office banking services (deposits, withdrawals, balance enquiries and change giving) are provided in Post Office branches on behalf of the customers of UK banks.

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 engaged by the Postmaster.

Multiple partners
A large proportion of the agency part of our network is run by multiple partners.

Trade Unions
In our directly managed branch network, we work closely with the Communications Workers Union (CWU) and Unite (CMA) Communications Managers Association.

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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.

Where are the risks of Modern Slavery at Post Office/POMS?
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.
- Our Code of Business Standards will reference the issue of 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 have conducted a review of the criteria used by Post Office to evaluate whether suppliers meet Post Office's minimum tendering requirements. As a result of this we have now reviewed our standard form procurement contracts to ensure that they cover POL with regards to the MSA legislation.
- Our Pre-Qualification Questionnaire (PQQ) process has also been amended to take account of MSA. Suppliers must now confirm that they comply with our MSA Statement.
- We have reviewed the Postmaster Contract of Engagement and have written Guidelines for Postmasters to assist them in complying with MSA legislation.

Next steps
Throughout 2017 we will be committed to a programme of 'Building Awareness'. This includes:
- Rolling out our MSA Communication Plan across all of POL, including our directly employed colleagues, postmasters and supply chain.
- Reviewing our approach to audit and compliance and making recommendations around a suitable regime to take forward.
- In the light of the recommendations from the review of audit and compliance, developing a relevant Training Plan in support of any proposed new regime.

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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 in the first instance or call the Government's Modern Slavery Helpline on 0800 0121 700.

Signed: .....
Name: .....
Position: .....
Date: .....

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Post Office Limited Sealings

Author: Jane MacLeod Meeting date: 26 September 2017

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 1544 to 1575 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 1544 to 1575 inclusive in the seal register is hereby confirmed.

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POST OFFICE LIMITED

Register of Sealings

Date
26.09.2017

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1544 / Lease Renewal	18/07/2017	15/07/2017	Renewal of lease in respect of 193/199 Cricklewood Broadway, London NW2 3HR between Anthony Christou and Ioanina Christou (the Landlord) and POL (the Tenant).	Alwen Lyons, Company Secretary	Jean Reynolds
1545 / Renewal Lease	24/07/2017	19/07/2017	Renewal lease by reference to an existing lease Unit 2, 24 Wellington Road, Rhyl, Denbighshire LL18 1AD between Post Office Limited and Co-Options Limited.	Alwen Lyons, Company Secretary	Jean Reynolds
1546 / Renewal Lease	24/07/2017	20/07/2017	Renewal lease in respect of 16 Francis Street, Stornoway, Isle of Lewis between Dr Jonathon Neil Davis, Jean Alexandra Davis, Jonathan Alexander Greig Davis, Thomas Charles Greig Davis and Nicolas Alasdair Greig Davis (Landlords) and Post Office Limited (Tenant). Please not the seal was returned because sealing is not recognised in Scotland, so this was executed as a signature.	Alwen Lyons, Company Secretary	Jean Reynolds
1547 / Settlement Agreement	27/07/2017	27/07/2017	Settlement agreement between Mars Pensions Trustees Limited (004497333) (Landlord) and Post Office Limited (Tenant) in respect of property known as Units 29 and 30 Tower Ramparts Shopping Centre, Ipswich.	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1549 / Settlement	28/07/2017	27/07/2017	Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Fujitsu Service Limited and Emma Moir (Employee). CAF no. 744. Dated: July 2017 (x2)	Victoria Moss, Deputy Company Secretary	CoSec Contract Depository
1551 / Settlement	28/07/2017	27/07/2017	Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Fujitsu Service Limited and Craig McMillan (Employee). CAF no. 744. Dated: July 2017 (x2)	Victoria Moss, Deputy Company Secretary	CoSec Contract Depository
1553 / Settlement	28/07/2017	27/07/2017	Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Fujitsu Service Limited and Joanna Moss (Employee). CAF no. 744. Dated: July 2017. (x3)	Victoria Moss, Deputy Company Secretary	CoSec Contract Depository
1555 / Spinnaker	03/08/2017	03/08/2017	Deed of variation for contract maintenance and leasing reducing and capping estate form 700 Iboxes to 300, following simplifying supply chain. Continued maintenance of ATM cassettes and ATM Ibox as per current contract. Extension of current contract to End of November 2017, as per clause 42.2. Agreement for the provision of Goods and Services relating to the supply and installation of ATM and cash transportation equipment.	Victoria Moss, Deputy Company Secretary	CoSec Depository
1556 / Transfer of Whole Reg Title	15/08/2017	11/08/2017	Transfer of whole registered title in respect of 305 Gloucester Road, Horfield, Bristol, BS7 8PF (Title no BL90936). Transferor: Post Office Limited. Transferee: Richard Douglas Tyler and Anne Tyler. Option to purchase. (x1)	Victoria Moss, Deputy Company Secretary	Jane Reynolds
1557 / Surrender of Lease	15/08/2017	10/08/2017	Surrender of Post Office Limited's head lease in respect of 199 - 201 High St, Southend on Sea Essex, SS1 1LL. Landlord Benrose Property LLP	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1548 / Settlement	16/08/2017	27/07/2017	Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Fujitsu Service Limited and Oliver Mackereth (Employee). CAF no. 744. Dated: July 2017. (x3)	Alwen Lyons, Company Secretary	CoSec Contract Depository

