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Post Office Audit, Risk and Compliance Agenda

Date
19th May 2016

Start Time	Finish Time
10.30hrs	12.30hrs

Location
Room 1.19 Wakefield

Present	In Attendance		Apologies
• Tim Franklin (Chair) • Richard Callard • Ken McCall	• Paula Vennells (Items 1-10) • Al Cameron (Items 1-10) • Jane MacLeod (Items 1-10) • Alwen Lyons • Amanda Bowe (Item 2)	• Mike Morley-Fletcher (Item 4) • Garry Hooton (Item 5) • Peter McIver, EY • Elena Belyaeva, EY • Mounia Mukina, EY • Tom Moran (Item 10c) • Steve Norris (Item 10c)	Carla Stent

Agenda Item	Action Needed	Purpose	Lead
1. Welcome and Conflicts of Interest			Chairman
2. Report from POMS ARC	For noting	To receive a report from the meeting of the POMS Audit, Risk and Compliance Committee held on 10 May 2016. To note the minutes of the meeting of the POMS Audit, Risk and Compliance Committee held on 15 March 2016.	Amanda Bowe
3. Minutes of the meetings held on 17th March 2016, Matters Arising and Action List	For approval	To approve the minutes of the meeting held on 17th March 2016, note the Matters Arising and update on the Actions	Chairman
4. Annual Report & Accounts • Covering paper • Briefing book • Report from External Auditors (EY) • Accounts – Front Half • Financial Statements • Financial Reporting and Controls Update	For discussion	To review and comment on the draft Annual Report and Accounts.	CFO Peter McIver EY
5. Annual Report and Accounts Disclosures	For discussion	Approval of disclosures on: Business Risks, and governance statements on Risk Management (including risk, control and assurance).	Mike Morley-Fletcher

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Agenda Item		Action Needed	Purpose	Lead
6.	Risk & Control Update • Key Policies • BCP • Executives' Declaration	For discussion	To update the Committee on progress with key components of the PO Risk Framework Plan, including: • Update on Policy project (completion of CS policies and list of possible other key polices to consider for assessment) and progress on BCP project • Results from Executives' Declaration	Mike Morley-Fletcher
7.	Internal Audit			
	• Quarterly Report and follow up actions	For discussion	To update the Committee on the PO Internal Audit activity and key outcomes and to provide an update on the overdue audit actions.	Garry Hooton
	• Conclusion of 2015/16 Plan			
	• Financial Crime Audit	For noting	Update the ARC on the actions following the Financial Crime audit	Jane MacLeod
8.	AML & CTF audit activity	For noting	Update on ALM &CTF activity in preparation of the HMRC audit	Jane MacLeod
9.	Noting Papers	For noting		
	• Audit Quality Enhancements		To note the Audit Quality Enhancements paper prepared by EY.	Chairman
	• Horizon Scanning		To note the Horizon Spotting paper.	Jane MacLeod
	• Property Compliance Update		To note the Property Compliance Update.	Tom Moran
10.	Private Meeting with External Auditors			Peter McIver EY
CLOSE				

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Report from the 10 May 2016 meeting of the Post Office Management Services Ltd (POMS) ARC

Author and Sponsor: Amanda Bowe, POMS ARC Chairman Date: 19 May 2016

1. Reporting Arrangements

1.1 The POMS ARC Chairman, Amanda Bowe, provides the Post Office ARC with a written report from each meeting of the POMS ARC, where timing allows.

1.2 In accordance with the revised terms of reference for the Post Office ARC, the latest set of approved minutes of the POMS ARC will be provided to each meeting. Minutes of the 15 March 2016 POMS ARC meeting are now provided.

1.3 Carla Stent and Amanda Bowe have agreed that going forwards Amanda Bowe will attend two meetings of the Post Office ARC every year, one in person and one by telephone. The scheduling of her attendance will align with the Post Office ARC's deep dives on Financial Services.

2. Update from the 10 May 2016 POMS ARC

2.1 At its meeting on 10 May 2016, the POMS ARC:

(a) received a report from the internal auditor on: (1) internal audit activities and the positive progress against the 2016/17 Plan; and (2) the internal audit findings on the follow up of the Hawk readiness review (undertaken by PwC). The ARC noted the progress made with firming up the actions and agreeing a timetable to address these, which fell in the three key areas of: Appointed Representative risk; complaints processes; and company policies;

(b) received a presentation from Kevin Gilliland, Post Office Network and Sales Director and Jonathan Hill, Post Office Head of Financial Services Risk, Governance and Development, on the oversight of Post Office as Appointed Representative of POMS, focussing on the regulated financial services activity conducted within the branch network. The ARC was encouraged by the progress in Post Office's management of its oversight of regulated activity. However, the POMS ARC requested a comprehensive prioritised action plan to come to the July 2016 meeting of the Board, anticipating that the actions will address the risk presented by the AR's activity over the course of 2016. A further update from Kevin Gilliland will be requested to the November 2016 meeting of the ARC;

(c) received an update on risk and compliance activities, including: the risk framework; an update on top risks; regulatory related management

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information including detail on compliance requirements and developments; information on incident reporting and control failures; and updates on new business developments and horizon scanning;

(d) approved the company policies framework and requested that the executive progress the roll out of POMS' policies over the next quarter. It also agreed that the policies requiring non-executive level approval would be split between the Board (for business operation and strategic policies) and the ARC (for policies concerned with risk management);

(e) noted progress against the compliance monitoring plan and received an update on any reviews and/or actions since the last meeting;

(f) received a paper providing clarification of the scope of the work of the Information Security Assurance Group (ISAG) to be provided to POMS going forwards and highlighting any current issues. It was agreed that the ARC would receive an annual report from the ISAG;

(g) noted a verbal update on the progress with the external audit which was underway for the period ending 27 March 2016;

(h) reviewed the information to be used for submission of the FCA end of year Retail Mediation Activities Return and recommended to the POMS Board that it approve the use of this information and authorise submission to the FCA;

(i) noted a verbal update on the progress of the Annual Report and Accounts for the 16 month period ending 27 March 2016 and that due to Group reporting timing constraints the Annual Report and Accounts would be considered in detail at the meeting of the POMS Board on 17 May 2016; and

(j) agreed that the Board risk workshop, to be held on 14 June 2016, would focus on reviewing the top risks and the relevant risk appetite, following the anticipated approval of the POMS strategy by the POMS Board at its meeting on 17 May 2016 and the required engagement with the Post Office Board.

3. Input Sought

3.1 The Committee is asked to note the report.

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PARC 16/01 – 16/15

POST OFFICE MANAGEMENT SERVICES LIMITED
(the Company)

Minutes of an Audit, Risk and Compliance Committee
held at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ
on Tuesday 15 March 2016 at 11.00am

Present:	Amanda Bowe	Non-Executive Director and Committee Chairman (Chairman)
	Stephen Ashton	Chairman (SA)
	Jane MacLeod	Non-Executive Director (JM)
In Attendance:	Rob Clarkson	Managing Director (RC)
	Susie Hayward	Head of Risk and Compliance (SH)
	Garry Hooton	Interim Head of Internal Audit, Post Office (GH)
	Nick Kennett	CEO (NK)
	Victoria Moss	Deputy Company Secretary (VM)
	Colin Stuart	Finance Director (CS)
Apologies:	None	

PARC 16/01 **WELCOME AND CONFLICTS OF INTEREST**

(a) The Chairman welcomed everyone and declared the meeting quorate.

(b) There were no changes to the standard declarations of potential conflicts of interest recorded for directors.

PARC 16/02 **MINUTES OF THE MEETING HELD ON 20 NOVEMBER 2015**

(a) The minutes of the meeting held on 20 November 2015 were approved as an accurate record and the Chairman was authorised to sign them.

PARC 16/03 **MATTERS ARISING AND ACTIONS LIST**

(a) The Chairman asked for the tracking of actions which had arisen from the Board risk workshop on 19 November 2015 to be evidenced.
ACTION: VM

(b) The Committee noted that there was an action in relation to the complaints process at minute PARC 15/17(o) which had not been correctly identified as an action. RC provided the Committee with an update, explaining that additional correspondence was being provided to complainants and the risk identified in the Annual Operating Plan but with no budget allocated as yet. The issue was being addressed with a full review of the complaints process and the Committee would be further updated in due course. It was confirmed that this action would be added to the actions list.
ACTION: VM

(c) **Action POMSB 15/87(n)** – this action had been deferred from the November 2015 meeting of the Board. The Committee felt that the

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update provided to close the action was insufficient. SH confirmed that identification of training and competencies had been included in the risk paper. The Committee requested that the update be amended to include this information.

ACTION: VM

(d) The Chairman emphasised the importance of providing clarity in updates which closed actions. If actions were closed through the provision of information in a paper, an explicit reference was required to the exact section or paragraph number.

ACTION: All

(e) **Action POMSB 16/09(i)** – NK confirmed that he had intended for Jonathan Hill, Post Office Head of Risk, Banking Regulation and Strategy, to attend the meeting but unfortunately he was unable to attend due to illness. NK added that for any future requests for attendance of a Post Office employee, a clear mandate or terms of reference would need to be provided, the Committee agreed that NK should develop this. The Committee formally requested that Paula Vennells, Post Office CEO, should attend the next meeting of the Committee in May 2016, SA would issue this invitation.

ACTION: NK

ACTION: SA

(f) The Committee noted the actions list.

PARC 16/04 **PWC FOLLOW UP REVIEW – FINDINGS**

(a) SH introduced the paper which set out the key findings from the PwC follow up to its Hawk readiness review conducted in August and September 2015. The full draft PwC report had been provided in the Committee's reading room on BoardPad.

(b) The Executive emphasised the draft nature of the report and explained that it had been provided to this meeting of the Committee to comply with the commitment given, but at the time of submission had not been reviewed by the Executive. The Committee confirmed that in future no papers should be submitted to meetings of the Board or its committees without first having been reviewed by the Executive Committee or its members.

ACTION: All/ CoSec

(c) The Committee noted that the report should not have been submitted in its current draft state and agreed that it should be resubmitted to the Committee's next meeting in May 2016. This resubmission would include the agreed findings with appropriate recommendations and a comprehensive plan to address all actions (including the oversight of Post Office), against the framework of activities from the original report. The Committee acknowledged that this was a very active workstream and some updates might be less relevant by May but that the update would address the substance of the report.

ACTION: SH

(d) Caution was advised over the drafting of future briefs for work, to ensure clarity of scope and expected outcome to guard against the unnecessary production of more work. It might also be advisable to establish at the outset of any similar work that any future work arising from recommendations would not necessarily be awarded to the same firm.

ACTION: All

ACTION: SH/ GH (e) It was confirmed that any overdue internal audit or red rated actions would be raised in the CEO's report to the Board.

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PARC 16/05 **REVIEW OF THE COMPANY'S ARTICLES**

(a) VM introduced the paper which set out the proposed amendments to the Company's Articles. The amendments incorporated changes resulting from the recommendation of the PwC Hawk readiness review to re-examine the Company's governance structure, to manage better the relationship between the Company as regulated principal and Post Office as shareholder and appointed representative.

(b) In response to the PwC recommendation, Linklaters had been engaged to review the Company's Articles and to suggest suitable amendments. These amendments had also been reviewed by JM, General Counsel for the Group.

(c) Additional amendments had been made to address a request from the Board at its meeting on 27 July 2015 and to update the registered office address and to tidy up the cross referencing to article numbers.

(d) The Committee, having reviewed the proposed amendments, recommended to the Board that it should approve the specified amendments to the Company's Articles, as set out in the paper, for onward submission to the Post Office Board for adoption and filing at Companies House.

PARC 16/06 **EXTERNAL AUDIT**

Update on Audit Partner Meeting

(a) The Chairman updated the Committee on the meeting with SA and the external audit partner from Ernst & Young (EY), Peter McIver, on 25 February 2016.

(b) The Chairman reported that the meeting had gone well and reminded the Committee that the agenda for that meeting had been provided for information in the Committee's reading room on BoardPad. Results of the discussions were reflected in the external audit plan submitted.

External Audit Plan (year ending 27 March 2016)

(c) CS introduced the external audit plan for the year ending 27 March 2016 and explained that EY would perform the external audit to a timetable consistent with the Group's reporting requirements but to a materiality consistent with the Company as an entity.

(d) CS continued that the plan took a risk based audit approach and in his opinion was a good and well focused document. CS clarified that while the plan was not for the Committee to approve, the Committee was invited to highlight any areas of risk or concern which it felt had not been sufficiently addressed.

(e) The Executive was asked about existing concerns around risks in any of the areas identified by EY. RC reminded the Committee that regarding the income stream from BGL, IRRELEVANT had been spent on a specialist financial auditor to perform a separate independent audit on BGL's P&L. This audit had raised no significant issues and assurance could therefore be demonstrated on this issue.

