POL00027914

Post Office Audit, Risk and Compliance Committee Agenda

Date
18th May 2017

Start Time	Finish Time
10.30hrs	13.30hrs

Location
Room 1.19 Wakefield

Present	In Attendance		Apologies
• Carla Stent (Chair) • Richard Callard • Tim Franklin • Ken McCall	• Al Cameron • Jane MacLeod • Nick Kennett • Alwen Lyons • Johann Appel • Richard Williams • Amanda Radford • Peter McIver, EY • Claire Johnson, EY	• Amanda Bowe (item 3) • Rob Houghton (Item 5.1) • Sharon Gilkes (Item 5.1) • Sally Smith (item 5.3) • Jonathan Hill (item 5.4) • Angela Van Den Bogerd (item 5.5 & 5.6) • Martin Hopcroft (item 5.5) • Jenny Ellwood (item 5.6) • Deana Herley (item 8.2 & 8.4) • Tim Armitt (item 8.5) • Martin Kirke (item 9.1)	• Paula Vennells

Agenda Item		Action Needed	Purpose	Lead	Time
1.	**Welcome and Conflicts of Interest**			Chairman	10.30
2.	**Minutes of the Meeting held on 28th March 2017, Matters Arising and Actions List**	Approval	To approve the minutes of the meeting held on 28th March 2017, note the Matters Arising and update on the Actions.	Chairman	10.32
3.	**POMS ARC Report (verbal)**	Noting	To update the ARC on the POMS ARC held on 16th May 2017.	Amanda Bowe	10.35
4.	**Annual Report & Accounts External Audit**	Approval	To present to the ARC the financial statements for the year ended March 2017:-		10.45
			• ARA Covering Note	Amanda Radford	
			• Financial Statements	Amanda Radford	
			• POL Briefing Book including Accounting Judgements	Amanda Radford	
			• EY External Audit.	Peter McIver	

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Post Office Audit, Risk and Compliance Committee Agenda (cont.)

Agenda Item		Action Needed	Purpose	Lead	Time
5.	**Key Operational Risks**	Questions & Noting	ARC to updated on area areas of concern.		12.25
	5.1 IT Controls			Rob Houghton / Sharon Gilkes	
	5.2 Financial Controls			Amanda Radford	
	5.3 Financial Crime			Sally Smith	
	5.4 Financial Services Conduct			Jonathan Hill	
	5.5 Health & Safety			Angela Van Den Bogerd / Martin Hopcroft	
	5.6 Transformation			Angela Van Den Bogerd / Jenny Ellwood	
6.	**Tax Update**			Al Cameron	12.40
7.	**Internal Audit Update**	Questions & noting	ARC to note the Internal Audit Report.	Johann Appel	12.55
8.	**Risk Update**	Questions & noting	ARC to be updated on any urgent Risk areas.		13.05
	8.1 Top Risks			Richard Williams	
	8.2 Executive Declaration			Deana Herley	
	8.3 Principal Risks for the Annual Report and Accounts			Jane MacLeod	
	8.4 Report on Supply Chain Pilot			Deana Herley	
	8.5 Business Continuity Planning			Tim Armitt	
9.	**Decision Papers**				13.15
	9.1 Modern Slavery Statement			Martin Kirke	
10.	**Noting Papers**				13.20
	10.1 Whistleblowing Report			Jane MacLeod	
11.	**Any Other Business**		Topics raised under Any Other Business	Chairman	13.25
CLOSE					13.30

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POLARC 17(2nd)
POL ARC 17/17 – 17/39

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE held at 9.30 am on 28th March 2017 at 20 Finsbury Street, London EC2Y 9AQ

Present:

Carla Stent	Chair
Richard Callard	Non-Executive Director (RC)
Tim Franklin	Non-Executive Director (TF)

Apologies for absence:

Ken McCall	Non-Executive Director
Alwen Lyons	Company Secretary

In Attendance:

Tim Parker	Chairman of the Board
Paula Vennells	Group Chief Executive Officer (CEO)
Alisdair Cameron	Chief Financial & Operations Officer (CFOO)
Jane MacLeod	General Counsel (GC)
Nick Kennett	Chief Executive Financial Services & Telecommunications and CEO of POMS (NK)
Amanda Radford	Group Financial Controller (AR)
Johann Appel	Senior Manager Internal Audit (JA)
Richard Williams	Senior Risk Manager (RW)
Jonathan Hill	Head of FS Risk & Regulation (JH)
Rob Houghton	Chief Information Officer (RH)
Martin Hopcroft	Safety, Environment and Wellbeing Manager.(MH)
Peter McIver	Audit Partner, Ernst & Young (PMI)
Claire Johnson	Senior Quality Leader, Ernst & Young (CJ)

POLARC 17/17 WELCOME AND CONFLICTS OF INTEREST

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

POLARC 17/18 MINUTES OF THE MEETING HELD ON 30TH JANUARY 2017, MATTERS ARISING AND ACTIONS LIST

(a) The minutes of the meeting held on 20th January 2017 were approved as presented and the Chair of the committee was authorised to sign them as a true record.

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(b) Actions:
17/08(g)
- The GC noted that a report consolidating the AML actions to address the various risks would be brought to the ARC in May following feedback from HMRC.

(c) The Committee acknowledge the work to date and the actions status report was noted as accurate.

POLARC 17/19 POMS ARC REPORT (ITEM 3(a))

(a) Mr Kennett provided a report on behalf of Amanda Bowe, Chair of the POMS ARC as follows:
- The Committee had established a new practice of receiving training ahead of each meeting. In accordance with this practice, a business continuity workshop had been hosted by Tim Armitt (POL's BCP manager) with the ARC – follow up training sessions will focus on data and information security
- The POMS independent NEDs had held a closed meeting with the POL Internal Audit manager. A subsequent meeting would be held with EY.
- The focus of the recent ARC meeting had been on the operational risk framework, a deep dive on top risks and regulatory changes, considering and approving the internal audit plan for 2017-18; receiving the external audit plan from EY; reviewing the POMS Treasury Risk Management Policy; and approving the annual compliance monitoring plan.
- The top risks had been considered and the following four risks were identified as being outside appetite:
  - Role of POL as AR
  - Lack of skilled resources following loss of a senior manager and will move back into appetite shortly.
  - Strategy/business plans – moved from "in appetite" to "out of appetite" following the development of the 2017/18 budget and operating plan; reflecting requirements of the shareholder to reduce in-year costs to invest in the business, as well as the projected impact of Project Finch. As a result the POMS 5 year plan is to be reviewed.
  - Information protection resources – this is newly identified and reflects the increased risk as the impact of GDPR is understood.

  Plans to bring each of these risks back within appetite were discussed and the Committee requested a further update on GDPR for its next meeting in May.

(b) The Committee noted the report from the POMS ARC dated 14 March 2017 as set out in Item 3(a).

(c) The Committee noted the minutes of the meeting of the POMS ARC held on 8 November 2016.

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POLARC 17/20 MANAGEMENT OF KEY OPERATIONAL RISKS

Financial Reporting Controls Update (Item 4.1)

(a) The Committee received a report from Alisdair Cameron, Chief Finance and Operations Officer and Amanda Radford, Financial Controller.

(b) The FC reported the continued progress to implement the Financial Controls Framework the majority of which would be in place by the end of the Financial Year.

(c) The Committee discussed the self-assessment controls. The Committee noted that nearly 100% (98%) of the controls are now self-assessed and were considered to be operating effectively, and that no high risk gaps were expected to remain by year end. The FC noted ownership (and therefore accountability) had now been identified for each control.

(d) Controls around fixed assets were being enhanced in respect of the likely change in value and Masterdata controls had been added to the project scope and it was expected that work on these would be completed by end July. Work would also commence shortly in relation to controls around agents' debt; branch correction processes; agent remuneration and POMS, although it was noted that a separate internal audit review had been conducted in relation to POMS' controls during 2016-17 with no separate issues identified.

The Committee noted the report and thanked the FC for the good progress.

POLARC 17/21 FINANCIAL CRIME RISK UPDATE (Item 4.6)

(a) [redacted]

(b)

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(c) [redacted]

(d) [redacted]

(e) In response to a question from the Committee about resources and monitoring capabilities, the CFOO confirmed that there is available funding within the change budget and that where possible management would seek to embed change through technology.

(f) The Committee noted the report.

POLARC 17/22 IT CONTROLS UPDATE (Item 4.2)

(a) Rob Houghton, CIO, introduced the report and informed the committee that work to improve the IT control framework was still in its early stages and that a more substantive report would be brought to the May ARC. The ARC queried whether

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controls were being mapped to identified risks and whether a RACI model had been developed and embedded. It was noted that the proposed COBIT 5 model would address these issues.

(b) In response to a question, RH also noted that work to review critical services and a proposed operating model was ongoing and would require re-negotiation with suppliers. This would be presented to the Committee in May. It was noted that POL's outsourced model would require suppliers to be part of the self-assessment framework and that work was ongoing to define this and seek to embed it contractually. In response to a further question RH noted that Internal Audit was supporting the project to ensure the proper embedding of controls.

(c) The Committee requested that the IT controls follow a similar process to those use by the Finance Department, ensuring clear ownership and accountability. **RH confirmed that this matrix would be available and included in the May update**.

(d) Committee noted the report.

POLARC 17/23 TRANSFORMATION – CHANGE RISK UPDATE (item 4.5)

(a) The Chair welcomed Angela Van Den Bogerd, Director of Support Services to the meeting, to present the report together with Jenny Ellwood, Head of Transformation Risk and Assurance.

(b) JE updated the Committee on the 3 main risks that impacted transformation activity:

- Following the release of the HMRC online 'calculator', it had been concluded that IR35 did not result in a number of contractors being caught by the new rules. As a result, while the uncertainty had caused a lot of unrest among the contractor population, and a number of contractors had chosen to leave, no programs were now assessed as being at risk. The resourcing model was being reviewed to ensure that it appropriately supported the level of change activity.
- Activity around IT supplier management – RH noted that discussions were ongoing across the supplier base but that suppliers were responding well.
- Complex change portfolio delivery – the committee discussed the risk of multiple major programs being undertaken in parallel. The CFOO noted that while this was true, in practice there were delays and items slipped. Management therefore needed to re-assess the change activity and make sure that project plans and costings were realistic and that we were not being too optimistic. The Chair noted that this was an area where the Company's risk appetite should be considered and that it is how we defined our tolerances around change delivery.

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(c) The Committee noted the report.

POLARC 17/24 FINANCIAL SERVICES CONDUCT RISK UPDATE (item 4.3)

(a) The Chair welcomed Jonathan Hill, Head of FS Risk & Regulation to the meeting.

(b) JH reported that:

- Further work was underway with GRO and POMS to understand the impact of the Senior Managers Regime – this already applied to GRO and would apply to POMS during 2018, however there remained uncertainty as to if, and the extent to which, it would apply to Appointed Representatives.
- Sales compliance by FSs and MSs had been improving as a result of the action plan. JH stated he was confident in the work being done, but not complacent.
- The Committee discussed the metrics around mortgage sales and JH noted that as the number of sales were low, the absolute numbers of mystery shops distorted the results. Completions were increasing and therefore more statistically relevant data should start to emerge. JH noted that the QA team reviews every mortgage before it is finalised so management has confidence that sales compliance processes are working.

(c) JH reported the CRM roll out was getting good reviews from a financial conduct perspective. The Committee discussed the sale process and the risk that CRM customer engagement would be seen as advised, and what mystery shopping was being done to review these processes. The Committee noted that mystery shopping was designed to test for failures, and that complaints data needed to be considered in parallel in order to get a more complete view of the sales process. **JH was asked to prepare an update for the next meeting on the sales process undertaken by tablet and the way quality assurance processes worked.**

Action: JH

(d) JH updated the meeting on progress on vetting, training and access management controls. It was noted that at present there was no plan to re-vet or re-test existing staff (including agents and assistants) prior to giving them access to Horizon following introduction of the new EUM controls, however this would be kept under review in light of emerging data regarding the effectiveness of historic and current vetting processes

(e) JH updated the meeting on the FCA's requirements on "Cash Savings Remedies" to provide customers with a savings summary box at point of sale. He reported that compliance levels for provision of the summary material to customers were improving, and that GRO was happy with the results to date, with further improvement required.

(f) JH also noted the FCA thematic review on customer understanding of transactions. He was expecting to see the

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material submitted by GRO to the FCA and noted that it was likely to be some time before the output from this review was available.

(g) The Committee noted the report.

POLARC 17/25 SAFETY (item 4.4)

(a) The Committee received a report from Martin Hopcroft, Safety, Environment and Wellbeing Manager.

(b) MH informed the committee that progress is being made as a result of the increased focus on specific areas such as reducing: absences, assaults at point of transfer and cashpoint risk.

(c) Work continued with branch managers and 'Persons in Charge' to manage property compliance risks and as a result fire risks were assessed as low, and work was ongoing assessing asbestos and water risks.

(d) The refreshed mobile phone policy had been rolled out and communicated and this clearly discouraged making any calls while driving – including hands free.

(e) Further work was being undertaken in Supply Chain to ensure that all shift managers were trained and that they understand the importance of maintaining records.

(f) MH commented that work done on 'case across the counter' and tracking other industry developments was showing clear benefits, however criminal activity was now moving to ATM attacks. The CFOO noted that the next area to focus on was staged incidents where apparent victims may also be the perpetrators.

Action MH

(g) **The Committee requested more industry information to understand the benchmarking.** MH commented that POL does have access to industry data and that work is ongoing to ensure that we have appropriate comparators.

The Committee noted that the report was positive and thanked MH for his good progress.

POLARC 17/26 RESIDUAL PENSION RISKS (item 5)

(a) The Committee received a report from Natasha Wilson, Director of Reward, Pensions and Performance.

(b) NW informed the committee that agreement had finally been reached with the Pension Trustees to close the pension scheme and that the final arrangements were designed to protect POL from being required to make further payments. In particular it had been agreed that any future surplus would not be returned to POL. Following a question from the Committee, the CFOO noted that he did not believe that any

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further provisions would be required, although this remained subject to year end accounting and audit work.

(c) The Committee thanked NH for the work put into the project.

POLARC 17/27 CASH EFFICIENCY MEASURES

(a) The Committee received a report from Amanda Radford, the Financial Controller.

(b) AR informed the committee that Remco had accepted the recommendation that cash management should be a bonusable measure (80% of the bonus was based on EBITDAS and 20% on cash) however Remco had asked the ARC to review the operation of the measure which required maintenance of a GRO buffer. It was noted that the cash measures had to be met every month in order for the target to be met.

(c) In response to a question as to whether the measure would incentivise the right behaviours, the CFOO stated that the measure was consistent with management's objectives to better use available cash resources. The CEO noted that a paper was to be discussed with the Board at the June strategy day on options to manage cash more efficiently across the network.

(d) The Committee concluded that they supported the measure and recommended the adoption of the measure as part of the annual bonus plan.

INTERNAL AUDIT

POLARC 17/28 AUDIT REPORT (item 7.1)

(a) The Committee received a report from Johann Appel, Senior Manager Internal Audit.

(b) JA reported on the current audit plan and noted that due to delays in fieldwork and finalising fieldwork, no audits had been finalised in time for the meeting, which was a disappointing outcome. This was due in part to changes in accountabilities due to the recent reorganisation, which also meant it was taking longer to clear reports. This was particularly the case with the Identity and Access Management review. JA noted that as a result there were potentially 11 audit reports which would come to the May ARC. **The Committee requested that batches of reports be circulated (as they became available) ahead of the next meeting.**

Action: JA

(c) JA noted that there were no overdue actions, although a number were due at the end of the month. The CEO commented that this was the first time this financial year that there have been no overdue reports. JA explained that the IA team had implemented a new reporting tool to track

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actions which enabled advance warning to be provided of upcoming completion dates for actions of their actions.

(d) The Committee noted the Internal Audit Report.

POLARC 17/29 INTERNAL AUDIT PLAN 2017/18 (item 7.2)

(a) JA then presented the draft audit plan for 2017/18 and noted that it was proposed to cover 16 'BAU' focussed audits during the year, and 13 change audits. The paper also outlined other potential audits which would be considered should risks change, and /or time and resources permit.

(b) In response to a question as to whether cyber security would be audited, JA noted that this was proposed for Q4 and explained that this was a follow up audit to the audit work in 2016 and was intended to measure progress against the recommendations identified in that report. **The Committee requested that the Cyber Security audit be performed in two phases - Phase 1 to cover current market learnings, and phase 2 to cover operational effectiveness once the controls have been embedded.**

Action: JA

(c) The Committee questioned whether fraud should be included as there is an emerging risk of issues such as money laundering. JA confirmed that an audit of GRO was already provided for in the plan.

(d) In response to a question from the CFOO, JA noted that there was flexibility in the plan, and that not all audits would require the same amount of work. Therefore it would be possible to respond to changing threats.

(e) JA also noted that the audit team were undertaking assurance activity in relation to the controls remediation projects being implemented in each of Finance and IT. Reports as to the effectiveness of the program would be provided to the sponsor of each programme, and reports on progress would be provided to the ARC.

(f) The audit plan around change activity was also reviewed, and the Committee noted that the proposed review of the pension scheme would focus on auto enrolment requirements.

(g) The Committee agreed that the Internal Audit Plan for 2017/18 represented an appropriate programme to support senior management in their activities and provide assurance to the Committee over key risks to the Post Office.

POLARC 17/30 REVIEW OF INTERNAL AUDIT CHARTER (item 7.3)

(a) The Committee received a report from Johann Appel, Senior Manager Internal Audit noting that

(b) The Committee noted the report from JA confirming that the self-assessment against the requirements of the Internal Audit Charter showed compliance with those requirements.

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(c) The Committee approved the Internal Audit Charter for continued use through 2017/18.

EXTERNAL AUDIT

POLARC 17/31 UPDATE FROM THE EXTERNAL AUDITORS ON THE EXTERNAL AUDIT PLAN (item 8.1)

(a) The Committee received a verbal update from Peter McIver & Claire Johnson of EY

(b) CJ reported that the pre year end substantive testing was nearing completion. She reported that there was no change to the overall risk assessment, and EY had noted an improvement in the control framework which would enable them to place greater reliance on that framework going forward. Nevertheless there were some areas where a substantive approach was still required.

CJ reported that the IT audit was proving more challenging and was therefore slightly delayed; this was due largely to the outsourced nature of POL's IT infrastructure and the need to obtain documents and assurance from those outsourcers. CJ reported that the IT transformation activity would, once completed, address a number of the current concerns.

Peter McIver noted that there was further work to be done – particularly as regards the postmaster litigation and that subject to the outcome of the funding discussions, it was still expected that the audit would be completed by July.

(c) The Committee noted the update.

POLARC 17/32 ACCOUNTING JUDGEMENTS (item 8.2)

(a) The Committee received a report from Alisdair Cameron, the CFOO on the accounting judgements that would be relevant for year end. The Committee noted the various recommendations contained in the paper including the proposed accounting treatment of the carrying value of FRES, the approach to impairment of fixed assets, closure of the DB pension scheme, closure of the third party supply chain business as part of Iris, and the proposed move to a columnar presentation of exceptional items in the accounts.

(b) The Committee discussed the changes to reporting, and the layout that the CFOO proposed, and noted that EY was in principle supportive of the changes, subject to validating the underlying data.

(c) The Committee noted, and approved in principle:
- the proposed changes to the accounting judgments,
- the proposed move to a columnar format to demonstrate performance of the business; and

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- confirmed that the retail operation within Supply Chain had constituted a separate and major operation of Post Office and should therefore be treated as a discontinued item.

RISK UPDATE

POLARC 17/33 SUPPLY CHAIN PLACEMAT PILOT (item 9.1)

(a) The Chair invited Richard Williams, Senior Manager Risk to introduce the report.

(b) RW informed the committee that the pilot in Supply Chain was ongoing to develop the 'placemat' to provide a granular view of the risks and controls within Supply Chain and the target was to report back to the ARC at the May meeting.

The CFOO noted that a decision would need to be made following the pilot as to whether resources were best deployed rectifying/remediating those issues identified in Supply Chain as part of the Placemat process, or whether emphasis should be on other areas.

Action: RW **The Chair encouraged management to bring through risk data in May wherever possible.**

(c) The Committee noted the report showed good progress in risk management for the business.

POLARC 17/34 INCIDENTS AND EXCEPTIONS (item 9.2)

(a) Richard Williams, Senior Manager Risk introduced the report, and noted that incident reporting levels had dropped by c 25%. It was unclear as to whether this was due to actual numbers of incidents reducing or whether there was some other factor at work, and that work was ongoing to understand this.

(b) The Committee noted the incidents and exceptions.

POLARC 17/35 RISK APPETITE WORKSHOP (item 9.3)

(a) The Committee received a report from Richard Williams, Senior Manager Risk.

(b) RW informed the committee that the Risk Appetite Workshop had identified 5 areas of importance around:
- Customer relevance,
- Trust/brand/ social purpose
- Conduct & compliance issues
- Commercial sustainability,
- Mails and parcels business,

However further work needed to be done around these to validate the findings. RW noted that the central risk team would explore each of these further with a view to developing a more granular approach.

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(c) **The Committee asked for more data at the next meeting** and noted the report.

POLARC 17/36 BUSINESS CONTINUITY PLANNING (item 9.2)

(a) The committee received a report from Tim Armit, Business Continuity Manager.

Action: TA (b) **The Committee asked management to develop a tracker showing resolution of the items identified through these reports**.

(c) The Committee noted the business continuity and crisis management update.

NOTING PAPERS

POLARC 17/37 ARC EFFECTIVENESS REVIEW AGAINST TERMS OF REFERENCE (item 10.1)

(a) Jane MacLeod, General Counsel, introduced the report.

(b) The Committee agreed the findings of the review against its terms of reference (Appendix 1 to the report) and specifically that the requirements of the terms of reference had been met. The GC advised that the Terms of Reference would be reviewed and **recommendations for changes would be brought to the next ARC meeting**

Action: GC

(c) The Committee agreed the proposed committee forward plan (Appendix 2 to the report).

POLARC 17/38 HORIZON SCANNING (item 10.2)

(a) The Committee received a report from Jane MacLeod, General Counsel and noted that POL [redacted]

Action: Martin Kirke **The Committee further noted that an update on Modern Slavery was due at the May ARC.**

(b) The Committee noted the report.

POLARC 17/39 ANY OTHER BUSINESS

(a) There being no further business the Chair closed the meeting at 12.10pm.

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Chair **Date**

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Post Office Limited ARC Committee

Status Report as at: 12 May 2017

Action included on the ARC agenda
Action closed

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
22 January 2016 POLARC 16/03 (q)	Risk Update For the Executive to work with the external auditors to set out what a three year roadmap to benchmark against the UK Corporate Governance Code would like.	**Jane MacLeod (General Counsel)**	**September 2017** ARC	Corporate Governance Capability- The Chairman of the ARC & GC have agreed to revisit the benchmarking with the UK Corporate Governance Code in a years time September 2017 ARC	Open
28 September 2016 POLARC 16/43 (g)	GRO A review of the 2nd and 3rd lines of defence in the Post Office Money branch distribution model to be undertaken in autumn 2017/18.	**Jane MacLeod (General Counsel)**	**September 2017 ARC**		Open
30 January 2017 POLARC 17/04 (i)	Network Conduct Risk Action Plan The Committee asked to see, quarterly, a network conduct risk scorecard, and action plans against the areas highlighted as concerns, with a highlight on any regulatory changes which will affect the network risk.	**Jonathan Hill**	**March, September and November 2017 ARC**	Provided in agenda papers.	Open
30 January 2017 POLARC 17/08 (g)	Annual Risk Review The Committee asked for a detailed review at the next Meeting, with a report to include a consolidated list of observations and an action plan to mitigate / resolve the issues across all the reports that have or are to be issued on this subject.	**Jane MacLeod (General Counsel)**	**May 2017 ARC**	The updated Financial Crime paper sets out the actions and status deriving from this review, and actions will be formally tracked against it bythe AML Steering Group going forward, with status updates to the RCC and ARC at each meeting.	Closed
28 March 2017 POLARC 17/22 (c)	IT Controls Update ARC requested that the IT controls follow a similar process to those used by the Finance Department. ensuring clear accountability. RH confirmed that this matrix would be available and included in the May update.	**Rob Houghton (CIO)**	**May 2017 ARC**	On the agenda.	Closed
28 March 2017 POLARC 17/24 (c)	Financial Services Conduct Risk Update JH was asked to prepare an update for the next meeting on the sales process undertaken by tablet and the way quality assurance processes worked.	**Jonathan Hill**	**May 2017 ARC**	On the agenda.	Closed
28 March 2017 POLARC 17/25 (g)	Safety MH was asked to provide more industry information to understand the benchmarking.	**Martin Hopcroft**	~~**May 2017**~~ **Sept 2017 ARC**	We have not yet received the more detailed industry benchmark data from our sources ie. BSIA (Accidents in Supply Chain), QBE Insurance andLockton's broker (Client comparisons), CBRE and Servest (Property compliance), OH Assist ™ (Occ Health and Mental Health). We are still bringing this data together in order to compare year end performance and will provide this to the September ARC meeting.	Closed

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
28 March 2017 POLARC 17/28 (b)	Audit Report JA was asked to circulate batches of audit reports (as they become available) ahead of the next meeting.	**Johann Appel**	**Prior to May 2017 ARC**	Will circulate the first batch w/c 1 May and the second batch w/c 8 May, with high level summaries of the reports included in the ARC paper.	Closed
28 March 2017 POLARC 17/29 (b)	Internal Audit Plan ARC requested that the Cyber Security audit be performed in two phases - Phase 1 to cover current market learnings and Phase 2 to cover operational effectiveness once the controls have been embedded.	**Johann Appel**	**May 2017 ARC**	Audit Plan updated to reflect this change.	Closed
28 March 2017 POLARC 17/33 (d)	Supply Chain Placemat Pilot The Chair encouraged management to bring through risk data in May wherever possible.	**Richard Williams**	**May 2017 ARC**	On the agenda.	Closed
28 March 2017 POLARC 17/35 (c)	Risk Appetite Workshop ARC asked for more data at the next meeting.	**Richard Williams**	**May 2017 ARC**	On the agenda / verbal update.	Closed
28 March 2017 POLARC 17/36 (b)	Business Continuity Planning ARC asked management to develop a tracker showing resolution of the items identified through business continuity planning reports.	**Tim Armit**	**May 2017 ARC**	On the agenda.	Closed
28 March 2017 POLARC 17/37 (b)	ARC Effectiveness Review Against Terms of Reference GC advised that the ToR would be reviewed with recommendations for changes being brought to the next ARC meeting.	**Jane MacLeod (General Counsel)**	**~~May 2017~~ Sept 2017 ARC**	Resourcing constraints and the focus on the Placemat have meant this work has not started. We will bring this back to the next ARC.	Open
28 March 2017 POLARC 17/38 (a)	Horizon Scanning ARC noted that an update on Modern Slavery was due at the May ARC.	**Martin Kirke**	**May 2017 ARC**	On the agenda.	Closed

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Annual Report and Accounts 2016/17

Author: Amanda Radford Sponsor: Al Cameron Date: 18th May 2017

Executive Summary

Context

1. The draft 2016/17 financial statement section of the Annual Report and Accounts (ARA) is presented to the ARC for review.
2. POL usually signs and publishes its ARA around the end of June. Provided that (1) confirmation of investment funding is received from BEIS by the end of June (2) EY audit procedures are complete and (3) the legal review of control accounts in POLSAP by Deloitte is finalised, we believe that we should be in a position to sign the ARA by the end of July.
3. The financial statements are presented on the basis that the impairment of fixed assets can be reversed. The effect on the financial statements of a potential delay in receipt of this funding is considered further in this paper.
4. We have not presented the front half of the ARA to the ARC for review. Until we have clarity on the timing of the investment funding decision, the messaging within the Chairman, CEO and Finance Review cannot be completed. Once we have a clear view on the investment funding timeline we will complete the front half of the ARA, circulate a full draft ARA and arrange a further ARC meeting to review and approve.
5. The papers comprise the financial statements section of the ARA, a briefing book setting out the details of the financial results and accounting judgements, a report from Ernst & Young on their findings to date and an update on the Financial Control Framework.

Questions addressed in this report

6. The following questions are addressed in this report:
   a. In summary, what were POL's financial results for the year ended March 2017?
   b. What is the status of the audit work on the ARA?
   c. What is the effect on the ARA of a delay in the confirmation of investment funding?
   d. What matters are we drawing to the ARC's attention in their review?

Input Sought

7. The ARC is requested to review and comment on the draft financial statements for the year ended March 2017, enabling the Chair to provide a verbal update to the Board on 25th May.

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The Report

In summary, what were POL's financial results for the year ended March 2017?

8. Post Office made an underlying operating profit of GRO and reported an EBITDAS profit of GRO. This represents a significant EBITDAS improvement of £30m on the prior year (FY16 EBITDAS Loss: GRO). Underlying revenue declined year on year b GRO principally as a result of the planned decrease in subsidy of GRO. However the focus on controlling and reducing the cost base has generated a reduction in underlying costs of GRO to £GRO (FY16: £ GRO) versus prior year.

9. On the Post Office Group balance sheet, there were two material movements from the prior year. As we closed the defined benefit pension scheme at the end of the year, the accounting pension asset of £ GRO (clearly overstated due to the required valuation methodology) was written off. This should be offset by the reversal of the impairment accounting estimate which would lead to the recognition of a net book value of GRO in relation to tangible and intangible assets. Overall POL would have net assets of £GRO (FY16: £GRO).