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POST OFFICE LIMITED

Register of Sealings

Date
26.09.2017

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1552 / Settlement	16/08/2017	27/07/2017	Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Fujitsu Service Limited and Jason Newton (Employee). CAF no. 744. Dated: July 2017 (x3)	Alwen Lyons, Company Secretary	CoSec Contract Depository
1554 / Settlement	16/08/2017	27/07/2017	Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Fujitsu Service Limited and Stuart Jackson (Employee). CAF no. 744. Dated: July 2017 (x3)	Alwen Lyons, Company Secretary	CoSec Contact Depository
1558 / Deed of Novation	16/08/2017	09/08/2017	This Deed of Novation (the Deed) is supplemental to a Terms and Conditions relating to a contract for the supply of Single Licensee Software Escrow Agreement dated 1st July 2011 and between NCC Escrow International Limited, the Continuing Party and 3M Cogent INC. (the Contract). Deed of Novation between the following parties: 1. 3M UK PLC (Company No: 1123045) 2. NCC Group Escrow Ltd (Company No: 3081952) 3. Post Office Limited (Company No: 02154540) and 4. Gemalto UK Ltd (Company No: 01278148. (x4)	Victoria Moss, Deputy Company Secretary	CoSec Depository
1559 / Deed of Variation	21/08/2017	21/08/2017	Deed of variation relating to Cash-In-Transit premises forming part of the Premises known as MC/CIT, Slindon Street, Portsmouth PO1 1AA. (Landlord) Royal Mail Estates Limited, (Tenant) Post Office Limited. (x1)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1560 / Lease of Reference	21/08/2017	21/08/2017	Lease of Reference relating to Cash-In-Transit premises forming part of the Premises known as MC/CIT, Slindon Street, Portsmouth PO1 1AA. (Landlord) Royal Mail Estates Limited, (Tenant) Post Office Limited. (x1)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1561 / Deed of Surrender	21/08/2017	21/08/2017	Deed of Surrender of Part relating to Cash-In-Transit premises forming part of the Premises known as MC/CIT, Slindon Street, Portsmouth PO1 1AA. (Landlord) Royal Mail Estates Limited, (Tenant) Post Office Limited. (x1)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1562 / Settlement	17/08/2017	27/07/2017	Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Julie Berry (Employee). CAF no. 744. Dated: July 2017 (x3)	Alwen Lyons, Company Secretary	CoSec Contact Depository
1563 / Settlement	17/08/2017	27/07/2017	Settlement Agreement between New Call Telecom Limited (Employer) and The Post Office Limited and Katie Crook (Employee). CAF no. 744. Dated: July 2017 (x3)	Alwen Lyons, Company Secretary	CoSec Contact Depository
1550 / Settlement	18/08/2017	27/07/2017	Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Fujitsu Service Limited and Noreht Viljoen (Employee). CAF no. 744. Dated: July 2017 (x3)	Alwen Lyons, Company Secretary	CoSec Contract Depository
1564 / DS1 Cancellation Charge	21/08/2017	21/08/2017	Cancellation of charge over Property: 25 Blenheim gardens, Kingston Upon Thames KT2 7BN. Lender: Post Office Limited (x1)	Alwen Lyons, Company Secretary	Rodric Williams
1565 / Lease Renewal	21/08/2017	21/08/2017	Lease Renewal relating to (Property) 5 -7 London Road, Basingstoke, RG21 7AB (Landlord) The Wardens and Commonalty of the Ministry of Goldsmiths of City of London, (Tenant) Post Office Limited. (x1)	Alwen Lyons, Company Secretary	Jean Reynolds
1566 / Variation to a Contract	22/08/2017	17/08/2017	Management services agreement between Digidentity and Post Office Limited, and this is an amendment to this contract (x1).	Alwen Lyons, Company Secretary	CoSec Depository