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(f) CS assured the Committee that EY had been in possession of the papers relating to Project Hawk for some time and he did not anticipate any issues around Project Hawk or the Company's recognition of income.

(g) CS confirmed that the recent review by KPMG of Post Office financial controls had not considered the Company but there would be some impact due to the outsourcing of work to Post Office. The review had mostly focussed on back office arrangements and he anticipated some recommendations for the control environment. If the results and recommendations were found to be relevant to the Company they would be reported to the Committee at the appropriate time.

ACTION: CS

(h) Referring to the Finance Director's report which had been provided for the meeting of the Board, SA wished to understand better the reporting of the understatement of Collinsons' income and the overstatement of marketing accruals. However, he did not anticipate either issue being addressed by or of concern to EY.

(i) Regarding the understatement of Collinsons' income, RC explained that quotes had been completed in branch which had not been taken up by customers. Due to an operational error, these quotes were converted as policies and payment was made from the Company to Collinsons'. The process had now been cleaned up with a process of regular reconciliations in place. RC reminded the Committee that the platform would only be used for another nine to ten months and this issue had been a technical glitch affecting cash flow but with no customer detriment.

(j) Regarding the overstatement of marketing accruals, CS explained that there had been a Group-wide exercise on marketing accruals with purchase order reviews, particularly in the project space. Purchase orders had been raised through marketing and paid without correct reconciliations but there was now a much improved process in place. This was further enhanced with a Company dedicated code now in place.

(k) The Committee noted that EY had determined materiality to be IRRELEVANT and therefore the level of IRRELEVANT for reporting corrected and uncorrected audit misstatements was very low. It was further noted that errors over IRRELEVANT would be reported.

(l) The Committee noted that EY wished to raise the risk of 'understanding regulatory change'. However, since the Company could clearly evidence the existence of an appropriate process, CS was asked to ensure that the issue was not included for future years.

ACTION: CS

External Audit Fee

(m) CS confirmed that the 2016 external audit fee of IRRELEVANT was in line with budget and expectations, particularly since it was the first for the Company and covered a period longer than 12 months. For 2017 the Committee expected the fee to be lower, at around IRRELEVANT. CS would communicate this to EY.

ACTION: CS

(n) The Committee confirmed that it was comfortable with both the proposed fee for 2017 and the content of the external audit plan for the year ending 27 March 2016 and endorsed the EY approach.

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PARC 16/07 **RISK MANAGEMENT AND COMPLIANCE**

(a) SH introduced her paper on risk management and compliance which provided an update on the risk framework and second line compliance activity in the period, including conduct risk management information. The Chairman reported that she had discussed and agreed with SH the revised format of the paper and that supporting papers for key areas should be appended.

(b) In addressing an action from the Board on information security, SH confirmed that she had been working with the Post Office ISAG (information security and governance) dedicated resource for the Company. A risk register for information security was being built and top contracts reviewed. A detailed report would be submitted by ISAG to the May 2016 meeting of the Committee detailing the findings and work being undertaken by the team.

ACTION: SH

(c) The Committee was given assurance by JM and NK that oversight of the branch network and its status as Appointed Representative of the Company and of BoI were issues which Post Office was addressing as current concerns. However, confirmation of the revised financial services (FS) strategy was the more immediate priority to enable a comprehensive understanding of the strategic direction for FS sales and the surrounding risk appetite. The preliminary strategy would be submitted to the Post Office Board for discussion at its meeting on 21 March 2016, with approval scheduled for June 2016. There were a number of current challenges linked to regulatory oversight matters and associated with the status of branches and Post Office affiliations with other FS regulated businesses, with a resulting high level of awareness across Post Office. The Chairman confirmed that she would discuss this with the Chairman of the Post Office Audit, Risk and Compliance Committee and Post Office's current implicit acceptance of the risks around oversight of the branch network.

ACTION: Chairman

(d) The Committee noted the MI in the paper, SA asked about price increases and whether any resulting complaints were sufficient drivers to reassess future increases in terms of risk appetite and/or customer detriment. It was confirmed the impact of some price adjustments implemented last year were beginning to show. The Executive acknowledged that the impact assessment could have been better on the cumulative effects of one customer potentially being impacted by price changes on four different products. RC confirmed that the potential for a cumulative effect on customers had been discussed at the executive Product and Pricing Committee. There was a need to address all the components of the pricing policy and to appoint a Head of Pricing in due course.

(e) The Committee discussed the update on compliance activity and noted that this would be prioritised first by risk profile and then by resource availability.

Add-Ons

(f) The Committee noted the appended paper which provided an update on the add-ons review and SH's confirmation that this matter was on track.

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Regulatory Change Log

(g) The Committee noted the appended regulatory change log and requested that the names of those with first line accountability for each action be added to the log.

ACTION: SH

(h) The Committee noted that the log was designed to track changes but asked for confirmation that there was a process in place to deliver any necessary changes. RC confirmed that regulatory change would be added to the change delivery roadmap submitted to each meeting of the Executive Committee.

ACTION: RC

Policy Framework

(i) SH introduced the policy framework and confirmed that it was aligned to the Group policy framework which was also being reviewed. The new template for Group policies had been developed by JM's team using a risk based approach. Group policies would be accepted by the Company as a default position unless there was reason for the Company to have either an amended policy or its own specific policy to comply with, for example, regulatory requirements.

(j) The Committee discussed the need for a policy on counterparty risk but it was agreed that the Company's contracting principles would address this to a large extent.

ACTION: B Foat

(k) It was noted that there was not yet a Pricing Policy in place but a set of pricing rules. RC confirmed that a policy would require three distinct stages and would need to consider acquisition and retention pricing. To address action PARC 15/17(h) the Committee had been provided with a paper in the reading room on BoardPad entitled *Commission Pricing in GI*.

(l) The Committee discussed the scope of policy application down the supply chain. JM confirmed that within negotiations with suppliers there was provision for them to state that they had in place an 'equivalent' policy or policies.

(m) SA asked about the inclusion of staff vetting arrangements within the Financial Crime Prevention Policy. JM confirmed that the process for on boarding staff addressed this point. It was agreed that the Financial Crime Policy would be renamed Financial Crime Prevention Policy.

ACTION: SH

(n) The Committee agreed that polices should be aspirational and should state what the Company should be doing, with an acceptance of risk if current compliance was unachievable and with clarity of the developments required in order to reach a position of future compliance.

(o) The Committee noted that the current draft policy framework was helpful but agreed that a revised version be submitted to the Committee in May 2016 when it should:

- ensure the policies are relevant to the activities of the Company, rather than being overly generic;
- include a revised table of policies aligned to the key risks of the Company;
- align to the risk universe, identifying the key policies and clarifying at

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which governance forum these should be approved;

- identify supporting documents;
- identify mitigants in place for identified risks;
- clarify the suitability and applicability to the Company of any Group policies to be adopted;
- identify any gaps; and
- set out the plan and timescale for communicating the policies and the proposed process for how to monitor and assess compliance, including an annual review, and embed the policies within the culture of the Company.

ACTION: SH

Incident Reporting

(p) SH explained that she had condensed the information to a summary dashboard. The Chairman noted her concern that there had been a data breach but that appropriate action appeared to have been taken.

(q) SH reported on the recent technical breach regarding Post Office appointment of agents requiring multiple principal agreements. This had resulted from Post Office having arrangements with around 10 to 15 retailers who also had regulated businesses; multiple principal agreements were required to cover this situation. SH confirmed that for the Company this was probably notifiable under Principle 11 but was unlikely to be reportable as there had been no customer detriment. NK confirmed that the Group was finalising writing to all retailer partners thought to have other regulated businesses, and a strategy was being developed as to the appropriate measures to resolve.

(r) It was agreed that SH would work with the Chairman to clarify definitions of what regulatory breaches were reportable.

ACTION: SH

(s) The Committee noted the risk management and compliance papers and updates.

PARC 16/08 **OVERSIGHT OF POST OFFICE**

(a) SH introduced the paper which discussed the relationship between the Company and Post Office and identified the list of risks associated with the relationship and mitigating actions. The paper also sought to review the level of risk across the branch network (in particular the agency branches) by looking at the level of activity, oversight and conduct outcomes attributable to agency sales.

(b) The Committee noted the helpful paper and the clarification of Post Office actions and further noted that the actions for the Company would be discussed in detail and clarified at the Board risk workshop in June 2016.

(c) Regarding the risk accountability for marketing and distribution, it was understood that marketing costs were included with the overall fee to Post Office and were not visible separate to commission. RC would outline, within the strategy presentation to the Board, how accountability for the delivery of trading plans would be allocated to areas where delivery capability exists within Post Office.

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(d) The Committee noted the existing mechanism for reporting at a non-executive level from the Company to Post Office, specifically that the Committee Chairman gave a report to the Post Office Audit, Risk and Compliance Committee and had regular meetings with the Chairman of that Committee. The Committee requested confirmation of an equivalent process at the Executive level. NK confirmed that there was a clear line of reporting for the Company through the financial services line of Post Office but consideration would be given to whether this was sufficient and the Committee would be given confirmation.

ACTION: NK/ JM

(e) The Committee agreed that risks should be formalised into a list of risks to sit as a sub category within the risk register. Each of these risks should have clarity of ownership (both for the Company and for Post Office) with agreed actions and a confirmed timescale for completion. SH confirmed that mapping to the risk register had already been completed and RC asked that the lack of service level agreements for managed services be identified as a risk to the effective delivery of the strategy. It was acknowledged that this work might be covered in the response to the PwC follow up review. NK confirmed that financial services compliance risk was amongst the Post Office's overall top risks.

ACTION: SH

Agency Sales and Cancellations

(f) SH presented the appended paper on sales and cancellations for the travel and over 50s life products within the agency network. RC explained that the basis of the paper had been the lack of assurance provision from the appointed representative to assist the Company in understanding the data for performance against channel.

(g) The Chairman had some concerns about the level of cancellations, what insight that gave into customer behaviour and how this was being addressed. RC explained that the findings showed that short term life cancellations were in line with similar experience of other providers; these products are sold without advice and were benchmarked against non-advised sales in banks of similar products. NK confirmed that the cancellation rate had been raised in reviews with the FCA on two occasions and that no further information had been requested; the situation was being actively monitored.

(h) SH commented that the reason for a cancellation are currently not consistently provided by the product providers; as cancellations could indicate that the customer had been sold an inappropriate product, SH was asked to work with the Product Heads and return to the next meeting of the Committee with a comprehensive picture of the reasons for cancellations and a consideration of whether a monitoring review of cancellations was appropriate. SH would also work with the Post Office oversight team to outline the monitoring activity in crown and agency branches.

ACTION: SH

(i) The Chairman referred to page 4 of the paper and the statement that complaints as a percentage of sales were low at four per cent. RC confirmed that these calls related to mailing activity where customers had asked to be removed from the mailing list and he was asked to ensure clarity in future papers to ensure an accurate understanding.

(j) The Committee noted the papers discussing oversight of Post Office.

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PARC 16/09 **UPDATE ON COMPLIANCE MONITORING**

(a) SH presented for approval the Compliance Monitoring Plan 2016/17. The Chairman assured the Committee that she had discussed the Plan with SH and GH in some detail and was content to recommend it for approval.

(b) The Committee approved the Compliance Monitoring Plan 2016/17, as submitted to the meeting.

PARC 16/10 **OTHER ASSURANCE WORK**

Audit Activity Update

(a) SH presented the slide which provided the Committee with a brief update on audit activity for March 2016.

(b) The Committee noted the update provided.

Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) Framework Report – Findings and Proposed Responses

(c) JM presented the paper which provided the Committee with an update on the recommendations and actions following the recent AML and CTF review and set out any impact on the Company.

(d) The Committee noted the update provided.

PARC 16/11 **INTERNAL AUDIT UPDATE**

(a) GH presented the internal audit report and reminded the Committee that for 2015/16 the internal audit work had been limited to a review of compliance readiness for the standing up of the Company on 1 October 2015.

(b) The Committee noted the update.

PARC 16/12 **INTERNAL AUDIT PLAN 2016/17**

(a) GH presented for approval the proposed internal audit plan for 2016/17. The plan had been developed using a risk based approach according to Internal Auditing Standards and was based on the risks identified by the Company's management in its risk registers. Input had also been sought from members of the Committee, members of the Executive and their teams and consideration had been given to the proposed Post Office financial services reviews.

(b) RC commented that the third priority area – oversight of outsourced activities, appointed representative and third parties – was too wide. The Committee agreed to the suggestion that this area be further broken down by risks: appointed representative; Master Services Agreement; and counterparty risks for third party services.

ACTION: GH

(c) The Committee noted that some of the sponsors of the proposed reviews required amendment, for example, the main sponsors for the Post Office

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financial services reviews should be reversed to show Kevin Gilliland with NK in brackets.