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

10. EY continue their audit work in relation to the following areas and will provide a verbal update on progress at the ARC meeting on 18th May
    a. Postmasters compensation
    b. Provision for legal claims
    c. Finalisation of substantive leavers testing
    d. Corporation tax
    e. Position paper on bill payments deferred revenue

    In addition, until we have clarity on the timing and value of investment funding the following areas of audit testing and accounting judgement remain outstanding:-

    f. Fixed asset impairment reversal
    g. Going concern
    h. Subsequent events review to the date of signing of the accounts.

    In addition, to the above, completion of the financial statements is also subject to finalisation of:-

    i. Directors emoluments
    j. Capital commitments

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k. Tax disclosures (which will not impact the tax position for the year)

11. Subject to the completion of their audit work, EY have not identified any significant issues. EY identified an adjustment of £GRO in relation to the overstatement of a provision in relation to the Royal Mail separation. We have adjusted the accounts accordingly in Capital and Investments. The credit does not affect EBITDAS for the year.

12. As part of the year end process, internal POL reviews have been undertaken to review post year end invoices, purchase orders and bank reconciliations and no adjustments are proposed as a result. EY also undertake a post year end review and will update nearer to signature.

What is the effect of a delay in the confirmation of investment funding?

13. If confirmation of investment funding is delayed beyond the end of June, we will need to consider our options with regard to the date of signing and publishing the ARA and the assumptions surrounding fixed asset impairment

a. **Confirmation of investment funding received late summer (July/August)** Delay signing and publication of accounts until confirmation is received. This will require the review of disclosures on going concern, a decision on impairment and additional post balance sheet review procedures ahead of signing. The Group net assets position would be unchanged, subject to the post balance sheet review.

b. **Confirmation of investment funding received in the Autumn Statement (November)**
Option 1 - Delay signing and publication of accounts until confirmation is received. This will require the review of disclosures on going concern, a decision on impairment and additional post balance sheet review procedures ahead of signing. The Group net assets position would be unchanged, subject to the post balance sheet review. However, Post Office may receive pressure and challenge from external stakeholders as a result of the delay.
Option 2 – Sign and publish the accounts ahead of confirmation of investment funding. We will need to be able to demonstrate that preparation of the accounts on a going concern basis remains appropriate and to consider whether the change in financial conditions under which we are reversing the impairment of fixed assets is still valid. If we were to determine that the impairment estimate should not be reversed, the Group would have a net liabilities position of c.GRO

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What matters are we drawing to the ARCs attention in their review?

Basis of preparation

14. The financial statements have been prepared on a basis consistent with prior years with a number of key exceptions:-

a. **Accounting for FRES –** in the company only accounts, there has been a change in accounting policy. Equity accounting for investment in joint ventures has been adopted in line with the Group accounts. GRO

GRO

b.

c.

GRO

d. **Presentation of the Consolidated Income Statement** - we have reviewed the way in which we show exceptional items on the face of the Consolidated Income Statement. Exceptional items have traditionally comprised impaired capital expenditure and major strategic project spend net of investment funding.

In 2016-17, we have transitioned to an alternative presentation. We are showing four columns in the consolidated income statement in the current year and preceding financial year. These are: revenue trading; closure of operations; capital and investments; and (adding them together) the reported results. The EBITDAS figure can be directly extracted from the underlying trading column.

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As the ARC has confirmed that IRIS is a separate and major segment we are showing Mobile and IRIS under Closure of Operations but within discontinued operations (as required by IFRS 5). In 2016-17, removing revenue ahead of costs has led to a loss of GRO on income of GRO. In addition we have incurred one-off non-recurring costs of GRO GRO GRO and site closure giving a loss from discontinued operations of £48m. Netted against IRIS and within discontinued operations is a credit of £1m in relation to the release of a prior year Mobile provision, giving total discontinued operations of £GRO

The one off pension credit relating to prior periods (£19m) is shown within the Closure of Operations together with the tax charge which arises from the reversal of the deferred tax asset associated with the closure of the scheme GRO

As a result of the treatment of IRIS as a discontinued operation, we have restated the prior year to take account of this reclassification which affects reported EBITDAS but has no effect on the overall loss for the year. A reconciliation of the changes is presented below.

	As per signed financial statements	Restatement for IRIS discontinued operation	Restated
	GRO		
Turnover			
Costs			
Operating profit from continuing operations before capital and investment			
Loss for the financial year from continuing operations after financing and tax			
EBITDAS			
Loss for the financial year after tax from discontinued operations			
Loss for the financial year			

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*Excludes depreciation of £1m

e. **Discount rate applied to determining defined benefit pension obligations** - In preparing the accounts, we are required to revalue the pension scheme asset before the asset is written-off. We draw to the attention of the ARC, the discount rate applied in the calculation of the defined benefit scheme obligation.

Under IAS19, the discount rate should be based on the rate of return at the valuation date on high quality (AA rated, or equivalent status) corporate bonds of equivalent currency and term to the plan liabilities. AA rated corporate bond yields have fallen significantly since 27 March 2016, suggesting a discount rate of at least 1% pa lower than last year (FY16: 3.5%).

The current year assumption has been considered with reference to the Willis Towers Watson model. This model derives a discount rate from a corporate bond yield curve (based on market data) by matching the curve to projected benefit payments. The model is based on an extrapolation of corporate bond yields beyond the term that current corporate bonds extend over. Given the uncertainty of such extrapolation, we have chosen to take a more prudent view and not taken full credit for the upward slope in the model. This results in a reduction in discount rate to 2.3%. It should be noted that the discount rate used in the funding valuation is 1.5%.

EY have challenged whether the discount rate of 2.3% is appropriate and believe that it is on the prudent end of the range. However, they have reviewed other assumptions and concluded that, in the round, the assumptions applied in deriving the pre write-off scheme asset give a valuation which is materially correct.

Going Concern

15. The draft financial statements have been prepared on the basis that POL is a going concern. Given the uncertainty over the timing of the investment funding decision we are currently undertaking a detailed review of future cash flows with and without investment funding.

16. Whilst we haven't received investment funding confirmation, we have received confirmation of the working capital facility through to March 2021 and subsidy for March 2018-19 and March 2019-20. As a result, we anticipate being able to provide assurance for 18 months beyond the balance sheet date in absence of the investment funding decision and we will provide this support to the ARC

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should we make the decision to sign and publish the accounts before confirmation of investment funding (11b – Option 2).

Quality of Earnings

17. Adjusted for the net one-off items included within EBITDAS, the reported earnings GRO GRO

	2016-17	2015-16	Change	Change
Post Office Limited (consolidated)	**£m**	**£m**	**£m**	**%**
Reported profit from continuing operations				
Network Subsidy Payment				
Add back depreciation				
Reported EBITDAS				
Bill payments (a)				
Pensions one-off item – closure impact on current year costs (b)				
GRO				
Telecoms line rental income recognition (d)				
GRO				
Billing corrections re 2014-15				
Back-billing to RM for Certificates of Posting work				
Fujitsu compensation for poor service in 2013-14				
Change in Telecoms bad debt policy				
Total adjustments				
Adjusted to exclude one-offs				

GRO

a. Bill payments
A review of deferred income in relation to bill payments was completed in the year which resulted in a one-off credit to the income statement.

b. Pensions past service credit
As a consequence of the closure of RMPP to future accruals, a £ GRO credit in relation to current year service cost has been recognised in the income statement. The prior year impact of £ GRO has been taken below the line in "Closure of Operations".

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GRO

d. Telecoms line rental
During the year a correction was made to telecoms line rental income recognition to recognise revenue over the life of the contract with the customer.

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Post Office Limited

Registered Number 2154540

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Financial Statements

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Post Office Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors have elected to prepare the Group consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company, and of the profit or loss of the Group and Parent Company for that period.

In preparing these Financial Statements, the directors are required to:

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors are responsible for preparing the Directors' report and the Corporate Governance report in accordance with the Companies Act 2006 and applicable regulations.

The Directors confirm that to the best of their knowledge:

- The Group consolidated Financial Statements, prepared in accordance with IFRS as adopted by the EU and in accordance with the provisions of the Companies Act 2006 give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- The Parent Company Financial Statements prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework", give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The management report contained in this report includes a fair view of the development and performance of the business and the position of the Group as a whole and of the Company, together with a description of the principal risks and uncertainties they face.

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Post Office Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF POST OFFICE LIMITED

We have audited the consolidated Financial Statements of Post Office Limited for the 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

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- 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.
- 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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Post Office Limited

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 operations	Capital and investment	Total	Revenue trading	Closure of operations	Capital and investment	Total
Continuing operations:									
Turnover									
Network Subsidy Payment									
Revenue									
Costs									
Investment funding									
Impairment									
Depreciation									
Joint venture share									
Operating profit / (loss) from continuing operations									
Finance costs									
Net pensions financing income									
Profit / (loss) before taxation from continuing operations									
Taxation credit / (charge)									
Profit / (loss) for the financial year from continuing operations									
Discontinued operations:									
Loss for the financial year after tax from discontinued operations									
Profit / (Loss) for the financial year									
EBITDAS									

GRO

GRO

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Post Office Limited

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

Profit / (loss) for the financial year from continuing operations	
Loss for the financial year from discontinued operations	
Profit / (loss) for the financial year	
Other comprehensive income not to be reclassified to profit or loss in	
Future periods	
Remeasurements on defined benefit surpluses	
Withholding tax effect	
Income tax effect	
Total comprehensive income for the year	

GRO

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			
Operating loss from discontinued operations			
Total profit before capital and investment			
Adjustment for:			
Share of profit from joint ventures			
Pension operating costs			
Working capital movements:			
Decrease/(Increase) in trade and other receivables			
(Decrease) in trade and other payables			
Increase in inventories			
Increase in provisions for discontinued operations			
Increase/(Decrease) in revenue trading provisions			
Pension operating costs paid			
Cash payments in respect of capital and investment items:			
Government grant			
Restructuring costs			
Other			
Net cash outflow from operating activities			
Income tax recovered			
Cash flows from investing activities			
Dividends received from joint ventures			
Acquisition of insurance business			
Purchase of tangible and intangible non-current assets			
Net cash outflow from investing activities			
Net cash outflow before financing activities			
Cash flows from financing activities			
Finance costs paid			
Payments to finance lease creditors			
Proceeds of borrowings from BEIS			
Net cash inflow from financing activities			
Net (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the end of the year			

GRO

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Post Office Limited

Consolidated balance sheet
at 26 March 2017 and 27 March 2016

	Notes	**2017 £m**	2016 £m
Non-current assets			
Intangible assets			
Property, plant and equipment			
Investments in joint ventures			
Retirement benefit surplus			
Trade and other receivables			
Total non-current assets			
Current assets			
Inventories			
Trade and other receivables			
Cash and cash equivalents			
Total current assets			
Total assets			
Current liabilities			
Trade and other payables			
Financial liabilities - interest bearing loans and borrowings			
- obligations under finance leases			
Provisions			
Total current liabilities			
Non-current liabilities			
Other payables			
Provisions			
Total non- current liabilities			
Net assets			
Equity			
Share capital			
Share premium			
Retained earnings			
Other Reserves			
Total equity			

GRO

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

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					
Profit for the year					
Remeasurements on defined benefit surplus	17				
Withholding tax effect					
Income tax effect	7				
At 26 March 2017					

GRO

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 30 March 2015 (restated)					
Loss for the year					
Remeasurements on defined benefit surplus	17				
Income tax effect	7				
At 27 March 2016					

GRO

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Post Office Limited

Notes to the financial statements

1. Accounting Policies

Financial year

The financial year ends on the last Sunday in March and for this reason these financial statements are made up for the 52 weeks ended 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 operations, and Capital and investment. The definition of these headings is defined within a memorandum to the income statement.

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, subject to EU ratification, become effective after the current year-end and have not been early adopted by the Group:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was first issued in November 2009 and 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. It is anticipated that the application of this amendment will have no significant impact on the Group's income statement or balance sheet.

IFRS 15 Revenue from Contracts with Customers

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

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 on its consolidated results and financial position.

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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 but early application is permitted. 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 but early adoption is permitted. 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.

Goodwill

[to be updated on confirmation of funding status]

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, 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 operations for the year ended 27 March 2016:

	As previously reported	Restatement	27 March 2016 Restated
Turnover			
Costs*			
Loss for the year from continuing operations			
Loss for the year from discontinued operations			
Loss for the year after discontinued operations			

GRO

*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 operations, and Capital and investment. The definition of these headings is defined within a memorandum to the 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.

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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. In the current year the RMPP Plan was closed to future accrual and as a result 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. 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 on-going 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 government funding to March 2021]. 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. 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 on-going operational losses (excluding Network Subsidy payment) they have been impaired to zero on acquisition. In the current year the impairment loss has been reversed and depreciation has been recognised 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

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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 are impaired to zero for the reasons noted above. In the current year the impairment loss has been reversed and the assets have been amortised on a straight line basis via a charge to income statement over the following useful life:

Software	3 to 6 years

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

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

Goodwill

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

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

Non-current assets within subsidiaries

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

Revenue

Turnover from 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.

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

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

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 Company's underlying performance.

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

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

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

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

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

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

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

- initial recognition of goodwill;

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

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

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

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

Current and deferred tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly to equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Pensions and other post-retirement benefits
Membership of occupational pension schemes is open to most permanent UK employees of the Company. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme. The 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 and as a result the surplus relating to this Plan has been derecognised in the year.

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). The RMPP defined benefit plan has been closed and no future refunds will be made to the Group. In accordance with IFRIC 14 the pension asset has been de-recognised.

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

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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.

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

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

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

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

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

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

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is 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 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

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- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.
The subsidiary Post Office Management Services Limited holds some fiduciary cash balances, 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 £m
Wages and salaries	GRO	
Social security costs		
Pension costs (note 17)		
Total people costs within revenue trading		
Other operating costs within revenue trading		
Total revenue trading costs		

People costs within closure of operations of £19 million (2016: £nil) relate 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	**2,807**	3,344
Supply Chain	**833**	1,360
Network and DMB transformation programmes	**387**	640
Total	**5,302**	6,605

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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	GRO	
Depreciation		
Cost of inventories recognised as an expense		
Operating lease charges – Land and buildings		
Fees payable to the group's auditors for audit and other services:		
- parent company and group audit		
-audit of subsidiary		
-audit related assurance services		
-other non-audit services		

4. Capital and investment

	2016 £m	2016 £m
Government Grant	GRO	
Restructuring:		
Business transformation		
Network transformation including Postmasters' compensation		
Directly managed branch transformation		
IT transformation		
Restructuring – severance		
- other		
Total restructuring costs		
Impairment:		
Impairment of intangible assets (note 8)		
Impairment of property, plant and equipment (note 9)		
Reversal of impairment in the year		
Total impairment		
Total capital and investment		

GRO

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5. Directors' emoluments [in progress, to be updated]

The Directors received the following emoluments:

	2017	2016
	£000	£000
Emoluments, excluding pension contributions and LTIP*		GRO
Contributions to pension schemes		
Amounts receivable under Long-Term Incentive Plans		

*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**	2016
	Number	Number
Defined benefit schemes		-
Defined contribution schemes		GRO

The highest paid Director received the following emoluments:

	2017	2016
	£000	£000
Emoluments and LTIP, excluding pension contributions but including cash supplements received in lieu of pensions		GRO
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								GRO
Virginia Holmes								
Alasdair Marnoch (note 2)								
Ken McCall (note 3)								
Neil McCausland (note 4)								

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Tim Parker (note 5)								GRO
Alice Perkins (note 6)								
Carla Stent (note 7)								
Richard Callard (note 8)								-
Executive Directors								
Paula Vennells								GRO
Alisdair Cameron (note 9)								

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

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

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

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

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

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

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

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

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

Remuneration Policy Summary

The table describes the STIP and LTIP available for the Executive 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 a key financial and operational targets taken from the business

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	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	GRO	
Finance charges		
Total		

7. Taxation

(a) Taxation gains recognised in the year

	2017 £m	2016 £m
Corporation tax credit for year	GRO	
Deferred tax credit relating to the origin and reversal of temporary differences		
Effect of change in tax rate		
Income tax charge / (credit) reported in the consolidated income statement		

GRO

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GRO

[This is being updated by WK based on adjustments to P&L since tax pack]

	2017 £m	2016 £m
Loss on ordinary activities before tax from continuing operations		
Loss on ordinary activities before tax from discontinued operations		
Accounting profit / (loss) before taxation		
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of x% (2016: 20%)		
Net decrease in tax charge as a result of recognition of deferred tax assets		
Expenditure disallowable for tax		
Adjustment in respect of prior period		
Effect of unutilised losses carried forward		
Joint venture profit after tax included in Group pre-tax profit		
Total current tax (see above)		

GRO

(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	-			
Losses available for offset against future taxable income	-			
Total deferred tax asset	-			
Income statement	-			

GRO

GRO

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8. Intangible assets

	Software		Goodwill		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Cost						
At 27 March 2016, 29 March 2015						
Reclassifications						
Additions						
Disposals						
At 26 March 2017, 27 March 2016						
Amortisation and impairment						
At 27 March 2016, 29 March 2015						
Reclassifications						
Amortisation and impairment (see note 4)						
Disposals						
At 26 March 2017, 27 March 2016						
Net book value						
At 26 March 2017, 27 March 2016						

GRO

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.

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9. Property, plant and equipment

	Land and Buildings						
	Freehold	Long leasehold	Short leasehold	Motor Vehicles	Plant and machinery	Fixtures and equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 29 March 2015							
Reclassification*							
Additions							
Disposals							
At 27 March 2016							
Reclassification*							
Additions							
Disposals							
At 26 March 2017							
Depreciation and impairment							
At 29 March 2015							
Reclassification*							
Depreciation and impairment							
Disposals							
At 27 March 2016							
Reclassification							
Depreciation and impairment (see note 3 and 4)							
Disposals							
At 26 March 2017							
Net book value							
At 26 March 2017							
At 27 March 2016							

GRO

GRO

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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		
Share of post tax pre dividend profit		
Dividend		
Total net investment at 26 March 2017, 27 March 2016		

GRO

	2017 Joint venture	2016 Joint venture
Share of assets and liabilities:		
Current assets		
Non-current assets		
Share of gross assets		
Current liabilities		
Share of net assets		
Share of revenue and profit:		
Revenue		
Profit after tax		

GRO

11. Trade and other receivables

	2017 £m	2016 £m
Current:		
Trade receivables		
Prepayments and accrued income		
Client receivables		
Other receivables		
Total		
Non-current:		
Prepayments		

GRO

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).

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GRO

	2017 £m	2016 £m
Not yet overdue	GRO	
Past due not more than one month		
Past due more than one month and not more than two months		
Past due more than two months		
Total		

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	GRO	
Short-term bank deposits		
Fiduciary cash balances held on behalf of insurance third parties		
Total cash and cash equivalents		

Where interest is earned it is at a floating or short term fixed rate. The fair value of cash and cash equivalents is not materially different from the carrying value.

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

13. Trade and other payables

	2017 £m	2016 £m
Current:	GRO	
Trade payables		
Accruals		
Deferred income		
Social security		
Client payables		
Capital payables		
Other payables		
Total		
Non-current:		
Other payables		

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

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14. Financial liabilities – interest bearing loan and borrowings

	2017 £m	2016 £m
Department for Business, Energy & Industrial Strategy	GRO	

GRO

15. Provisions

	Network Transformation £m	Other £m	Total £m
At 27 March 2016			
Charged to capital and investment			
Charged to revenue trading			
Charged for discontinued operation			
Utilisation			
Unused amounts in the year – capital and investment			
Unused amounts in the year – revenue trading			
At 26 March 2017			
Disclosed as:			
At 26 March 2017			
Current			
Non – current			
At 27 March 2016			
Current			
Non-current			

GRO

GRO

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16. Financial assets and liabilities

a. Financial assets and liabilities by category

The breakdown of the Group's financial instruments at 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						
Cash and cash equivalents						
Financial liabilities						
Trade and other payables						
BIS loan						
Finance leases obligations						
Total financial assets/ (liabilities)						

GRO

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

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

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

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

b. Financial risk management objectives and policies

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

Interest rate risk

The Group is exposed to changes in interest rate on floating rate debt, cash deposits and money market fund investments. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been a £8 million favourable impact on the Group's equity and income statement. A 50 basis point decrease would have resulted in a £8 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.

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	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						
2016						

GRO

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.

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 GRO 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.

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At 26 March 2017	12 Months	1-2 Years	**Total** **£m**
Financial assets			
Trade and other receivables			
Cash and cash equivalents			
Financial liabilities			
Trade and other Pavables			
Interest bearing loan			
Finance leases obligations			
Total financial assets/ (liabilities)			

GRO

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

GRO

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

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	
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.

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Defined Contribution

The charge in the income statement for the defined contribution scheme and the Group contributions to this scheme were £GRO (2016: GRO) 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 GRO surplus (2012: GRO 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 GRO 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;
- 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 £GRO (2016: GRO) 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 £GRO per annum will be made. Post Office's share of these payments will be 7% which is GRO per annum. A payment of GRO 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.

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A current liability of GRO £nil) has been recognised for payments to the RMPP and RMSEPP schemes relating to redundancy. During the year payments of GRO 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.

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

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, the RMPP pension surplus can no longer be recognised on Post Office's balance sheet at 26 March 2017, and the resulting loss has been reconciled in Other Comprehensive Income.

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	GRO	
Rate of pension increases – RMPP sections A/B		
Rate of pension increases – RMPP section C		
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP		
Rate of pension increases – RMSEPP all other members		
Rate of increase for deferred pensions		
Discount rate		
Inflation assumption (RPI) – RMPP & RMSEPP		
Inflation assumption (CPI) – RMPP & RMSEPP		

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.

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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	GRO	
Changes in discount rate of +0.1%pa		
Changes in real salary growth of +0.1% pa		
Changes in CPI assumptions of +0.1% pa		
An additional 1 year life expectancy		

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

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*	GRO	
Property		
Private Equity		
Cash and cash equivalents		
Bond/fixed interest funds		
Other loan/debt funds		
Alternative asset funds		
Fair value of RMPP assets		
Present value of RMPP liabilities		
Surplus in plan before asset ceiling adjustment		
Less effect of asset ceiling		
Surplus in plan after asset ceiling adjustment		

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*£4 million relates to UK Government Bonds, £365 million to an LDI investment containing UK Government Bonds (it is 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	GRO	
Overseas equities		
Government bonds		
Alternative asset funds		
Property		
Bulk annuity policy*		
Fair value of share in plan assets for RMSEPP		
Present value of share in plan liabilities for RMSEPP		
Surplus in plan for the share of RMSEPP before asset ceiling adjustment		
Less effect of asset ceiling		
Surplus in plan for share of RMSEPP after asset ceiling adjustment		

*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 DBO.

A retirement benefit surplus of GRO 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 Post Office has concluded that as a result of the Memorandum of Understanding signed on 21 March 2017, Post Office 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	GRO	
Contributions paid		
Employee contributions paid		
Finance income		
Actuarial gains/(losses)		
Benefits paid to members		
Assets in sectionalised RMPP at end of period		

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

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

Liabilities	**Sectionalised RMPP 2017**	Sectionalised RMPP 2016
Liabilities in sectionalised RMPP at beginning of period	GRO	
Current service cost		
Curtailment costs*		
Finance cost		
Employee contributions		
Experience adjustments on liabilities		
Financial assumption changes		
Demographic assumption changes		
Benefits paid		
Effect of closure of RMPP*		
Liabilities in sectionalised RMPP at end of period		

Liabilities	**Share of RMSEPP 2017 £m**	Share of RMSEPP 2016 £m
Share of liabilities in RMSEPP plans at beginning of period	GRO	
Finance cost		
Experience adjustments on liabilities		
Financial assumption changes		
Benefits paid		
Share of liabilities in RMSEPP at end of period		

GRO

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:	GRO	
Current service cost		
Loss due to curtailments		
Effect of the closure of the RMPP		
Total charge to revenue trading		
Analysis of amounts charged to closure of operations:		
(Gain) / Loss due to curtailments		
Effect of the closure of the RMPP		
Total charge to operating profit		
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities		

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Interest income on plan assets	GRO
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	
Less: expected interest income on plan assets	
Less: taxation on surplus recoverable through plan refunds	
Actuarial gains/(losses) on assets (all experience adjustments)	
Experience adjustments on liabilities	
Effects of changes in actuarial assumptions on liabilities	
Actuarial losses on liabilities	
Effect of the asset ceiling	
Total actuarial (losses)/gains recognised in the statement of comprehensive income	

	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		
Interest income on plan assets		
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		
Less: expected interest income on plan assets		
Less: taxation on surplus recoverable through plan refunds		
Actuarial gains/(losses) on assets (all experience adjustments)		
Experience adjustments on liabilities		
Effects of changes in actuarial assumptions on liabilities		
Actuarial losses on liabilities		
Total actuarial losses recognised in the statement of comprehensive income		

GRO

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18. Equity

Called up share capital:

	2017 £	2016 £
Authorised		
Ordinary shares of £1 each	GRO	
Total		
Allotted and issued and fully paid		
Ordinary shares of £1 each		
Total		

Other reserves:

Other reserves of GRO million (2016: GRO million) relate to First Rate Exchange Services Holdings Limited, the joint venture entity.

Share premium:

GRO

19. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £xx million (2016: £51 million). This figure is still being finalised.

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	GRO	
Between one and five years		
Beyond five years		
Total		

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.

[A claim has been issued on behalf of a number of postmasters against Post Office in relation to various legal, technical and operational matters. Full particulars of the claim (including as to quantum) have not yet been received by Post Office.]

The Directors do not consider the outcome of any current claim or action will have a material adverse impact on the consolidated position of the Group.

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20. 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 GRO million for 2017 relating to unutilised provision, and a cost of GRO million for 2016 relating to the closure (split between Other operating costs GRO million and Capital and Investment GRO million).

	2017 £m	2016 (restated) £m
Revenue	GRO	
People costs excluding restructuring costs		
Other operating costs		
Operating loss before capital and investment		
Operating capital and investment expenditure		
Loss before taxation		
Taxation		
Loss for the year from discontinued operation		

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 (GRO million), other restructuring costs (GRO 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 £m
Land and Buildings	GRO	
Trade Receivables		
Accrued Income		
Total Assets		
Provisions (note 15)		
Total Liabilities		
Total Net Assets		

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 operations for the year ended 27 March 2016:

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	As previously reported	Restatement	27 March 2016 Restated
Turnover		GRO	
People costs			
Other operating costs			
Loss for the year from continuing operations			
Loss for the year from discontinued operations			
Loss for the year after discontinued operations			

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:

	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	GRO							

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

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

Separately:

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

Key management comprises Executive and Non-Executive Directors of the Post Office Limited Board and the members of the Group Executive at 26 March 2017. The aggregate remuneration of the key management personnel of the Post Office Group is set out below:

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	2017 £000	2016 £000
Short-term employee benefits		
Post-employment benefits		
Other long-term benefits		GRO
Total		

22. Post balance sheet events

[To be updated on confirmation of funding status.]

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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Parent Company Financial Statements

2016-2017

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Company statement of comprehensive income
At 26 March 2017

	Notes	**2017 £m**	2016 (Restated) £m
Profit / (Loss) for the financial year from continuing operations			
Loss for the financial year from discontinued operations			
Profit / (Loss) for the financial year			
Other comprehensive income not to be reclassified to profit or loss in future periods			
Remeasurements on defined benefit surplus	11		
Withholding tax effect			
Income tax effect			
Total comprehensive income for the year			

GRO

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

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Company balance sheet
at 26 March 2017

	Notes	2017 £m	2016 (Restated) £m
Non-current asset			
Intangible assets	2		
Property, plant and equipment	3		
Investment in subsidiaries	4		
Investments in joint ventures	5		
Retirement benefit surplus	11		
Trade and other receivables	6		
Total non-current assets			
Current assets			
Inventories			
Trade and other receivables	6		
Cash and cash equivalents	7		
Total current assets			
Total assets			
Current liabilities			
Trade and other payables	8		
Financial liabilities - interest bearing loans and borrowings	9		
- obligations under finance leases			
Provisions	10		
Total current liabilities			
Non-current liabilities			
Other payables	8		
Provisions	10		
Total non-current liabilities			
Net assets			
Equity			
Share capital	12		
Share premium	12		
Retained earnings			
Total equity			

GRO

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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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)				
Profit for the year				
Remeasurements on defined benefit surplus	11			
Withholding tax effect				
Income tax effect				
At 26 March 2017				

GRO

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 30 March 2015 (restated)				
Loss for the year (restated)				
Remeasurements on defined benefit surplus	11			
Income tax effect				
At 27 March 2016				

GRO

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Notes to the financial statements

1. Accounting Policies

The accounting policies which follow set out those which apply in preparing the financial statements for the year ended 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 xxx 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 £214 million profit (2016: GRO million loss).

The results of Post Office Limited are included in the consolidated financial statements of Post Office Group which are available from Companies House.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IFRS 7 Financial Instruments: Disclosures

(b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement

(c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

  i. paragraph 73(e) of IAS 16 Property, Plant and Equipment

  ii. paragraph 118(e) of IAS 38 Intangible Assets

(d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 'Presentation of Financial Statements'

(e) the requirements of IAS 7 Statement of Cash Flows

(f) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

(g) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'

(h) the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Fundamental accounting concept – going concern

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

Prior year restatements

In preparing the financial statements for the current year, the comparative figures for the year ended 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 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.