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POST OFFICE LIMITED

Register of Sealings

Date
26.09.2017

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1567 / Renewal Lease	04/09/2017	01/09/2017	Renewal lease by reference to an existing lease Unit 1, 24 Wellington Road, Rhyl, Denbighshire LL18 1AD between Post Office Limited (Landlord) and Co-Options Ltd (Tenant). Seal x1	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1568 / Renewal Lease	04/09/2017	01/09/2017	Renewal lease by reference to an existing lease Unit 2, 24 Wellington Road, Rhyl, Denbighshire LL18 1AD between Post Office Limited (Landlord) and Co-Options Ltd (Tenant) Seal (x1)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1569 / Rent Deposit Deed	04/09/2017	01/09/2017	Rent Deposit relating to Unit 1, 24 Wellington Road, Rhyl, Denbighshire LL18 1AD between Post Office Limited (Landlord) and Co-Options Ltd (Tenant). Seal (x1)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1570 / Assignation	06/09/2017	07/09/2017	Assignation related to 109 South Street, Perth, PH2 8AF between Post Office Limited (Vendor) and Kilpatrick Property Group Limited (Purchaser) and authorised by Perth & Kinross Council (Landlords). Assignation to be executed by signature and under seal as deed to satisfy English and Scottish law. (x1).	Victoria Moss, Deputy Company Secretary; Diane Blanchard, Executive Assistant to	Jean Reynolds
1571 / Disposition	06/09/2017	07/09/2017	Disposition related to 109 South Street, Perth between Post Office Limited (Vendor) and Kilpatrick Property Group Limited (Purchaser). Assignation to be executed by signature and under seal as deed to satisfy English and Scottish law. (x1).	Victoria Moss, Deputy Company Secretary; Diane Blanchard, Executive Assistant	Jean Reynolds
1572 / Transfer Registry	08/09/2017	07/09/2017	Transfer of whole registered title in respect of 13 -17 North Street, Strood, ME2 4SL (Title no K121126). Transferor: Post Office Limited; Transferee: Hardev Singh and Charanjit Kaur. Seal x1	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1573 / Minute of Variation of Lease	13/09/2017	12/09/2017	Minute of Variation of Lease in respect of First Floor, 489 Union Street, Aberdeen AB11 6AZ, between the Post Office Limited (Landlord) and Intelligent Plant Limited (Tennant). x1	Victoria Moss DCS and Sarah Koniarski, ACS	Jean Reynolds
1574 / Deed of Surrender	15/09/2017	11/09/2017	Deed of Surrender in relation to the Premises known as Unit 8, Seacroft District Centre, Leeds LS14 6JD. A surrender of lease dated 12 September 2008 between (Landlord) Leeds City Council, (Tenant) Post Office Limited. (x1)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1575 / Surrender of Sub Lease	15/09/2017	11/09/2017	A surrender of an underlease dated 18 November 2008 between (Landlord) Post Office Limited and (Tenant) Mr Yiyaz Loonat, which subsequently was assigned to Mr Samvarta Bandyopadhyay.(x1)	Victoria Moss, Deputy Company Secretary	Jean Reynolds

POL00250666

Performance Review – Health and Safety

Authors: Martin Hopcroft Sponsor: Al Cameron Meeting date: 26th September 2017

Executive Summary

Context

1.1 Keeping our employees healthy and safe is fundamental to Post Office success. This is reflected in the Post Office Board's legal responsibilities and members of the board have both collective and individual responsibility for health and safety.

1.2 Our Health & Safety performance has improved significantly in the past 6 years and we have a rolling 3-yer plan to drive compliance, targeting a reduction in safety metrics including accidents; lost time accidents; days lost; and personal injury claims. Our H&S reporting and safety management system is measured against the externally recognised standard, OHSAS 18001. We also recognise the importance that wellbeing can play in creating engaged and motivated employees.

Questions this paper addresses:

2.1 What is going well across health and safety and what are the current activities?
2.2 What are we doing to mitigate the key risks, including driving and robberies?
2.3 Are there any significant emerging risks?

Conclusion:

1. Accident Performance, including absence accidents and lost days have returned to normal in July and August (see Report-H&S Metrics). Benchmark data is being collated from suppliers/insurers/partners for reporting in October to GE & ARC.
2. Mitigating action has reduced road risk which remains at a low level. An overarching policy will be developed for all business drivers (inc. personal car users).
3. Whilst there were only 2 CViT attacks in P4 and P5, Post Office robberies remain high with a number of initiatives being deployed in hot spot areas, however trend is now downward.
4. The overall level of Property risk at 31st August was predominantly low, however, there are some high risk exceptions being reviewed. The FM contract amended to move to a proactive fabric management regime. A serious signage incident on the 3rd August has increased the current 'building fabric' risk to high, whilst measures are put in place. Signage checks are being undertaken by CBRE across the whole estate and will be completed. Current property statutory compliance is good at 95.63 and we are now tracking remedial actions with 80.24% completed. Current fabric 'cladding' checks have been reported 'clear' with no remedial work required.
5. Following the H&S deep dive review, a number of actions are progressing, including a review of road policy, guidance for lone workers, safety of vacated buildings, competency and statutory compliance. A 3rd Party Audit will be arranged in Q3 to review the Post Office Safety Management System.
6. A number of initiatives are being developed to raise awareness of mental health support and resources, including Awareness Workshops, and introduction of Mental Health First Aiders to provide proactive support to colleagues across the business.