ACTION: GH

(d) The Committee discussed the proposed Post Office financial services reviews which would also address risks to the Company and concluded that the four reviews appeared appropriate for Post Office as an appointed representative.

(e) An update on how work was being prioritised would be submitted to the next meeting of the Committee in May 2016, together with information on the budget which had not been available for this meeting.

ACTION: GH

(f) The Committee approved the internal audit plan for 2016/17, subject to the requested changes specified in paragraphs (b) and (c) above and noted the proposed Post Office financial services reviews.

PARC 16/13 **REPORT TO THE BOARD AND TO THE POST OFFICE AUDIT, RISK AND COMPLIANCE COMMITTEE**

(a) It was agreed that the Chairman's report from the meeting to the Board and to the Post Office Audit, Risk and Compliance Committee would include the following:

- the Committee's consideration of the oversight of Post Office and the action for the Committee to receive in May 2016 a comprehensive action plan covering this oversight;
- the Committee's consideration of: the Company's policy framework; updates on risk and compliance; and the engagement between Post Office and the Company on both the executive and non-executive levels;
- the Committee's approval of the Compliance Monitoring Plan and the Internal Audit Plan for 2016/17; and
- the Committee's noting of the External Audit Plan for the period ending 27 March 2016 and the audit fee.

(b) The Committee noted that both these reports would be verbal since the timing of the Board (to be held on 15 March 2016) and the Post Office Audit, Risk and Compliance Committee (to be held on 17 March 2016) did not allow for the submission of written reports.

PARC 16/14 **ANY OTHER BUSINESS**

(a) The Committee noted that the Board's second risk workshop would be held on Tuesday 14 June 2016. The Chairman stated that the workshop would focus on refreshing and reviewing the Company's risk appetite statement, following the scheduled approval of the strategy in May 2016 and confirmation of the Annual Operating Plan.

(b) There being no further business the Chairman declared the meeting closed at 1.05pm.

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PARC 16/15 **DATE OF NEXT MEETING**

(a) The Committee noted that its next meeting would be held on Tuesday 10 May 2016 at 2.00pm.

GRO

Chairman

10 May 2016

Date

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2. Report from POMS ARC

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Strictly Confidential

POLARC 16(2nd)
POL ARC 16/10 – 16/20

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE held at 2.00pm on 17th March 2016 at 20 Finsbury Street, London EC2Y 9AQ

Present:

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

In Attendance:

Paula Vennells	Chief Executive, (CEO)
Alisdair Cameron	Chief Financial Officer (CFO)
Jane MacLeod	General Counsel (GC)
Nick Kennett	Financial Services Director, & CEO POMS (NK)
Alwen Lyons	Company Secretary (CoSec)
Mike Morley-Fletcher	Head of Risk and Assurance, Corporate Services, (MMF)
Garry Hooton	Audit Manager (GH)
Peter McIver	Ernst & Young (EY) (PM) by conference call
Mounia Mukina	EY (MM)
Elena Belyaeva	EY (EB)
Natasha Wilson	Director, Reward & Pensions (NW) (Minute 16/18 only)
Tim Giles	Aon Hewitt (TG) (Minute 16/18 only)
Amanda Bowe	Post Office Management Services Limited (POMS) Non-Executive Director and Chair of ARC (AB) (Minute 16/11 only) by conference call

POLARC 16/10 INTRODUCTION

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

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

POLARC 16/11 REPORT FROM POMS ARC

(a) The Chair welcomed AB to the meeting.

(b) AB gave a verbal report from the meeting of the POMS ARC which had taken place on 15 March 2016, immediately preceding the POMS Board.

(c) The POMS ARC's main focus of discussion had been: oversight by Post Office; consideration of the Policy Framework; and updates on risk and compliance.

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(d) The POMS ARC had approved: the Compliance Monitoring Plan; the Internal Audit Plan for 2016/07; and the noted the External Audit Plan and fee for the period ending 27 March 2016.

(e) The POMS ARC in May would receive a comprehensive action plan covering the oversight of POL performance under the MSA; the management of risk associated with POL commercial activities – especially regarding marketing & sales activity; and oversight of POL regulatory activities.

(f) NK explained that the need for clarity in the relationships of the Principal and Appointed Representative had been raised by PwC in the readiness assurance provided for POL before the establishment of POMS. He reported that POL CEO would be attending a POMS ARC and Board in due course.

(g) NK explained that the immediate issue of managing compliance in the branch network including AML is covered in work being undertaken by the GC.

ACTION: GC **The Committee asked for a paper for the May meeting explaining how POL had oversight of regulatory activity in branch and how issues are escalated.**

(h) The Committee asked how POL and POMS were kept abreast of regulatory changes. NK assured the Committee that responsibility for horizon scanning for regulatory changes was the accountability of a member of his POMS team.

(i) The Committee noted the report.

(j) AB left the meeting.

POLARC 16/12 **MINUTES OF THE MEETING HELD ON 22 JANUARY 2016, STATUS REPORT AND MATTERS ARISING**

(a) The minutes of the meeting held on 22 January 2016 were approved as presented and the Chair of the Committee was authorised to sign them as a true record.

(b) POLARC 15/30 (e) – The Committee noted the developments to the Contract Management processes and noted the further work that would be required across each function commencing in Q1 2016/17.

(c) POLARC 16/02 (e) – The Committee noted the Cyber Security and Information Assurance Update paper.

(d) The Committee asked for more clarity on how actions had been discharged before reporting them as closed.

ACTION: CoSec **CoSec was asked to highlight where actions are absorbed into activity which the Committee are tracking.**

(e) The Committee noted the action list dated 11th March 2016.

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POLARC 16/13 **RISK & CONTROLS UPDATE**

(a) MMF introduced the Risk Update and explained the progress to date.

(b) The Committee discussed the **Group Risk Profile** and **Incident Reporting** and asked whether Trinity should have been highlighted as an incident. MMF explained that Trinity was being treated as a risk mitigation for risk 7, which had consequently be renamed from 'Transformation Complexity' to 'Transformation IT delivery'. A reduction in the net risk evaluation was expected in the near future as the impact of Trinity was taken into account.

(c) The Committee asked for more granular detail on the 'top risks' to enable them to understand the contribution of specific issues such as IRIS or Trinity. Using 'Industrial Relations' as an example, the CEO explained that the risk rating was a conflation of the Industrial Relations risk of a number of transformational projects.

ACTION: MMF **Description of top risks to be amended where relevant to identify the contribution to the top risks of issues such as IRIS or Trinity.**

(d) The Committee discussed the IT incident reporting. The CFO explained that a survey of incidents was in place and reviewed by the Group Executive (GE).

ACTION: MMF **Consider how to make failure of any of the critical suppliers (eg ATOS, Fujitsu, BOI, RMG) more apparent on the Risk Profile, with an explanation of how Management are managing the risk.**

(e) The Committee discussed whether the 'top risks' covered the current areas and issues which were of most concern to the CEO.

ACTION: MMF **Consider how to update the ARC/Board on the current risks facing the business at a point in time and relating these back to the 'top risks', giving greater clarity on the 'risks of the moment'.**

(f) MMF reported the progress made in developing the **General Control Framework.** The GE accountabilities had been agreed and would be included in objectives for 2016/17. An attestation process to enable GE self–assurance had been developed which would be trialled during the Interim Accounts process and in place

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for the 2016/17 year end Board Annual Assessment and disclosure in the Annual Report & Accounts.

(g) The Committee asked for assurance that the timescales for developing the **Policy Framework** were realistic and were assured by MMF that the work was progressing to plan. The GC explained that some policies had been brought forward to meet the timetable of the Banking Services Framework assurance and that these were on track.

ACTION: MMF **Include in the Policy Framework update for the May ARC an explanation of the governance for policies, and which will be presented to which Committee for oversight.**

(h) The Committee discussed the **Business Continuity Plan** (BCP) and challenged the timescale to complete phase 3 of the process. MMF explained that the October date included in the paper was when BCP would become business as usual, it was not meant to suggest that nothing would be in place before that date.

(i) The CEO stressed that the work underway was to document best practice but that processes were in place for BCP and the Business had the ability to react to an incident.

(j) The Committee asked what part the Board played in the Crisis Management Construct and how the Board would be informed if an incident occurred. The CEO explained that she was personally responsible for keeping the Chairman and the Board informed.

ACTION: GC **The Committee requested that the Crisis Management plan included details of the role of the Board making clear when and how they would be contacted. It would be finalised and circulated to the Board as soon as possible.**

(k) The Committee approved the draft proposal for the Post Office revised corporate governance compliance statement for inclusion in the governance section of the 2015/16 Report and Accounts.

ACTION: CoSec **Include the statement 'PO maintains standards of corporate governance appropriate for our ownership structure, our commitment to social purpose and our strategy to commercial sustainability' in the Annual Report & Accounts.**

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

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POLARC 16/14 **INTERNAL AUDIT UPDATE**

(a) GH introduced the Internal Audit (IA) Update. The Committee were disappointed by the lack of progress on IA actions and challenged management as to whether enough focus was being given to the IA findings.

(b) The CEO explained the time pressure that Trinity had put on the Business over the last two months but accepted that the actions had not be progressed quickly enough. The CEO promised that audit actions would be addressed before the May ARC and that in future GE members would be invited to the Committee if red audit actions had not been addressed.

ACTION: GH **Late red audit actions to be addressed before the May ARC and where this has not happened the GE responsible would be invited to the Committee to explain why actions had not been cleared.**

ACTION:GC **The Committee asked that the GE responsible for the Financial Crime audit be invited to the May ARC**.

(c) The Committee were concerned by the report on Property Compliance Governance, especially in relationship to Health & Safety. The GC expected to have property compliance in place by the end of March, and that all the property IA actions would be completed before the next ARC.

ACTION: Kevin Seller **Provide an update on property compliance governance for the Committee, with more detail on the areas of concern highlighted in the report.**

(d) The CFO gave an update on Trinity and a FOI request received from a law firm. The GC explained the nature of the request and stressed that the information supplied would be redacted to ensure no commercially sensitive information was provided.

(e) Having taken all the discussion points into consideration, the Committee noted the update.

POLARC 16/15 **INTERNAL AUDIT PLAN 2016/17**

(a) GH introduced the proposed Internal Audit Plan for 2016/17.

(b) The Committee asked that cyber security to be included as part of the proposed reviews and not as part of the watch list.

ACTION: GH **Cyber security to be included as a review in the Internal Audit plan 2016/17.**

(c) GH confirmed that he had the required resource to complete the proposed Audit Plan.

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(d) Having taken all the discussion points into consideration, the Committee approved the Internal Audit Plan for 2016/17.

POLARC 16/16 AML CTF FRAMEWORK

(a) GC introduced the Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) Framework. During 2015 responsibility for AML had moved to the Head of Security who had commissioned a review by Promontory. The recommendations from this review were summarised in the Committee paper.

(b) GC reported that the business has also been notified by HMRC that they are to carry out an AML/CFT compliance audit on the Post Office in 2016 in advance of a possible Financial Action Taskforce Review in 2017.

(c) The Committee were concerned by the issues raised in the Promontory report and asked for the following updates:

ACTION: GC **A monthly progress report on the actions highlighted in the Promontory report to be circulated to the Committee**

ACTION: GC **A report on AML at every ARC meeting including a stakeholder plan**

(d) The Committee asked GC if the Audit team could assist in the process and the Chair offered her experience in AML risks and frameworks.

(e) Following discussions the Committee noted the paper.

POLARC 16/17 FINANCE

Lessons learnt on Postmaster Compensation provision

(a) CFO introduced the Lessons Learnt paper on Postmasters' Compensation.

(b) The Committee recognised the work undertaken to improve the controls and noted the changes that had been implemented.

Update on Financial Reporting and Controls

(c) CFO introduced the update on Financial Reporting and Controls. His paper set out the areas where work is underway to give assurance for the signing of the 2015/16 year end accounts, but also to build effective controls for the future.

(d) CFO told the Committee that during the work no further areas of discrepancy had been identified. CFO noted the criticality of the income reconciliation from source data through to client settlement. Scrutiny of the items on the Balance Sheet, was also underway and would include post balance sheet event testing.

(e) CFO took some comfort that the external audit plan approach had been changed to include more testing of the balances.

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(f) Having commented on the progress and the plans, the Committee noted the paper.

EY External Audit Update

(g) PM introduced the External Audit Update and the audit approach which included:

1. Additional work planned to further test the Postmaster Compensation Provision which was highlighted in Appendix A of the EY report, including post balance sheet payments to subpostmasters.
2. Revenue reconciliation across a range of diverse products and systems, similar approach to last year.
3. Classification of and completeness of the exceptional items and the utilisation of the Government Funding, similar approach to last year
4. Other areas would include Pension valuation & accounting; VAT accounting; and IT and SAP Core Finance System checks, similar approach to last year

Performance materiality levels had been reduced from 75% to 50% so any errors over £540k would be deemed material and included in the audit report.