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The restatement affects the Investments in joint ventures 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. 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	Restatement for discontinued operation	27 March 2016 Restated
Loss for the year from continuing operations	GRO		
Loss for the year from discontinued operations			
Loss for the year after discontinued operations			

	As previously reported	Restatement for change in joint venture accounting	27 March 2016 Restated
Investments in joint ventures	GRO		
Retained earnings			

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

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. In the current year the RMPP Plan was closed to future accrual and as a result 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.

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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 on-going 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 government funding to March 2021]. 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 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 on-going operational losses (excluding Network Subsidy payment) they have been impaired to zero on acquisition. In the current year the impairment loss has been reversed and depreciation has been recognised 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

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 are impaired to zero for the reasons noted above. In the current year the impairment loss has been

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reversed and the assets have been amortised on a straight line basis via a charge to income statement over the following useful life:

Software	3 to 6 years

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

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

Goodwill

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

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

Leases

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

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

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

Investments in joint ventures

Investments in joint ventures within the Company's financial statements 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].

Investments in subsidiaries

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

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:

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- 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 and as a result the surplus relating to this Plan has been derecognised in the year.

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

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 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 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.

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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.

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

Auditor's remuneration
The remuneration paid to auditors is disclosed in the Group financial statements (note 3).

Director's emoluments
The emoluments paid to Directors are disclosed in the Group financial statements (note 5).

2. Intangible assets

Cost	**2017 £m**	2016 £m
At 27 March 2016, 30 March 2015		
Reclassifications		
Additions		
Disposals		
At 26 March 2017, 27 March 2016		
Impairment		
At 27 March 2016, 30 March 2015		
Reclassifications		
Impairment		
Disposals		
At 26 March 2017, 27 March 2016		
Net book value		
At 26 March 2017, 27 March 2016		

GRO

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							
Reclassification*							
Additions							
Disposals							
At 27 March 2016							
Reclassification*							
Additions							
Disposals							
At 26 March 2017							
Depreciation and impairment							
At 29 March 2015							
Reclassification*							
Depreciation and impairment							
Disposals							
At 27 March 2016							
Reclassification							
Depreciation and impairment (see note 3 and 4)							
Disposals							
At 26 March 2017							
Net book value							
At 26 March 2017							
At 27 March 2016							

GRO

GRO

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

In previous years, due to on-going 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 government funding to March 2021]. 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. 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.**4. Investment in subsidiaries**

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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 GRO and 1 share with a nominal value of GRO 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	GRO	

Joint ventures

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 GRO million (2016: GRO million), whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

6. Trade and other receivables

	2017 £m	2016 £m
Current:		
Trade receivables	GRO	
Amounts owed by group undertakings		
Prepayments and accrued income		
Client receivables		
Other receivables		
Total		
Non-current:		
Prepayments and accrued income		

7. Cash and cash equivalents

	2017 £m	2016 £m
Cash in the Post Office Limited Network	GRO	
Short-term Bank Deposits		
Total		

8. Trade and other payables

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	2017 £m	2016 £m
Current:		
Trade payables		
Accruals		
Deferred income		
Social security		
Client payables		
Capital payables		
Other payables		
Total		
Non-current:		
Other payables		

GRO

9. Financial liabilities – interest bearing loans and borrowings

	2017 £m	2016 £m
Department for Business, Energy & Industrial Strategy	GRO	

The loan under the facility is short dated on a programme of liquidity management and matures on average 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 GRO million (2016: GRO 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 46 for further details of this provision.

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10. Provisions

	Network Transformation £m	Other £m	Total £m
At 27 March 2016			
Charged in capital and investment expenditure			
Charged in operating costs			
Charged in discontinued operations			
Utilisation			
Unused amounts in the year – capital and investment			
Unused amounts in the year – revenue trading			
At 26 March 2017			
Disclosed as:			
Current			
Non – current			

GRO

The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page 46 for further details of this provision.

Other provisions of GRO million (2016: GRO million) include GRO million for continuing operations, this includes GRO million onerous lease obligations, GRO million severance and GRO million of smaller provisions including GRO 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	
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 GRO (2016: GRO) 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.

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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 GRO n surplus (2012: GRO n 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 GRO 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;
- 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 GRO n (2016: GRO n) 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 GRO m per annum will be made. Post Office's share of these payments will be 7% which is GRO m per annum. A payment of GRO m 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 GRO (2016: £nil) has been recognised for payments to the RMPP and RMSEPP schemes relating to redundancy. During the year payments of GRO (2016: GRO) 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.

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

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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, the RMPP pension surplus can no longer be recognised on Post Office's balance sheet at 26 March 2017, and the resulting loss has been reconciled in Other Comprehensive Income.

b) 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	GRO	
Rate of pension increases – RMPP sections A/B		
Rate of pension increases – RMPP section C		
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP		
Rate of pension increases – RMSEPP all other members		
Rate of increase for deferred pensions		
Discount rate		
Inflation assumption (RPI) – RMPP & RMSEPP		
Inflation assumption (CPI) – RMPP & RMSEPP		

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:

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	2017 £m	2016 £m
Changes in RPI and CPI inflation of +0.1% pa	GRO	
Changes in discount rate of +0.1%pa		
Changes in real salary growth of +0.1% pa		
Changes in CPI assumptions of +0.1% pa		
An additional 1 year life expectancy		

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

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*	GRO	
Property		
Private Equity		
Cash and cash equivalents		
Bond/fixed interest funds		
Other loan/debt funds		
Alternative asset funds		
Fair value of RMPP assets		
Present value of RMPP liabilities		
Surplus in plan before asset ceiling adjustment		
Less effect of asset ceiling		
Surplus in plan after asset ceiling adjustment		

*GRO million relates to UK Government Bonds, GRO million to an LDI investment containing UK Government Bonds (it is a liability driven investment) and GRO 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	GRO	
Overseas equities		
Government bonds		
Alternative asset funds		
Property		
Bulk annuity policy*		
Fair value of share in plan assets for RMSEPP		
Present value of share in plan liabilities for RMSEPP		
Surplus in plan for the share of RMSEPP before asset ceiling adjustment		
Less effect of asset ceiling		
Surplus in plan for share of RMSEPP after asset ceiling adjustment		

*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 DBO.

A retirement benefit surplus of GRO 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 Post Office has concluded that as a result of the Memorandum of Understanding signed on 21 March 2017, Post Office 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	GRO	
Contributions paid		
Employee contributions paid		
Finance income		
Actuarial gains/(losses)		
Benefits paid to members		
Assets in sectionalised RMPP at end of period		

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

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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	GRO	
Current service cost		
Curtailment costs*		
Finance cost		
Employee contributions		
Experience adjustments on liabilities		
Financial assumption changes		
Demographic assumption changes		
Benefits paid		
Effect of closure of RMPP*		
Liabilities in sectionalised RMPP at end of period		

Liabilities	**Share of RMSEPP 2017 £m**	Share of RMSEPP 2016 £m
Share of liabilities in RMSEPP plans at beginning of period	GRO	
Finance cost		
Experience adjustments on liabilities		
Financial assumption changes		
Benefits paid		
Share of liabilities in RMSEPP at end of period		

*The gain on curtailment of GRO million is due to redundancies in the year. It is equal to a cost of GRO million in respect of enhanced retirement benefits granted to certain members, offset by a saving of GRO million due to RPI-linked in-service revaluation being replaced by CPI-linked deferred pension revaluation. The effect of the closure of RMPP of GRO 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 GRO million relating to adjustments linked to current year service) and closure of operations (net credit of GRO 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	GRO	
Loss due to curtailments		
Effect of the closure of the RMPP		
Total charge to revenue trading		
Analysis of amounts charged to closure of operations:		
(Gain) / Loss due to curtailments		
Effect of the closure of the RMPP		
Total charge to operating profit		
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities		

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Interest income on plan assets	
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	
Less: expected interest income on plan assets	
Less: taxation on surplus recoverable through plan refunds	
Actuarial gains/(losses) on assets (all experience adjustments)	
Experience adjustments on liabilities	
Effects of changes in actuarial assumptions on liabilities	
Actuarial losses on liabilities	
Effect of the asset ceiling	
Total actuarial (losses)/gains recognised in the statement of comprehensive income	

GRO

	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		
Interest income on plan assets		
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		
Less: expected interest income on plan assets		
Less: taxation on surplus recoverable through plan refunds		
Actuarial gains/(losses) on assets (all experience adjustments)		
Experience adjustments on liabilities		
Effects of changes in actuarial assumptions on liabilities		
Actuarial losses on liabilities		
Total actuarial losses recognised in the statement of comprehensive income		

GRO

12. Equity

Called up share capital:

	2017 £	2016 £
Authorised		
Ordinary shares of £1 each		
Total		
Allotted and issued		
Ordinary shares of £1 each		
Total		

GRO

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Post Office Limited

Share premium:

On 7 August 2007 1,000 ordinary shares of GRO each were issue in return for GRO million cash paid by the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of GRO resulted from this subscription. In April 2008 two ordinary GRO shares were issued in return for GRO million cash paid by the Secretary of State for Business, Innovations and Skills Reform. A share premium of GRO resulted from this subscription.

13. Commitments

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

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

[To be updated on confirmation of funding status.]

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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Post Office Limited

Audit, Risk and Compliance Board Sub-Committee

Year ended 26 March 2017

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1. Glossary

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

Abbreviation	Meaning
AEI	Application, Enrolment & Identity
ATM	Automated Teller Machine
BACS	Bankers' Automated Clearing Services
BEIS	Department for Business, Energy & Industrial Strategy
GRO	
CPI	Consumer Price Index
DMB	Directly Managed Branch (formerly Crowns)
DVLA	Driver & Vehicle Licensing Authority
DWP	Department of Work & Pensions
GRO	
EBITDAS	Earnings Before Interest Tax Depreciation Amortisation and Subsidy
EU BRP	European Union Biometric Residents' Permit
FRES	First Rate Exchange Services, our foreign currency joint venture with BoI
Gamma	A contract variation made in 2007 with POFS generating £100m cash and income over a number of years in return for a series of commitments through to 2020
GRNI	Goods Received Not Invoiced
HPBB	Homephone and Broadband
Horizon	Horizon Next Generation- IT Counter system in branches
IRIS	Restructuring of the Supply Chain to removal external service
NBV	Net Book Value
NS&I	National Savings & Investments
NSP	Network Subsidy Payment
POCA	Post Office Card Account, a mechanism for Government to pay benefits to people without bank accounts
PFS	Personal Finance Services
POFS	Post Office Financial Services
RMPP	Royal Mail Pension Plan, defined benefit pension plan for Post Office employees (closed from 31 March 2017)
RMSEPP	Royal Mail Senior Executive Pension Plan, defined benefit pension plan for Post Office Senior Executives (closed)
POPP	Post Office Pension Plan, defined contribution pension plan for all other Post Office employees
RBS	Royal Bank of Scotland
RPI	Retail Price Index
SGEI	Services of General Economic Interest, part of our social purpose commitment to Government
OSOP	Organisation Structure Optimisation Project, the removal of 20% of non-front office roles in H1 2017

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2. Introduction

This Briefing Book has been prepared to explain the Post Office Limited results for the year ended 26 March 2017. It is a summary of the key data, trends and analyses which readers may find useful. It should be read in conjunction with the financial statements.

Analysis is presented based on a comparison of 2016-17's results to those of the prior year.

Comparison against budget is discussed in the Monthly Performance Report presented to the Post Office Limited Board.

The following points are outstanding:-

1. Clarity on future funding and the implications for our plans and for disclosures in the ARA
2. The subsequent, formal assessment of going concern and related disclosures
3. The subsequent assessment of the continuation of the impairment of fixed assets

The financial statements have been prepared on the basis that investment funding is received and that the fixed asset impairment is reversed, increasing net assets GRO The auditing of this is underway. These issues will be presented in a future ARC when the timetable is clear.

Accounting Policies

Post Office Limited Group report its results under International Financial Reporting Standards (IFRS). Post Office Limited Company and Post Office Management Services Limited report under Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Accounting policies and estimates have been applied consistently with the exception of the following:-

Change in depreciation and amortisation accounting estimates

Post Office Limited Group has revised the accounting estimate for depreciation of fixed assets and amortisation of intangible assets. Rather than impairing fixed and intangible assets on capitalisation, Post Office Group is now applying depreciation and amortisation policies which are consistent with the useful lives of the asset categories. Details are given in section 15. This is subject to audit and final agreement.

Changes in accounting policy in company only accounts in relation to FRES

In the company only accounts of Post Office Limited, the accounting policy of the FRES joint venture has been changed to the equity method, which is consistent with Post Office Group accounts. Details are given in section 23.

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3. Presentation of Consolidated Income Statement

We have prepared the income statement in line with the decision made by the ARC on 28 March 2017.

Firstly, we have reviewed the way in which we show exceptional items on the face of the Group consolidated income statement. Exceptional items comprise the impaired capital expenditure and major strategic project spend net of investment funding.

Whilst the disclosure of exceptional items is consistent and transparent, it could no longer be considered best practice in a public interest company to have this scale of recurring charges presented "below the line". We have managed this by stating the level of operating loss before and after exceptional items.

In 2016-17, we have transitioned to an alternative presentation. We are showing four columns in the consolidated statement in the current year and preceding financial year. These are: revenue trading; closure of operations; capital and investments; and (adding them together) the reported results. The EBITDAS figure can be directly extracted from the revenue trading column.

The columnar approach is used by a number of other companies including Land Securities, British Land and Pets at Home. The columnar presentation is more conventional than our current presentation and allows the reader of the accounts to clearly see the underlying performance of the Post Office for the current and preceding financial year.

Secondly, we have shown Mobile and the third party Cash in Transit business under Closure of Operations but within discontinued operations (as required by IFRS 5).

GRO

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5. Primary Statements

5.1 Consolidated Income Statement

	2016 (restated) £m							
	Revenue trading	Closure of operations	Capital and investment	Total	Revenue trading	Closure of operations	Capital and investment	Total
Continuing operations:								
Turnover								
Network Subsidy Payment								
Revenue								
Costs								
Investment funding								
Impairment								
Depreciation								
Joint venture share								
Operating profit / (loss) from continuing operations								
Finance costs								
Net pensions financing income								
Profit / (loss) before taxation from continuing operations								
Taxation credit / (charge)								
Profit / (loss) for the financial year from continuing operation								
Discontinued operations:								
Loss for the financial year after tax from discontinued operations								
Profit / (Loss) for the financial year								
EBITDAS								

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GRO

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GRO

	As per signed financial statements	Restatement for Iris discontinued operation	Restated
Turnover	GRO		
Costs			
Operating profit from continuing operations before capital and investment			
Loss for the financial year from continuing operations after financing and tax			
EBITDAS			
Loss for the financial year after tax from discontinued operations			
Loss for the financial year			

*Excludes depreciation of £1 million.

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5.2 Consolidated statement of cash flows

	2017	2016 (restated)
	£m	£m
Cash flows from operating activities		
Operating profit from revenue trading from continuing operations		
Operating loss from discontinued operations		
Total profit before capital and investment		
Adjustment for:		
Share of profit from joint ventures		
Pension operating costs		
Working capital movements:		
Decrease/(Increase) in trade and other receivables		
(Decrease) in trade and other payables		
Increase in inventories		
Increase in provisions for discontinued operations		
Increase/(Decrease) in revenue trading provisions		
Pension operating costs paid		
Cash payments in respect of capital and investment items:		
Government grant		
Restructuring costs		
Other		
Net cash outflow from operating activities		
Income tax recovered		
Cash flows from investing activities		
Dividends received from joint ventures		
Acquisition of insurance business		
Purchase of tangible and intangible non-current assets		
Net cash outflow from investing activities		
Net cash (outflow)/inflow before financing activities		
Cash flows from financing activities		
Finance costs paid		
Payments to finance lease creditors		
Proceeds of borrowings from BEIS		
Net cash inflow from financing activities		
Net (decrease) in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year		
Cash and cash equivalents at the end of the year		

GRO

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5.3 Consolidated balance sheet

	2017	2016
Non-current assets		
Intangible assets		
Property, plant and equipment		
Investments in joint ventures		
Retirement benefit surplus		
Trade and other receivables		
Total non-current assets		
Current assets		
Inventories		
Trade and other receivables		
Cash and cash equivalents		
Total current assets		
Total assets		
Current liabilities		
Trade and other payables		
Financial liabilities - interest bearing loans and borrowings		
- obligations under finance leases		
Provisions		
Total current liabilities		
Non-current liabilities		
Other payables		
Provisions		
Total non- current liabilities		
Net assets		
Equity		
Share capital		
Share premium		
Retained earnings		
Other Reserves		
Total equity		

GRO

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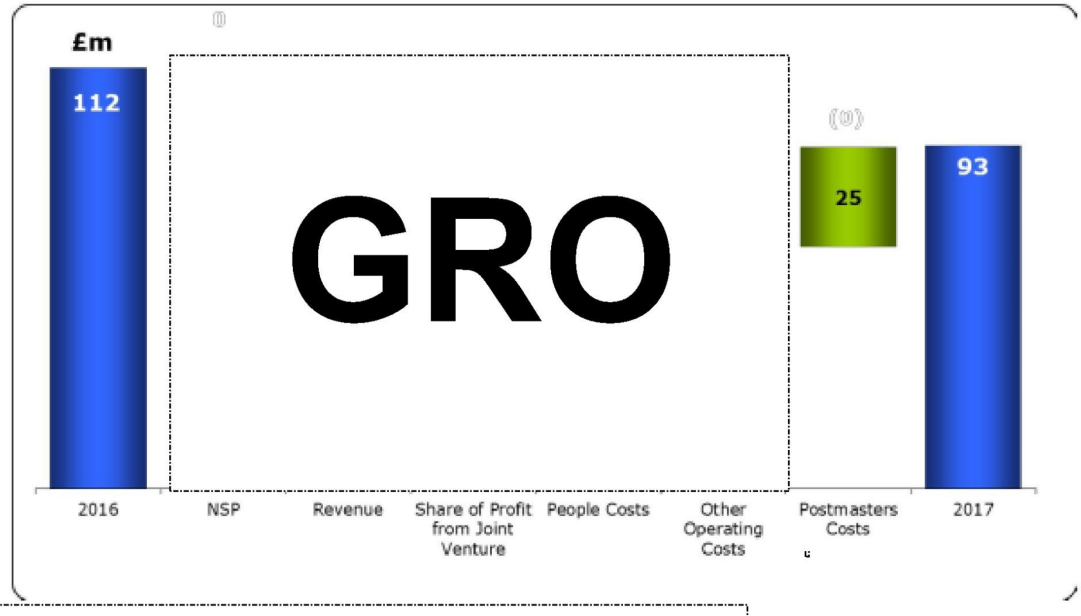
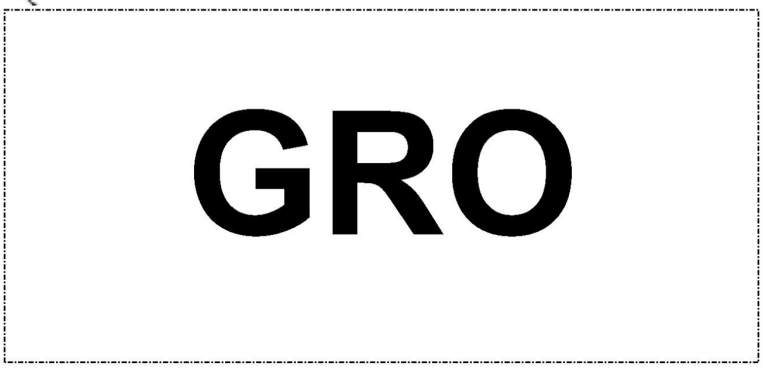
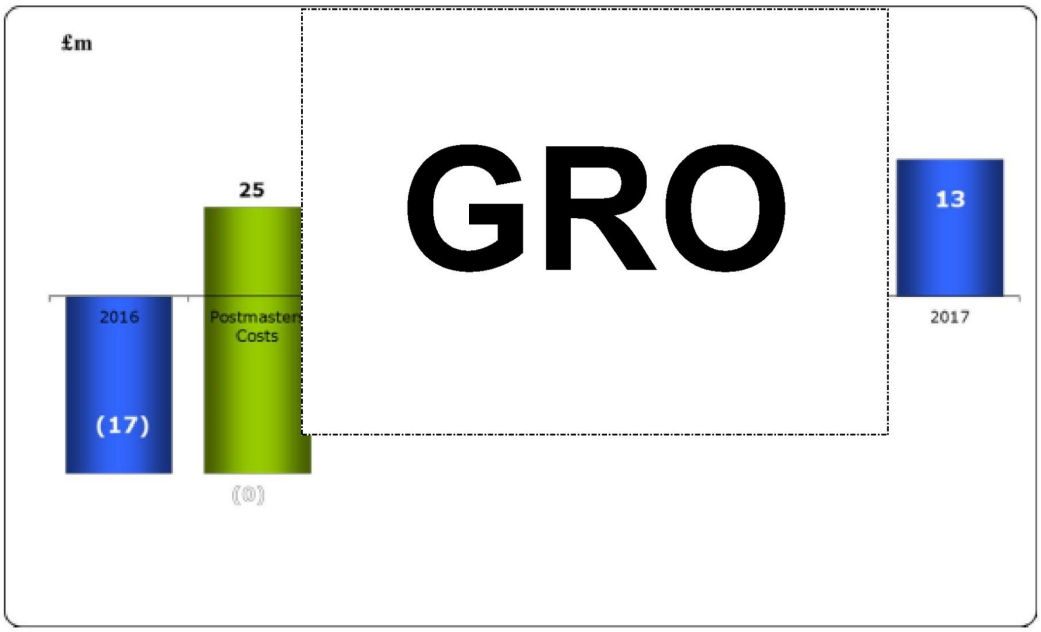
6. Operating Profit from continuing operations

6.1 Operating profit bridge analysis





6.3 EBITDAS Bridge



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7. Revenue

	26 March 2017 £m	27 March 2016 £m	Variance £m
Retail			
Mails			
Retail & Lottery			
Government Services			
Payment Services			
Financial Services & Telecoms			
Financial Services			
Telecoms			
Other income			
Turnover			
Network Subsidy Payment			
Revenue			

GRO

GRO

7.1 Retail

7.1.1

GRO

	£m
Total increase	
Add: planned decrease fixed fee	GRO
Underlying trading variance	

	2017 £m	2016 £m	Variance £m
Parcelforce			
Special Delivery			
International Priority & Standard			
Stamps (1st & 2nd Class plus other stamps)			
Labels (1st & 2nd Class)			
RM Signed For			
Home Shopping Returns			
Mails Other (trading)			
Fixed fee and Mail work			

GRO

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GRO

7.1.2

7.1.3

	2017	2016	Variance	Variance
	£m	£m	£m	%

GRO

GRO

7.1.4

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7.2 Financial Services & Telecoms

7.2.1

GRO

7.2.2

HPBB	2016/17	2015/16	Variance
Average customer base	GRO		
ARPU			

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7.3 Other Income

	2017 £m	2016 £m	Variance £m	%	Comments
Supply Chain					
GRO					
Photo Booth and other					

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8. Costs

8.1 Total Trading Costs Analysis

	Notes	**2017 £m**	2016 £m	Variance £m	%
COST OF SALES	8.2				
Wages & Salaries					
Pensions					
Overtime					
Bonus & Productivity					
Employers NI					
Temporary Resource					
PEOPLE COSTS	8.3				
Postmasters pay	8.4.1				
Legal Costs	8.5.1				
Staff & Agent Related Costs	8.5.2				
Compliance and Advice Services	8.5.3				
Brand & Marketing	8.5.4				
Property & Facilities Management	8.5.5				
IT Infrastructure & IT Services	8.5.6				
Finance & Losses	8.5.7				
Other Operating Costs	8.5.8				
Vehicles					
TOTAL TRADING OTHER OPERATING COSTS					
TOTAL COSTS					

GRO

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8.2 Cost of Sales

Cost of Sales has GRO, detailed below:

	2017 £m	2016 £m	Variance £m	Variance %	Comments
Telecoms	GRO				
Government Services					
Mails & Retail					
Financial Services					
Total					

Gross Margin detailed below:

	2017	2016	Variance
Telecoms	GRO		
Government Services			
Retail			
Financial Services			

8.3 People Costs (2017 GRO vs 2016 GRO

8.3.1 People costs

GRO

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GRO

8.3.2 People Numbers

Total period and average employee numbers are 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	GRO	
Directly managed branches		
Supply Chain		
Network and DMB transformation programmes		
Total		

8.3.3 Average Cost per Employee

	Period end employees		Average employees	
	2017	2016	**2017**	2016
Total *BAU employees	GRO			
BAU Staff Cost				
Average Cost per employee				

GRO

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8.4 Postmaster pay (2017 GRO vs 2016 GRO

8.4.1 Total postmasters pay decreased by GRO

GRO

	2017 £m	2016 £m	Variance £m	%
Agents Variable Costs	GRO			
Agents Fixed Costs				
Agents Other Costs				
Agents Tax				
Postmaster Costs				

GRO

	2017	2016
Agency Branches (incl. Mains and Locals and over 1800 mutliples)	GRO	
Outreach* & Satellite		
DMB		
Total Branches		

*Outreach-Non fixed location serving & Mobile Post Office vans that provide service for a limited number of hours per week

8.5 Other Operating Costs (2017 GRO vs 2016 GRO)

8.5.1 Legal Costs have decreased by £1.4m, £0.7m reduced legal support of strategic projects mainly Sparrow as more spend is due in 2017-18, £0.3m reduced property contracts and the remaining £0.4m other legal costs savings.

8.5.2

8.5.3

GRO

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GRO

8.5.4 GRO

8.5.5 GRO

	2017 £m	2016 £m	Variance £m	%	Comments
Property					
Property Charge					
Utilities					
Security					
Maintenance Office Equipment					

GRO

8.5.6 IT Infrastructure & IT Services costs have decreased by £2.3m

After the reallocation of contact centre costs of £5.9m from IT to other operating costs there has been an underlying increase of £3.6m.

	2017 £m	2016 £m	Variance £m	%	Comments
IT Infrastructure & IT Services	**(26)**	(22)	(3.6)	(16%)	Increase Computer Infrastructure costs due to an ageing estate in legacy point of sale, desktop services started in April 2016
IT Services	**(15)**	(16)	1	8%	Reduced Prism Operating lease charges (legacy outsourced services) offset by increase in Integration and service desk charges
Telephony	**(9)**	(15)	5	37%	Decrease due to reallocation of contact centre costs of £5.9m from IT to other operating costs
Branch Infrastructure Services	**(49)**	(48)	(1)	(2%)	Horizon terminal services in branches
	(100)	(102)	2	2%	

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8.5.7 Finance costs GRO

	2017 £m	2016 £m	Variance £m	%	Comments
VAT Recovery	GRO				
Finance Costs					
Other					

8.5.8 Other Operating cost GRO

	2017 £m	2016 £m	Variance £m	%	Comments
Managed Services & Customer Management	GRO				
Shared Services					
Stationery & Contract Penalties					
Logistics					
Total Other Operating Costs					

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9 POMS

GRO

POMS P&L	2017 £m Actual	2016 £m annualised	YoY %
Gross income	GRO		
Cost of sales			
Net income			
Staff costs			
Non-staff costs			
POL commission			
Total Expenditure			
EBITDA			

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10 Quality of Earnings

Post Office Limited (consolidated)	2016-17 £m	2015-16 £m	Change £m	Change %
Reported profit from continuing operations				
Network Subsidy Payment				
Add back depreciation				
Reported EBITDAS				
Bill payments				
Pensions one-off item – closure impact on current year costs				
HMRC Anti-Money Laundering penalty				
Telecoms line rental income recognition				
Gamma one-off income release				
Billing corrections re 2014-15				
Back-billing to RM for Certificates of Posting work				
Fujitsu compensation for poor service in 2013-14				
Change in Telecoms bad debt policy				
Total adjustments				
Adjusted to exclude one-offs				

GRO

GRO

GRO

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11 Pensions

11.3 Background

The Post Office participates in pensions schemes and detailed below, the RMPP closed to future accrual on 31 March 2017.

Scheme	Eligibility	Type
GRO		

11.4 Assumptions

GRO

% pa RMPP Post Office Section	**March 2017**	March 2016
Inflation (RPI) Inflation (CPI) Discount rate (i.e. bond rate) Rate of increase in Pensionable salaries Rate of pension increases – RMPP A/B Rate of pension increases – RMPP C Rate of increases in deferred pensions	GRO	

GRO

Inflation – RPI

GRO

Inflation – CPI

GRO

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Discount rate

Under IAS19, the discount rate should be based on the rate of return at the valuation date on high quality (AA rated, or equivalent status) corporate bonds of equivalent currency and term to the plan liabilities. AA rated corporate bond yields have fallen significantly since 27 March 2016, suggesting a discount rate of at least 1% pa lower than last year (FY16: 3.5%).

The current year assumption has been considered with reference to the Willis Towers Watson model. This model derives a discount rate from a corporate bond yield curve (based on market data) by matching the curve to projected benefit payments. The model is based on an extrapolation of corporate bond yields beyond the term that current corporate bonds extend over. Given the uncertainty of such extrapolation, we have chosen to take a more prudent view and not taken full credit for the upward slope in the model. This results in a reduction in discount rate to 2.3%. It should be noted that the discount rate used in the funding valuation is 1.5%.

EY have challenged whether the discount rate of 2.3% is appropriate and believe that it is on the prudent end of the range. However, they have reviewed other assumptions and concluded that, in the round, the assumptions applied in deriving the pre write-off scheme asset give a valuation which is materially correct.