Input Sought

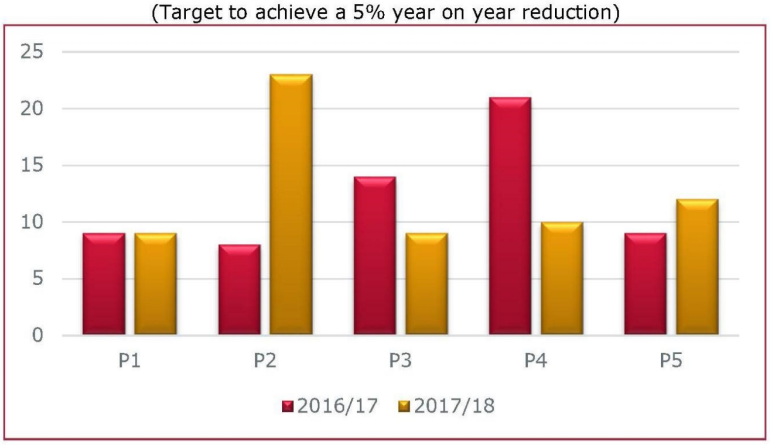
The Post Office Board are requested to **note** the current health safety performance and content of this report. A deep dive review discussion will take place in October.

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The Report – H&S Metrics

Summary of Safety Performance - YTD Period 5 (Aug 2017)

All Accidents – Monthly - Period 5
(Target to achieve a 5% year on year reduction)



Accidents have returned to normal levels and are consistent with 2016/17. There have been 62 accidents YTD compared to 61 in 2016/17. Causation is consistent with previous years in DMBs and due to falls indoors, lifting and handling and stepping and striking. Whilst stepping and striking and non RTA vehicle related accidents have increased in Supply Chain recently, lifting and handling related incidents have reduced.

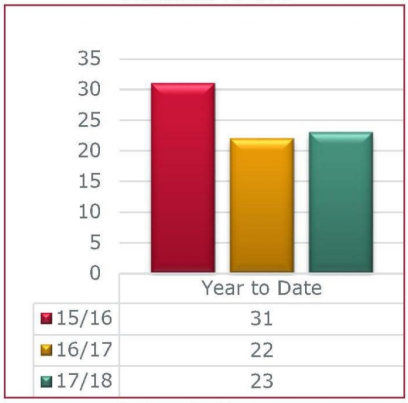
There was 1 lost time accidents reported in P5 with **10 lost time accidents** YTD 2017/18 and 277 total lost days which is a 5% decrease compared to 2016/17 but a 17% decrease compared to 2015/16. Cumulative Trends can be seen per 000 employees in the graph below. Total lost time / 000 employees has risen by 20%. **Trauma** related total lost days, following an attack, are 60% down (36 days 17/18 v 86 in 16/17).



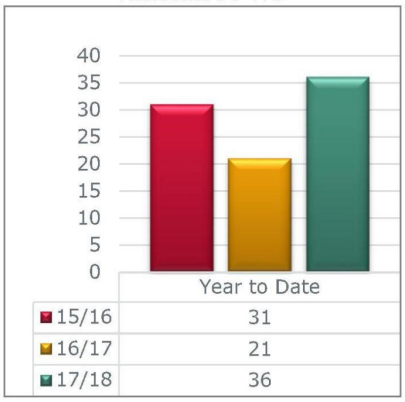
Post Office total lost days: 33 in Period 5 due to an ongoing absence in DMB.
DMB total lost days P5 YTD : 153 (96 in 16/17) – 1 slip/trip, 1 lifting, 1 fall
Supply Chain tot lost days P5 YTD: 141 (109 in 16/17) 1 RTA, 3 falls, 1 lifting
Support total lost days P5 YTD : 6 (6 in 16/17)

Post Office CViT Robberies – P4 (July 17)
There was 1 incidents reported in July v 5 in 2016/17 and 8 YTD v 14 YTD in 16/17. Trend is being monitored closely. Task Force vehicles deployed in usual hot spots with cross pavement observations. Merseyside identified as current industry hot spot area. Regular Security team attendance at monthly 'Operation Guardian' meeting to highlight and mitigate against CViT criminality in the area.