(h) The Committee challenged PM on the appropriateness of using a similar audit approach to last year which had not identified the Postmaster Compensation Provision issue. The Committee asked what EY had learnt from the previous audit and what additional checks would be put in place this year. PM acknowledged the fact that the EY audit had not identified the issue in last year's accounts and that a new team was in place to give a fresh set of eyes and to challenge the risks.

(i) PM gave assurance that the approach this year would include more substantive testing and lower level of materiality.

(j) The Committee asked if the audit approach for 2015/16 had been in place would it have highlighted the Postmaster Compensation Provision error in 2014/15.

ACTION:PM **PM was asked for written response, before the next ARC, to explain what EY had learnt from last year's audit and if the audit approach for 2015/16 had been in place in 2014/15 would EY have highlighted the Postmaster Compensation Provision error.'**

(k) The Committee noted the report.

Report and Accounts

(l) The CFO introduced the production approach for the Report and Accounts 2015/16.

(m) The Committee endorsed the approach, process and timescales outlined and noted the paper.

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POLARC 16/18 **PENSIONS INVESTMENT REPORT**

(a) The Committee discussed the Pensions papers presented which were not clear about what the Committee were being asked to decide.

(b) The CFO gave an introduction to the agenda item and explained that the Business was in the mid-point of a consultation to close the Defined Benefits Pension Scheme to further accrual. Because of this the Pension Trustee had delayed the triannual evaluation which meant that the scheme surplus position reported in the papers appeared optimistic. The Trustee recognise the weakening employer covenant and therefore proposed to de-risk the scheme. Part of this decision required the Trustee to consult with the Business and was the reason for the paper coming to the ARC.

(c) The Chair welcome NW and TG to the meeting.

(d) TG gave a high level summary of the report.

(e) The Committee recognised that Virginia Holmes, the Non-Executive on the Board with pensions expertise, would have been a helpful contributor to the debate and the Chair suggested she be invited to join the ARC for any future pension slots.

ACTION: Chair **The Chair to ask Virginia Holmes if she would be able to join ARC for any pension debates**

(f) CFO emphasised that it was the responsibility of the Trustees to take any decision to de-risk the Scheme and that the Committee was being asked to note that decision. The Committee asked NW to contact Virginia Holmes before responding to the Trustee to understand her view on the decision being made.

(g) The Committee understood the Trustee desire to de-risk the pension scheme to protect the members from a weakened covenant and noted this decision.

(h) NW and TG left the meeting.

POLARC 16/19 **REVIEW OF THE ARC TERMS OF REFERENCE AND INTERNAL AUDIT CHARTER**

(a) GC introduced the ARC Terms of Reference review.

(b) The Chair asked if during the year the ARC had met with EY without Management attending. The Company Secretary confirmed that this had taken place as part of the May ARC meeting.

(c) The Committee asked that AML be added to the proposed topics for all forward agendas.

ACTION: CoSec **Include AML on every ARC agenda going forward, until further notice.**

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(d) The Committee members confirmed that they had fulfilled the requirements of the ARC Terms of Reference as specified by the Board.

(e) The Committee noted the Annual Self-Assessment of the Internal Audit Charter.

POLARC 16/20 ITEMS FOR NOTING

Horizon Spotting

(a) The Committee discussed the Horizon Spotting paper and suggested that Management add the current Trade Union Bill and Ofcom Review.

ACTION: GC **Include the Trade Union Bill and Ofcom Review in the Horizon Spotting exercise.**

(b) GC explained that the implications of the Modern Slavery Act 2015 were being tested in relationship to subpostmasters and their employees, and that this might require a change to the subpostmaster contract. The Committee discussed the requirement on the Business to ensure its key suppliers were also adhering to the Modern Slavery Act.

ACTION:GC **Provide a paper for the May ARC/Board to explain the approach to Modern Slavery, including subpostmasters and their employees and Post Office key suppliers.**

(c) The Committee noted the paper.

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Chair **Date**

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Post Office Limited ARC Committee

Status Report as at: 12/05/2016

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
17 March 2016 POLARC 16/18 (e)	Pensions Investment Report To invite Virginia Holmes to ARC for any pension debates	**Carla Stent**	May ARC	Company Secretary to ensure that Virginia Holmes invited to relevant meetings.	Closed
21 September 2015 15/30 (f)	Strategic risk/Risk update -To look separately at the management of the ATOS contract.	**CFO**	May ARC	Noting paper	Closed
17 March 2016 POLARC 16/19 (c)	Review of the ARC Terms of Reference and Internal Audit Charter The Committee asked that AML be added to the proposed topics for all forward agendas.	**Company Secretary**	May ARC	Included on forward agenda	Closed
17 March 2016 POLARC 16/13 (k)	Risk and Control Update Include the statement 'PO maintains standards of corporate governance appropriate for our ownership structure, our commitment to social purpose and our strategy to commercial sustainability' in the Annual Report & Accounts.	**Company Secretary**	11-Apr-16	Statement included in the corporate governance overview on the first page of the governance statement.	Closed
17 March 2016 POLARC 16/12 (d)	Status Report CoSec was asked to highlight where actions are absorbed into activity which the Committee are tracking.	**Company Secretary**	May ARC	Ongoing.	Closed
17 March 2016 POLARC 16/14 (b)	Internal Audit Update The Committee asked that the GE member responsible for the Financial Crime audit be invited to the May ARC.	**Garry Hooton**	May ARC	Attending the meeting	Closed
17 March 2016 POLARC 16/14 (b)	Internal Audit Update Late red audit actions to be addressed before the May ARC and where this has not happened the GE responsible would be invited to the Committee to explain why actions had not been cleared.	**Garry Hooton**	May ARC	Financial Crime Audit on the May agenda. 32 overdues reported last time, 26 cleared. 6 remain with clear plans to address.	Closed
17 March 2016 POLARC 16/15 (b)	Internal Audit Plan 2016/17 Cyber security to be included as a review in the Internal Audit plan 2016/17.	**Garry Hooton**		Included in the Internal Audit Plan. Will be done in time to report to the September ARC.	Closed

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
17 March 2016 POLARC 16/11 (f)	Report from POMS ARC The Committee asked for a paper for the May meeting explaining how POL had oversight of regulatory activity in branch and how issues are escalated.	**General Counsel**	September ARC		Open
17 March 2016 POLARC 16/16 (c)	AML CTF Framework To provide a monthly progress report on the actions highlighted in the Promontory report to be circulated to the Committee.	**General Counsel**	May ARC	Included on May agenda	Closed
17 March 2016 POLARC 16/13 (j)	Risk and Control Update The Committee requested that the Crisis Management plan included details of the role of the Board making clear when and how they would be contacted. It would be finalised and circulated to the Board when available.	**General Counsel**	Update at the May ARC	Addressed in the BCP paper under conclusion four.	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.	**General Counsel**	May ARC	Corporate Governance Capability - EY are assisting us in developing a plan for updating the May ARC	Open
17 March 2016 POLARC 16/20 (b)	Horizon Spotting Provide a paper for the May ARC/Board to explain the approach to Modern Slavery Act.	**General Counsel**	May ARC and Board	To be provided to the Board 24 May.	Closed
17 March 2016 POLARC 16/20 (a)	Horizon Spotting Include the Trade Union Bill and Ofcom Review in the Horizon Spotting exercise.	**General Counsel**	May ARC	See paragraphs 1 - 9 of the Horizon scanning paper.	Closed
17 March 2016 POLARC 16/16 (c)	AML CTF Framework To provide a report on AML at every ARC meeting including a stakeholder plan.	**General Counsel**	May ARC	Included on May agenda and forward plan.	Closed
17 March 2016 POLARC 16/14 (c)	Internal Audit Update Provide an update on property compliance governance for the Committee, with more detail on the areas of concern highlighted in the report.	**Kevin Seller**	March ARC	Paper going to May ARC.	Closed
17 March 2016 POLARC 16/13 (d)	Risk and Control Update Consider how to make failure of any of the critical suppliers (e.g. ATOS, Fujitsu, BoI, RMG) more apparent on the Risk Profile, with an explanation of how Management are managing the risk.	**Mike Morley-Fletcher**	Sept ARC	Critical supplier failure will be made more explicit when the Top Risks are reviewed with GE members at the half year and reported to September ARC.	Open

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
17 March 2016 POLARC 16/13 (g)	Risk and Control Update Include in the Policy Framework update for the May ARC an explanation of the governance for policies, and which will be presented to which Committee for oversight.	**Mike Morley-Fletcher**	May ARC	Included in update paper on Policy Framework in paper 7a, Appendix 1.	Closed
17 March 2016 POLARC 16/13 (e)	Risk and Control Update Consider how to update the ARC/Board on the current risks facing the business at a point in time and relating these back to the 'top risks', giving greater clarity on the 'risks of the moment'.	**Mike Morley-Fletcher**	September ARC	'Risks of the Moment' will be considered when the Top Risks are reviewed with GE members at the half year and reported to September ARC	Open
17 March 2016 POLARC 16/13 (c)	Risk and Controls Update Description of top risks to be amended where relevant to identify the contribution to the top risks of issues such as Iris or Trinity.	**Mike Morley-Fletcher**	September ARC	The impact of issues such as Iris and Trinity will be considered when the Top Risks are reviewed with GE members at the half year, particularly in mitigation plans and reported to September ARC	Open
17 March 2016 POLARC 16/17 (j)	Finance To provide a written response, before the next ARC, to explain what EY had learnt from last year's audit and if the audit approach for 2015/16 had been in place in 2014/15 would EY have highlighted the Postmaster Compensation Provision error.	**Peter McIver**	May ARC	Paper from Peter McIver circulated on 27 April 2016. Included on the May ARC agenda.	Closed

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Annual Report and Accounts 2015/16

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

Executive Summary

Context

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

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

3. It is proposed that a short ARC call be arranged for the end of June to confirm the completion of the work, provide details of any findings and agree that the ARA can be signed and published, within the Board's delegated authority.

4. The papers comprise a full ARA, a briefing book setting out details of the financial results, a report from Ernst & Young on their findings to date and the latest update on progress in improving financial reporting and control.

Questions

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

The Main Report

Financial Results

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

7. Overall, as planned, POL is now spending more on transformation than it receives through the declining Government Grant. As a result, we increased the use of our facility with government, increasing borrowings by £155m to £465m, against a limit of £950m.

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Audit Status

8. As previously discussed with the ARC, given the need to strengthen the financial control environment, additional procedures are being carried out. The bulk of this work is finished and further detail is provided in the Financial Reporting update and the external audit report from EY.

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

10. As agreed with the ARC, procedures will be completed during the next few weeks and updated with ongoing reviews of post year end transactions. The Board on 24 May will be asked to approve the ARA subject to the completion of this work, delegating authority to the ARC to give final approval and to the CEO and CFO to then sign the financial statements. An additional ARC call will be diarised towards the end of June.

Matters for the ARC's attention

Basis of preparation

11. The financial statements have been prepared on a basis that is consistent with prior years.

12. The accounts have been prepared on the assumption that POL is a going concern, taking into account the funding and facilities available. The logic underpinning this assumption is set out in section 12 of the Briefing Book.

13. Nonetheless, the Board has recognised that the longer term financial stability of POL is uncertain, with no funding or facilities guaranteed after March 2018. We have therefore continued to impair the bulk of our capital expenditure and intangible assets in the year in which is incurred. The amount written off in 2015-16 was £137m (2014-15 £141m) and further details are set out in section 19 of the Briefing Book.

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

15. In addition, we have concluded that it is appropriate to capitalise the goodwill incurred on the acquisition of the remaining 50% of the joint insurance business from Bank of Ireland without immediate impairment. The value is £44m. POMs is a separate, profitable Cash Generating Unit, will generate future revenues and has an economic life of its own: in 2015/16 only 6% of the sale and renewal income of the acquired business was generated by the POL network (14% of new sales). The business therefore has considerable resale value and could continue to trade without POL. The carrying value of the goodwill will be reviewed at each reporting date for any impairment, with no loss in value observed at March 2016.

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Restatement

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

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

Discontinued Operation

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

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

Disclosures

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

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

Input Sought

21. The ARC is requested to review and comment on the draft Annual Report and Financial Statements for 2015-16, enabling the Chairman to provide a verbal report to the Board on 24 June.