Rate of increase in pensionable salaries

At the last year-end, the assumption was 0.1% pa below the RPI inflation assumption. This reflected an assumption that inflation will be volatile from year to year and in some years will exceed 5% pa (at which point the 5% cap will apply). Willis Towers Watson analysis confirmed that lower levels of inflation volatility could be justified, which has resulted in a pension increase assumption at the same level as assumed RPI inflation (after rounding).

Other increases to benefits

At current levels of inflation it remains appropriate to set the increases in line with the relevant inflation measure.

11.5 Movements in the defined benefit surplus

The movement in the RMPP defined benefit accounting surplus during the year to 26 March 2017 is detailed below. Scheme assets are assessed at fair value at the balance sheet date. For example, quoted equities are valued at the latest 'bid' price. Scheme liabilities are discounted using a high quality corporate bond rate. The IAS 19 surplus/deficit is usually therefore different to the cash funding surplus/deficit (the "actuarial" valuation) assessed by the Trustees, for which the scheme liabilities are discounted using the expected returns available on scheme assets.

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	Year ended 26 March 2017 £m	Year ended 27 March 2016 £m
Opening sectionalised RMPP net retirement bene surplus	GRO	
Current service cost		
Curtailment gain/(losses)		
Net financing credit		
Employers contributions		
Gain on closure		
Actuarial gains/(losses)		
Closing RMPP net retirement benefit surplus		
RMSEPP surplus		
Total net retirement benefit surplus		
Effect of asset ceiling		
Closing net retirement benefit surplus		

GRO

11.6 Assessment of recoverability of surplus under IFRIC 14

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 Post Office has concluded that as a result of the Memorandum of Understanding signed on 21 March 2017, Post Office no longer

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has an unconditional right to refund from the Plan. As a result, we de-recognise the pension accounting asset in the financial statements.

In practice, this simply aligns our accounting with the real world: the existing surplus belonged to members and was never going to the returned to POL. Whilst the surplus under accounting methodology is £ GRO the funding valuation, which gives a more realistic view of the value of the scheme, is significantly less. For comparison, the funding valuation at 31 March 2015 was £ GRO . It is anticipated that the next triennial valuation due in March 2018, will be lower.

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12 Capital and investment expenditure

12. GRO

	2017 £m	2016 £m
Government Grant	**140**	150
Restructuring:	GRO	
Business transformation		
Network transformation including Postmasters' compensation (a)		
Directly managed branch transformation (b)		
IT transformation		
Restructuring – severance		
- other		
Total restructuring		
Impairment:		
Impairment of intangible assets		
Impairment of property, plant and equipment		
Reversal of impairment in the year		
Total net impairment		
Total capital and investment		

12.4 Government Grants – In April 2016 the Post Office received grants totalling £140m from the Government, (April 2015 £150m) to fund capital projects and transformation.

12.5 GRO

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- GRO
- IT Transformation programme costs of £9m (2016: £30m) are now decreasing due to the programme reaching the final phase where most related costs are being capitalised
- GRO
- GRO

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13 Closure of Operations

GRO

	2017 £m	2016 (restated) £m
Revenue		
People costs excluding restructuring costs		
Other operating costs		
Operating loss before capital and investment		
Operating capital and investment expenditure		
Loss before taxation		
Taxation		
Loss for the year from discontinued operation		

GRO

GRO

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14 Interest, Cash, Debt, Funding and Hedging

14.3 Net finance costs March 2017 GRO vs March 201 GRO

	26 March 2017 £m	27 March 2016 £m
Interest charged on Government borrowings		GRO
Other finance costs		
Total finance costs		

GRO

14.4 Cash, cash equivalents and debt on the balance sheet

Net cash/debt analysis	**26 March 2017 £m**	27 March 2016 £m
Cash in the Post Office Limited network		GRO
Short term bank deposits		
Fiduciary cash balances held on behalf of third parties		
Total cash and cash equivalents		
Loans, repayable on demand or less than 1 year		
Total		

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14.5

GRO

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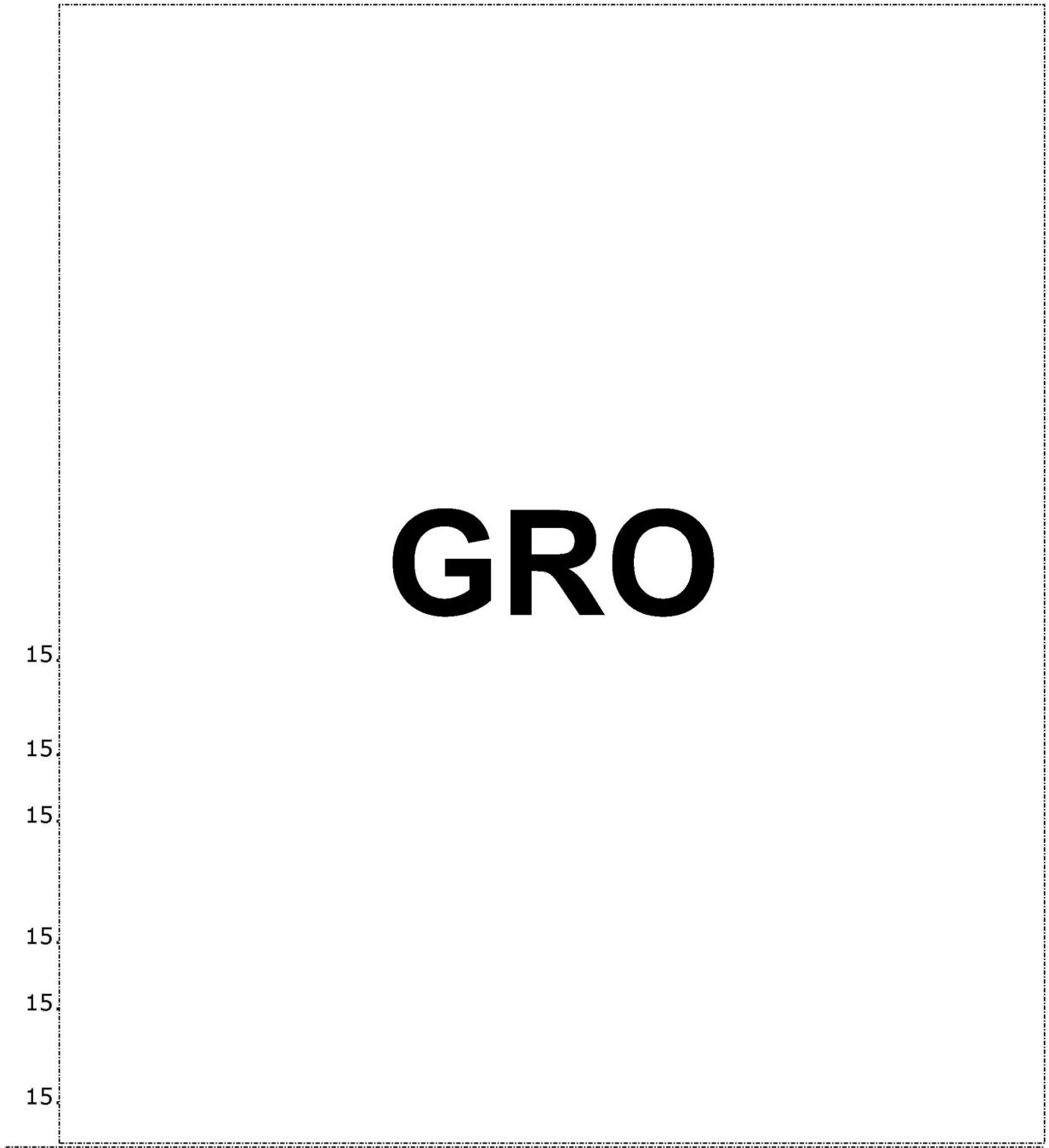
15 Fixed assets – change in accounting estimate



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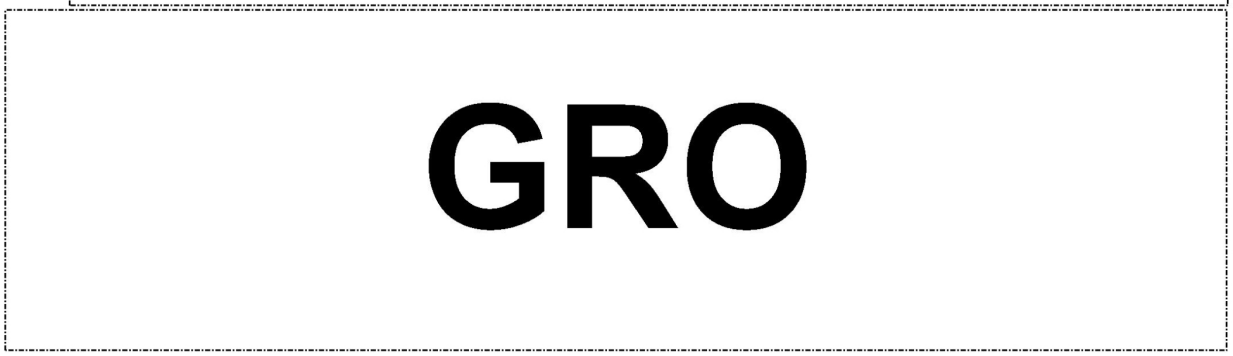

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	Range of asset lives
Plant and Machinery	3 – 15 years
Motor vehicles and trailers	3 – 12 years
Fixtures and equipment	3 – 15 years

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 are impaired to zero for the reasons noted above. In the current year the impairment loss has been reversed and the assets have been amortised on a straight line basis via a charge to income statement over the following useful life:

Software	3 to 6 years

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

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

Goodwill

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and

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any previous interest held, over the net identifiable assets acquired and liabilities assumed.

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

Non-current assets within subsidiaries

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

15.7 As a result of the review we have reinstated assets with a value of £255m (this relates to £247m of POL assets and £8m of POMS assets). Audit files have been created and are currently under review by EY.

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

16.1 Net Book Values

The net book value (NBV) of land and buildings, plant and fixtures and intangible fixed assets at March 2017 was £308m (March 2016: £53m).

As discussed in section 15, the accounts have been prepared on the basis that we will reverse the impairment in the current year and the carrying value of assets has been increased by £255m. 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.

Movements during the year were as follows:

Intangible assets

	Software		Goodwill		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Cost						
At 27 March 2016, 29 March 2015						
Reclassifications						
Additions						
Disposals						
At 26 March 2017, 27 March 2016						
Amortisation and impairment						
At 27 March 2016, 29 March 2015						
Reclassifications						
Amortisation and impairment (see note 4)						
Disposals						
At 26 March 2017, 27 March 2016						
Net book value						
At 26 March 2017, 27 March 2016						

GRO

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.

Goodwill in the Group relates to the acquisition from GRO of the business and assets of the joint insurance business. The goodwill sits within Post Office Management Services Limited. A full impairment review has been carried out and due to Post Office Management Services (within which this Goodwill sits) being profit making, cash generative and forecast to continue to be so no impairment is considered necessary.

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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							
Reclassification*							
Additions							
Disposals							
At 27 March 2016							
Reclassification*							
Additions							
Disposals							
At 26 March 2017							
Depreciation and impairment							
At 29 March 2015							
Reclassification*							
Depreciation and impairment							
Disposals							
At 27 March 2016							
Reclassification							
Depreciation and impairment (see note 3 and 4)							
Disposals							
At 26 March 2017							
Net book value							
At 26 March 2017							
At 27 March 2016							

GRO

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16.2 Capital expenditure

The table below summarises the larger capital items by category:



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17 Goodwill, investments and intangibles

GRO

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18 Working capital

18.1

18.1

18.2

GRO

18.2

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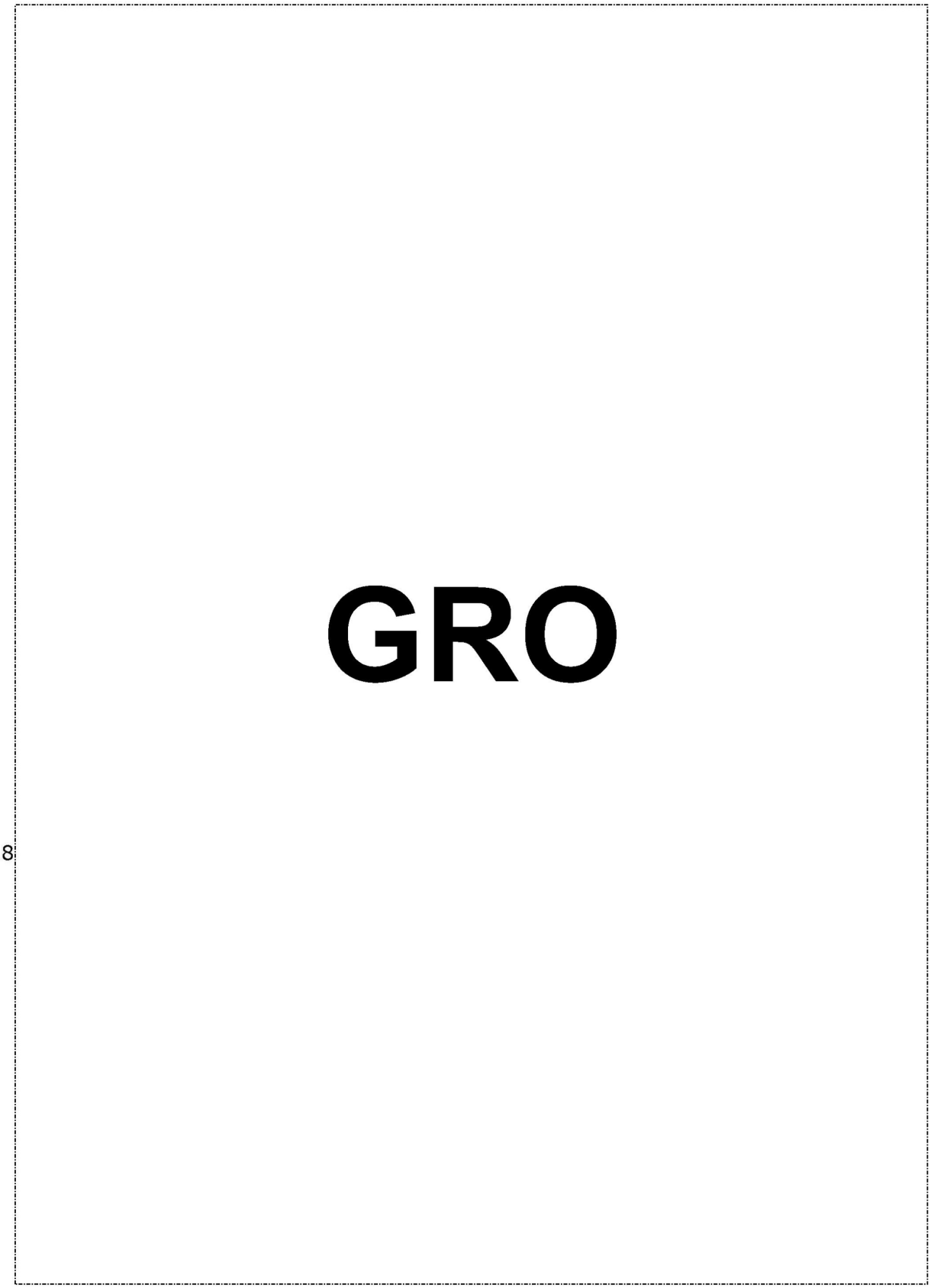

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GRO

18.2.5 Non-current receivables at 27 March 2017 £11m (March 2016 £12m)

This represents prepayments in respect of telephony contracts with Fujitsu.

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18.3 Payables: amounts due within one year

	Section	**26 March 2017 £m**	27 March 2016 £m
Trade payables	18.3.1	GRO	
Accruals and deferred income	18.3.1		
Client payables	18.3.2		
Advance customer payments	18.3.3		
Capital payables	18.3.1		
Social security			
Other payables			
Total			

18.3.1Trade payables and accruals

	26 March 2017 £m	27 March 2016 £m
Trade payables	GRO	
Accruals, GRNI		
Postmaster, employee pay balances	**56**	53
Productivity, bonus schemes		
Others		
Accruals and deferred income	GRO	
Capital accruals		
Total Trade payables and accruals		

Trade payables and accruals are broadly flat year on year. Capital accruals are lower this year reflecting the slower pace of project activity.

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18.3.2 Client payables

	26 March 2017 £m	27 March 2016 £m
GRO		GRO
Total		

GRO

18.3.3 Advanced customer payments

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

	26 March 2017 £m	27 March 2016 £m
GRO		GRO
Total		

GRO

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18.4 Payables: amounts due after one year



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19 Provisions

Provisions (March 2017 GRO vs March 2016: GRO

	DMB Conversion Vacant/ Onerous leases £m	Network Transformation / agent's compensation £m	Other £m	Total £m
At 28 March 2016				
Charged/ (released) in capital & nvestment items				
Charged as discontinued operation				
Charged/ (released) in operating costs				
Utilisation				
At 27 March 2016				
Disclosed as: Current				
Disclosed as: Non-current				

GRO

GRO

DMB conversions at March 2017 relate to leasehold property costs for DMBs that have been franchised or vacated. The investment charge in the table above is due to the latest tranche of such properties which will be franchised at some point in the foreseeable future but which are not currently vacated and where the property costs are considered onerous.

The Network Transformation provision relates to compensation payments due to postmasters who have signed up to the new contract terms or for a termination payment. The provision has been adjusted at year end in line with management's expectations of the number of remaining future conversions under the Programme.

The Programme is due to end March 2018 and at this point we expect there to be a number of 'hard to place' branches that will not end up converting. For this reason a provisioning methodology has been applied at year end and based on probability of branches converting or not converting a proportion of the provision has been released. This is based on our review and understanding of historic conversions and the Postmasters ability to find an alternate agent/franchise arrangements. This creates our best estimate of the risk at year end.

The postmasters' compensation provision movement in the year is as follows:

	£m
Opening provision	
Charge in the year	
Utilisation in the year	
Release in the year	
Closing provision	

GRO

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Other provisions consist of:

GRO

- NFSP liability of £1m (2016: £1)

GRO

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20 Litigation and Claims- Potential Claims regarding Horizon

Background

20.1 Post Office Ltd has received various claims from postmasters (PMs) alleging defects in the Horizon system and Post Office's internal processes.

20.2 Following discussions with James Arbuthnot MP and the "Justice for Subpostmasters Alliance" (JFSA), in July 2012 independent investigator Second Sight Support Services Ltd (Second Sight) was appointed to carry out a review of these claims.

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

20.4 Following Second Sight's July 2013 Report, on 27 August 2013 Post Office launched a Complaint Review and Mediation Scheme aimed at understanding and resolving individual complaints made about Horizon.

Mediation Scheme

20.5 The Scheme received 150 applications, 136 of which were investigated in detail (the remainder being either ineligible or swiftly resolved). The cases were all progressed through the Scheme, which was formally closed on 31 March 2016.

Legal Activity

20.6 A Claim Form in *Bates & Others v. Post Office Limited*, Claim No. HQ16X01238, was issued in the High Court, Queen's Bench Division on 11 April 2016. The first named Claimant is Alan Bates of the JFSA.

20.7 The Claim Form was formally served on Post Office on 5 August 2016 on behalf of 198 claimants. On 22 March 2017 a Group Litigation Order was made for the management of issues common to all claimants, which also fixed a cut-off date of 26 July 2017 for further individuals to join the claim.

20.8 Generic Particulars of Claim were served on Post Office on 23 March 2017. There have been media reports that the claim could be worth "tens of millions", but the claimants have not yet quantified the claim beyond stating on the Claim Form that they expect to receive "more than £200,000".

20.9 Post Office must file its Defence by 18 July 2017. A Case Management Conference has been ordered for 19 October 2017 at which the Court will make directions to take the claim through to trial. It is unlikely that a trial will be ordered before the end of calendar year 2018 at the earliest.

20.10 Post Office agents may seek to use the *Bates* action to dispute repayment of shortfalls in branch cash holdings, e.g. in defence to BAU debt recovery action.

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Media Activity

20.11 The allegations concerning Horizon and Post Office's responses to them have been the subject of media coverage, including the BBC Panorama programme "Trouble at the Post Office" broadcast on 17 August 2015.

20.12 The *Bates & Others* claim has received some media coverage in local and specialist IT press following the making of the Group Litigation Order. Further media coverage can be expected up until 26 July 2017 as the claimants advertise to get as many individuals as possible to join the claim before its cut-off date. Post Office teams continue to monitor and manage media and communications activity.

Regulatory Activity

20.13 Post Office is engaging with the Criminal Cases Review Commission (CCRC) in relation to applications from 27 former PMs for the CCRC to review convictions obtained against them following Post Office-led prosecutions. The CCRC can refer a case to the Court of Appeal if its review identifies new evidence or legal argument which gives rise to a "real possibility" that the conviction would be overturned on appeal.

20.14 Post Office's Legal team is liaising with the CCRC so as to comply with its statutory obligations under the Criminal Appeals Act 1995, and continues to provide very substantial documentation to the CCRC for review.

20.15 The CCRC has appointed forensic accountants to assist its review. Post Office will engage with these forensic accountants as necessary. There is no estimated date for the completion of the CCRC's reviews.

Political Activity

20.16 The Horizon claims and Post Office's response to them have been the subject of Parliamentary debate, most notably the Westminster Hall Debate on 17 December 2014 and BIS Select Committee hearing on 3 February 2015.

20.17 There has been no recent significant political activity. Post Office teams continue to work with BEIS officials and ministers to keep them appraised of developments.

Disclosure

19.20 The claim has not been quantified and we have not made a provision. The relevant disclosure will be made within the Contingent Liabilities disclosure as consistent with prior year.

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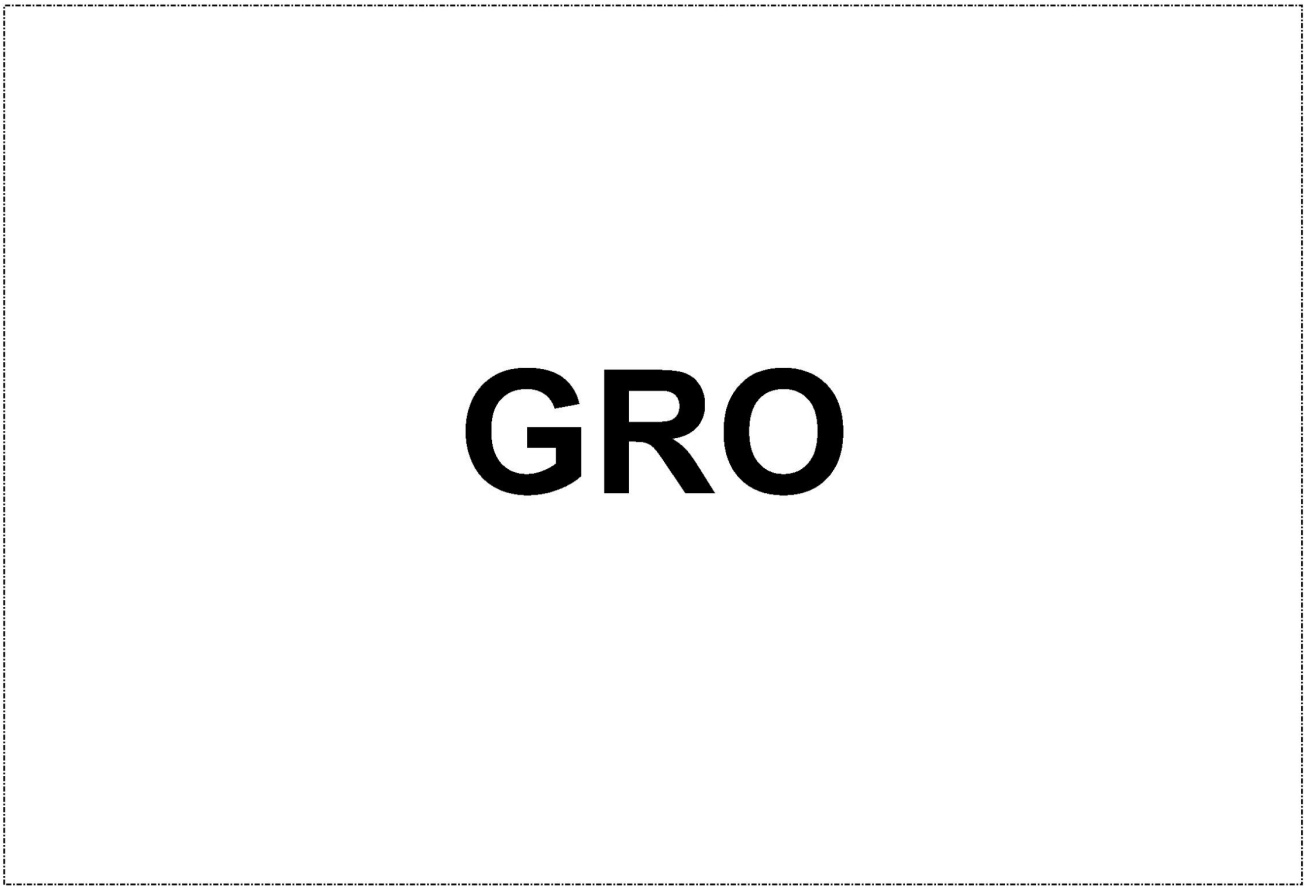

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Company balance sheet
At 26 March 2017

	2017 £m	2016 (Restated) £m
Non-current asset		
Intangible assets		
Property, plant and equipment		
Investment in subsidiaries		
Investments in joint ventures		
Retirement benefit surplus		
Trade and other receivables		
Total non-current assets		
Current assets		
Inventories		
Trade and other receivables		
Cash and cash equivalents		
Total current assets		
Total assets		
Current liabilities		
Trade and other payables		
Financial liabilities - interest bearing loans and borrowings		
- obligations under finance leases		
Provisions		
Total current liabilities		
Non-current liabilities		
Other payables		
Provisions		
Total non-current liabilities		
Net assets		
Equity		
Share capital		
Share premium		
Retained earnings		
Total equity		

GRO

GRO

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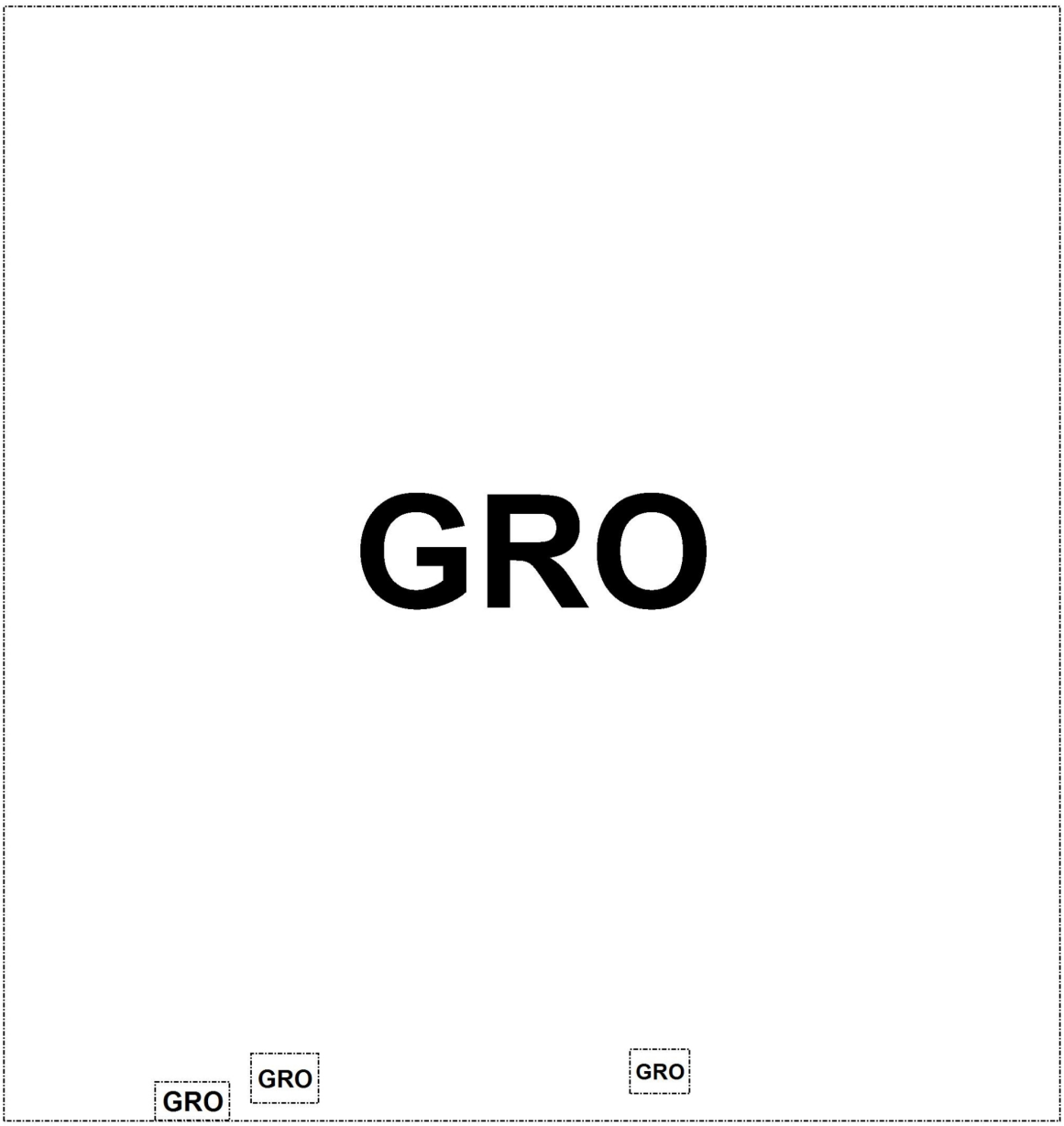
23 FRES – change in accounting policy



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Audit Results Report to the Audit, Risk and ComplianceCommittee

for the 52 week period ended 26 March 2017

Post Office Limited

12 May 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

12 May 2017

Members of the Audit, Risk and Compliance Committee,

2016/17 Audit Results Report

We are pleased to present our Audit Results Report for the forthcoming meeting of the Audit, Risk and Compliance ("ARC") Committee. This report summarises our preliminary 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").