Directly Managed Branch
Accidents P5 YTD



Supply Chain
Accidents P5 YTD



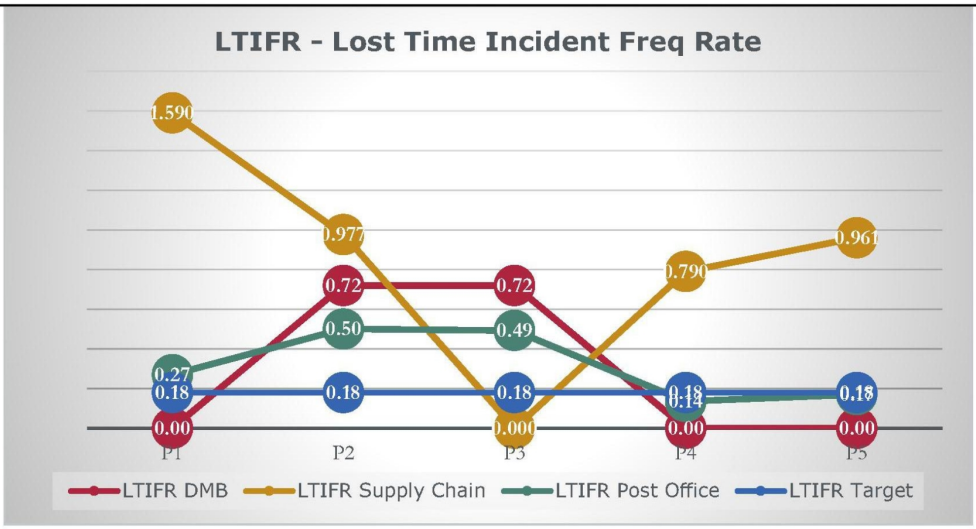
Post Office (All branch types)
Robberies – P4 (July 17)
There were:
(152 incidents in 16/17 v 104 in 15/16)

13 incidents in April v 3 (16/17)
15 incidents in May v 7 (16/17)
8 incidents in June v 11 (16/17)
4 incidents in July v 8 (16/17)

22 burglaries YTD v 34 in 2016/17
69 compared to 129 rolling 12 mth
Recent trend is reversing.
A review of causation and mitigating activity has been undertaken by the Security Team including TORCH visits to hot spot branches to verify for compliance to security standards.

2017/18 P4
Violence – 1 vs 2 last year
Injuries – 0 vs 2 last year
Weapons - 12 (6 firearm) vs 9 last year (3 firearms)

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Lost Time Injury Frequency Rate (LTIFR) – Period 5 YTD

Supply Chain

YTD P5 – 0.880
2016/17 out turn – 0.586
2017/18 target – 0.500

All Post Office – Employee

YTD P5 – 0.303
2016/17 out turn – 0.168
2017/18 target – 0.180

Road Risk

P4 YTD Road Traffic Collisions

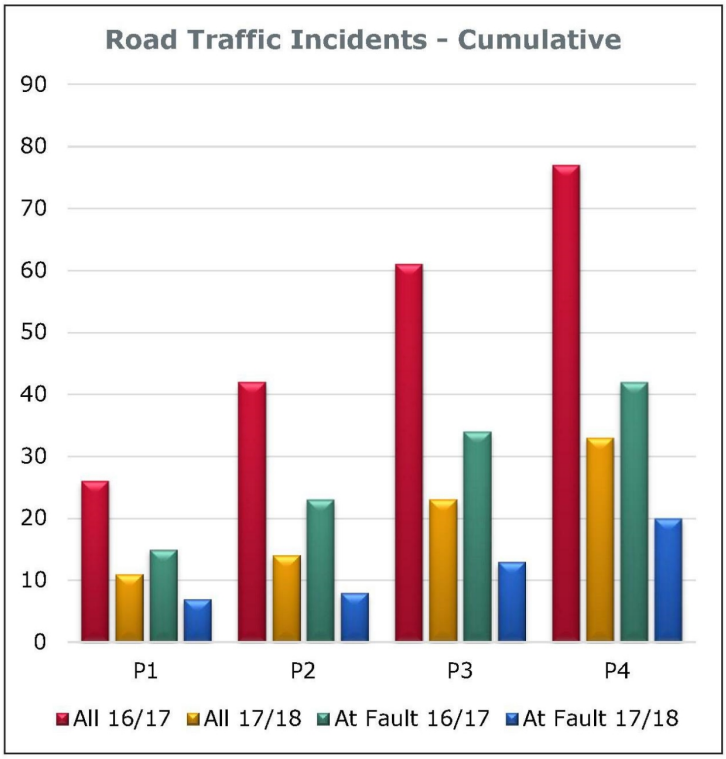
- 33 RTC's – YTD.
- 5 at fault, 3 not at fault
- 4 minor RTC's, 4 major in respect of damage costs.
- Some additional analysis is being done regarding fleet size, staff hours and headcount for future reporting.

Comparing 2016 v 2017

- There were 77 RTCs YTD in 2016/17 v 33 this year (17/18), a 57% reduction YTD.
- At fault RTC's were 42 in 2016/17 and have reduced to 20 in 2017/18, a 52% YTD improvement

Enhanced MI and accident analysis is starting to be provided and shared and will be included in future H&S reports.

An overarching Road Risk Policy, with improved training and compliance checks is being developed by the Fleet Management team to cover Commercial Fleet, Business Cars and Personal Car use.
Driver Training is being developed and will be launched on Success Factors asap.