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Post Office Limited

Audit, Risk and Compliance Board Sub-Committee

Year ended 27 March 2016

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1. Glossary

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

Abbreviation	Meaning
AEI	Application, Enrolment & Identity
ATM	Automated Teller Machine
BACS	Bankers' Automated Clearing Services
BAU	Business As Usual
BIS	Department for Business, Innovation & Skills
BOI	Bank of Ireland
CPI	Consumer Price Index
DVLA	Driver & Vehicle Licensing Authority
DWP	Department of Work & Pensions
Eagle	Deal in August 2012 to sell Post Office Financial Services (POFS) to the Bank of Ireland, restructure commission rates for personal financial services and extend the contract to 2023
EU BRP	European Union Biometric Residents' Permit
FRES	First Rate Exchange Services
Gamma	A contract variation made in 2007 with POFS generating £100m cash and income over a number of years in return for a series of commitments through to 2020
GRNI	Goods Received Not Invoiced
HPBB	Homephone and Broadband
Horizon	Horizon Next Generation- IT Counter system in branches
NBV	Net Book Value
NS&I	National Savings & Investments
NSP	Network Subsidy Payment
POCA	Post Office Card Account
PFS	Personal Finance Services
POFS	Post Office Financial Services
RMPP	Royal Mail Pension Plan
RMSEPP	Royal Mail Senior Executive Pension Plan
RMDCP	Royal Mail Defined Contribution Plan
RBS	Royal Bank of Scotland
RPI	Retail Price Index
SGEI	Services of General Economic Interest

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2. Introduction

This Briefing Book has been prepared to explain the Post Office Limited results for the year ended 27 March 2016. It is a summary of the key data, trends and analyses which readers may find useful to further their own understanding of the results for 2015-16. It is to be read in conjunction with the Report & Accounts.

Most of the analysis is based on the comparison of 2015-16's actual results to those of the prior year.

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

3. Accounting Policies

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

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4. Primary Statements

4.1 Consolidated Income Statement

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

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4.2 Consolidated statement of cash flows

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

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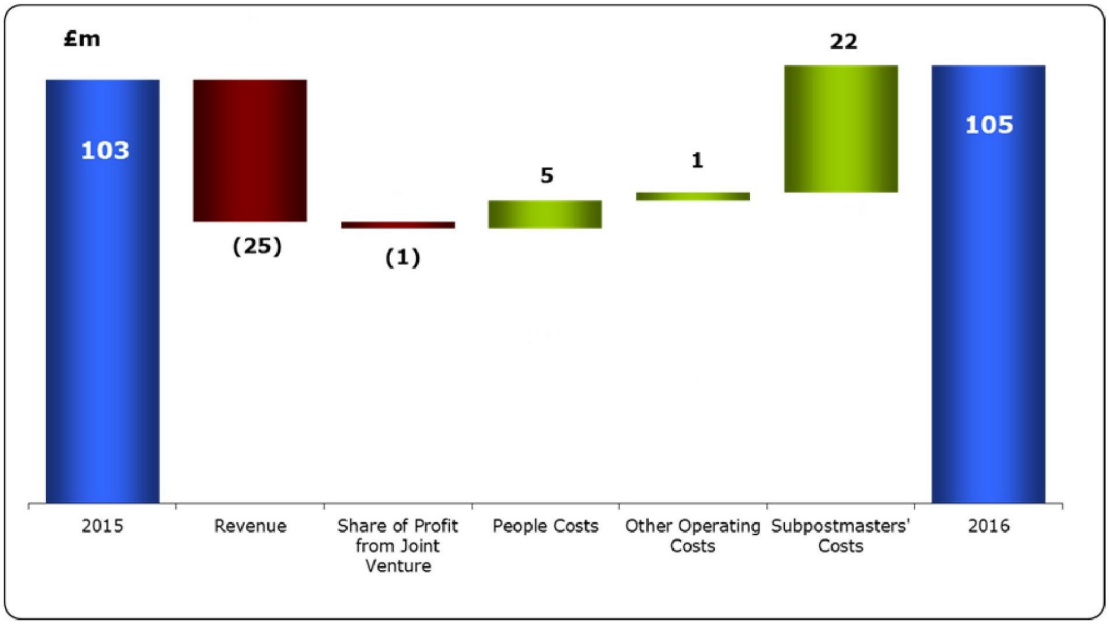
4.3 Consolidated balance sheet

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

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5. Operating Profit before exceptional items.

5.1 Operating profit bridge analysis



5.2 Explanations for key movements are as follows:

- Revenue - section 6
- People costs – section 7.2
- Postmasters costs – section 7.3
- Other Operating Costs – section 7.4

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6. Revenue

	27 March 2016 £m	29 March 2015 £m	Variance £m
Mails	**334**	340	(6)
Retail & Lottery	**46**	48	(2)
Financial Services	**303**	290	13
Government Services	**128**	141	(13)
Telecoms	**130**	120	10
Other	**40**	37	3
Turnover	**981**	976	5
Network Subsidy Payment	**130**	160	(30)
Revenue	**1,111**	1,136	(25)

The decrease in year on year total revenue of £25m (2.2%) to £1,111m (2015 £1,136m) is driven by the £30m decrease in the Network Subsidy Payment, partially offset by an increase of £5m in turnover.

The following commentary gives further detail on the turnover variances by category:

6.1.1 Mails

A summary of the £5.5m (2%) decrease in Mails turnover is set out below. After adjusting for a planned decrease in the fixed fee and an element of back billing the underlying trading variance shows a decrease of £1m.

	£m
Total reduction	(5.5)
Less: planned decrease fixed fee	6.4
Add: one off (back billing)	(1.9)
Underlying trading variance	(1.0)

The key movements within the underlying trading variance are:

- £1.3m reduction in stamps and labels income (1%)
- £1.7m reduction in special mails including international (2%)
- £0.5m net decrease in other products

Offset by

- £2.5m increase in Home Shopping Returns (27%)

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6.1.2 Retail & Lottery

Retail and Lottery turnover has decreased by £2.4m:

- Lottery is £1.7m lower than last year, £1.6m of the fall is due to Camelot income and the remainder to Health lottery. This is a combination of a poorly performing games and a shift online and represents a trend expected to continue into 2016-17.
- Retail is £0.7m lower than prior year as a result of smaller retail square footage post refurbishments.

6.1.3 Financial Services

Financial Services income has increased by £13.2m year on year. Overall PFS (MoneyGram, Post Office savings, insurance, travel, lending and current accounts) is up by £24.4m (19.7%) year on year. Revenue from traditional products has declined by £11.2m.

By product the main drivers of the PFS £24.4m increase are:

- £4.4m increase in Savings products.
  - £5.0m due to the BOI savings underpin.
- £4.0m increase in Travel products.
  - £5.5m increase in Travel Insurance revenues driven by the new POMS subsidiary and £0.2m for Travel money card, offset by
  - £1.5m decrease in Bureau income due to the travel sector having seen a general decline and the supermarkets expanding their networks and marketing investment.
- £4.1m increase from Moneygram as we have gained market share. Transfers to certain Eastern European countries is up 50% and we have increased our network access fees
- £11.3m increase in Insurance revenue is driven by the acquisition of the insurance business from BOI in September 2015.
- £0.6m increase in Lending revenue from:
  - £0.8m increase in credit cards
  - £0.2m decrease from mortgages and personal loans

Other Financial Services revenue decreased by £11.2m:

- A £6.1m decrease in Postal Order income. This is due to a prior year change in policy resulting in write back to revenue of uncashed postal orders over 12 months old (a change from 24 months previously).
- A £1.9m decline from bill payments resulting from a warmer winter, as well as utilities and other bill payment clients continuing to migrate customers to other payment methods such as direct debit and online. We have also lost clients such as Derby City Council to Paypoint and travel ticketing clients such as West Yorkshire ticketing scheme.
- £2.5m decrease in Payment services due to a declining market.
- £4.0m decrease in NS&I as the product ceased in June 2015.

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The above decreases were partially offset by:

- £1.1m increase in ATM revenue driven by the increased volumes as machines reach maturity
- £2.7m net increase in Banking
  - an increase of £3.6m in personal banking because of higher volumes, specifically cash withdrawals and the impact of other banks closing their branches, offset by
  - a £0.8m decrease in business banking revenues due to a fall in corporate deposit rates from the Santander contract.

6.1.4 Government Services

	2016 £m	2015 £m	Variance £m	Variance %
DWP	**75**	87	(12)	(14)
Home Office	**34**	30	4	13
DVLA	**10**	20	(10)	(50)
Other Government Services	**9**	4	5	125
Total	**128**	141	(13)	(9)

The £12.9m (9.2%) decrease in Government Services revenue is due to:

- £9.7m lower DVLA revenues from a fall in volume as a result of the paperless car tax.
- DWP turnover, which arises from POCA accounts has declined by £12.2m. £8m is due to new contractual terms and the remainder is due to falling numbers of live POCA accounts due to natural attrition and migration to bank accounts.

The decline from DVLA and DWP has been partially offset by:

- £0.7m increase in Check & Send revenues driven by higher volumes.
- £8.3m from ID related products, split:
  - £3.1m increase in UKVI due to the introduction of Nationality and EU BRP enrolments and introduction of Secure Collection service, (both in April 2015)
  - £3.9m from new products (Verify), and
  - £1.3 from existing products such as Environmental Agency.

6.1.5 Telecoms

The Telecoms Services pillar includes the Post Office Homephone and Broadband services, as well as sales of mobile top-ups and phonecards.

Telecoms Services revenue of £130.0m (2015 £119.8m) has increased by £10.2m. This has been driven by the line rental price increase of £2 introduced in January 2015 and a further increase of £1 in November 15.

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Income from mobile top-ups was £0.7m below prior year, as transaction volumes declined due to the mobile networks actively migrating customers away from pre-pay and also reducing their transaction fees.

HPBB	2015/16	2014/15	Variance
Average customer base	459,356	452,094	7,262
ARPU	£22.85	£21.23	£1.62

In March 2016 the decisions was taken to withdraw from the development and roll out of a proposed mobile offer in order to focus on its core Telecoms activities. The income and expenditure in relation to mobile has been disclosed as a discontinued operation on the consolidated income statement and is a loss of £10m (2015 £4m).

	2016	2015
Gross Income	0.2	
Operating Expenses	(3.0)	(2.9)
EBITDAS Impact	**(2.8)**	**(2.9)**
Supplier Termination Costs	(2.5)	
Project Shutdown Costs	(1.1)	
Balance Sheet - Capex	(1.7)	(1.0)
Balance Sheet - Prepayment	(2.0)	
Discontinued Operations	**(10)**	**(4)**

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7. Costs and People

This section discusses expenditure, excluding exceptionals.

7.1 Total Costs Analysis (excluding exceptionals)

The following provides a breakdown of costs for the full year ending 27 March 2016 compared to the full year ending 29 March 2015

Expenditure - (pre- exceptional)	Notes	**2016 £m**	2015 £m	Variance £m	
Wages & Salaries		**(154)**	(167)	12	8%
Pensions		**(31)**	(29)	(2)	(7%)
Overtime		**(8)**	(10)	2	20%
Bonus & Productivity		**(15)**	(7)	(8)	(114%)
Employers' NI		**(19)**	(19)	0	0%
Temporary Resource		**(6)**	(6)	0	0%
PEOPLE COSTS	7.2	**(233)**	(238)	(5)	2%
Postmasters' costs	7.3	**(413)**	(435)	22	5%
Legal Costs	7.4.1	**(5)**	(3)	(2)	(67%)
Staff & Agent Related Costs		**(10)**	(10)	0	0%
Consultancy & Advisory Services		**(4)**	(3)	(1)	(33%)
Brand & Marketing	7.4.2	**(25)**	(34)	9	26%
Property & Facilities Management	7.4.3	**(53)**	(61)	8	13%
IT Infrastructure & IT Services	7.4.4	**(102)**	(92)	(10)	(11%)
Finance & Losses	7.4.5	**(25)**	(4)	(21)	(525%)
Cost Of Sales	7.4.6	**(110)**	(106)	(4)	(4%)
Other Operating Costs	7.4.7	**(56)**	(76)	20	26%
Vehicles		**(5)**	(7)	2	29%
Total Other Operating Costs	7.4	**(395)**	(396)	1	0%
TOTAL EXPENDITURE (Pre Exceptionals)		**(1,041)**	(1,069)	28	3%

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7.2 People Costs (2016 £233m vs 2015 £238m)

7.2.1 People costs (2016 £233m vs 2015 £238m)

People costs have decreased by £4.8m (2.0%) to £233.1m, representing 22.3% (2015 22.2%) of the cost base.

The number of people employed also decreased, by 271 net to 6,605 at 27 March 2016 (2015 6,876), primarily due to redundancies arising from the Crown and Transformation Programmes.

The people cost movement comprises:

- Wages and Salaries have decreased by £11.9m (7.1.%), a £10.1m reduction in basic pay driven by fewer people and cost control and £1.8m relating to reduced staff project costs
- Pension costs have increased by £2.2m (8.1%), reflecting an increase in the RMPP IAS19 service cost rate to 28.5% (2015:23.0%)
- Productivity costs have increased by £7.9m (114.1%), due to increase in management bonus accrual to 87% reflecting current performance levels compared to 50% bonus booked in prior year, and the release of over accrual of 13/14 in the prior year.
- Overtime has decreased by £2.0m (20.5%).