The audit is designed to express an opinion on the Post Office Limited ("Post Office") Group and Company financial statements for the year ended 26 March 2017 and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Post Office's accounting policies and judgments and material internal control findings.

This report also contains our preliminary summary of audit differences, communications regarding our independence and a summary of communications we are required to make to you.

This report is intended solely for the information and use of the 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 18 May 2017.

Yours faithfully,

GRO

Peter McIver
Partner

For and on behalf of Ernst & Young LLP

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2 Executive summary
8 Accounting matters and judgements: significant risks
14 Other accounting matters and judgements
17 Summary of audit differences
18 Control environment

Appendices

19 Detailed list of open items
20 Our audit opinion
21 Draft Management representation letter
24 Independence, non-audit services and fees
27 Required communications with the Audit Committee

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1 | Executive summary

At the date of this report our audit work is in progress towards final completion. Subject to the finalisation of the outstanding areas of our audit work outlined in Appendix A, we anticipate issuing an unqualified audit opinion on the financial statements in the form that appears in Appendix B. This report includes details 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 in progress towards final completion. The significant open items required to finalise our audit procedures are:

- Completion of our audit procedures in various areas, including fixed assets impairment reversal assessment, corporation tax, provision for legal claims, postmasters' compensation provision and the finalisation of our substantive leavers testing relating to our audit work on IT systems;
- Receipt and detailed review of management's going concern assessment together with underlying supporting documentation;
- Completion of our procedures relating to the audit of the consolidation and the consolidation journal entries;
- Completion of our procedures relating to the group's annual report and accounts;
- Receipt of the signed management representation letter (draft in Appendix C); and
- Completion of subsequent events review.

We have included further details of our outstanding areas of audit work in 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, a draft of which is included in Appendix B.

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

We planned our work using a materiality of £4.7m. We reassessed this based on the group's actual results and this amount remained unchanged. The threshold for reporting audit differences remained unchanged at £472,000. The basis of our assessment of materiality has remained consistent with prior years at 1% of group revenue.

Our group audit team, led by Peter McIver, performed the group audit and audit of parent company and subsidiary (Post Office Management Services Limited). The 50% joint venture (First Rate Exchange Service) was audited by PricewaterhouseCoopers LLP in accordance with interoffice instructions provided by our team.

As a result of management's revised estimate of fixed assets and intangible assets impairment, the Group recorded a £255m impairment reversal in 2016/17. Given the magnitude and highly judgmental nature of the impairment reversal we upgraded the Impairment of fixed assets and intangible assets inherent risk, as described in our Planning report dated 10 November 2016, to a significant risk.

Accounting matters and judgements: significant risks

Improper revenue recognition

Reported revenue marginally decreased by GRO to GRO compared to last year GRO. We performed detailed revenue testing based on a selected sample (including key items and representative sample) for each revenue stream. We obtained the underlying supporting documents for each transaction tested and checked the correctness of revenue recognition, including timing and amount. We have not identified any differences above our summary of audit differences threshold. We noted a lack of controls over revenue measurement in relation to approval of commission rates. We have summarised further details in Section 2 of this report. For the purposes of our audit in order to address this issue we did not place reliance on control over revenue measurement and we increased the sample size selected for testing. However we were able to rely on controls over revenue occurrence and completeness.

3

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Accounting matters and judgements: significant risks

Classification and completeness of "capital and investment" items

During 2016/17 management changed the presentation of the group consolidated income statement to a columnar format and adjusted the presentation of the prior year comparatives accordingly. This revised format has been presented to, and approved by, the ARC Committee.

This has resulted in a change in the presentation of certain one-off material items which are now included in a "capital and investments" column compared to previously where these items were presented in a separate "exceptional items" line in group consolidated income statement. Following this change we updated the name of our significant risk from "Classification and completeness of exceptional items" (as presented in our Planning Report dated 10 November 2016) to "Classification and completeness of capital and investment items".

Reported capital and investment items before tax resulted in a GRO this year compared to a GRO last year. This included a government grant of £140m (2015/16: £150m). We have summarised in the table below the main categories of capital and investment items recorded in 2016/17 compared to 2015/16:

Capital and investment item	2016/17 £m	2015/16 £m	Change £m
Government grant	140	150	(10)
Tangible and intangible assets impairment	(104)	(136)	32
Reversal of tangible and intangible assets impairment	255	-	255
Network transformation (incl. Postmasters' compensation)	(36)	(177)	141
Other transformation costs (incl. restructuring)	(83)	(106)	23
Total	**172**	**(269)**	**441**

We challenged management's judgment in respect of capital and investment items classification and completeness. 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 GRO This was adjusted by management. We have included this difference in our Summary of Audit differences in section 4.

Accounting matters and judgements: significant risks (continued)

Classification and completeness of "capital and investment" items (continued)

With respect to the government grant, we obtained and checked the underlying supporting documents. We are satisfied with the recognition of government grant income in 2016/17.

Postmasters' compensation provision (valuation and completeness)

Postmasters' compensation provision decreased significantly to £42m (2015/16: £134m). We summarised in the table below the changes in the postmasters compensation provision:

Description	£m
Postmasters' compensation provision 27 March 2016	**134**
Accrued during the year	10
Utilised during the year	(68)
Released (including £22m - "hard to place" and £12m - "change in journey")	(34)
Postmasters' compensation provision 26 March 2017	**42**

The £68m provision utilised during the year is in line with the timeline of the Post Office Limited Network transformation program.

During 2016/17 the Group also released £22m of provision as a result of a change in estimate in relation to the Post Office branches which are classified as "hard to place" and unlikely to convert. As at 26 March 2017 the Group had 902 branches not yet converted (2015/16: 1,429 branches). Based on management's estimate of the probability of conversion for each branch category, it is expected that approximately 381 branches (2015/16: 1,179 branches) will be converted during the next year.

The Group also released £12m provision in respect of "change in journey" branches. "Change in journey" relates to branches that have changed from one option under the Network Transformation project, to another, or have dropped out of the program due to agreements expiring, or through leaving.

We challenged management assumptions in respect of provision released during 2016/17 and the completeness of provision as at 26 March 2017. We did not identify any differences above our SAD posting threshold. We are yet to finalise our audit work in respect of the provision release during the year and closing balance.

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Accounting matters and judgements: significant risks (continued)

Going concern

We understand from management that Post Office Limited is yet to secure its investment funding for 2018/19 to 2020/21, which is expected to be finalised after the UK general election and by the time of the Autumn Statement. The Group extended its existing working capital facility with the Department for Business, Energy and Industrial Strategy ("BEIS") with a limit of £950m to 31 March 2021. We also understand that the Group has two of its three subsidies guaranteed to 31 March 2020. As at 26 March 2017 the Group had £389m (2015/16: £485m) of undrawn facility.

As at the date of this report we have not yet received management's detailed going concern assessment as we understand from discussions with management that they are awaiting further clarity on the expected timing of finalisation of investment funding before preparing this. Accordingly, we are yet to perform our audit procedures with respect to going concern.

Impairment of fixed assets and intangible assets

Management has revised its accounting estimate in respect of the impairment of fixed assets and intangible assets following their review of Group's 2016/17 performance, timeline of transformation program and Post Office Limited performance going forward. As a result management re-assessed their impairment assessment of fixed assets and intangible assets. This resulted in an impairment reversal of GRO recognised in 2016/17 and decrease of intangible assets impairment by GRO to GRO 2015/16 GRO . At the date of this report we are yet to review the disclosures in the financial statements.

At the date of this report we have started our audit procedures to check the analysis performed by management and this is currently in progress. We will provide an update on the status of this work at the ARC Committee meeting; however, our work in this area will not be completed by the time of that meeting given it is dependent upon receipt of management's assessment of the appropriateness of the impairment reversal.

Accounting matters and judgements: significant risks (continued)

Risk of misstatement due to management override, fraud and error

Other than the matters separately reported to the ARC Committee by management, we noted no fraud or non-compliance with laws and regulations and did not identify any instances of management override of controls.

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Other accounting matters and judgements

Impairment of goodwill

Management performed an impairment test for its Post Office Management Services insurance business goodwill of GRO (2015/16 GRO). The goodwill impairment test resulted in headroom of GRO% (2015/16 GRO%) on carrying amount of assets of £ GRO

We have checked the impairment analysis prepared by management and challenged management's assumptions. We worked with our valuations specialists to challenge both management's pre-tax discount rate of 12% and its five year cash flow forecasts, in light of historical performance and anticipated insurance contracts in the pipeline. We are satisfied that the goodwill is not impaired even under sensitised conditions.

Pensions valuation and accounting

The Group is part of Royal Mail Pension Plan ("RMPP") and Royal Mail Senior Executive Pension Plan ("RMSEPP") pension schemes for its employees. The RMPP scheme was closed for future accrual as at 31 March 2017 following the consultation Post Office entered in February 2016. Following the closure of the RMPP scheme the Group wrote-off its net pension surplus of £ GRO

Due to the complexity and significant balances, we worked with our pensions and technical specialists to challenge management's specialist assumptions and the accounting for the scheme closure.

As a result of our audit procedures performed as at the date of this report we noted the following:

- In our view the discount rate applied when considered in isolation is prudent. However, we believe there is some scope for increase of the RPI and CPI inflation assumptions, such that the overall basis produces a liability which is in the range which is acceptable, but at the prudent extreme of what is reasonable.
- Given our concerns with the management specialist's discount rate methodology we recommend the ARC Committee confirm they are comfortable with these assumptions and that they continue to monitor the assumptions applied in the future.
- We consider that the de-recognition of the pension surplus as at the date on which the Memorandum of Understanding ("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.

Other accounting matters and judgements

Accounting for Supply chain restructuring ("Discontinued operation")

In August 2016, the Group decided to close its Retail Cash in Transit operation. Management have treated this as a discontinued operation which has resulted in recognition of £ GRO loss from discontinued operation in 2016/17 and restatement of 2015/16 and recognition of £ GRO from discontinued operation. As a result of our audit procedures performed, review of management's accounting paper on the treatment of the Supply chain restructuring and confirmation received from the Group's Chairman and the ARC Committee that they viewed Retail Cash in Transit operation as a separate and major operation, we are satisfied with management's position.

We are satisfied that management's accounting and presentation of Supply chain restructuring as a discontinued operation is in accordance with IFRS 5. Additionally, the Group has used the columnar presentation for the consolidated income statement and presented the effect from closure of operations in a separate column. We are yet to finalise our audit procedures in respect of the Annual Report and Accounts review.

Accounting for Joint venture ("FRES") investment in Post Office Company financial statements

The company has voluntarily adopted a change in accounting policy for accounting for its investment in FRES in the parent company financial statements following recent revisions to IAS 27, FRS 101 and UK company law which now permits entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Accordingly, the company now applies the equity method of accounting for its investment in FRES instead of carrying it at cost. This resulted in GRO joint venture investment balance recognised in the Company financial statements as at 26 March 2017.

We concur with management's rationale that this revised accounting policy provides more relevant and reliable information to the users of the financial statements. Accordingly, in our view this change in accounting policy is appropriate and permissible under accounting standards and UK company law.

Provision for legal claims, including Horizon Subpostmasters' claim ("Sparrow")

We met with Post Office management and Group Legal, Risk and Governance Director. We understood that there was a hearing of the claim at the end of January and the order was signed at the end of March 2017. No quantification of potential exposure can be estimated reliably. We have received the most recent update and we are awaiting the supporting documentation in order to conclude on this matter and finalise our audit procedures.

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Summary of audit differences

As at the date of this report we identified one audit differences impacting profit (cred GRO) that was greater than GRO This audit difference was recorded by management.

As we are yet to finalise our audit procedures in respect of certain areas as detailed in Appendix A of this report, we will continue to monitor our audit differences.

Control environment

We did not identify significant control deficiencies during our audit work. However we have included below some key control observations we identified during our audit.

We noted certain improvements in the Group's operational controls in the second half of the financial year following the Control Framework project. However, we identified control deficiencies in Post Office's revenue process. We identified a lack of formalised approval process of the changes in customers' commission rate in the system and review of customers' invoices prior to issuance. However we were able to place reliance on controls over revenue occurrence and completeness. We communicated these deficiencies to management and understand these deficiencies are being remediated as part of the Control Framework project, which was initiated by Post Office prior to the commencement of our audit.

We also tested the change management, user access and IT operations controls over the in-scope applications, including HNGX, CFS, SAP HR, POLSAP. Our scope was based on our understanding of the Group's systems landscape and the applications that support the key business processes relevant to both our audit and the group financial statements. Our testing of these systems identified the following IT related control deficiencies:

- User accounts are created by third parties without prior formal approval from Post Office (CFS, SAP HR and POLSAP).
- Lack of a robust formal process to remove user accounts belonging to leavers in a timely manner (CFS, SAP HR and POLSAP).

Control environment (continued)

- Lack of segregation of incompatible duties within the change management process (CFS and SAP HR).
- Periodic review of user access has not been completed on time (SAP HR).

We performed additional procedures to mitigate the impact of these deficiencies on our audit. Our preliminary conclusion, subject to finalisation of our audit work, is that we are able to rely on the IT process for the relevant applications for our 2016/17 audit.

We have noted the fact that management had, prior to the commencement of our audit procedures, identified the need to implement an IT Control framework in relation to third parties. This IT Control Framework project will also address the opportunities we identified to further improve the control environment, including:

- Improvement of the controls and oversight over service organisations
- Implementation of a procedure to confirm the accuracy and completeness of IT system users listing for CFS, SAP HR, POLSAP in coordination with the service organisations.

We understand that the work in relation to the IT Control Framework project will be undertaken during FY17/18 and we will review the controls with management in due course

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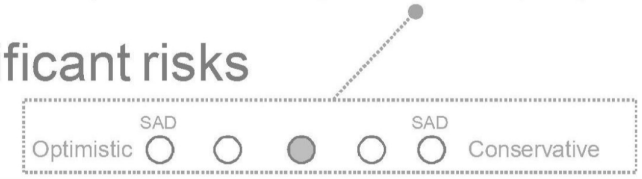
For each of the judgements in this report, this graphic represents our view of the degree of optimism or conservatism in management's judgement. The extreme ends of this scale correspond with an adjustment on our summary of audit differences ('SAD').



2 | Accounting matters and judgements: significant risks

Revenue recognition

Reported revenue marginally decreased by GRO % to GRO compared to last year GRO We performed detailed revenue testing based on a selected sample (including key items and representative sample) for each revenue stream. We obtained the underlying supporting documents for each transaction tested and checked the correctness of revenue recognition, including timing and amount. Subject to finalisation of our audit procedures, we have not identified any material differences.

What is the risk?

There is a presumption within auditing standards, that revenue recognition is a significant risk and a fraud risk.

Our assessment is that the Post Office Limited's revenue transactions are non-complex, with no significant judgement applied over the amount recorded.

However, we have identified the following as significant risk areas for revenue recognition:

- Post Office Limited's revenue represents mainly commission received for various types of services, e.g. financial products (mortgages and loans), sale of stamps and packages delivery. Therefore there is a risk associated with the correct application of commission rates in line with contractual terms and inputs from Post Office Limited's customers.
- We also note that reward and incentive schemes are based on achieving earnings targets, which may place undue pressure on management to achieve revenue forecasts and which may result in revenue recognised in incorrect period.

What judgements are we most focused on?

- Correct application of commission rates
- Occurrence of revenue recorded

What did we do?

We understood the group's process and related controls over the recognition of revenue, and assessed whether the controls are designed effectively to achieve this.

From this work, we identified an area of deficiency of controls in relation to the approval of commission rate changes in the system, and review of invoices prior to issuance.

As a result of this, we took a "not rely on controls" approach to testing the correct application of commission rates. However we were able to rely on controls over revenue occurrence and completeness.

We have obtained the full population of revenue journals in the year and have used data analytics to analyse the entire population in order to identify trends and anomalies for follow up and to test the appropriateness of manual journal entries recorded.

We have performed substantive procedures on a sample of 372 transactions from source data through to general ledger to test that appropriate revenue recognition has been applied. Where commission rates were applied, we obtained contracts to verify the correct application of commission rates. With the exception to deficiency in control described above, we did not identify any issues as part of our testing.

We performed cut off procedures by testing items from revenue recognised during the year and subsequent to year end to gain assurance over the completeness and existence of deferred revenue balances. No issues were identified.

For revenue recorded through journal entries, we performed testing to establish whether a service had been provided in the financial year to support the revenue recognised.

We performed detailed analytical review procedures and test of insurance revenue contracts for Post Office Management Services Limited as part of our year-end audit.

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.

POL00027914

Classification and completeness of "capital and investment" items

SAD Optimistic ○ ○ ● ○ ○ SAD Conservative

During 2016/17 the Group recognised a GRO gain in respect of "capital and investment" items compared to a GRO in 2015/16. This includes a £140m government grant (2015/16: £150m) and GRO from a reversal of tangible and intangible assets impairment due to a change in estimate in 2016/17. We performed detailed testing of "capital and investment" items based on a selected sample (including key items and representative sample) for each category. We challenged management's assumptions regarding classification of these costs as "capital and investment" items. As a result of our audit procedures performed we have identified one difference above our SAD posting threshold related to an overstatement of Royal Mail separation provision and "capital and investment" costs by £1.1m. This difference was adjusted by management. We included this difference in our Summary of Audit differences in section 4.

What is the risk?

The Group classifies and presents certain one-off and individually material items in the income statement in a separate column, in order to assist users of the financial statements in understanding its underlying performance. The presentation of items as capital and investment items involves significant management judgement and continues to be subject to external scrutiny.

These costs mainly include the costs in respect of the Network Transformation project. Previously this project was expected to be finalised by the end of 2017/18. During 2016/17 Post Office General Executives agreed to extend this process beyond 2018 to provide security to postmasters, assist the National Federation of Subpostmasters wider negotiation (e.g. product simplification) and the mitigation of the risk of inappropriate behaviours by postmasters. GRO GRO Capital and investment items also include a government grant income of £140m recorded in 2016/17 (2015/16: £150m) and fixed assets and intangible assets impairment of GRO 2015/16: GRO reduced by a GRO impairment reversal due to the change in estimate.

Due to the capital and investment items classification being a judgemental area, and management bonus being based on earnings before capital and investment items, there is a risk that they may be incorrectly classified as capital and investment items or the amount recorded is incorrect.

What judgements are we most focused on?

- Classification of costs as capital and investment items
- Quantification and completeness of capital and investment items

What did we do?

- We have gained an understanding from management of how the Post Office Limited's finance team and management check the completeness of Network Transformation related costs, particularly that the information received from Post Office Limited's branches is complete.
- The group continues to incur significant capital and investment costs, which we have summarised in the table below, together with our assessment of the level of conservatism in the capital and investment items recorded. We audited the nature and classification of the each of the categories of capital and investment items and assessed the conservatism of management judgments applied.

Capital and investment items category	2016 /17 £m	2015/16 £m	Our assessment
Government grant income	140	150	●
Business transformation			
Network transformation (incl. Postmasters' compensation)			
Directly managed branch transformation			
IT transformation			
Restructuring: - severance			
- other			
Impairment of intangible and tangible assets			
Reversal of impairment in the year			
Total			

GRO

more conservative ● - ● - ● *more optimistic*

POL00027914

Classification and completeness of "capital and investment" items (continued)

- We have reviewed and challenged management's paper on "capital and investment" items, and for the costs above our testing threshold we have requested explanations and supporting underlying documents.
- We have selected a sample of 161 transactions from capital and investment items (across all categories) in the year and vouched to supporting documentation. We have challenged management on the nature of these items to understand whether these costs relate to routine operating activities or relate to capital and investment items as defined by Post Office Limited's accounting policies. We have also tested the correctness of the timing of when these costs were recognised through review of the support provided.
- 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 £ GRO This was adjusted by management. We included this difference in our Summary of Audit differences in section 4.
- We have vouched costs recorded in the financial statements to underlying supporting documents,
- We coordinated our audit work with the audit procedures performed in respect of related balance sheet accounts, i.e. Postmasters' compensation provision and other restructuring provisions.
- We have performed extended subsequent events procedures through review of cash payments to current date. We will update this testing up to the financial statements sign-off date, in respect of capital and investment costs recognised during the year ended 26 March 2017.
- We have agreed the government grant received back to bank statement and supporting documents. There is no accrued income in respect of the government grant as at 26 March 2017.
- 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 £ GRO impairment recognised in previous periods.

POL00027914

Postmasters' compensation

SAD Optimistic ○ ○ ● ○ ○ SAD Conservative

The Postmasters' compensation provision is £42m at 26 March 2017, a 69% decrease on the prior year provision of £134m. We performed detailed testing on a sample of charges to, and releases from, the provision in the year, testing these to supporting evidence. We also performed an independent reconciliation of branches to check the completeness of management's calculations. In the year management released £22m in relation to branches which are unlikely to convert ("hard to place") and £12m in relation to "change in journey" branches. We have not identified any differences above SAD posting threshold.

What is the risk?

There is a risk that the postmasters' compensation provision is not complete due to the underlying records of agreements with postmasters, on which this provision is based being incomplete.

Given the historical data collection issues associated with the provisioning process and the assumptions embedded in the calculations (success rates on finding replacement postmasters and conversion anniversary payment instances and amounts) we also focused on the valuation of the provision, due to the significant judgment involved.

What judgements are we most focused on?

We are focused on the completeness of the information used to calculate the provision, and management's judgement applied in the valuation of the provision.

What did we do?

We have had held discussions with the Post Office Finance Director – Network and Sales and other senior non finance members of the organisation to discuss the progress the company is making against its planned targets in respect of transformation. This enabled us to corroborate our testing results and management's explanations;

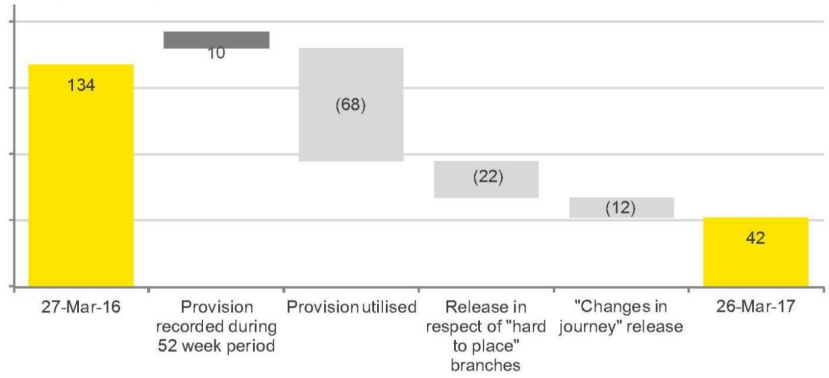
In the year, management have made a change in accounting estimate for the branches in the termination provision where replacement postmasters have not yet been found ("hard to place" branches). This lead to a £22m release from the provision. We have assessed the proposed release and recalculated the release value.

In addition to this management also released a £12m provision related to "change in journey" branches. "Change in journey" relates to branches that have changed from one option under the Network Transformation project, to another, or have dropped out of the program due to agreements expiring, or through leaving.

We are yet to finalise our audit work in respect of the provision release.

We have performed an independent reconciliation of the total branches as well as an analysis of management's reconciliation, focusing on checking the status of the branches as at 26 March 2017. We have compared this to management's results to identify anomalies and to help us to challenge the provision analysis provided by management.

The Postmasters' compensation provision as at 26 March 2017 was £42m, representing decline of £92m compared to £134m as at 27 March 2016. The change in the year is as follows:



We performed the following procedures in respect of each of the movements in the Postmasters' compensation provision:

Provision accrued (recorded) during the year:

- We selected a sample of 64 Conditional Resignation Packs ("CRP") signed in the year to verify that these have been correctly recognised as an expense in the year and included in the provision at the year end where necessary. No issues were noted through this testing.

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Postmasters' compensation (continued)

What did we do?

Provision utilised during the year:

- We have sampled 25 transactions from the full breakdown of utilisations during the period. We matched selected transactions to the payments by vouching to the bank statements. No issues were noted through this testing.

"Hard to place" branches provision release:

- We challenged management's assumptions with respect to the release in provision relating to "hard to place" branches and performed the following procedures:
  - We obtained the full listing of branches included in the termination provision as at 26 March 2017. Of these, 521 branches have been identified by Management as "hard to place". We checked completeness of the list of "hard to place" branches comparing them to 500 "hard to place" branches identified as of the end of the last financial year. During 2015/16 management released £21m of the provision based on the assumption that only 50% of these branches (250) will be converted,
  - The number of "hard to place" branches has been also adjusted for the number of branches expected to convert (13%) based on historical performance. We checked the 13% probability assumption applied by management and identified that it is in line with the percentage of branches which converted branches during 2016/17(12%). We checked this rate as part of our provision utilisation testing (see above).
  - Based on the estimated number of branches classified as "hard to place" the release in provision resulted in £22m, which is equivalent of the remaining 271 branches.

As part of our audit procedures performed we did not identify any differences above our SAD posting threshold.

Postmasters' compensation (continued)

"Change in journey" release:

- Our audit work in respect of the release of the £12m provision release related to "changes in journey", including the branches reconciliation, is in progress.

Closing balance as at 26 March 2017:

- We are yet to perform our audit procedures in respect of subsequent cash payments testing for the period from 27 March 2017 to the date of our audit opinion sign-off.

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Going concern

We understand from management that Post Office Limited is yet to secure its investment funding for 2018/19 to 2020/21, which is expected to be finalised after the UK general and by the time of the Autumn Statement.

We understand from management that Post Office Limited is yet to secure its investment funding for 2018/19 to 2020/21, which is expected to be finalised after the UK general election and by the time of the Autumn Statement. The Group extended its existing working capital facility with the Department for Business, Energy and Industrial Strategy ("BEIS") with a limit of GRO to 31 March 2021. We also understand that the Group has two of its three subsidies guaranteed to 31 March 2020. As at 26 March 2017 the Group had GRO (2015/16: GRO) of undrawn facility.

As at the date of this report we have not yet received management's detailed going concern assessment. Accordingly, we are yet to perform our audit procedures with respect to going concern.

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 Group's 2016/17 performance, timeline of transformation program and Group's performance going forward. At the date of this report we are yet to review the disclosures in the financial statements.

Management revised its accounting estimate in respect of the impairment of tangible assets and intangible assets following their review of Group's 2016/17 performance, timeline of transformation program and Group's performance going forward.

As a result management re-assessed their impairment assessment of tangible and intangible assets. This resulted in an impairment reversal of GRO recognised in 2016/17 and decrease of intangible assets impairment by GRO (2015/16: GRO). At the date of this report we are yet to review the disclosures in the financial statements.

We are in process of performing the following audit procedures to test the work performed by the Group:

- Checking the reconciliation of reconstructed fixed assets and intangible asset register to the trial balance and to impairment charges recognised in previous years to check for completeness.
- Testing a sample to check existence and completeness of fixed assets and intangible assets as at 26 March 2017. We are leveraging the work performed by Post Office team.
- Leveraging our testing of fixed assets and intangible assets additions and disposals in the current year and previous years to check the valuation.
- Assessing the reasonableness of the depreciation policy of the Group and reviewing the analysis of assets useful lives prepared by Post Office. We are auditing depreciation charge recognised in 2016/17.
- Auditing the impairment model and challenging management's assumptions applied to estimate the reversals of impairment as a result of the change in estimate and the impairment charge for the year. We will perform these procedures once we have obtained management's assessment of the appropriateness of the impairment reversal, including their forecasts and going concern assessment which is not expected to be received until after the ARC Committee meeting.

At the date of this report we have started our audit procedures to check the analysis performed by management and it is currently in progress. We will provide an update on the status of our work at the ARC Committee meeting.

POL00027914

3 | Other accounting matters and judgements

Impairment of goodwill

SAD SAD
Optimistic ○ ○ ● ○ ○ Conservative

As at 26 March 2017 the Group had £ GRO of goodwill recorded as a result of the insurance business acquisition GRO t the end of September 2015. Management performed a detailed analysis of goodwill impairment as at 26 March 2017. GRO GRO We are satisfied with management's impairment analysis.

What is the risk?

The group has goodwill of £ GRO (2015/16: £ GRO which relates to the acquisition GRO GRO of the business and assets of the joint insurance business.

What judgements are we most focused on?

- Future cash flow forecast, which includes judgements related future cash flows generated by Post Office Management Services Limited (100% subsidiary of Post Office Limited) from insurance revenue, other than travel insurance; and
- Discount rate, short term and long-term growth rates.

What did we do?

We received management's goodwill impairment analysis as at 26 March 2017; as per this analysis the Company has a sufficient headroom of £ GRO This has been calculated based on the following assumptions:

(a) Discount rate applied – GRO%.

(b) Average revenue growth for the 5 year period – GRO% with higher increase of GRO% and GRO% in years 2018/19 and 2019/20 correspondingly. The growth assumptions were in line with the 5-year strategy plan.