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Summary of Wellbeing Performance - YTD Period 5 (Aug 2017/18)

- The overall attendance level remains stable at 96.6% YTD P5 (August 2017/18). Short Term absence is 1.0% YTD and long term absence has increased to 2.4% YTD. Supply Chain Long term sick absence has increased to 2.7% and DMB LTS increased to 2.9%. Whilst there will be a degree of late reporting and housekeeping of absence records due to annual leave of managers, work is currently under way to understand the causation of long term absence across the business areas and suitable intervention and support provided.
- The Post Office Occupational Health provider OH Assist are incurring service delays following their IT system upgrade and are working closely with Post Office to prioritise referral appointments and Occupational Physician appointments for long term absence cases.
- Mental health related absence remains the most common cause of long term absence and there is an increase in lost days in Directly Managed Branches. Some additional analysis is being undertaken by our Occupational Health and HR Service Providers to understand trends and areas of concern and to target intervention.
- Proactive activity across the business, includes 'positive mental health awareness' sessions for colleagues, additional awareness training being piloted for line managers and the introduction of Mental Health First Aid initiatives. The recruitment approach for MHFA is being developed with the HR Business Partners and OH Assist ™ and training courses planned for September and October. A GE sub-committee meeting was held in September to discuss and agreed to support the Mental Health and Wellbeing Plan and initiatives.

The Report

2.1 What is going well across health and safety and what are the current activities?
2.2 What are we doing to mitigate the key risks, including driving and robberies?

SAFETY and ENVIRONMENT

Performance remains strong across key health & safety metrics, including road risk and CiT related robberies (see Report–H&S Metrics). Current activities include:

1. **Person in Control (PiC) Training –** The H&S team are continuing to support all PiCs and checking that all have received suitable training and are competent.
2. **Fire Training –** Directly Managed Branch Managers, Supply Chain Managers and all colleagues using Success Factors have received online training. Additional Fire Wardens have been trained at Finsbury Dials and procedures reviewed.
3. **Property related risk (As reported in the Property Compliance Report)**
   - Current overall compliance, measured by up to date inspections is 95.63%.
   - Fire risks have been closed out and this year's programme will commence in Q3.
   - Electrical 5yr inspections are now BAU and remedial actions rectified at the time.
   - Fabric projects for 17/18 are under review to ensure we optimise the capital budget on the higher priority sites. Cladding surveys have been undertaken at four higher risk sites and reported that no remedial work is required.
   - Objectives next 2 months include; further fabric inspections and site audits to prioritise capital spend; inspection of all Post Office premises by end of October.
4. **Health & Safety Activity Calendars -** To ensure Health & Safety activities are undertaken, H&S BPs are attending Lead Team meetings to help raise awareness and compliance and this is being extended across all areas of the business in 17/18.

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5. **Road Risk -** The volume of road traffic incidents continues to reduce. The Fleet Management Team are developing an overall Road Risk Policy, working closely with the Travel Manager, H&S and Benefits and Rewards teams.
6. **Security / Robbery Risk -** To mitigate risk following the recent increase in Post Office robberies, additional TORCH surveillance visits are being undertaken. CViT related incidents remain low.
7. **3rd Party Audit –** Head of H&S is in discussion with a number of providers including the British Safety Council, HSL and NSI to prepare for an independent audit of the Post Office H&S Management System to commence in Q3 to identify weaknesses and improvement opportunities to achieve world class status.
8. **Environment -** The Environmental Tactical Group has reviewed policy, plans and energy and recycling data submitted by CBRE and developing 2020 strategy.

HEALTH & WELLBEING

1. The Health & Safety team are raising awareness of resources that are available to colleagues at Support Centre, Supply Chain & Directly Managed team meetings.
2. Mental Health awareness workshops are being provided to up to 500 managers before Christmas and will continue to run in the New Year.
3. The Occupational Health provider has provided guidance for 'Mental Health First Aid' training for volunteers across the business (approx 60). The selection criteria has been considered by the HR Directors and Consultants. Applications will be invited in September and training is being scheduled for October / November.
4. All business areas are considering the best way of delivering 'Time to Talk' Mental Health Training and we are talking to Time to Change organisers about a sustained programme of support for our colleagues.
5. Health Checks will continue to be offered to all employees (either Kiosk or Mobile)
6. The range of available OH services has been extended and current activity includes:
    - Launch of the Post Office Wellbeing Portal, enabling access (externally and internally) to all services and resources through one landing page.
    - Extension of the absence 'case management' pilot, OH Assist™ Advice Plus.
    - Training provided to Support Centre call advisers and team leaders for 'difficult' and traumatic calls to be extended to Contract & Security Managers.
7. The 'Be You' (Inclusion and Diversity) Group have planned an event to support the Mental Health Foundation day on the 10th October in Finsbury Dials and Future Walk.

What additional activity has been undertaken to address specific risks?

1. **Compliance to Driving and Mobile Phone Policy**
   A check has been incorporated into the local risk assessment document undertaken by all line managers who have staff who drive for work. A new online training module is being developed and will be issued via Success Factors in Q3.
2. **Security and lone working in Support Centres**
   H&S, Property & Security Managers are reviewing personal security arrangements in place at Support Centres & satellite offices. The upgrade of security & access arrangements at Finsbury Dials has been agreed.
3. **Fire Training and Evacuation Plans**

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Additional Fire Wardens have received training at Finsbury Dials and an evacuation plan worked through and reviewed in conjunction with the Business Continuity Plan. Communications will be issued to remind staff of the evacuation plan. Online Fire Training was also issued in July and August to all those with access to Success Factors and Persons in Control have reviewed their evacuation plans.