7.2.2 People Numbers

The People numbers were as follows:

	Period end employees		Average employees	
	2016	2015	**2016**	2015
Total employees	**6,605**	6,876	**6,667**	7,281
CT & NTP	**640**	622	**616**	609
Average Employees (excl. CTP & NT)			**6,051**	6,672
Staff Cost (excl. overtime & temporary resource)			**(£219,191)**	(£221,331)
Average Cost per employee			**(£36,225)**	(£33,175)

7.2.3 Average Cost per Employee

The average number of employees for year ending 27 March 2016 was 6,667 (2015 7,281). The average annual cost per employee, (excluding exceptional costs and exceptional heads: CT & NTP), has increased by £3,050 (9.2%) to £36,225 (2015 £33,175). This is largely due to the prior year bonus accrual which anticipated 50% bonus pay out compared to current year bonus anticipation of 87% bonus pay out.

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7.3 Postmaster costs (2016 £413m vs 2015 £435m)

7.3.1 Total postmasters costs decreased by £21.9m (5.0%). This reduction was largely made up of £19.7m reduced fixed costs as a result of Network Transformation and £2.1m lower National Insurance as postmasters move to new contracts. Variable costs were flat with the prior year.

The average annual cost per postmaster branch (excluding VAT and NI) is £39,952 (2015 £41,713). This is a 4.2% decrease on the prior year. The decrease is as a result of the reduced fixed income payments through the Network Transformation Programme.

	2016	2015
Agency Branches (incl. Mains and Locals)	**10,127**	10,172
Outreach	**1,175**	1,136
Crown	**316**	326
Total Branches	**11,618**	11,634

7.4 Other Operating Costs (2016 £395m vs 2015 £396m)

7.4.1 Legal Costs have increased by £2.0m, £1.2m is driven by legal support of strategic projects, primarily Sparrow and £0.5m is due to risk and compliance related work. The remaining £0.3m is due to other smaller legal costs.

7.4.2 Brand & Marketing Costs have decreased by £9.4m (26%) year on year. £8.5m in relation to reduced creative agency fees, £3.9m to decreased market research costs and £1.2m reduced corporate communication. These savings are offset by £3.9m increase in advertising costs.

7.4.3 Property & Facilities Management costs have decreased by £7.4m. £3.8m is due to the change in the Facilities Management contracts as a result of separation, Norland and Servest are now our providers whereas previously it was Romec/Royal Mail at a higher cost. £2.6m is due to reduced estates charges including rent, rates and service charges reflecting fewer Crowns branches (339 to 312). In addition there have been several rent reviews and lease expiries where re -negotiations have taken place. £1m less was spent on property BAU project investment.

7.4.4 IT Infrastructure & IT Services costs have increased by £10m (10%) mainly due to £16.2m of increased Computer Infrastructure costs for licences on separation from the Royal Mail IT systems. £5.7m of the IT increase relates to new costs for POMS including the contact centre costs of £2.9m. A further increase of £7.8m for business telephony costs as they were acquired through Royal Mail, so were previously billed through Other operating costs (Managed Services) (see 7.4.7 below). These were offset by reduced Horizon terminal services of £15.4m.

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7.4.5 Finance costs have increased by £20.7m, mainly driven by a one off lump sum of £15.6m VAT rebate in the prior year, which also covered prior years. Current year central rebate figure is £1.8m with most of the VAT recovery now appearing against the individual cost lines. Credit and debit card processing charges have increased by £1.5m and Telecoms losses were £1.3m higher than last year, customer bad debt increased by £3.7m partially offset with other smaller favourable movements.

7.4.6 Cost of Sales has decreased by £4m (4%), detailed below:

	2016 £m	2015 £m	Variance £m	Variance %	Comments
Mails & Retail	**(3)**	(4)	1	15%	Decrease due to decision to restrict product range to higher margin items
Financial Services	**(4)**	(1)	(3)	(270%)	Increase is due to POMS
Government Services	**(29)**	(28)	(1)	(3%)	Increase of £0.8m is due to £2m related to Verify service offset by £1.2m lower POCA volumes
Telecoms	**(74)**	(73)	(1)	(2%)	Increase of £1.5m due impact of higher customer numbers
Total	**(110)**	(106)	(4)	(4%)	

7.4.7 Other Operating costs have decreased by £19.5m. The prior year included £10.8m for client compensation relating to the historical overcharges relating to 'death notified accounts' (DWP), and £10.4m for project expenditure as all was recorded against this line in the old finance system, (project expenditure is now recorded across the relevant categories above). The remaining variance is driven by lower managed service costs, specifically costs to Royal Mail (offsets increase in 7.4.4 above) and telecommunication cost reductions.

7.4.8 Project expenditure is now reported within the appropriate cost categories and has decreased by £11.3m to £12.0m and is detailed below:

2015-16 Project Expenditure	**£m**
Eagle – contractual commitment to £4m pa sales capability investment	(4.0)
Mobile (Wave)	(0.7)
Invest to Grow FS	(0.4)
Sparrow	(2.8)
Other Invest to Grow	(3.4)
People & Organisation	(0.5)
Digital	(0.2)
Grand Total	**(12.0)**

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8. Quality of Earnings

As in previous years, we look at the impact of any one-off items in EBITDAS as set out in the table below. We do not believe that these items change the users' understanding of the accounts or require additional presentation.

	2016 £m	2015 £m	Change £m	Change %
Post Office Limited (consolidated)				
Reported profit before other exceptional items	**105**	103	2	2%
Network Subsidy Payment	**(130)**	(160)	30	(19%)
Add back depreciation	**1**	0	0	0
Reported EBITDAS	**(24)**	(57)	33	(58%)
Gamma one-off income release*	**(5)**			
Billing corrections re 2014-15	**2**			
Back-billing to RM for Certificates of Posting work	**(2)**			
Fujitsu compensation for poor service in 2013-14	**(4)**			
Change in Telecoms bad debt policy	**1**			
Client compensation relating to prior years		10		
ATM rates provision release		(2)		
Bonus outturn lower in 2013-14 than accrued		(2)		
Bank of Ireland cost recovery debt provision		1		
VAT and NI recovery re earlier years		(15)		
Total adjustments	**(8)**	(8)		
Total	**(32)**	(65)	33	(51%)

* *Individually disclosed*

Each item in the table is explained further below:

8.1 Gamma one-off income release
Gamma refers to a contract with BOI which generates income in relation to the sales of financial services products at branch. The income under the contract has been deferred and is recognised over the life of the contract on a systematic basis. As a result of the purchase of the insurance business from BOI the profile of the income release over the life of the contract was changed to recognise that the acquisition had been made and an additional £5.1m of deferred income, the element which related to the insurance business was recognised in the year to March 2016.

8.2 Billing corrections and back-billing
Corrections of £0.8m were made to year end revenue estimates early in 2015-16 relating to 2014-15. £1m of additional cost was recognised in the year which related to overbilling in previous years. In September 2015, Royal Mail were back-billed £2m for Certificates of Posting services in prior years and not previously invoiced.

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8.3 Fujitsu compensation
Compensation of £3.7m was received in 2015-16 relating to poor service during the migration of the Telecoms service from BT to Fujitsu in 2013.

8.4 Telecoms bad debt policy
During the year the bad debt policy was revised in two ways which in aggregate led to a one-off increase in cost. Firstly it was amended to provide for all debt over 90 days from a policy of providing for all debt over 60 days. Secondly the policy is now to provide for the gross amounts owed rather than net of customers who have made early payments.

8.5 Client compensation
An error was identified that has led to a client being overcharged for approximately 5 years and a provision was booked for compensation for the overcharges in 2014-15.

8.6 VAT and NI recovery re earlier years
In 2014-15 there were additional VAT recoveries relating to earlier years when the recovery rates were confirmed with HMRC, in addition NI recovery was recognised in 2014-15 relating to the decision by HMRC that the new postmaster contracts for Mains were subject to VAT rather than NI.

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9. Pensions

9.1 Background

The Post Office participates in pensions schemes and detailed below:

Scheme	Eligibility	Type
Royal Mail Pension Plan (RMPP)	UK employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	UK senior executives (closed)	Defined benefit
Post Office Pension Plan*	UK employees	Defined contribution

* From 1 April 2015 the Post Office Pension plan replaced the Royal Mail Defined Contribution Plan. Royal Mail Pensions Trustees Limited manages the main defined benefit scheme Royal Mail Pension Plan (RMPP) which has circa 3,503 Post Office active members.

9.2 Assumptions

IAS 19 revised requires a number of assumptions. The choice of assumptions used for the calculations is the responsibility of the Directors, based upon advice given by an independent actuary. The key assumptions for the year to 27 March 2016 are set out in the table below.

Towers Watson has confirmed that the assumptions have been determined in a manner consistent with those used for the disclosures at 29 March 2015 and 27 September 2015.

% pa RMPP Post Office Section	**March 2016**	March 2015
Inflation (RPI)	**2.9**	3.0
Inflation (CPI)	**1.8**	1.9
Discount rate (i.e. bond rate)	**3.5**	3.5
Rate of increase in Pensionable salaries	**2.8**	2.8
Rate of pension increases – RMPP A/B	**1.8**	1.9
Rate of pension increases – RMPP C	**2.8**	2.8
Rate of increases in deferred pensions	**1.8**	1.9

Demographic assumptions, for example mortality, remain aligned with the assumptions used for the actuarial valuation and unchanged from those made in March 2015.

9.3 Movements in the defined benefit surplus

The movement in the RMPP defined benefit surplus during the year to 27 March 2016 is detailed below. Scheme assets are assessed at fair value at the balance sheet date. For example, quoted equities are valued at the latest 'bid' price. Scheme liabilities are discounted using a high quality corporate bond rate. The IAS 19R surplus/deficit is usually therefore different to the cash funding surplus/deficit (the "actuarial" valuation) assessed by the Trustees, for which the scheme liabilities are discounted using the expected returns available on scheme assets.

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	Year ended 27 March 2016 £m	Year ended 29 March 2015 £m
Opening sectionalised RMPP net retirement bene surplus	**229**	170
Current service cost	**(27)**	(25)
Curtailment costs	**(1)**	(1)
Net financing credit	**8**	7
Employers contributions	**19**	21
Actuarial gains/(losses)	**(5)**	57
Closing RMPP net retirement benefit surplus	**223**	229
RMSEPP surplus	**3**	5
Total net retirement benefit surplus	**226**	234
Effect of asset ceiling	**(30)**	(29)
Closing net retirement benefit surplus	**196**	205

The current service cost is intended to represent the amount by which the liabilities will increase due to employing active members for one more year. The 2015-16 service cost, expressed as a percentage of pensionable pay is 28.5% for RMPP (March 2015 – 23%). Payments of £17m were made in respect of RMPP future service contributions at a rate of 17.1% (March 2015 - 17.1%) and £2m was paid in relation to 2015/16 in respect of enhancements on redundancy in early retirement (a further £1m was paid in respect of a balance accrued at the end of 2014/15). There has been a reduction in the surplus due to a £10m difference between the service cost and payments made in respect of RMPP future service contributions.

The net financing credit of £8m, a non-cash item, is reported under finance income and reassessed annually.

Actuarial gains and losses are recorded directly in the statement of changes in equity (and not the income statement). The actuarial loss of £5m during the year arose primarily due to a decrease in the value of assets which resulted in an actuarial loss of £8m; this was as a result of changes in market conditions. This actuarial loss was partially offset by an actuarial gain on the Defined Benefit Obligation of £3m, has been caused by an 'experience adjustment of liabilities' due to early leavers and lower than expected benefit increases.

The RMSEPP surplus has decreased to £3m due to actuarial losses of £3m (£2m loss on assets, £1m loss on liabilities) offset by contributions paid of £1m.

The charge in the income statement and cash contributions for the defined contribution scheme were £3m in the year to 27 March 2016.

9.4 Assessment of recoverability of surplus under IFRIC 14

In order to recognise a surplus it is necessary to prove that the Post Office could recover the surplus either through lower future contributions or through a refund. Royal Mail took legal advice both before and after sectionalisation. This confirmed that Post Office Limited and Royal Mail Plc have absolute rights to the assets left over in their individual sections after benefits have been secured if the RMPP terminates. There is no trigger for termination in the Trust Deed but that does not mean that the RMPP cannot terminate. It would be wound up by the courts, or the Regulator, or when the last beneficiary dies.