(c) Management applied average 5% revenue growth rates for the period 2022/23 to 2026/27 and terminal growth rate of 2%.

- We challenged the cash flows forecast by looking at the historical accuracy of the group's forecasting, which has generally been conservative.
- We verified the arithmetical accuracy of the model provided;
- We checked the reasonableness of the short terms growth rates. We reconciled the input data to the 5 year plan, we discussed the future growth rates with management and obtained the underlying supporting documents. No issues were identified.

We engaged our EY Valuation and Business Modelling ("V&BM") team who assisted us in performing the following procedures:

- An assessment of correctness and appropriateness of the valuation methodology. Following our V&BM team review of the valuation model prepared by the company we identified that the model applied was not in compliance with IAS 36 "Impairment of assets". Management revised the model to address our comments.
- An assessment of the reasonableness of management's assumptions with respect of discount rate, short-term and the long term growth rate used in the model. We noted that the discount rate applied is higher than the higher end of what V&BM consider to be the acceptable range (11%). We noted the reduction of discount rate will increase available headroom.
- They performed corroborative calculations of management analysis where they did not identify any issues.
- They performed sensitivity analysis sensitising growth assumptions and the discount rate and did not identify any risk of impairment.

Based on our audit procedures we concurred with management that there is no goodwill impairment as at 26 March 2017.

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SAD Optimistic ○ ○ ○ ● SAD ○ Conservative

Pensions valuation and accounting

At 26 March 2017, Post Office Limited recorded a net pension surplus of £ GRO 2015/16: £ GRO , in relation to RMPP and RMSEPP pension schemes. On 21 March 2017 Post Office executed a Memorandum of Understanding ("MoU") with the Trustee of the RMPP and closed this scheme for future accruals as at 31 March 2017. As a result the Group de-recognised the net surplus of £ GRO as at 26 March 2017. This was recorded as part of the Other Comprehensive Income charge. Based upon the audit procedures performed we are satisfied with management's accounting position in respect of pensions.

What is the risk?

The Group is part of RMPP and RMSEPP pension schemes for its employees and senior executives. The RMPP scheme was closed for future accrual as at 31 March 2017 following the consultation Post Office entered in February 2016. Following the closure of the RMPP scheme the Group de-recognised its net pension surplus of £ GRO

There is a high level of estimation, subjectivity and management judgement in determining pension obligations. Minor movements in key assumptions have a material impact on the amounts recorded on the Group's balance sheet and Income statement.

Furthermore, there is complexity involved in accounting for the pension scheme closure.

What judgements are we most focused on?

- Accounting for RMPP pension scheme closure
- Economic assumptions (discount rate, inflation rate)
- Demographic assumptions (mortality)

What did we do?

- With the assistance from EY technical specialists we reviewed management's accounting paper, particularly related to the pension scheme closure for further accruals as at 31 March 2017.
- We performed an assessment of the independence, objectivity and competency of the management's specialist (Willis Tower Watson).
- We engaged EY pensions specialists to consider whether Post Office Limited's key pension assumptions (economic and demographic) are within an acceptable range.
- We have circularised pension plan assets confirmations to check existence and valuation as at 26 March 2017. This audit work in is process and we are awaiting responses from the investment funds.
- We are in the process of finalisation of audit procedures of the disclosures set out in the pension note for consistency with IFRS requirements and valuation report prepared by management's specialist.

As a result of our audit procedures performed as at the date of this report we noted the following:

- In our view the discount rate of GRO % applied when consider in isolation is prudent. However, we believe there is some scope to increase RPI and CPI inflation assumptions, such that the overall basis produces a liability which is in the acceptable range, but at the prudent extreme of what is reasonable.

We presented below a summary of assumptions, including acceptable range for each assumption:

Financial assumptions		**Prudent**	**Central**	**Optimistic**
Discount rate		2.30%		
Price inflation (RPI)			3.40%	
Price inflation (CPI)			2.30%	
Salary increases (above RPI inflation) [1]			+0.00%	
Pensions increase in payment (above inflation)	LPI 5% (RPI) [1] [3]		+0.00%	
	CPI [2] [4]		+0.00%	
Pensions increase deferment (above CPI) [2]			+0.00%	
Demographic		**Prudent**	**Central**	**Optimistic**
Mortality in retirement	Males / Male dependants		S2PMA CMI_2015 LTT 1.50% pa	
	Females		S2PFA CMI_2015 LTT 1.50% pa	
	Female dependants		S2DFA CMI_2015 LTT 1.50% pa	
Retirement age			60	
Commutation [3]			22% of Pension	

[1] The assumptions for salary increases and pension increases in payment have been stated relative to RPI inflation rather than as absolute figures.

[2] The assumptions for pension increases (both in deferment and payment) have been stated relative to CPI inflation rather than as absolute figures.

[3] Applies to section C members

[4] Applies to section A and B members

- Given our concerns with the management specialist's discount rate methodology we recommend the ARC Committee confirm they are comfortable with these assumptions and that they continue to monitor the assumptions applied in the future.
- 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.

POL00027914

Accounting for Supply chain restructuring ("Discontinued operation")

The Group recognised a £ GRO in 2016/17 as a result of the closure of Retail Cash in Transit operation (Supply chain). Management accounted for Supply chain closure as a discontinued operation. As a result of our audit procedures we were satisfied with management's position.

In August 2016, the Group decided to close its Retail Cash in Transit operation. This resulted in the recognition of a £ GRO from discontinued operation in 2016/17 and a restatement of 2015/16 with a recognition of a £ GRO from this discontinued operation for that year.

We performed the following audit procedures with respect to the discontinued operation:

- We obtained and read the memo prepared by management and presented to the ARC Committee for approval in March.
- We obtained confirmation from the Group's Chairman and the ARC members at the ARC Committee meeting in March that they viewed Retail Cash in Transit as a separate and major operation.
- We obtained details of the calculation of the impact of discontinued operations for 2016/17 and 2015/16 year ends. We tested a sample of transactions by vouching to supporting documentation (including contracts, staff costs details and supporting severance provision calculations). We identified no differences above our summary of audit differences threshold.
- We tested the provision recorded in respect of Supply chain restructuring as at 26 March 2017, including GRO in respect severance costs and GRO in respect of vacant leasehold properties. We did not identify any differences above our summary of audit differences.
- We discussed the nature and details of Supply chain operations with the Supply chain Director at Post Office. We considered the size and the number of employees in Supply chain and compared to mobile operation which was treated as discontinued operation. We also understood that management and the ARC Committee treated Supply chain as separate and major operation.

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.

Accounting for Joint venture ("FRES") investment in Post Office Company financial statements

During 2016/17 the Company voluntarily adopted a change in accounting policy in its parent company financial statements to account for its joint venture using the equity method. Management restated prior year comparatives, which resulted in an increase in the investment in joint venture balance to GRO compared to £1m as previously reported. As a result of our audit procedures we are satisfied with management's position.

The company has voluntarily adopted a change in accounting policy for accounting for its investment in FRES in the parent company financial statements following recent revisions to IAS 27, FRS 101 and UK company law which now permits entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Accordingly, the company now applies the equity method of accounting for its investment in FRES instead of carrying it at cost.

This resulted in increase of investment in joint venture balance to £ GRO compared to £ GRO as previously reported in Post Office Company financial statements. There is no impact on the consolidated financial statements.

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 £ GRO investments balance value as restated.

Provision for legal claims, including Horizon Subpostmasters' claim ("Sparrow")

We met with Post Office management and Group Legal, Risk and Governance Director. We understood that there was a hearing of the claim at the end of January 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.

POL00027914

4 | Summary of audit differences

GRO

POL00027914

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 we have summarised below. We understand management is working on a plan to address these recommendations for 2017/18.

Scope

As part of our audit of the group's financial statements, we obtained an understanding of the group's internal controls that was sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although we did not perform an audit of internal control over financial reporting, we are required to communicate to you any significant deficiencies in internal control which we identify during the course of our audit.

We did not identify significant control deficiencies during our audit work. However we have included below some key control observations we identified during our audit.

As part of our audit we noted improvement in group's operational controls in second half of the year following the Control Framework project. However we identified certain control deficiencies in Post Office's revenue process. We identified a lack of formalised approval process of the changes in customers' commission rate in the system and review of customers' invoices prior to issuance. We communicated these deficiencies to management and understand these deficiencies are being remediated as part of the Control Framework project, which was initiated by Post Office prior to the commencement of our audit.

We also tested the change management, user access and IT operations controls over the applications listed in the table opposite. Our scope was based on our understanding of the group's systems landscape and the applications that support the key business processes relevant to both our audit and the group financial statements. Our testing of these systems identified the following IT related control deficiencies:

- User accounts are created by third parties without prior formal approval from Post Office (CFS, SAP HR and POLSAP)
- Lack of a robust formal process to remove user accounts belonging to leavers in a timely manner (CFS, SAP HR and POLSAP)
- Lack of segregation of incompatible duties within the change management process (CFS and SAP HR)
- Periodic review of user access has not been completed on time (SAP HR)

We performed additional procedures to mitigate the impact of these deficiencies on our audit. Our preliminary conclusion, subject to finalisation of our audit work, 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

** Subject to finalisation of substantive leavers testing*

● *- no recommendations were noted.*

● *- control deficiencies/recommendations were identified.*

Management letter

In our management letter we will provide further details on the issues noted above along with our recommendation. We have noted the fact that management had, prior to the commencement of our audit procedures, identified the need to implement an IT Control framework in relation to third parties. This IT Control Framework project will also address the opportunities we identified to further improve the control environment, including:

- Improvement of the controls and oversight over service organisations
- Implementation of a procedure to confirm the accuracy and completeness of IT system users listing for CFS, SAP HR, POLSAP in coordination with the service organisations.

We understand that the work in relation to the IT Control Framework project will be undertaken during FY17/18 and we will review the controls with management in due course

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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 will provide a verbal update at the ARC Committee meeting on 18 May 2017.

Item	Actions to resolve	Responsibility
1. Tangible and intangible assets impairment reversal assessment	► Management to provide the final tangible and intangible assets register as at 26 March 2017. ► Management to provide full impairment assessment to support reversal of £ GRO mpairment. ► EY to complete audit procedures as described in section 2 of this report.	Management and EY
2. Going concern	► Management to follow up on 2018/19 funding resolution from the UK Government following the UK election. ► Management to provide going concern assessment covering at least 12 month period from the expected sign-off date. ► EY to complete audit procedures in respect of review of management's going concern analysis and forecast.	Management and EY
3. Corporation tax	► EY to complete the audit procedures in respect of corporation tax charge. ► Management to assist on provision of requested supporting documentation.	Management and EY
4. Annual Report and Financial Statements	► Management to finalise the work on the Annual Report and Financial Statements and provide the final version. ► Tie out and review to be completed by EY.	Management and EY
5. Directors' Emoluments certificates	► Provision of certificates by management.	Management
6. Letter of representation	► Management and EY to table the wording of the draft letter included in Appendix C of this report.	Management and EY
7. Finalisation and review of audit procedures	► Completion of documentation and final review of audit work.	EY
8. Subsequent events procedures, including unrecorded liability testing.	► Provision of information for subsequent events review my management ► Review of subsequent events and finalisation of unrecorded liabilities testing performed by EY	Management and EY
9. IT systems related controls - finalisation of substantive leavers testing	► Management to provide remaining requested information in respect of substantive leavers testing ► EY to finalise the leavers testing once the information has been received.	Management and EY
10. Finalisation of audit testing of postmasters' compensation provision	► EY to finalise audit procedures in respect of release of provision related to "change in journey" branches and test of subsequent cash payments.	EY
11. Finalisation of audit testing of pension plan assets	► Management to follow up receipt of pension plan assets confirmations. ► EY to finalise the audit procedures once the confirmations have been provided.	Management and EY
12. Finalisation of audit of legal claims ("Sparrow")	► Management to provide supporting documentation for "Sparrow" legal claim and assessment of potential exposure. ► EY to finalise the audit procedures once the documentation and assessment have been provided.	Management and EY
GRO		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 paper 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 | Our audit opinion

Subject to completion of our outstanding items, we plan to issue an unqualified opinion for 2016/17 audit. We present our draft audit opinion below.

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 [●], 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 [●]. 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 [●], 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 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 matter 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.
  - 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

[●] 2017

Notes:

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

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

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Appendix C | Draft management representation letter

We include below our draft management representation letter for the Group and Company's 2016/17 audits based on the current status of our audit work.

[●] 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. *Either* [There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.] *or*

   [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 no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Company's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or parent company financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or parent company financial statements or otherwise affect the financial reporting of the Group or Company.

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.
12. 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.

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13. 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.

14. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

15. 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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Going Concern

29. 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

30. 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

31. 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.

32. 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.

33. 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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Appendix D | Independence, non-audit services and fees

In the year ended 26 March 2017 our non-audit fees were GRO resulting in a non-audit fee to audit fee ratio of GRO Having adopted the appropriate safeguards, we confirm that, in our professional judgement, EY is independent, our objectivity is not compromised and we have complied with the APB Ethical Standards.

Introduction

At the Audit Committee meeting on 25 October 2016 we explained the communications that we are required to make at the planning and conclusion stages of the audit, as well as during the course of the audit. In this report, we provide disclosure of the relationships (including the provision of non-audit services) which bear on our objectivity and independence, the related threats and safeguards, as well as details of our fees and the other required confirmations.

In this report we provide:

- A summary of our audit and non-audit fees for the year ended 26 March 2017;
- Details of the relationships and services we have provided to Post Office Limited and affiliates and the related threats and safeguards in place; and
- Our overall independence assessment and confirmations.

We consider that our independence is a matter that should be reviewed by both you and ourselves. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the ARC Committee on 18 May 2017.

Summary of audit and non-audit fees

GRO

** This amount excludes the fees in relation to our of scope work (e.g. on impairment reversal of fixed assets) which is still to be agreed.*

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Relationships, services and related threats and safeguards

The APB Ethical Standards require that we provide details of all relationships between us and Post Office Limited, its directors, senior management and affiliates, including all services provided by us and our network to Post Office Limited, its directors, senior management and affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our objectivity and independence and the related safeguards that are in place.

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self interest threats

A self interest threat arises when we have financial or other interests in Post Office Limited. Examples include where we have an investment in Post Office Limited; where we receive significant fees in respect of non-audit services; where we need to recover long-outstanding fees; or where we enter into a business relationship with you.

We believe that it is appropriate for us to undertake permissible non-audit services. When the ratio of non-audit fees to audit fees exceeds 3:1, we are required to discuss this with our Ethics Partner, as set out by the APB Ethical Standards, and if necessary agree additional safeguards or not accept the non-audit engagement.

We have set out on the previous page a summary of the fees that you have paid to us in the year ended 26 March 2017, in line with the disclosures set out in APB Ethical Standard 1 and in statute. We confirm that none of the services listed has been provided on a contingent fee basis.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4. There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. The table on the following page sets out self review threats that exist as the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. The table on the following page sets out the management threats that exist as the date of this report.

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Non-audit services

The table below summarises the independence threats arising from non-audit services provided and the safeguards we adopted to mitigate those threats.

Services *(and threats)*	Fees £'000	Safeguards adopted
Other assurance services		
Audit related assurance services (interim earnings verification for subsidiary) - *Self review threat* - *Management threat*	GRO	▸ Engagement clearly structured so that management takes final decisions. ▸ Engagement clearly structured and we are not taking any decisions on behalf of management. ▸ No direct impact on the financial statements.
Other		
Agreed upon procedures (Note Circulation Scheme ISAE 3000 Report, BIS AUP report, DVLA AUP report, Turnover certificate) - *Self review threat* - *Management threat*		▸ Engagement clearly structured and we are not taking any decisions on behalf of management. ▸ No direct impact on the financial statements.

Overall assessment and confirmations

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Peter McIver, your Audit Engagement Partner ("AEP") and the audit engagement team have not been compromised.

We are not aware of any inconsistencies between the group's policy for the supply of non-audit services and APB Ethical Standards. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgement, EY is independent, our objectivity is not compromised and we have complied with the APB Ethical Standards.

We confirm that your engagement team and others within the firm and network firms have complied with relevant ethical requirements regarding independence.

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Appendix E | Required communications with the Audit Committee

Auditing standards require us to communicate and discuss certain matters with the ARC Committee. These are set out below, together with the timing of our communication in respect of the 2016/17 audit.

Required communication	Reference
Terms of engagement ► Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit engagement letter dated 22 January 2016
Planning and audit approach ► Communication of the planned scope and timing of the audit, including any limitations.	Audit Planning Report (November 2016)
Significant findings from the audit ► Our view on the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ► Significant difficulties, if any, encountered during the audit; ► Significant matters, if any, arising from the audit that were discussed with management; ► Written representations that we are seeking; ► Expected modifications to the audit report; ► Other matters if any, significant to the oversight of the financial reporting process; ► Findings and issues regarding the opening balance on initial audits; Unless covered by other communications on planning matters or significant findings, this information shall include our views on: ► Business risks relevant to financial reporting objectives, the application of materiality and the implications of our judgements in relation to these for the overall audit strategy, the audit plan and the evaluation of misstatements identified;	Audit Results Report

► The significant accounting policies (both individually and in aggregate);
► Management's valuations of the group's material assets and liabilities and the related disclosures provided by management;
► Internal control (without expressing an opinion and based solely on our audit procedures performed in the context of the financial statement audit), specifically on:
  ► The effectiveness of the group's system of internal control over financial reporting; and
  ► Other risks arising from the group's business model and the effectiveness of related internal controls;
► Any other matters identified in the course of the audit that we believe will be relevant to the Board or the Audit Committee in the context of fulfilling their responsibilities referred to above.
	Audit Results Report

Required communication	Reference
Misstatements ► Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ► The effect of uncorrected misstatements related to prior periods; ► A request that any uncorrected misstatement be corrected; and ► In writing, corrected misstatements that are significant.	Audit Results Report (section 4)
Fraud ► Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the group; ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ► A discussion of any other matters related to fraud.	At each ARC Committee meeting

Going concern
► Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:
  ► Whether the events or conditions constitute a material uncertainty
  ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements
► The adequacy of related disclosures in the financial statements
	Audit Results Report (section 2)

Related parties
► Significant matters arising during the audit in connection with the group's related parties including, when applicable:
  ► Non-disclosure by management;
  ► Inappropriate authorisation and approval of transactions;
  ► Disagreement over disclosures;
  ► Non-compliance with laws and regulations; or
  ► Difficulty in identifying the party that ultimately controls the entity.
	None identified

Subsequent events ► Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	At final ARC Committee meeting

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Appendix E | Required communications with the Audit Committee

Required communication	Reference
Subsequent events ▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	At final ARC Committee meeting
External confirmations ▸ Management's refusal for us to request confirmations; and ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	None identified
Consideration of laws and regulations ▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	None identified At each ARC Committee
Significant deficiencies in internal controls identified during the audit	Audit Results Report (section 5)

Independence
▸ Communication of all significant facts and matters that bear on EY's objectivity and independence;
▸ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:
  ▸ The principal threats;
  ▸ Safeguards adopted and their effectiveness;
  ▸ An overall assessment of threats and safeguards; and
  ▸ Information about the general policies and process within the firm to maintain objectivity and independence;
▸ For special interest entities, communication of minimum requirements as detailed in the ethical standards:
  ▸ Relationships between EY, the group and senior management;
  ▸ Services provided by EY that may reasonably bear on the auditor's objectivity and independence;
  ▸ Related safeguards;
  ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees;
  ▸ A statement of compliance with the ethical standards; and
  ▸ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence.
	Audit Planning Report (November 2016);
	Audit Results Report (Appendix D)

Required communication	Reference
Group audits ▸ An overview of the type of work to be performed on the financial information of the components; ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components; ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work; ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted; and ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit Planning Report (November 2016) Audit Results Report (Executive Summary)

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EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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POL00027914

IT Controls Update

Author: Sharon Gilkes Sponsor: Rob Houghton Meeting date: 18th May 2017

Executive Summary

Context

In response to the Deloitte findings from September 2016, the Post Office took a decision to implement a sustainable IT Control Framework (ITCF). This will help ensure that there is more confidence in IT operations to mitigate risks in areas such as security breaches, unreliable data integrity, or loss of service. This will bring the Post Office IT controls more in line with good industry practice.

We are implementing ISACA's Control Objectives for IT (COBIT5) as the framework that maps IT operation processes and risks, identifies remediating controls and introduces evidenced self-assessment and monitoring. The purpose of this paper is to update the ARC on the implementation progress made and the priorities for FY2017/18.

Questions addressed in this paper

1. What progress has been made in implementing the IT Control Framework?
2. What are the next steps and when do we expect to complete the work?
3. What addition control improvements are planned or in progress?

Conclusion

To date over 100 control gaps have been identified. Of these 4 have been rated as high risk. We have defined 16 remediation plans and are validating these with the suppliers.

We knew that our IT operating models for the majority of our IT suppliers are different and not aligned (highlighted in IT strategy). This work has further evidenced the delivery and control issues this gives rise to.

The work has also reinforced a theme which underlines many of our IT service delivery issues. The IT eco-systems (IT operating models) for PO and the majority of our IT suppliers are different and not aligned. This work on the creation of the ITCF has further evidenced the delivery and control issues this gives rise to. This is covered in more detail in section 6 below.

The plan has been adjusted as we have moved into detailed planning with our suppliers – there is no cost impact as a result of this but the timeline moves to the right on certain outcomes. The development of the ITCF based on COBIT5 is on track overall, and the planning adjustments reflected in our updated project timeline (section 7).

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Input Sought

The ARC is asked to note the progress made and comment on the priorities and approach.

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The Report

Introduction

IT service delivery relies on over 90 suppliers, some of these suppliers operate under contracts drawn up many years ago which we have inherited within the Group CIO function. We therefore need to ensure active cooperation and support of the third party suppliers which makes the project significantly more complex and therefore more resource intensive.

KPMG are assisting us with identifying the key issues in our ITCF and maturity gaps, and are working with our teams and IT suppliers to improve the ITCF and enhance the IT operating model.

It should also be noted that the improvement programme requires the support of the suppliers and that current contractual obligations upon the suppliers to cooperate do not exist in many cases. Therefore this is a challenging task, as many of these suppliers support our critical IT systems and services. We also need to ensure that improvements minimise the impact on the suppliers' delivery of existing IT service levels to us.

What progress has been made in implementing the IT Control Framework?

Item	Description	Status (As at 26/04/17)
Process Mapping	1) End to end process mapping is being conducted in the form of 'walk throughs'. This will identify controls and create a permanent record of how we work. 2) Each process will have an accountable person and identified responsibles.	Complete
Risk and Control Matrices (RACMs)	Controls will be identified (with owners) to mitigate risks in our business operations. These risks and controls will link logically and directly into the Post Office's higher level (group) risks to ensure a clear "line of sight" from individual controls to Board-level risks. (see diagram below). This will ensure sufficient and appropriate controls are implemented to address the Post Office's business risks.	This activity is now in progress with reviews for 11 process areas already underway.

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Gap identification	The process walkthroughs and results recorded in the RACMs will identify where controls are absent, badly designed or inadequate.	Following interviews with PO process owners, we have already identified gaps for 8 out of 11 processes. We are engaging with suppliers to complete the walkthroughs and validate gaps.
Gap remediation	Remedial steps will also be agreed with control owners and recorded in the RACMs for ensuing progress tracking, evaluation and reporting via the TrAction tool.	We have set out suggested remedial actions for 6 out of 11 processes, having linked them to existing improvement plans, where possible.
Self-assessment	Control owners confirm, using established software, and evidence that their control was operating effectively in the previous period. Process Owners will be requested to complete a quarterly checklist to ensure responsibilities are being carried out as well as, identifying any exceptions.	To commence upon completion of Gap remediation. Planned circa June 2017.
Assurance	Internal Audit will perform independent sample testing of KPMG outputs, Self-Assessment and control evidence.	To commence upon completion of Gap remediation. Planned circa June 2017.

1. The diagram below shows how we have ensured that controls examined and recorded in the RACMs link logically and directly into the Post Office's higher level (Group) risks to ensure a clear "line of sight" from individual controls to Board-level risks.

2. The highlighted areas of the COBIT5 framework (dark green) are currently included in this review; with the light green areas being implemented in the second stage of the project. The grey process areas are not being implemented as they are not critical control areas to address the business operational risks.

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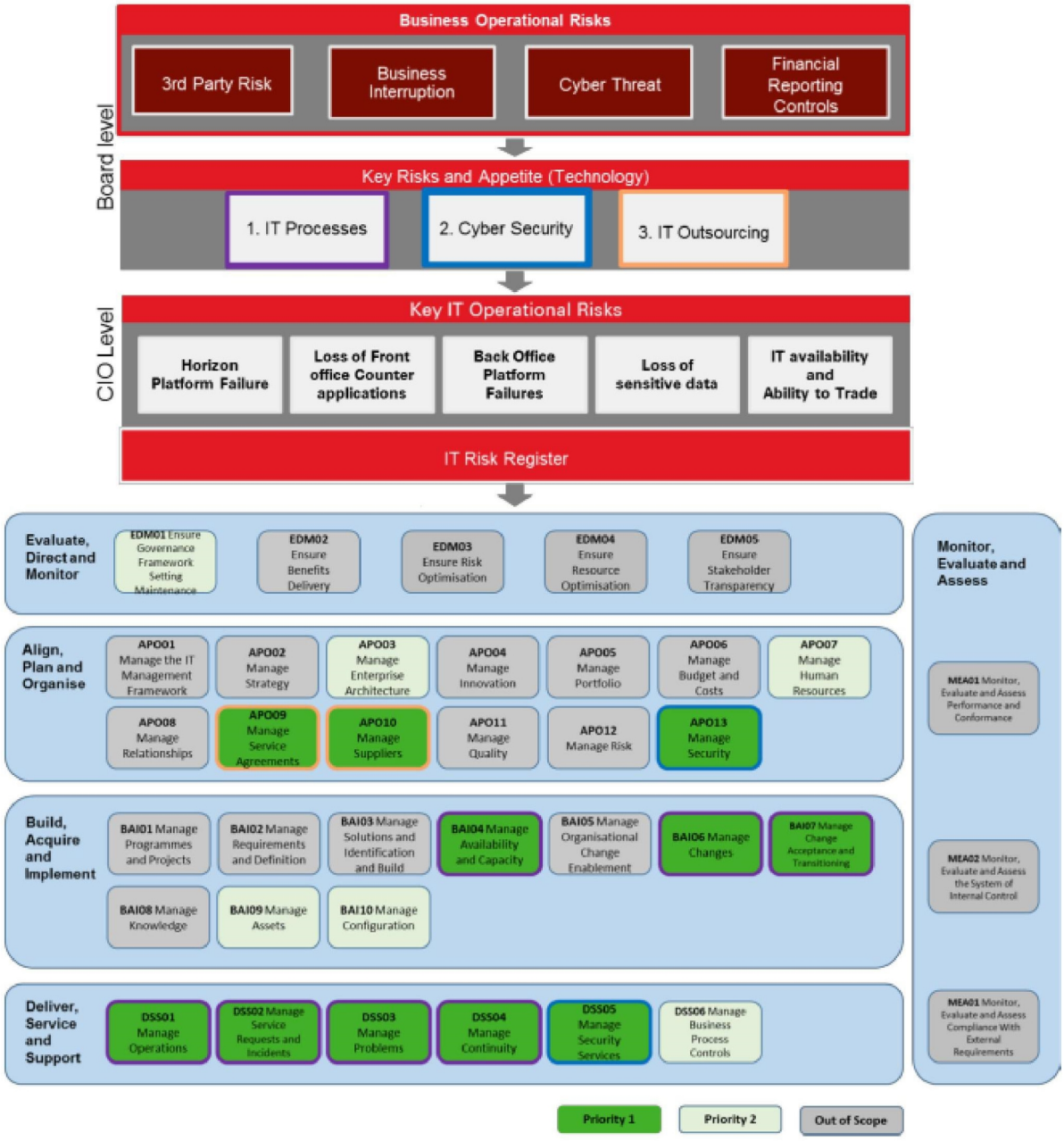

3. We have established process owners for each of the Priority 1 areas above and they are updating to risk register on a monthly basis and continuously monitored. Walkthroughs are underway for all 11 process which are progressing well. To date over 100 gaps have been identified of varying severity. Note this is emerging work and needs further analysis.

4. To allow easy transfer of our findings into TrAction (PO's self-assessment monitoring tool), we have aligned our ITCF documentation, including responsibilities RACI

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matrix to the format used for Financial Control Framework recording (see example in Appendix 1).

5. The gaps have been reviewed with the IT Operations team, the priorities have been re-assessed due to a number of service improvement activities that are in flight and have progressed following the initial review in March/April.

6. To date, 20 out of 42 planned supplier walkthroughs have taken place. Of the remaining 22, we have planned for these to be completed by 26th May.