2.3 Are there any significant emerging risks for 2017?

1. **Change Programmes**
   - H&S Business Partners are monitoring absence, accident causation and working closely with lead teams, providing training and improving the focus on safety, attendance management and wellbeing across the business.
   - The Induction Programme, including H&S content, has been reviewed and updated to ensure line managers of new employees complete the checklist.
   - Support and training has been provided to upskill Supply Chain Shift Managers, ensuring records brought up to date to meet OHSAS 18001 audit requirements.
2. **Property / IT – Disposal of hazardous waste –** Whilst inherent risk is low, there is a requirement to recycle Horizon printer cartridges and a solution is being sourced by IT and Procurement. **Current Objectives** include: Closure of outstanding remedial actions from previous '5 Year Electrical Inspections', further fabric inspections and site audits (see below). **Property – Signage -** A specific high risk issue has emerged for the fabric of our buildings, as reflected by the recent incident at Muswell Hill DMB. The incident was managed very well locally with escalation to local authority or HSE unlikely. All signage has since been checked at Royal Mail shared buildings. Guidance was issued to Agents in April and will be reissued in September. There is an ongoing internal investigation being undertaken to assess the current maintenance and contractual arrangements in place with our preferred FM partner (CBRE) to check that all of the fabric checks have been/will be undertaken and will include signage. In addition we are
   a. Checking the obligations of our partner CBRE are both understood and fulfilled and checking where provision may have been switched off following previous contract reviews, exposing Post Office to additional risk.
   b. CBRE are checking all signs affixed to POL buildings and shared buildings
   c. Undertaking a profiling of fabric risk across the estate with urgency and the forward maintenance plan updated

   <u>The investigation has identified a causation of substandard plywood materials being used for fixing signage and whilst the current priority is to control the risk and check the rest of our estate, ongoing investigation will help us understand the extent of the problem.</u>

3. **Mental Health -** A number of initiatives have been implemented to raise awareness of mental health resources, including support for 'Time to Change' initiatives. Mental Health Awareness Workshops have been successfully piloted and are rolling out initially for up to 500 managers. It has also been agreed to introduce and train up to 60 Mental Health First Aiders during Q3 to provide proactive support to colleagues across all areas of the business.

POL00250666

Directors' Duties – Health and Safety in the Agency Network

Author: Zoe Brauer and Jean Reynolds Sponsor: Jane MacLeod Meeting date: 26 September 2017

Executive Summary

Context

At their July meeting, the Board was presented with a briefing note setting out the duties owed by the Directors in relation to Health & Safety matters regarding employees. The Board subsequently requested an equivalent paper to discuss any similar duties of Directors from a health and safety perspective in relation to POL's network of agent-run branches.

Questions addressed in this report

1. What are POL's duties in respect of health and safety in the agency branch network?
2. Do the directors have personal liability regarding these duties?
3. How does the Board get assurance that POL is discharging its duties?

Conclusion

1. POL is required to conduct its business, including the agent-run branches, in such a way as to ensure that, so far as is reasonably practicable, that persons not in its employment (including agents and customers) who may be affected by that business are not exposed to risks to their health and safety. What is reasonably practicable is determined by, for example, the reduced level of control that POL has in respect of the agent-run network.
2. Directors have an oversight obligation in respect of health and safety in the agent-run network, which arises from their duty in the Company Act to ensure they promote the success of the company. A director will only be personally criminally liable if a breach of health and safety occurs as a result of their neglect, connivance or consent. The risk of personal criminal liability on Directors in respect of the agency branches is considered to be very low.
3. The Board will be considered to have discharged its duties in terms of health and safety if it acts in accordance with the principles of best practice found in the HSE/IOD Guidance "Leading and Health and Safety at Work" having regard to its duty which is constrained by what is reasonably practicable in the circumstances.

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Input Sought

1. The Board is asked to note the report.

Input Received

2. External legal advice has been obtained and the Head of Health and Safety has reviewed and contributed to the report.

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The Report

What are POL's duties in respect of health and safety in the agency branch network?

4. The primary statutory provision applicable in respect of the agent-run network is Section 3 (1) of the Health and Safety at Work Etc Act 1974 (HSWA). HSWA requires POL to conduct its "undertaking" (ie business), in such a way as to ensure, so far as is reasonably practicable, that persons not in its employment (including agents and customers) who may be affected by that business are not exposed to risks to their health and safety. What is reasonably practicable depends on the relevant circumstances but would take into account the reduced level of control that POL has in respect of the agent-run network.

5. The agents have a direct responsibility for the health and safety of their own employees and also for health and safety in respect of their premises. In so far as POL takes action, exerts control, undertakes obligations or is otherwise responsible in respect of the agent-run network, it needs to comply with section 3 above. If POL, for example, provides equipment to agent-run branches it would need to ensure that such equipment complies with health and safety requirements.