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Towers Watson has calculated that Post Office Limited would be able to recover £139m of the £223m surplus in RMPP through lower contributions and the remaining £84m could therefore be recovered through a refund together with the £3m surplus in RMSEPP. The element of surplus that is recoverable through a refund would be subject to a 35% withholding tax charge. Therefore the overall surplus on the balance sheet, (made up of a £223m surplus for RMPP and £3m surplus for RMSEPP), has been reduced by £30m to £196m. The element that is recoverable through lower contributions has resulted in a reduction to the deferred tax balance from £30m at 29 March 2015 to £25m at 27 March 2016. This has resulted in a credit directly to equity of £5m offset by a debit of £5m reported in the consolidated income statement.

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10. Exceptional Items and Provisions

This section discusses the exceptional items on the income statement together with movements in the related balance sheet provisions/payables.

10.1 Exceptional items summary

The following exceptional items were recognised in the consolidated income statement for the years ended 27 March 2016 and 29 March 2015.

Exceptional items	**2015-16 £m**	2014-15 £m
Government Grants	**150**	170
Restructuring costs including postmasters' compensation	**(283)**	(301)
Impairments	**(136)**	(141)
Total operating exceptionals	**(269)**	(272)
Non-operating exceptionals:		
Profit on disposal of property	**-**	-
Net Exceptional gain/ (loss)	**(269)**	(272)

10.2 Government Grants – In April 2015 the Post Office received grants totalling £150m from the Government, (April 2014 £170m) to fund capital projects and transformation. The larger amounts utilised in the full year to March 2016 are: £66m against postmasters' compensation, £31m against capital spend and £53m against network transformation and IT transformation programme costs.

10.3 Restructuring costs - £200m of restructuring costs relate to Network and Crown Transformation. These programmes are being implemented to achieve a major change in the network. They include the introduction of new style agency offices and seek to improve the profitability of the Crown network. The overall figure includes £82m (broken down in the table below) - Network Transformation and Crown Transformation programme costs, £16m onerous property lease costs and £102m postmasters' compensation.

Redundancy costs for the full year amount to £29m and include £16m admin ("Wave") severance costs, £8m Crown severance and £5m Supply Chain severance costs.

Remaining restructuring costs include the following. IT Transformation programme costs of £30m have increased from £16m in the prior year largely due to £21m of costs incurred around the termination of the IBM contract. The remaining costs relate to finalising the IT infrastructure and are now decreasing due to the programme reaching the next phase where most related costs are being capitalised.

£10m of exceptional costs relate to the business separation programme, costs incurred in the current year are due to the set-up of new support services and short term support contracts. Business transformation programme costs of £9m have been incurred and relate to achieving the overall transformation strategy, including the costs of the business transformation team and £2m in relation to the Hawk acquisition, £1m of which was incurred within the subsidiary company POMS. Additionally costs of £4m relate to business transformation payments, £2m for Crown staff for meeting the Crown P&L break-even run-rate and £2m for Supply Chain staff for completing transformational depot reviews.

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Network and Crown Transformation costs (other than Postmasters' compensation) to March 2016 were made up as follows:

Network Transformation	**£m**
Programme Costs	22
Investments (e.g. enabling works)	22
Fixtures and equipment, non-capital	25
Other (Legal, Communications, consultation, IT projects)	6
Total Network Transformation	**75**
Crown Transformation	**7**
Total	**82**

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11. Interest, Cash, Debt, Funding and Hedging

11.1 Net finance costs March 2016 £5m vs March 2015 £3m

Finance costs & investment income	**26 March 2016 £m**	29 March 2015 £m
Interest received on investments – UK	**-**	1
Total finance income	**-**	-
Interest charged on Government borrowings	**(2)**	(1)
Other finance costs	**(3)**	(2)
Total finance costs	**(5)**	(3)
Net finance cost	**(5)**	(2)

Interest payable on the BIS Loan has increased year on year (2015/16 £2m, 2014/15 £1m) due to higher draw-down.

Other finance costs include commitment fees to BIS for the Post Office credit facility, and charges to RBS for their note sorting facility.

11.2 Cash, cash equivalents and debt within the balance sheet

Net cash/debt analysis	Section	**26 March 2016 £m**	29 March 2015 £m
Cash in the Post Office Limited network	11.3	**653**	708
Short term bank deposits		**59**	93
Money market fund investments		**-**	20
Total cash and cash equivalents		**712**	821
Loans, repayable on demand or less than 1 year	11.4	**(465)**	(310)
Total		**247**	511

11.3 Cash within the Post Office Limited network (March 2016 £653m vs March 2015 £708m)

The decrease in Post Office network cash from March 2015 levels can be chiefly attributed to the cessation of NS&I products, and associated lower holdings of both cheques and debit card transactions.

11.4 Loans and borrowings (March 2016 £465m vs March 2015 £310m)

Total cash and cash equivalents decreased by £109m which, ceteris paribus, would have decreased the loan by that amount. This decrease is made up of a reduction in network cash of £55m (see above) and decrease in cash at bank and Money Market Funds of £54m due to more efficient treasury function.

Government funding of £280m was received on April 1st 2015 which would further offset the loan.

However both these factors were more than offset by Capital Expenditure of £(138)m and Exceptional spend of £(276)m due to the transformational projects, so the loan increased as outlined above. The remaining difference is working capital movements and miscellaneous.

11.5 Loan facilities

At the year end the Post Office had external borrowings of £465m.

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12. Going concern

Post Office Limited has net cash and cash equivalents of £712m and a borrowing facility of £950m of which £465m was drawn down at 27 March 2016.

12.1 Background

On 27 November 2013, a funding agreement was announced providing:

- Funding of £280m for 2015-16 (received 1 April 2015)
- Funding of £220m for 2016-17 (received on 1 April 2016)
- Funding of £140m for 2017-18
- Extension of the existing working capital facility with BIS up to 31 March 2018 but at a reduced level of up to £950m.

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

On 28 March 2012 it was recognised that the working capital facility was no longer deemed State Aid.

The going concern analysis is based on the recent three year plan.

12.2 Assessment for the Post Office

The Post Office posted an operating profit before exceptional items for the first time for a number of years in 2008-09 and has continued to do so. The 2011-15 plan reversed the trend of an increasing Network Subsidy Payment (NSP) and the 2020 Strategy continues on the path to a sustainable Post Office supported by a much lower subsidy.

The 2016-17 budget and three year plan financials have been shown in Table 1, and show that Post Office has sufficient cash headroom to continue to trade. The available facility has been defined to include network cash, ATM cash, ATM debtor, POCA debtor and SGEI cheques in the past but has now been extended, as it has always been allowed under the Working Capital Facility agreement, to include uncleared debit/credit card payments, short term bank deposits and money market fund investments which also meet the definition. Downside scenarios have been overlaid reflecting the lower cash flows if the three year operating plan does not materialise. The working capital facility was deemed not to be State Aid in 2012 so does not require further clearance and is now available (at the reduced level of £950m) through to March 2018.

The one year funding deal for 2011-12 added the ability to borrow up to £50m from other sources, as well as the up to £50m in finance leases previously allowed, which would improve the headroom capacity shown if required.

12.3 Summary conclusion

Based on the analysis, there is available borrowing headroom until March 2019. Royal Mail Plc is a key trading partner with Post Office Limited and, in arriving at the conclusion that Post Office Limited is a going concern, the assumption is made that Royal Mail Plc is a going concern or that an alternative mails provider would work similarly with Post Office Limited providing a similar level of income. Post Office Ltd and

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Royal Mail entered into a ten year agreement (Mails Distribution Agreement) in 2012 for the provision of mails products through post offices.

It is believed that Post Office Limited will be able to meet its liabilities as they fall due in the foreseeable future. It is therefore expected that the directors will consider it appropriate to prepare the accounts on a going concern basis.

Post Office Limited Funding Analysis

Table 1: March 2016

£m (cumulative apart from free cash flow)	2015-16	2016-17	2017-18	2018-19
Opening Funds	(197)	(406)	(526)	(548)
Borrowing facilities	950	950	950	950
Restriction due to level of network cash and other security	(100)	(100)	(100)	(100)
Borrowings from other sources - finance leases, bank overdraft etc				
Latest plan free cashflow before assumed non NSP grant injection	(359)	(260)	(92)	9
Non NSP grant injection per October 2013 plan	150	140	70	
Closing Funds Headroom	**444**	**324**	**302**	**311**
Remove NSP beyond 2018 funding agreement				(60)
Adjusted Headroom pre risk	**444**	**324**	**302**	**251**

Table 2: Risks, with management actions

£m (cumulative)	2015-16	2016-17	2017-18	2018-19
Headroom pre risk (as above)	**444**	**324**	**302**	**251**
Risks				
Income growth in 3 year plan does not materialise		(20)	(64)	(148)
Cost savings from income shortfalls (at 50% assumed)		10	32	74
Cost savings don't materialise		(29)	(79)	(63)
Income decline 100% faster than plan		(22)	(63)	(121)
Cost savings from income shortfalls (at 50% assumed)		11	32	61
Headroom post risks pre management actions	**444**	**274**	**160**	**54**
Management actions		**59**	**92**	**100**
Sell Corporation tax losses to FRES		9	17	
Reduce or postpone investment and discretionary opex		50	75	100
Headroom post risk and management actions	**444**	**333**	**252**	**154**

Table 1

This table shows the budget and plan projections for 2016-17 and beyond. It demonstrates positive headroom throughout the plan period.

Table 2

This table sets out the impact of theoretical downside scenarios if the plan does not generate the income streams anticipated or the anticipated cost savings do not materialise.
There are further actions that could be taken but are not required. These include the sale of property.

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

13.1 Net Book Values

The net book value (NBV) of land and buildings, plant and fixtures and intangible fixed assets at March 2016 was £53m (March 2015 £10m). All assets are impaired on acquisition except land and buildings and POMS assets. Movements during the year were as follows:

Movement in NBV	Land and buildings £m	Vehicles, plant and fixtures £m	Intangible fixed assets £m	Total £m
NBV at 29 March 2015	10	-	-	10
Add capital expenditure	1	41	137	179
Less disposals	-	-	-	-
Less depreciation	(1)	-	-	(1)
Less impairment	(1)	(41)	(93)	(135)
NBV at 29 March 2016	9	-	44	53

Intangible fixed assets includes £44m goodwill in connection with the acquisition during the year of the general insurance business from the Bank of Ireland.

13.2 Capital expenditure

The table below summarises the larger capital items by category:

	£m
Hawk insurance business	44
EUC programmes	39
IT Risk & Resilience	29
Network Transformation	20
Front Office IT	17
IT Networks	6
Digital	4
Separation	3
Other	17
Total	179

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14. Goodwill, investments and intangibles

14.1 Investments in joint ventures and associates

	27 March 2016 £m	29 March 2015 £m
Investment in joint ventures	**67**	67

Joint ventures

Post Office Limited's joint venture investment is a 50% interest in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change.

Post Office Limited's share of FRES' 2015-16 post tax profit was £35m, the same amount being received as a dividend during the year, hence no overall movement in the carried value in the balance sheet.

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15. Working capital

15.1 Inventories (March 2016 £6m vs March 2015 £6m)

	27 March 2016 £m	29 March 2015 £m
Scratchcards	**4**	4
Retail	**2**	2
Total	**6**	6

15.1.1 Inventory written off

The provision for stock write downs and discrepancies is £0.6m (March 2015 £0.5m). Shrinkage and obsolete stock written off at year end was £0.4m.

15.2 Trade receivables (Current)

Receivables are tabulated below, followed by a detailed explanation of the various balances.

Receivables

	Section	**27 March 2016 £m**	29 March 2015 £m
Trade receivables	15.2.1	**93**	101
Client receivables	15.2.2	**229**	162
Prepayments and accrued income	15.2.3	**73**	106
Other receivables	15.2.4	**14**	28
Total		**409**	397

15.2.1 Trade receivables: Current (due within one year)

Trade receivables

	27 March 2016 £m	29 March 2015 £m
Sales ledger	**35**	22
Homephone debtors	**8**	6
Postmaster debt	**5**	7
Uncleared debit, credit cards	**35**	53
Bank of Ireland, FRES cost recovery	**8**	12
Other	**2**	1
Total	**93**	101

The largest decrease relates to uncleared debit and credit card receivables which have been reclassified from Cash into receivables for both the current and prior years. This balance has decreased on account of the cessation of NS&I products.

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The Bank of Ireland cost recovery debtor relates to marketing and promotional spend incurred on their behalf. This has decreased by £2m as invoices have been paid in year. There has been a decrease in the FRES cost recovery debtor of £2m due to a provision raised to cover older outstanding invoices.

The increase in sales ledger chiefly reflects a higher debtor in respect of BOI (March 2016: £18m, March: 2015 £8m).

A profile of the sales ledger within trade receivables is as follows:

Trade receivables

	27 March 2016	29 March 2015
	£m	£m
Bank of Ireland	**18**	8
Bill payment partners	**7**	4
Others	**10**	10
Total	**35**	22

Ageing of Trade receivables:

Debtors over 60 days overdue: March 2016 £nil (March 2015: £nil).