7. The key critical control failures identified so far and what we're doing about them:
    a. The operational Change Management process seems to work for suppliers who have been on-boarded within the SIAM tower structure. However, some of the suppliers who are outside the tower model (e.g. Royal Mail group, Clients Banks, DVLA (although they have recently been on-boarded), etc.) sometimes do not supply their change information via the IT change advisory board (CAB) process. This inconsistency can cause change conflicts. To address this, we have appointed an interim IT Change Manager (and are in the process of recruiting an IT Change and Release Manager) to improve adherence and governance around all types of change.
    b. System Data Edits/Reference Data updates are not governed by the CAB process, and the existing process (currently managed by Atos) has encountered some issues recently. This issue is now being investigated with the aim of getting data edits/reference data changes to comply with the change categorisation and governance model.
    c. PO does not have a way to correlate current Firewall changes with a business justification. Firewall rules govern all external/internal access to PO and are, therefore, critical. This includes Firewalls managed by Fujitsu, Verizon, Computacenter, CSC, Accenture, 3M and Atos. There is no clear mapping for Firewall rules to indicate which critical services are affected by them. We have an initiative to address Firewall rule governance under the SOC program which is currently in progress and expected to be delivered by circa September 2017.
    d. Following a review of severity 1 and Severity 2 incidents, it has been identified that an average of 50% of incidents are resolved outside of the SLA for resolution. We are addressing this by updating our Critical Service list which will be shared with the Atos Service Desk and Incident management this will ensure that the incidents are assigned to the correct resolver group and prioritised correctly.
    e. There is a register which captures "known errors", however, it is not being utilised. This means that there are no controls in place to minimise service outages from reoccurring. The "Known Errors" report will be reviewed on a monthly basis, including trend analysis of recurring problems

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8. The table below provides a summary update for 6 out of the 11 processes in scope, where gaps have been identified already. The priority assessment (HML) is the current state and may change as we continue to validate gaps with IT suppliers.

RACM	No. Cntrls	No. Gaps	H	M	L	Example of high priority gaps	Exemplar Remedial Actions
1. Manage Changes	7	16	0	5	11	• All changes to operational environment are required to go through CAB. However, this is not consistent across all suppliers, which has resulted in operational incidents occuring. • When changes are put through and fail, they are supposed to produce a Post-implementation review (PIR), however PIR's are often not shared with PO.	• Review / improvements to be made under Target Operating Model (TOM) • Formal sharing of PIR's is to be agreed with ATOS
2. Manage Service Requests and Incidents	9	24	0	5	19	• All service requests and incidents should be managed via the IT Service desk provided by Atos. However, some suppliers have not been integrated within this framework and service incidents with these suppliers are carried out on a reasonable endeavours basis by Atos.	• Being addressed as part of the strategic service desk review work. • For Services identified as critical, this will be direcly addressed under that Improvement plan. For non-critical services this will be addressed following completion of tasks associated with Critical Services • To be addressed under Review/improvements to be made under Target Operating Model (TOM)
3. Manage Problems	6	13	2	6	5	• Problems are actioned and then closed by ATOS without PO's knowledge or briefing. Once a call is logged there is no visibility for PO as to how it is dealt with. • The problem management process needs to be further improved as ATOS do not review problems from suppliers out with their tower arrangement.	• This is now picked up in the monthly problem review and is being addressed and continously monitored • Being addressed as part of the strategic service desk review work. • This will change with the IT TOM work. It is envisaged that an ATOS service manager will be dedicated to each Head of IT. ATOS has also been asked to include recurring problems across supplier in the monthly pack.
4. Manage Security	3	4	0	0	4	• There is a limited Information Security Management System (ISMS) in place.	• A Security Transformation Programme has been put in place and a revamped IT Security Function

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							has been stood up to provide more proactive IT Security Operations. This will include the setting up of a Security Operations Centre (SOC).
5. Manage Security Services	7	34	3	8	23	• No awareness of encryption and post-intrusion protection on PO desktops and no visibility over protection implemented on personal devices connected to the PO network. • PO IT has no comprehensive IT asset inventory. • It is unclear where all personal, commerically or legally sensitive/privileged data is being held. • No current capacity to gather and analyse logs of security related events. • Although ATOS provide an overall aggregate service, there are gaps in the arrangement with suppliers outside their arrangements, and the management of IT from current vendors is not proactively actioned.	• A Security Transformation Programme has been put in place and a revamped IT Security Function has been put stood up to provide more proactive IT Security Operations. This will include the setting up of a Security Operations Centre (SOC).
6. Manage Change and Acceptance Testing	10	13	0	9	4	• No common checklist used by project managers to reference to instruct them on the required steps for implementation plans. The 'One Best Way' pack is not easily available and regularly used by PO PMs. • Lack of visibility over planing and resourcing for testing as this is primarily handled by ATOS. Lack of clarity on whether test plans identify necessary resources to execute testing and evaluate results. • Lack of a standard PO process for post-implementation review involving the Project Manager. • There have been examples where Change Acceptance and transition to live has not been as rigorous as needed (e.g. Credence service novation to Accenture)	• All projects now have a Service Design and Acceptance plan built in to capture non-functional requirements. Also the Heads of IT Service will now be accountable for all changes being passed into the Operational domain.
7. Manage Service Agreements	5	Initial walkthroughs have taken place with Post office colleagues in IT Vendor Management, this has highlighted the gaps around contracts being renewed automatically without the correct process being followed. Further walkthroughs are to be arranged to ensure we obtain a wider scope of issues on how we manage service agreements and suppliers.					
8. Manage Suppliers	5						
9. Manage Availability and Capacity	6	Walkthroughs to commence w/c 15th & 22nd May					
10. Manage Continuity	Walkthroughs to commence w/c 15th & 22nd May						
11. Manage Operations							

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Total to date	**58**	**104**	**5**	**33**	**66**

What are the next steps and when do we expect to complete the work?

9. We are on track with interviews for the Priority1 processes, although due to the nature of the Atos role in managing controls through to the rest of the IT eco-system, the process of identifying the control gaps with suppliers is taking longer than planned.

10. We have re-issued an updated Terms of Reference to all in-scope IT suppliers to address this, and have active engagement with their relevant Exec Sponsor.

11. Formal updates on ITCF progress are now a standing agenda item on the CIO IT Operations Board, and are monitored and tracked through the IT Risk Register.

12. Further IT Supplier walkthroughs are planned for the coming weeks as we progress with the gaps identification effort.

13. We are providing the wider IT team with access to the PO control framework self-assessment tool (TrAction).

14. Remediation plans will continue to be agreed with PO nominated process owners and walkthrough sessions will continue with our IT suppliers to validate the findings.

15. The timeline below depicts the key activities and the order in which they are expected to occur.

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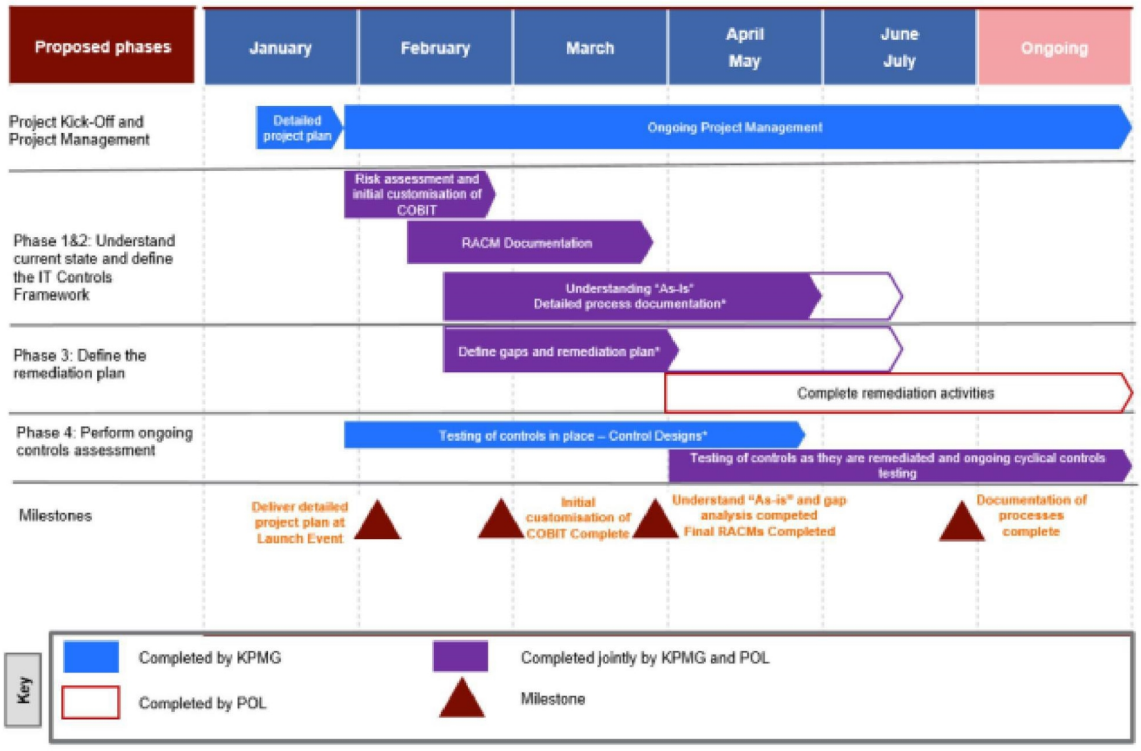

* Includes walkthroughs with relevant suppliers

What other control improvements are planned or in progress?

16. As noted in the update presented to the ARC in March, we are undertaking a systematic review of the way we manage critical IT services through Atos, and are developing a proposed new IT operating model which would require ongoing discussions and re-negotiation with our other IT suppliers.
17. It was also noted that PO's outsourced IT operating model would require new and legacy IT suppliers to be part of the ITCF self-assessment, we will be embedding this at contract renewal/on-boarding stage.
18. Internal Audit are supporting the ITCF project to ensure the appropriate embedding of IT controls, which will provide transparency and addition assurances over alignment with operational risks.
19. Working with EY, we will aim to improve the quality and ease of the audit of IT controls, and in Q3 assess whether and to what extent we need to review the additional testing performed for the 2016-17 audit.
20. Following an Internal Audit review of IAM/JML process (identity access management/joiners-movers-leavers), a PO cross-functional working group has been created to address identified gaps in the current processes and progress a remediation plan.

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Appendix: RACM Matrix Sample

Process	Sub-process Number	Control Number	Sub Process	Risk Description	Control Objective	Guideline Control	Control Description	Automated/Manual	Application	Report Name	Fraud Control	Frequency	GAP	GAP Priority	Designed Effectively	Preventative/Detective	Control Owner	Process Owner	Sponsor	Remediation Plan	Remediation Status	Implementation Deadline
Problem Management	PBM3	3.8	Investigate and diagnose problems.	Problems are actioned and then closed by ATOS without POL's knowledge or briefing. Once a call is logged there is no visibility for POL as to how it is dealt with	Problems are investigated and diagnosed appropriately and in good time to ensure efficient and effective resolution.	Effective investigation and diagnoses of problems.	Produce reports to communicate the progress in resolving problems and to monitor the continuing impact of problems not solved.	Manual	N/A	P01 performance review and Monthly problem report	N/A	Monthly review	yes	Low	n/a	Preventative	Mick Mitchell	Nick Baker		The Post Office IT team review this in the the monthly problem review and closure of problem tickets are discussed and reviewed with Post Office		01/04/2017
Problem Management	PBM3	3.9	Investigate and diagnose problems.	Known errors are not documented across all suppliers, and therefore similar problem's re-appear with no past procedures to use to solve the issue.	Problems are investigated and diagnosed appropriately and in good time to ensure efficient and effective resolution.	Effective investigation and diagnoses of problems.	Identify problems that may be known errors by comparing incident data with the database of known and suspected errors and classify problems as a known error.	Manual	N/A	P01 performance review and Monthly problem report	N/A	Monthly review	yes	High	No	Preventative	Mick Mitchell	Nick Baker		The Post Office IT team review this in the the monthly problem review and closure of problem tickets are discussed and reviewed with Post Office and the SISD. Trends to be documented within the monthly reports		01/04/2017
Problem Management	PBM2	2.7	Identify and classify problems.	For suppliers managed by Post Office, It is not clear if escalation are being processed by IT Service Leads.	Problems are Identified, categorised, recorded, classified and prioritised using appropriate resources to resolve the problems in a timely manner.	Problems are effectively identified, recorded and classified in a timely manner.	Identify problems through the correlation of incident reports, error logs and other problem identification resources. Determine priority levels and categorisation to address problems in a timely manner based on business risk and service definition.	Manual	N/A	not in place	N/A	-	yes	Low	-	-	Andrew Jacques	Andrew Jacques		the service will have a specific improvement plan that is part of the target operating model.		30/06/2017

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Financial Reporting Controls

Author: Danielle Goddard Sponsor: Amanda Radford, Al Cameron Date: 18 May 2017

Executive Summary

Context

GRO

Questions addressed in this report

GRO

Conclusions

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Appendix 1 – PwC independent assurance results

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Appendix 2 – March CSA results by process

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Financial Crime Risk Update

Author: Sally Smith Sponsor: Jane MacLeod Meeting date: 18th May 2017

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Appendix A – Action Plans

Status key:

- Green – on track and no issues expected
- Amber – some delays but no significant or material issues
- Red – significant delay or material issues or potential regulatory sanction

Risk Assessments:

Activity	Due Date	Status	Comments
Bureau de Change	End January	Complete	Report and recommendations issued to product management – see remediation plan
Drop & Go	Mid May	Green	The report, product information pack and assessment is being sent to the product team for sign-off and progression of risk exception reporting. Control strength has improved from 18% to 81%
GRO	End May	Amber	Some delays in obtaining required information from GRO With product management to obtain further information for product information pack so that residual risk can be re-assessed.
GiftCards	End May	Amber	Some delays in establishing regulatory status with GVS contract and reviewing documents. Information from GVS now received and with Legal for review
Postal Orders	End May	Amber	Work has commenced and is progressing, provision of initial assessment and draft documents and initial meeting with Postal Order product manager
Travel Money Card	End May	Amber	Not yet started due to timing of launch of multi-currency card and impacts of early 'teething issues' in live environment. Scheduled to commence shortly
International Payments	End May	Amber	Delayed start due to work on other assessments and availability of product manager time (also looks after GRO
POMS	End May	Green	POMS risk financial Crime risk assessment due to be completed end April and ABC risk assessment by mid-May. On track
Bill Payments (19 separate services)	TBA		Given HMRC intention to review later 2017, this needs full risk assessment and the funding to enable this
Financial Services Products	TBA		29 products across Banking, Savings, Cards, Mortgages, Insurance and top up services - to be prioritised/funded

Remediation Activity:

Activity	Due Date	Status	Comments
Bureau de Change	TBA	Amber	Project team established, but BA leaves business beginning of May so there will be transition to new BA who starts end April. Steering committee established. Requirements being scoped and a Change Request for some 'quick fixes' for Horizon submitted. Decision to remove €500 note service.
Drop & Go	July	Not started	Product team to sign-off residual risk, risk exception to be drafted and approved for a small number of control weaknesses that still exist.
GRO	TBA	Not started	Dependant on assessment of residual risk
GiftCards	TBA	Not started	Dependant on assessment of residual risk
Postal Orders	TBA	Not started	Dependant on assessment of residual risk
Travel Money Card	TBA	Not started	Dependant on assessment of residual risk
International Payments	TBA	Not started	Dependant on assessment of residual risk
POMS	TBA	Not started	Dependant on assessment of residual risk

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Other AML activity:

Activity	Due Date	Status	Comments

GRO

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Financial Services Conduct Risk Update

Author: Jonathan Hill
Meeting date: 19 May 2017

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Jonathan Hill
Head of FS&T Risk & Regulation
May 2017

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POMS CONDUCT RISK SCORECARD

		Rating Criteria				Current							
Area	Measure	Green	Amber	Red		Mar-17		Feb-17	Jan-17	Dec	Nov	Oct	Sept

GRO

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GRO

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Safety

Authors: Martin Hopcroft Sponsor: Al Cameron Meeting date: 18th May 2017

Executive Summary

Context

1.1 The ARC requested a regular update on our management of risks around safety of our people and customers.

1.2 Safety performance is reported monthly to the Group Executive and at each Board meeting, together with information on health and wellbeing.

1.3 Accountability for safety has transferred to Operations from HR, recognising that the greatest risks are to our people in the field.

1.4 Our Health & Safety performance has improved significantly in the past 6 years and we have a rolling 3-year plan to drive health and safety compliance and year on year risk reduction, targeting a reduction in four key safety metrics: accidents; lost time accidents; days lost; and personal injury claims.

Questions this paper addresses:

2.1 What is going well across health and safety and what is not going so well?

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. Performance continues to remain strong for all four of the key **health and safety metrics**, including absence accidents and lost days. **Benchmark data** has been requested from a number of sources and providers and is expected during May and will be shared on future reports.
2. Mitigating action has reduced **road risk** which remains at a low level.
3. The number of CViT attacks remain low, however, there has been an increase in Post Office robberies and a review is being undertaken by the Security team.
4. Property H&S **training workshops** have been delivered to Persons in Control of Directly Managed branches and coaching provided to Supply Chain Managers.
5. Following the restructure of the GE and their direct reports, individual 'deep dive' H&S sessions have been delivered to lead teams.
6. We have undertaken an annual deep dive review of safety and agreed a number of areas for focus in 2017/18 including a review of road policy, guidance for lone workers, safety of vacated buildings, competency and statutory compliance.
7. A number of initiatives have been implemented to raise awareness of mental health resources, including support for 'Time to Talk' initiatives. From July we aim to train and introduce 60 Mental Health First Aiders to provide proactive support to colleagues across all areas of the business.

Input Sought

The ARC is requested to **note** the update on safety.

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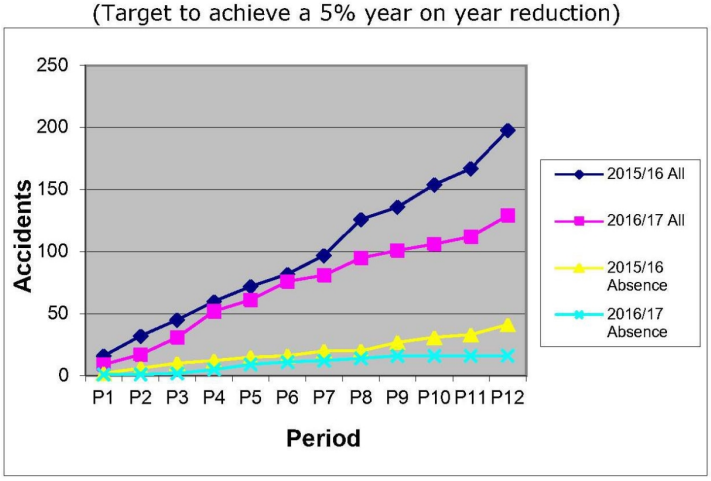
The Report – H&S Metrics

Summary of Safety Performance – Year End - Period 12 (Mar 16/17)

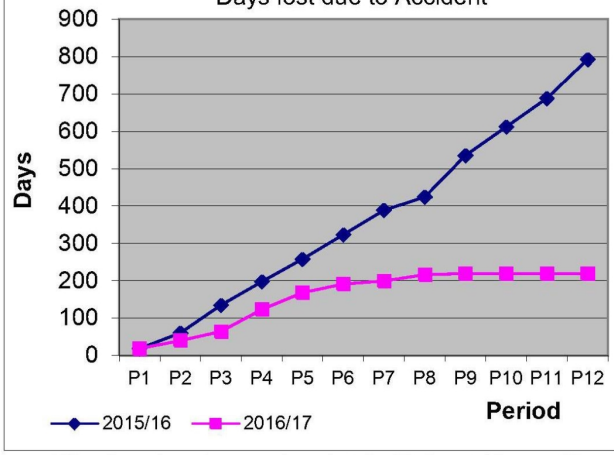
All Accidents – YTD Cumulative at Period 12
(Target to achieve a 5% year on year reduction)



Accidents have reduced by 35% and **Lost time accidents by** 61% YTD P12 (Mar 2017) v 15/16

Lifting / Handling related accidents have reduced about 50% in 2 years.
A lower number of accidents were reported this Winter.
Big improvement in 'lack of attention' related incidents reduced by 50% compared to 2015/16

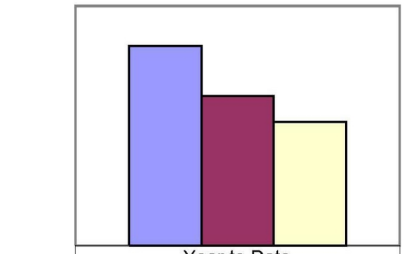
Days lost due to Accident



Post Office lost days have reduced 71% (219 in 16/17 v 792 in 15/16)
DMB lost days P12 YTD : 45 (316 in 2015/16)
Supply Chain lost days P12 YTD : 174 (470 in 2015/16)
Support lost days P12 YTD : 0 (6 in 2015/16)
Trauma days lost: Supply Chain P12 YTD: 144 (302 in 15/16)

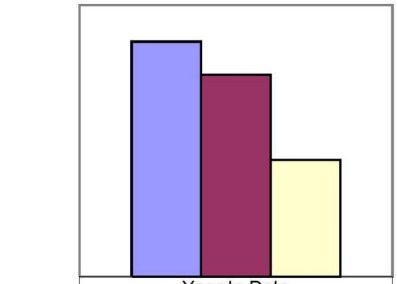
Post Office CViT Robberies – P12 (Mar 17)
There have been 19 incidents reported in 2016/17 compared to 15 in 2015/16 which was an exceptionally strong year, however, this is a reduction on numbers reported in 13/14 and 14/15. There were no incidents reported in December, January and March and 1 incident reported in February. Possible reasons for the reduction are new delivery and collection times and routes and activity across the industry shifting towards ATM related attacks which are on the increase.

Directly Managed Branch
Accidents YTD P12



	Year to Date
14/15	100
15/16	75
16/17	62

Supply Chain Accidents YTD P12



	Year to Date
14/15	121.0
15/16	104.0
16/17	60.0

Post Office (All branch types) Robberies – P12 (Mar 17)
There were:
18 incidents in November v 12 (15/16),
19 incidents in December v 11 (15/16),
20 incidents in January v 9 (15/16)
16 incidents in February v 9 (15/16)
14 incidents in March v 9 (15/16)

(152 incidents in 2016/17 v 104 in 2015/16)

A review of causation and mitigating activity is being undertaken by the Security Team and a paper being prepared for GE with a discussion at the GE Sub Committee in May.

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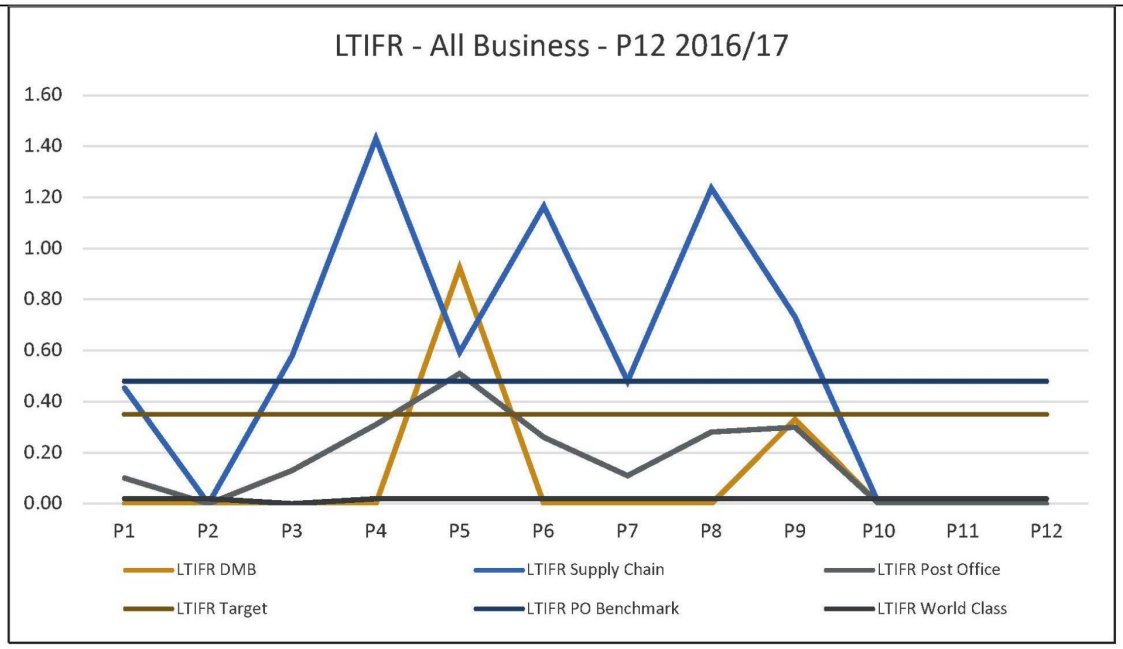
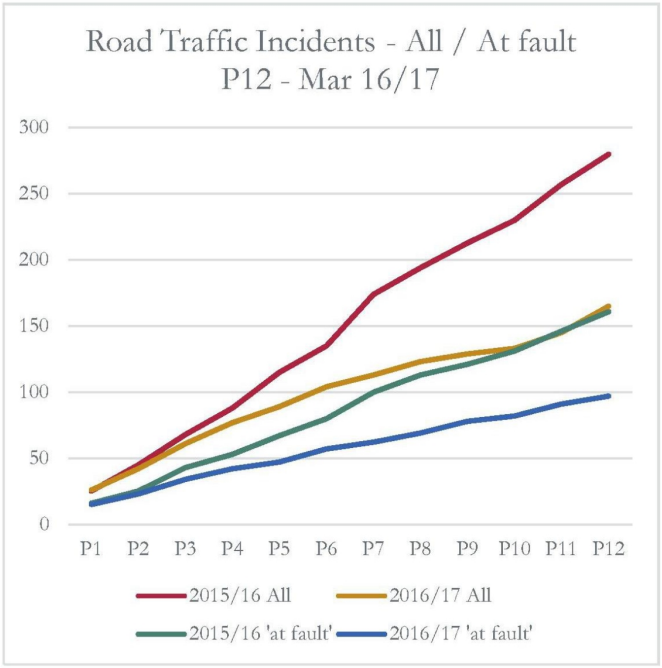


Lost Time Injury Frequency Rate (LTIFR)

Supply Chain
YTD P12 – 0.586
2015/16 out turn – 1.042
2016/17 target – 0.990

All Post Office – Employee
YTD P12 – 0.168
2015/16 out turn – 0.370
2016/17 target – 0.350
PO Benchmark – 0.480



Current road risk performance has improved by 41% compared to P12 YTD 2015/16.

'At fault' incidents are also down by 40% P12 YTD (Mar 17).

New providers have been confirmed for maintenance and accident management for Commercial fleet and for provision, maintenance and accident management of Business Car fleet. Enhanced MI and accident analysis expected from 2017/18 as well as improved training and compliance checks.

The Mobile Phone Policy has been communicated with additional measures being considered by the GE H&S Sub Committee in May.

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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

Performance continues to remain strong across all key health & safety metrics, including absence accidents and lost days (see Report–H&S Metrics). Current activities include:

1. **Person in Control Training**
   Refresher Person in Control training has been undertaken by all Supply Chain and Directly Managed Branch Managers. Initial feedback has been very positive.
2. **Property related risk**
   - The overall level of risk at year end is low with property compliance 96.55%.
   - All planned Asbestos removal has been completed.
   - All High and Medium actions from the fire risks assessments are closed.
   - Our site audits have evidenced that we are managing our buildings and housekeeping is improving.
   - Revised log books have been agreed for distribution to sites early Q1 17/18
3. **Health & Safety Activity Calendars -** To ensure Health & Safety activities are undertaken, H&S calendars have been updated and launched for 2017/18. H&S BPs are attending Lead Team meetings to help raise awareness and compliance.
4. **Road Risk –** The volume of road traffic incidents continues to reduce. There is a requirement to create one overall driver policy and to provide additional guidance and training to all commercial and business drivers including grey fleet using own vehicles.
5. **Security / Robbery Risk -** A report is being developed by Security Manager to support a GE discussion in May, due to the increase in number of Post Office robberies November to March. CViT related incidents remained low in Q4 (18 in Q4 14/15, 11 in Q4 15/16 and only 1 incident in Q4, 16/17).
6. **Hosted Directly Managed branches –** The H&S team are attending branch site meetings to provide advice and support to project teams and Branch Managers prior and during transfer. Post Office and WHSmith H&S Managers and Property Compliance Managers are working closely to share processes and documentation.

What additional activity has been undertaken to address specific risks?

1. **Compliance to Driving and Mobile Phone Policy**
   Policy has been communicated on the Intranet, H&S home pages and reinforced at team meetings. Developing an online training module for business drivers.
2. **Environmental Policy**
   The Property Compliance and H&S teams are working closely with legal, Servest and IT to minimise risk associated with waste, especially hazardous. Guidance has been issued to Persons in Control.
3. **Security and lone working in Support Centres**
   H&S, Property and Security Managers are reviewing the personal security arrangements in place at all Support Centres and satellite locations. A report will be discussed at the GE Safety Board in June.

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4. **Trauma Support and Self Harm / Suicide Policy**
   Additional training has been provided to call handlers in Chesterfield and the HR Service Centre to help them manage 'difficult calls', including threats of suicide. Similar appropriate training will then be extended to their team leaders, contract advisers and field advisers who may benefit. A Suicide Policy is also being developed.

2.3 Are there any significant emerging risks for 2017?

1. **Simplifying Supply Chain, Support OD, DMB Programme**

- H&S BPs are monitoring absence, accident trends and causation and working closely with lead teams, providing training to ensure the focus on safety, attendance management and wellbeing continues.
- Induction programme including H&S content is under review to ensure all line managers of new managers and employees complete the H&S Checklist.
- Support and training is being provided to Supply Chain Shift Managers to prepare for external OHSAS 18001 audit, ensuring records are brought up to date, managers are upskilled and prepared for the external interview.

2. **Deep Dive Review of Safety and areas of high risk**
   Following a deep dive review undertaken by the GE H&S Sub Committee to identify key risks for 2017/18 and required intervention, a number of areas have been prioritised, including a requirement to strengthen road policy and its application, guidance for lone workers, the safety of our vacated buildings, security guidance for agents, competency of line managers / Persons in Control and compliance.