Do the Directors have personal liability regarding these duties?

6. The broad duty on Directors, under the Companies Act 2006 "to promote the success of the Company", means that the Board should satisfy itself that as an organisation POL is taking all reasonable practicable steps to ensure that its business activities, including the operation of the branch network, does not give rise to a risk to non-employees including agents and customers. There are no specific prescribed statutory duties placed upon Directors in relation to health and safety simply by holding the office of Director.

7. Under Section 37 HSWA, if an offence (such as s.3 HSWA above) by POL as a corporate body is proved to have been committed with the consent, connivance or due to the neglect of a Director then that Director may be prosecuted personally as well as there being a prosecution of POL as a corporate body. However, if the Board approaches health and safety in the manner described below prosecution is highly unlikely particularly given the heightened criminal standard.

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What assurance does the Board have that Health and Safety is managed properly at Post Office?

8. As flagged in the previous report, POL should follow the HSE/IOD guidance "Leading Health and Safety at Work". If the key principles within that document are followed that will provide clear evidence that directors are discharging their duties from a health and safety perspective including in relation to the agent-run network.

9. The table below sets out the HSW/IOD Guidance and POL's controls at a high level that would be relevant to the agent-run network:

HSW/IOD Guidance Process	POL Controls
Planning – setting the direction for effective health and safety management in relation to its network of branches.	The CFOO is the executive with ultimate responsibility for health and safety and the Head of Health and Safety has a reporting line through to the CFOO. The Post Office has a Health and Safety policy approved by the Group Executive. Health and safety matters are considered monthly at the Operations Board and quarterly at Group Executive level through the Health and Safety Committee which covers any incident arising in the agent run network that relates to POL's duty will be reviewed and where appropriate, mitigating action agreed.
System / Controls - This will be achieved by ensuring there is an effective system or controls in place covering: • Any equipment it provides to agents for their use in the course of Post Office business is safe and appropriate. • Where under leases/licences POL has responsibilities for repair and maintenance of premises that it has in place appropriate systems of inspection, maintenance and repair. • Any specific risk known to POL is communicated to	A range of management committees consider matters including branch operation, building compliance (including premises let to agents), fit outs and refurbishment of post offices (including agency branches) by or at the Post Office's whole or partial expense. Some of the other controls include: • The equipment team works closely with the Head of Health and Safety to ensure that equipment provided is safe and appropriate. • The property team ensures that the Post Office meets its obligations including statutory compliance obligations. It reports into the Health and Safety committee. POL also ensures that safety issues are considered in designing branches by having regard to the requirements of the Equality Act.

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agents so that those agents can take appropriate steps to assess and manage those risks. • Where health and safety failings on the part of agents become known to POL that POL takes steps to ensure that agents address those risks. • Where POL undertakes, or has undertaken on its behalf, refurbishment or construction works in agent's premises that those works are appropriately planned and executed.	Accessibility guidance is provided to Network Support Teams and Contract Advisors. POL has recently obtained assurance from our specialist legal advisors that the procedures and processes we have in place for the Whitespace project (including giving specific guidance to Agents as to how to meet their health and safety obligations) is fit for purpose.
Reporting – The Board should receive specific reporting on any health and safety issues arising in the agent run network and which relate to POL's duty	A Health and Safety report is produced monthly for the Group Executive and each Board meeting. The report will include any incident arising in the agent run network that relates to POL's duty and will include mitigation action.
Review – There should be periodic boardroom reviews of health and safety issues that could impact the agent –run branch network (as set out in Systems/Controls above) and that any actions identified from such reviews are followed through.	Deep dives are undertaken by the Health and Safety Committee on specific risk areas, and in depth Health and Safety briefings are provided to both the Group Executive and the Board at least once a year. The Board is given assurances that actions previously identified are carried through.

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POST OFFICE BOARD

Post Office Limited Board Meetings

Author: Jane MacLeod Meeting date: 26 September 2017

Executive Summary

Context

The Directors are requested to note the future meetings dates scheduled in respect of Post Office Limited Board meetings.

Input Sought

The Board is requested to note the future meeting dates.

The Report

2017

Date			Time	Notes
Tuesday	31 October	2017	09.30 – 14.00	
Thursday	23 November	2017	13.30 – 17.00	

2018

Date			Time	Notes
Thursday	1 February	2018	11.45 – 16.30	
Tuesday	27 March	2018	11.45 – 16.30	
Thursday	24 May	2018	11.15 – 16.00	
Tuesday	26 June	2018	TBA	Board Away Day
Wednesday	27 June	2018	TBA	Board Away Day
Tuesday	31 July	2018	11.45 – 16.30	
Tuesday	25 September	2018	11.45 – 16.30	
Tuesday	30 October	2018	11.45 – 16.30	
Tuesday	27 November	2018	11.45 – 16.30	