3. **Mental Health**
   A number of initiatives have been implemented to raise awareness of mental health resources, including support for 'Time to Talk' initiatives. In July 2017 it is planned to train and introduce 60 Mental Health First Aiders to provide proactive support to colleagues across all areas of the business.

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2. HMRC Governance Report – Remediation Plan

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Internal Audit Report

Author: Johann Appel Sponsor: Jane MacLeod Meeting date: 18 May 2017

Executive Summary

Context

The purpose of this paper is to update the Committee on the PO Business As Usual Internal Audit (BAU) and Business Transformation Assurance (BTA) activity and key outcomes. This includes details of the work completed since the last Audit, Risk and Compliance Committee (ARC) meeting in March and progress with current and prior year Internal Audit Plan.

Questions this paper addresses

- Is the Internal Audit Plan on track? What progress has been made since the March ARC meeting?
- What progress is being made with completion of audit actions?
- Have any significant issues arisen that the committee should be aware of?

Conclusion

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The Report

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Appendix 1a

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Appendix 1b

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Appendix 2a

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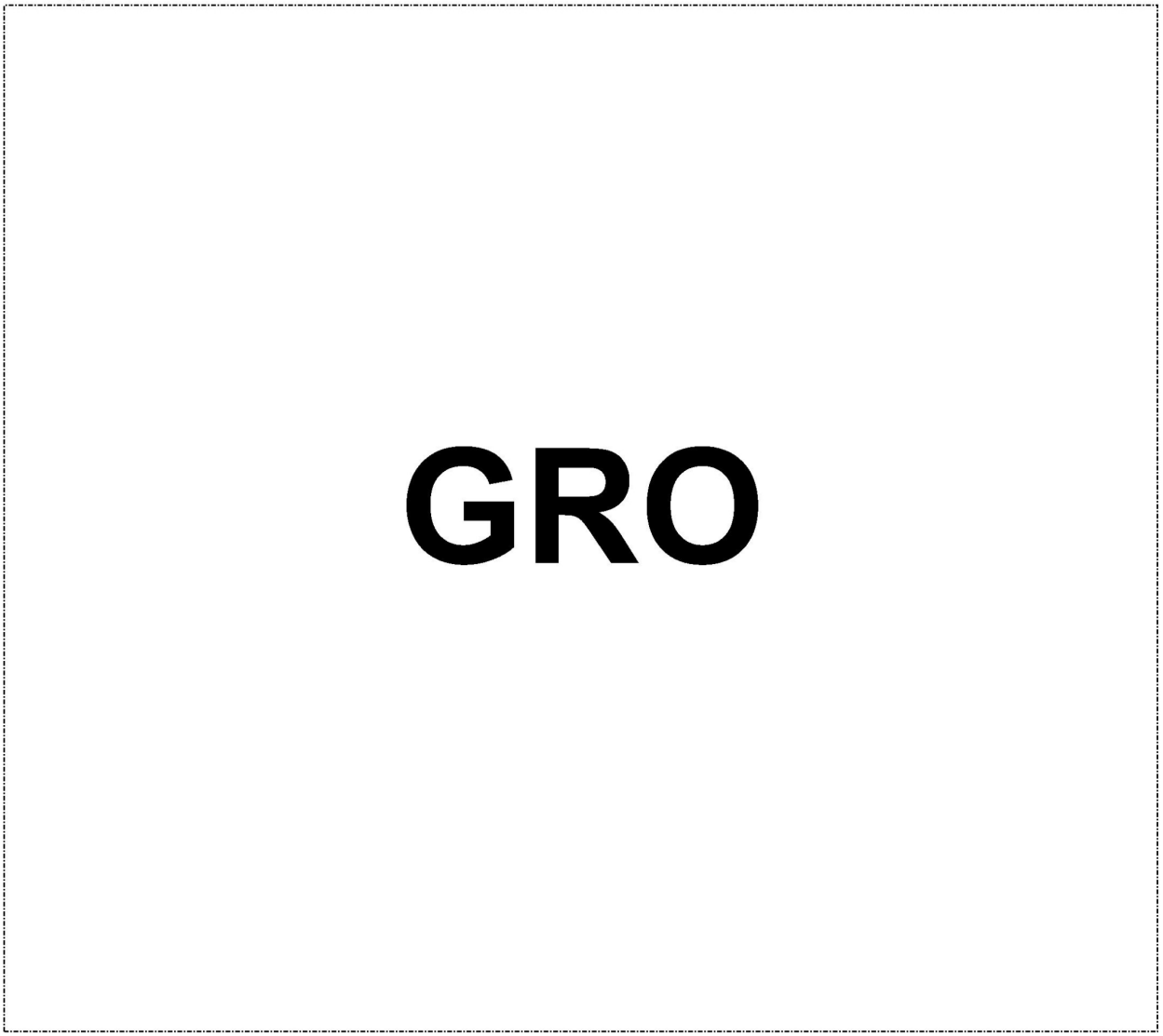
Appendix 2a



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POST OFFICE
AUDIT, RISK AND COMPLIANCE COMMITTEE

APPENDIX - POL Key Risks as at 12/05/17

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Appendix 1 – Items for ARC attention

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Appendix 1: Draft Principal Risks (Mapped)

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8.5 Business Continuity & Crisis Management Update

Author: Tim Armit Sponsor: Jane MacLeod Meeting date: 18th May 2017

Executive Summary

Context

Implementing pragmatic strategic recovery capabilities and identifying impacts continues across all sites. Swindon has been assessed and strategies for recovering key assets is being undertaken. Chesterfield is planning a full day exercise at the recovery site. Industrial Action planning is being facilitated through a workshop to assess the impact of a Royal Mail strike. Changes to the Business Protection Team (BPT) following the Horizon incident has been undertaken.

Questions this paper addresses

1. What does "good" business continuity look like?
2. Where is Post Office against this measure currently?
3. How do we move towards "good"?
4. How would we demonstrate we had achieve it?
5. What are the current major pieces of work?

Input Sought

The Committee is requested to note the report.

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Conclusion

This report describes what is seen as best practice within business continuity by the Business Continuity Institute and ISO standards. It then considers how the Post Office currently measures up to this level, how we will move any areas which might be red or amber towards green, which would be "good". Finally it shows how the Post Office will demonstrate in an ongoing manner that "good" is in place and being maintained.

From this report many work packages will be developed across the company.

Summary

As a current holistic overview with the exceptions listed below should a major incident befall Post Office operations we will be able to continue to open branches and serve customers in a timely manner.

Exceptions to this where further investigation is required to improve resilience or determine the capability are:

- Key IT systems
- Suppliers
- Bolton

- Chesterfield Recovery Site Full Day Test

The capability to operate at the Sungard Leicester Recovery site has been proven. The next step is to now take a cross section of key areas from Chesterfield to work for a full day at the recovery site. How this is to be done and who is involved is now being planned. The exercise is aimed for the end of June 2017.

- Swindon Review

A visit to Swindon has been undertaken and an assessment of the options for recovery are being considered. What is key to Post Office and Royal Mail is being analysed and strategies to recovery key operations at an alternative Supply Chain Depot are being reviewed. Options will be discussed with Supply Chain management for agreement in June 2017.

- Royal Mail Industrial Action planning

There is a real risk that Royal Mail may strike later in 2017. A workshop is being facilitated in to bring together all operational areas which might touch Royal Mail operations in any way. The objective of this is to assess the impact on Post Office operations of Royal Mail being down. Then to consider what options are open to Post Office operations to mitigate any impacts which would become intolerable.

- Business Protection Team Enhancement

The Horizon failure on Sunday April 30th demonstrated there were weaknesses in the incident response at all levels. Within Post Office the initial response team to all major incidents is called the Business Protection Team (BPT). The membership of this has now been reviewed and strengthened. Alternative telephone numbers and contact details for long weekends have been added and it has been made clear that every member is empowered to invoke the team at any time. Simple "how to" instructions have been written and distributed.

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What does "good" business continuity management look like?	Where are we	What do we have to do to get to green	How do we demonstrate "good"
A management system in place aligned to ISO22301	A Management System is in place	Continue to review and maintain the system	Full system in place and used in tenders to prove our capability
Management system operational and signed off	The system is operational and signed off	Continue to use the system	Signed off and used in our approach to BCM and tenders
Impacts of the loss of buildings, systems, suppliers and people are understood	Work has started on this and there is varying levels of information across locations, business areas and IT.	Formally document impacts across agreed variables (cash flow, income, reputation etc) for each business area, location and system. Agree impacts with the owners and use this as a base for all recovery strategies.	Strategies in place ensure impact tolerance thresholds are not breached.
Risks in which the operations work are understood, mitigated or planned for	Work has been completed by CBRE on facilities risks across all offices. Further operational and continuity risks are being captured in ongoing work. Risks to systems are being captured by IT.	Formally document the risks to each location in which we operate. Identify all key risks to the resilience levels of our systems. Document all outcomes and agree with business and location owners what the risks are and discuss if increased resilience is required or if better recovery planning is needed.	Risks are known and signed off. There are "no surprises" to senior management should a risk be realised, that risk will be in line with our plans and has been considered. Levels of resilience are increased where the risk and cost of solution mitigate it.

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Recovery strategies for locations and business processes are in place	• Finsbury Dials is a low criticality building and all staff have the capability to work at home.	Test this by having everyone work at home for a day across the summer.	Everyone can work at home on their own devices.
	• Chesterfield is a key building and a tested recovery solution with Sungard is in place.	Test this in late June by working from Sungard for a full operational day.	A call centre and finance function can operate to acceptable business levels at the remote site
	• Bolton is a secondary level critical building and whilst there is a home working capability there is no proven alternate work solution in place.	Work with the Bolton team to agree a strategy by September to recover operations	A Bolton HR operation can be operational to meet business requirements in an alternate manner.
	• Cash Centres at London, Hemel and Birmingham can mutually support each other.	Test the capability to stand up alternative Bureau machines.	London and Birmingham are proven to work in a stand alone manner for a day. Hemel services are proven to be recovered at another site.
	• Supply Chain depots can mutually support each other.	Review with the Supply Chain locations at a workshop in May how this would operate.	Methods to switch routes, agreement to move drivers and evidence that sites can support each other is proven through testing.
	• Swindon is a single point of failure but strategies to restore key operational areas have been considered.	Continue to work with Swindon team on options at other depots and to agree what is critical and how to liaise with RM.	An alternate capability is recovered at a depot to demonstrate systems can pick items, secure items can be managed and service can be restored.

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What does "good" business continuity management look like?	Where are we	What do we have to do to get to green	How do we demonstrate "good"
Plans to respond to crisis are in place	• Stay Calm manuals are in place for all locations. These are very large and hard to use documents but they are well known and used by many areas.	Review and simplify these documents to ensure they are user friendly and known by all that need them.	Exercises run in all locations to prove the team understand their roles and the documents work for them.
	• Finsbury Dials has a high level crisis team in place.	Document the crisis plan for Finsbury Dials and how this would support a crisis anywhere in the Post Office	Exercise run to prove the team understand the plan and their roles.
	• There is a Business Protection team in place to respond to all major incidents.	Enhance the BPT membership, its empowerment, ensure all members understand this role, test this and link it to all forms of crisis.	Exercises to be run to prove the membership can work together on a crisis response. There are many live invocations of this team which we learn from each time.

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What does "good" business continuity management look like?	Where are we	What do we have to do to get to green	How do we demonstrate "good"
Plans to recover business operations are in place	• There are some specific service to customer plans in place. • There are a few strategies to allow operations to continue should IT systems fail (Polsap, Credence). • There are very few specific business continuity plans in place for business areas.	Ensure these plans are still valid and upto date and simplify the approach (currently many are over 40 pages long). Group the strategies in place into plans for specific business areas and share what is known to work with other areas with similar challenges. Document a simple plan for every business unit.	Annual review and annual challenge by customers pass each year. Reaction and response to IT system failure is known and works efficiently each time they are needed within minimal impact on business. All areas work through table top tests and all staff are aware of a plan in place and how it affects them. As a standard KPI a questionnaire can be sent to all staff to confirm awareness.
Plans to mitigate the loss of key suppliers are in place	There is a list of key suppliers and their services. In current contracts the continuity capability of suppliers is required.	Every supplier is documented and the service they supply is shown with the impact of a failure to supply this service documented. The recovery time and capability of this supplier is then proven and the Post Office plan to cover the failure is documented.	Suppliers work with the Post Office to demonstrate their recovery capability. In Post Office tests the capability to continue operations without key suppliers is challenged.

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What does "good" business continuity management look like?	Where are we	What do we have to do to get to green	How do we demonstrate "good"
Tests of plans have been undertaken	Some IT DR testing has been undertaken where possible.	Continue to work with the IT DR team on the capability to test systems and to ensure where tests are undertaken results and capability are passed to the business.	Annual full switch over DR of all key systems is undertaken.
	Initial high level crisis exercises have been run.	Complete further crisis exercises in all key areas and continue to enhance the central crisis team through exercise	Annual crisis exercises for all areas are completed and more complex challenges are used each year.
	An initial Chesterfield to Sungard exercise has been run.	Run a full day exercise in June 2017 of the capability to operate Chesterfield at Sungard	Chesterfield can relocate to Sungard at anytime to operate in a normal manner.
	A communication test to the GE crisis team and to the BPT team has been completed.	Run out of hours communication tests of the capability to contact all key areas. Create a test programme for all offices and business areas across the Post Office and work through the entire estate to ensure all areas are aware of their plans and their strategies are proven.	Every member of staff can be contacted by SMS, email at anytime of night or day. Every function and key office across the estate has an annual exercise.

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What does "good" business continuity management look like?	Where are we	What do we have to do to get to green	How do we demonstrate "good"
Training of personnel involved has been completed	Other than through initial workshops and exercises no structured training has been completed.	Identify business continuity champions in each location and business area. Run training workshops to introduce them to business continuity and their responsibilities within their own area.	Champions are in place across all key areas with a good knowledge of the subject, proven through review, that can take responsibility to drive BC in their own areas.

All areas are subject to customer challenge and to internal audit review.

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Modern Slavery Act Statement

Author: Jim Carter and Kelly Taylor Sponsor: Martin Kirke Meeting date: 18 May 2017

Executive Summary

Context

The Modern Slavery Act 2015 (the Act) challenges slavery, domestic servitude, forced and compulsory labour and human trafficking. Post Office is required to produce an annual slavery and human trafficking statement (Statement) setting out what steps have been taken to ensure its business and supply chains are slavery free. This paper attaches the second Statement which documents progress on our previous year's commitments 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.

Questions addressed in this paper

1. Why do we need to create this policy?
2. What are the key points to note about the new policy?
3. What are the implications for the board and the business?

Conclusion

- Post Office has been undertaking due diligence on its business and supply chains to identify any risk areas.
- Post Office has prepared a revised Statement in line with the legislation which must be published within 6 months of year end.
- A steering group was appointed in January 2016 and is responsible for proposing actions, creating relevant project plans and continuing to develop and monitor our approach to MSA legislation.
- The steering group has identified that the highest level of risk is within our Agency network. We have already begun to take action to address this risk including amending our contracts with our Postmasters to require compliance with the Act.
- The first Post Office's MSA Statement was prepared using Home Office guidance and in consideration of other available Statements by UK and international companies.
- The nature of the legislation allows for the organisation to build a robust approach to the MSA over time. Our MSA statement, therefore, requires updating every twelve months and will outline progress on previous commitments and actions we are taking in the next twelve months.

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Input Sought

The ARC are asked to approve the 2017/18 statement and endorse actions for the business to take forward this financial year.

Input Received

We consulted all members of the MSA Steering Group which comprises of representatives across functions including Legal, Postmaster Contracts, Procurement, Risk, Employee Relations and Learning and Development. We have also gained approval from the RCC to submit the Statement for 2017-18 to ARC.

The Report

Why do we need to create this policy?

The requirement to publish a Statement applies to "commercial organisations" which (a) supply goods or services and (b) have a total turnover of not less than £36,000,000. It will therefore not apply directly to Postmasters if their turnover is less than £36 million per year.

However, Postmasters are part of the Post Office supply chain. Post Office must state what steps it has taken to ensure that slavery and human trafficking is not taking place in any of its supply chains or in any part of its business.

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. This paper attaches the second Statement (Appendix 1) which documents progress on our previous year's commitments 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.

The due diligence that we have undertaken so far indicates that there is a potential risk of non-compliance within our agency network. The reason for this is that there are a large number of people employed by Postmasters (including multiple partners) but who are not employees of Post Office or POMS. They work directly for the Postmasters (including multiple partners). We have already taken action to begin to address this risk including reviewing our contracts with our Postmasters to require compliance with the Act.

What are the key points to note about our new policy?

Since 2016 we have been required under the legislation to publish a Modern Slavery Statement. This documents what actions we will be taking for the following year with regards to MSA. In 2016 we made three specific commitments and progress on these commitments is outlined below:

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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 (Appendix 2)
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 PQQ 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.
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 for roll out in 2017, (Appendix 3). The MSA is also now referenced in our Whistleblowing Policy (Appendix 4) and will be added to our Code of Business Standards, which is currently being redrafted (Appendix 5). 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.

The proposed Statement for 2017-18 (Appendix 1) outlines a series of commitments to be actioned this year. The focus for 2017 will be on increasing awareness and understanding across POL of the MSA.

- Roll out our MSA Communication Plan
- Review our approach to audit and compliance and make recommendations around a suitable regime to take forward and implement as our key 2018-19 commitment.

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- In the light of the recommendations from our review of audit and compliance, to develop a relevant Training Plan.

In drafting the statement for this year we assessed progress of other organisations in this area. We looked at statements from international companies with complex supply chains to get a flavour for content and examples of initiatives.

Many companies have not yet published their Statements, but we have looked at a variety to ensure that our approach is consistent. By way of an example, Ford have published a statement which is approx. 2 pages long. They recognise their supply chain is extensive and complicated and that it presents challenges. Some of Ford's initiatives are similar to ours - this is encouraging given that Post Office's business and supply chains are not as extensive as Ford.

We also looked at what one of our key partners was doing:

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- Statement not yet published.
- They use the Ethical Trading Code of Conduct and Human Rights Policy. It incorporates the ILO Conventions to scope out the current position on Modern Slavery related matters.
- The policy specifies a person who takes responsibility for the Code.

There are no significant costs identified in fulfilling our commitments for 2017-18.

The statement for 2017-18 was developed by the MSA Steering Group which comprises of representatives from Legal, Postmaster Contracts, Procurement, Risk, Employee Relations and Learning and Development. Members were heavily involved in the development of the statement and supporting documentation. The statement and programme for 2017-18 was presented to the RCC on 4 May 2017 and was approved for submission to ARC.

What are the implications for the board and the business?

By not updating our Modern Slavery Act Statement every year the business could be liable to prosecution under the Act. This could result in the worst case scenario with a heavy fine and subsequent public exposure. The Act allows for organisations to evolve a robust approach and that is why a renewed commitment every twelve months is required. As long as we continue to make reasonable progress year on year Post Office Limited will be compliant with the legislation.

We are confident that the detail in our Statement, our commitments documented last year and our proposed actions for this year are appropriate at this stage. We will monitor developments, however, and keep the adequacy of the Statement under review.

The new Statement must be published on our external website within the first six months of the new financial year.

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Appendix

1. Modern Slavery Statement 2017-18
2. Postmaster Guidelines
3. Communication Plan 2017
4. Extract from Whistleblowing Policy
5. Extract from Code of Business Standards

1. Modern Slavery Statement 2017-18

Post Office Limited (Post Office) & Post Office Management Services Limited (POMS)
Modern Slavery Transparency Statement 2017-18
May 2017

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; governments 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
Our banking services are provided through a joint venture with the Bank of Ireland (BoI).

Postmasters
Postmasters can operate one or more branches. As agents they have control on how they run their branches on a day-to-day basis. All those working in an agency Post Office branch are employees of the Postmaster.

Multiple partners
A large proportion of the agency part of our network is run by multiple partners.

Trade Unions
In our 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 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 make recommendations around a suitable regime to take forward.
- In the light of the recommendations from the review of audit and compliance, to develop a relevant Training Plan in support of any proposed new regime.

Our policies
We currently operate the following policies that describe our approach to Modern Slavery:

- *Code of Business Standards*
- *Whistleblowing Policy*

Further information

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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 GRO

Signed: .....
Name: .....
Position: .....
Date: .....

2. Postmaster Guidelines

Modern Slavery Act 2015

Guidance and Contractual Standards for Postmasters.

1. WHY DO I NEED TO KNOW ABOUT THIS?

1.1 The Modern Slavery Act describes a number of offences which will constitute modern slavery. For example, it makes it an offence for any person, irrespective of whether they have a Post Office, or any other kind of business, or are acting in a purely personal or domestic capacity

a) to hold another person in slavery or servitude in circumstances where the person knows or ought to know that the other person is held in slavery or servitude; or
b) to require another person to perform forced or compulsory labor in circumstances where the person knows or ought to know that the other person is being required to perform forced or compulsory labor; or
c) to arrange or facilitate the travel of another person with a view to that person being exploited.

1.2 Indicators of forced labour would include:

- Abuse of vulnerability
- Deception
- Restriction of movement
- Isolation
- Physical and sexual violence
- Intimidation and threats
- Retention of identity documents
- Withholding of wages
- Debt bondage
- Abusive working and living conditions
- Excessive overtime

1.3 The Act ensures that perpetrators of modern slavery can be given suitably severe punishments for modern slavery crimes, including life sentences.

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1.4 The Act applies to you and you have a personal legal obligation to comply with it.

2. PURPOSE OF THIS GUIDE

2.1 This Guide does not give an overview of the Act but it does explain Post Office Limited's contractual standards on modern slavery. These instructions have contractual effect.

2.2 Post Office's contractual standards apply to all Postmasters, including sub-postmasters, franchisees, operators and any other agents operating Post Office branches or outreach services.

2.3 Compliance with these standards does not of itself ensure compliance with the Modern Slavery Act. It remains the responsibility of Postmasters to ensure they comply with the Act.

2.4 We are committed to ensuring no one suffers any detrimental treatment as a result of reporting in good faith their suspicion that modern slavery of whatever form is or may be taking place in any part of our business, including in a Post Office branch or any retail business associated with it, or in any of our supply chains. Detrimental treatment includes contract termination, corrective action, threats or other unfavourable treatment connected with raising a concern. However, if a postmaster has been involved in any breach of the Act or these standards, we may take corrective action against him/her, which may include contract termination. Individuals that have concerns about modern slavery practices will be able to notify Post Office by contacting the Network Business Support Centre (NBSC) or Grapevine.

2.5 Post Office Limited may amend this Guide and the contractual standards at any time.

3. POST OFFICE CONTRACTUAL STANDARDS

3.1 You must ensure that you read, understand and comply with this Guide and the Modern Slavery Act 2015. Further information regarding the Act can be sourced from the Government's website gov.uk

3.2 You are responsible for the prevention, detection and reporting of modern slavery in any part of your Post Office branch and any associated retail business or supply chains.

3.3 You must notify Post Office Limited as soon as possible if you believe or suspect that a breach of, or conflict with the Act has occurred, or may occur in the future. You must do this in the following by contacting the Network Business Support Centre.

3.4 You should raise any concerns you have about any issue or suspicion of modern slavery in any parts of your or our business or supply chain at the earliest possible stage.

3.5 You should report it to us even if you are unsure about whether a particular act, the treatment of workers more generally, or their working conditions within any tier of your or our business and/or your or our supply chains constitutes modern slavery.

3.6 We aim to encourage openness and will support anyone who raises genuine concerns in good faith in relation to modern slavery, even if they turn out to be mistaken.

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4. FAILURE TO MEET THE CONTRACTUAL STANDARDS

4.1 Any Postmaster who fails to comply with these contractual standards and/or the Modern Slavery Act 2015 is at risk of contractual action, including possible immediate contract termination.

3. Communication Plan 2017

Proposed MSA Communication Plan

Audience	What	How/channel	Call to action
All	Policy statement on intranet	intranet	Read
L300	headline - link to policy statement	direct email	read the statement
Central team colleagues	headline - link to policy statement	one focus email	read the statement
Supply Chain	headline - link to policy statement	one focus email	read the statement
Branch teams - DMB	headline - link to policy statement	one focus email	read the statement
Branch teams - agents	headline - link to policy statement	branchfocus email	read the statement
all	reminder where to find info	One/intranet	read
Branches - DMB	"what this means to you"	one focus email	read, understand, think
Branches - agency	"what this means to you"	branchfocus email	read, understand, think
Central teams	"what this means to you"	one focus email	read, understand, think
all	reminder	One/intranet	read
Branches - DMB	how to report	one focus email	know where to go
Branches - agency	how to report	branchfocus email	know where to go
Central teams	how to report	one focus email	know where to go
all	reminder	One/intranet	read

4. Extract from Whistleblowing Policy

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"Whistleblowing" refers to the act of exposing potential or actual wrongdoing and/or dangerous practices by reporting it either internally within an organisation, or externally, for example to a regulator. The law on Whistleblowing is contained in the Employment Rights Act 1996 as amended by the Public Interest Disclosure Act 1998. Wrongdoing includes criminal activity, civil offences (including negligence, breach of contract, breach of administrative law), miscarriages of justice, dangers to health and safety or to the environment and the cover up of any of these.

Workers should raise a concern if they are aware of, or suspect, wrongdoing which affects others (e.g. customers, members of the public, colleagues or the Post Office). Some examples (this is a non-exhaustive list) of situations where a worker may raise a concern are:

- Financial Crime including Fraud, Money Laundering and financing of terrorism, Bribery and Corruption,
- Giving, offering or taking of bribes,
- Financial mismanagement,
- Misreporting,
- Practices that could put individuals or the environment at risk,
- Breach of Post Office internal policies and procedures (including the Code of Business Standards),
- Concerns about slavery or human trafficking, and
- Any conduct likely to damage Post Office's reputation.

A Whistleblower is a person who raises a genuine concern relating to any wrongdoing including any of the above. If a worker has any genuine concerns related to suspected wrongdoing, they should report it under this Policy.
If a worker is uncertain about whether something is within the scope of this Policy, they should seek advice from the Whistleblowing Officer, whose contact details are set out in this Policy."

(Extract from Section B. Context)

5. Extract for inclusion in Code of Business Standards (currently being redrafted)

Modern slavery is a crime and a violation of fundamental human rights. It takes various forms, such as slavery, servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another in order to exploit them for personal or commercial gain.

Post Office is committed to acting ethically and with integrity in all our business dealings and relationships and to implementing and enforcing the systems and controls set out in our Modern Slavery Statement (available on our intranet) with the aim of ensuring that modern slavery is not taking place anywhere in our own business or in any of our supply chains.

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The prevention, detection and reporting of modern slavery in any part of our business or supply chains is the responsibility of all Post Office employees at all levels, as well as of its directors and officers.

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10.1) Whistleblowing

Author: Jane MacLeod
Meeting date: 18 May 2017

Executive Summary

Context

Post Office has a Whistleblowing Policy which was adopted in May 2016, and adopted by POMS in September 2016. The policy requires an annual report to the ARC.

Questions this paper addresses

- What whistleblowing reports have been made this year?
- What actions have been taken to investigate these reports?
- What issues do these reports raise?

Conclusion

1. Whistleblowing concerns relating to either POL or POMS can be raised in a number of ways including to line managers, other senior managers, through the Speak Up line, to the General Counsel via the email address whistleblowing GRO , or in certain cases through external reporting lines such as to a regulator.
2. Postmasters can also raise concerns through the Grapevine reporting line and website, although concerns raised this way are investigated by the Security team. We are currently looking at how to identify those reports made through Grapevine that should be considered as 'whistleblowing'.
3. Customers frequently use the Executive Correspondence Team ('ECT') to raise concerns and we are also looking at how to identify those reports that could potentially raise whistleblowing issues.
4. In the period from end March 2016 to date only 4 reports have been received through whistleblowing channels. This seems low, although previous years have not had materially more reports: 3 in 2014-15, and 7 in 2015-16. The numbers would be higher if we included Grapevine and the ECT, although at this stage we cannot estimate these.
5. The reports in the current year related to the following:
   - A report was made to the FCA by an individual who was concerned that it appeared to be a normal practice for staff at a specific branch to be able to initiate transactions under a single log-in. The FCA referred the concern to Bank of Ireland. Bank of Ireland requested Post Office's assistance to respond to the complaint. POL provided a response to BoI as to the

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required Horizon protocols and there has been no follow up from the FCA or BoI.

- An anonymous report was made to the Speak Up line expressing concern as to the software procurement practices at Post Office. The CIO and Head of Procurement were asked to review the software procurement processes and confirm that they were satisfied that the processes are appropriate so as to ensure that requirements are properly scoped and relevant procurement processes followed. Their advice was that while anomalies will always occur, and the processes are cumbersome, overall they believe the processes are sufficiently robust.
- Two separate anonymous reports have been made recently regarding certain practices being followed by the postmasters in specified agency branches. As these reports were only received a few days ago, they are still being investigated by the Financial Crime and security teams.

6. The whistleblowing policy is referenced in many of the other Post Office policies and the Code of Conduct. Since the beginning of the calendar year we have issued communications across the business reminding colleagues of the whistleblowing policy and how concerns can be reported. Interestingly the report raised in relation to software procurement followed one such communication. The Code of Conduct is currently being reviewed and will be re-launched shortly. This will also emphasise the reporting options for whistleblowing.

Input Sought

The Committee is asked to note the report.