The Post Office does not have a general risk in relation to bad debts due to the agency and business partner nature of our client base.

15.2.2 Client receivables

Analysis of client balances at year end is as follows:

Client receivables

	27 March 2016	29 March 2015
	£m	£m
ATM (Bank of Ireland)	**128**	100
Card Account (JP Morgan)	**62**	28
Partner banks	**32**	25
Others	**7**	9
Total	**229**	162

The main increases year on year are within Card account and ATM balances. The increase in ATMs is due to period end coinciding with Easter weekend, increasing banking activity. Card account increased as customers were able to claim a week's withdrawals in advance due to the bank holiday.

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15.2.3 Prepayments and accrued income at 27 March 2016 total £74m (March 2015 £106m)

Prepayments and accrued income

	27 March 2016	29 March 2015
	£m	£m
Accrued income	**58**	87
Prepayments	**15**	19
Total	**73**	106

Accrued income represents the majority of this amount, the larger decreases are due the opening balance including £12m retrospective income for POCA relating to 2014/15 and which was billed in April 2015, and also opening included £2m for NS&I products.

Prepayments of £15m represent the remainder of the £74m total. The prepayment of telephony take-on costs with Fujitsu is £3m at March 2016 (March 2015: £6m), and additionally there is £5m of Computacenter prepaid licence costs (March 2015: £5m). Also at March 2016 there is £4m of property cost prepayments, (March 2015 £5m) and other prepayments of £3m (March 2015 £3m).

15.2.4 Other receivables at 27 March 2016 total £14m (March 2015 £28m)

Other receivables have decreased from £28m (March 2015) to £14m as at March 2016. The reduction is made up of: £4.7m debtor for sale of tax losses was received from Royal Mail, the £3.8m debtor for NI paid in respect of agency offices transferring to VAT-based contracts was received, and the £7m "Ultra" debtor was released and offsets an equivalent release in payables.

Remaining at March 2016 is: tax debtor for losses to be sold to FRES £10m and VAT recoverable £4m.

15.2.5 Non-current receivables at 27 March 2016 £11m (March 2015 £10m)

This represents prepayments in respect of telephony contracts with Fujitsu.

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15.3 Payables: **amounts due within one year**

A summary of payables categories is:	Section	**27 March 2016 £m**	29 March 2015 £m
Trade payables	15.3.1	**51**	30
Accruals and deferred income	15.3.1	**161**	160
Client payables	15.3.2	**375**	454
Advance customer payments		**39**	29
Capital payables	15.3.1	**16**	25
Social security		**8**	9
Government grant deferred income (NSP)	15.3.4	**-**	-
Other payables		**3**	11
Total		**653**	718

15.3.1 Trade payables and accruals

Trade payables and general, capital accruals

	27 March 2016 £m	29 March 2015 £m
Trade payables	**51**	30
Accruals, GRNI	**86**	89
Postmaster, employee pay balances	**53**	53
Productivity, bonus schemes	**15**	12
Others	**7**	6
Accruals and deferred income	**161**	160
Capital accruals	**16**	25
Total Trade payables and accruals	**228**	215

The increase in Trade payables is driven by an adjustment for uncleared BACS payments of £14m which is transferred from Client payables (March 15 £22m, not transferred from Client).

The remaining Trade payables amount comprises of supplier invoices awaiting payment, the largest of which was Fujitsu £4m (March 15 £1m).

Postmaster and employee pay balances are stable and remain at £53m.

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General expense accruals, GRNI (goods received, not invoiced) and capital accruals typically reflects project throughput of the business. Always a significant amount, GRNI accounts for £36m (March 15 £37m) of the total. Finally the reduction in capital accruals reflects the slower pace of capital additions in 15/16.

15.3.2 Client payables

	27 March 2016	29 March 2015
	£m	£m
Santander	**145**	127
NS&I	**-**	30
DVLA	**18**	27
Utility companies	**10**	10
Bank of Ireland	**13**	17
BACS	**27**	74
Royal Mail	**25**	29
Others	**138**	140
Total	**375**	454

The cessation of NS&I's products is the main reason for decrease in Client Payables, with a further £30m of NS&I included in the March 2015 BACS value, a combined £60m decrease. The remainder of the BACS reduction is due to £14m of the BACS adjustment being included in trade creditors at the half year and a general reduction in Client Payables.

The decrease in the DVLA balance represents the decline in payments to the DVLA in branch. Customers are increasingly moving towards purchasing directly from the DVLA online.

The increase in the Santander balance reflects Easter customer transactions, in particular business banking.

15.3.3 Advanced customer payments

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

Advanced customer payments

	27 March 2016	29 March 2015
	£m	£m
Advanced customer payments	**7**	1
Postal order liability	**11**	12
Drop and Go	**1**	1
Gamma	**4**	4
Telephony credit balances	**4**	4
Homephone line rental advance payments	**10**	7
Other	**2**	-
Total	**39**	29

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The largest movement in advanced customer payments (£5m) relates to an increase in Bill payments driven by the timing of invoicing to customers and correction of Transcash invoices. Additionally Homephone Line rental advance payments have increased by £3m due to higher customer numbers, price increases and re-phasing of billing.

The Postal order liability reflects a creditor for uncashed Postal orders. Postal orders are valid for 6 months but the liability has been retained at 12 months reflecting that they would normally be honoured up to this date.

15.4 Payables: **amounts due after one year**

Payables due after one year

	27 March 2016	29 March 2015
	£m	£m
Rent-free incentives	**4**	2
Bank of Ireland deferred income (Gamma)	**21**	28
Total	**25**	30

The rent free incentive creditor relates to buildings with an initial rent free period where the cost are over the life of the lease is spread evenly. Over half of the balance relates to Finsbury Dials (£1.6m).

Bank of Ireland deferred income concludes in financial year 2022-23 and is recognised in line with an agreed amortisation schedule. The final instalment of £2m was received early in 2015/16.

The amortisation profile was reviewed following the Hawk acquisition from the Bank of Ireland, and a one–off £5m was released to income for the year. Additionally amortisation of £4.3m was released to income as normal during the year; ongoing this reduces to £3.6m per annum following the review of Gamma deferred income.

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16. Provisions

Provisions (March 2016: £163m vs March 2015: £150m)

	Crown Conversion Vacant/ Onerous leases £m	Network Transformation £m	Other £m	Total £m
At 29 March 2015	7	127	16	150
Transferred			1	1
Charged/ (released) in operating exceptional items	16	102	33	151
Charged as discontinued operation			3	3
Charged/ (released) in operating costs			4	4
Utilisation	(5)	(95)	(42)	(142)
At 27 March 2016	18	134	15	167
Disclosed as: Current				151
Disclosed as: Non-current				16

The Network Transformation provision relates to compensation payments due to postmasters' who have signed up to the new contract terms or for a termination payment. However due to an error being identified in the calculation the opening provision was restated to £127m (formerly £40m).

Crown conversions at March 2016 relate to leasehold property costs for Crown branches franchised, mainly to WH Smith, and which have been vacated. The exceptional charge taken at half year is due to a fresh tranche of such properties which will be franchised at some point in the foreseeable future – a recent communication identified WH Smith as the partner for the majority of these properties - but which are not currently vacated and where the property costs are considered onerous.

Included within Other provisions is a severance provision of £3m (March 2015: £2m), Bank of Ireland sales capability investment (Eagle provision) £2m (March 2015: £1m), personal injury and motor accident claims of £1m (March 2015: £1m), a NFSP liability of £1m (March 2015: £nil), and a POMS provision of £1m (March 2015: £nil).

POL's mobile product was treated as a discontinued operation and a provision in respect of supplier termination and project closure costs was charged exceptionally at £3m.

Finally the total for Other provisions includes £1m for a legacy dilapidations liability (March 2015: £1m). The main reason for the balance being down on opening is due to the provision for DWP historical overpayment of £11m being settled in full in the year.

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17. Litigation and Claims- Potential Claims regarding Horizon

Background

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

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

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

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

Mediation Scheme

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

Political Activity

17.6 The Scheme and allegations concerning Horizon have been the subject of Parliamentary debate, most notably the Westminster Hall Debate on 17 December 2014 and BIS Select Committee hearing on 3 February 2015.

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

Legal Activity

17.8 A Claim Form in *Bates & 90 Others v. Post Office Limited*, Claim No. HQ16X01238, was issued the in the High Court, Queen's Bench Division on 11 April 2016. The first named Claimant is Alan Bates of the JFSA.

17.9 Post Office is not yet required to take any action in response – the Claim Form has not been served on Post Office, and no Particulars of Claim have been provided. The Claimants have until 11 August 2016 to serve the Claim Form.

17.10 The Claim Form sets out the name of the 91 Claimants and brief details of the claims. Beyond asserting multiple legal causes of action and that the Claimants "expect to recover more than £200,000", very little information has been provided about the:

- factual basis for the claims;
- purported commonality between the claimants; or
- damages sought and how they are to be quantified.

17.11 Further detail of the claims have been provided in the "Letter of Claim", which Post Office received on 28 April 2016. The legal team are currently reviewing the document.

17.12 The Claimants' solicitors (Freeths LLP) have offered to mediate the disputes. Post Office is reserving its positon on this until it better understands the claim.

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

Media Activity

17.14 The Scheme and allegations concerning Horizon have been the subject of significant media coverage, most notably the BBC Panorama programme "Trouble at the Post Office" broadcast on 17 August 2015.

17.15 There has been no recent significant media activity. Post Office teams continue to manage media and communications activity.

Regulatory Activity

17.16 Post Office is engaging with the Criminal Cases Review Commission (CCRC) in relation to 24 applications made by former PMs seeking a review of their convictions. The CCRC can refer a case to the Court of Appeal if its review identifies new evidence or legal argument which gives rise to a "real possibility" that the conviction would be overturned on appeal.

17.17 Post Office's Legal team is liaising with the CCRC so as to comply with its statutory obligations under the Criminal Appeals Act 1995, and continues to provide very substantial documentation to the CCRC for review. Although the CCRC has said it is nearing the end of its investigations, there is no estimated date for completion.

17.18 Post Office also received 49 simultaneous "Data Subject Access Requests" (DSARs). Post Office has substantively responded to all these DSARs and concluded this work stream. DSAR applicants can formally complain to the Information Commissioner's Office if they are not satisfied with the response they receive. To date, no such formal complaint has been made.

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18. Taxation

18.1 Income statement

A breakdown of the tax credit for the year is shown below:

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

A deferred tax credit of £25m was recognised in the year to March 2015 in relation to the retirement benefit surplus as a proportion of this surplus was considered to be recoverable through future contributions. An equal and opposite entry was recognised through equity. In the year to March 2016 the proportion of the surplus recoverable through future contributions decreased and therefore a deferred tax debit of £5m has been recognised to account for the deferred tax effect of this.

The corporation tax credit for the period of £9m represents the losses that we expect to surrender to FRES through consortium relief for the period.

POL has significant tax losses that are available for offset against future taxable profits. It also has unrecognised deferred tax assets relating to fixed asset timing differences. These tax losses/deferred tax assets could be recognised in the future should suitable taxable profits arise. The tax losses/unrecognised deferred tax assets means that the Group should not incur any tax charges for the foreseeable future.

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19. Impairment

Post Office Limited (POL) was loss-making at its inception in 2001 and has impaired the majority of non-current assets in all years since 2002/3. POL has continued to impair assets on the basis of operating losses (excluding Network Subsidy Payment), net cash outflows and the reliance on Government support and funding.

IAS 36 requires annual impairment tests where there is any indicator of impairment. The principle is that the assets are carried at no more than their recoverable amount (the higher of the amount which can be realised through the asset's use or sale.) An asset's recoverable amount represents the greatest value to the business in terms of the cash flows that it can generate.

As noted above, since the inception of POL some assets have been impaired as a combination of ongoing losses, cash outflows, and reliance on the government have meant that value in use is £nil i.e. that the assets are not generating cash flows, and fair value less costs to sell are £nil as the assets are not considered to be readily saleable due to their use being specific to POL (for example Horizon system and cash collection vehicles).

This approach is consistent with IAS 36 which includes a number of indications of impairments including forecasted operating losses or net cash outflows as well as any indicators that are relevant to specific business circumstances.

Asset categories are considered separately below:

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

These assets have a relatively short useful life (between 2 and 15 years) and are impaired in full.

19.2 Freehold property, long leasehold property and land

These assets have a long useful life and have a clear market value and could be sold, these assets are not impaired but are instead depreciated on a straight line basis over their useful lives:

	Range of asset lives
Land and buildings:	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life

19.3 Intangible assets with a finite useful life

In POL all of these assets are software, the have a short useful life of between 1 and 6 years and are impaired to zero.

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

These assets are considered for impairment individually but are not automatically impaired. Goodwill is considered separately below.

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19.5 Goodwill

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

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

Goodwill held by POL Group at 27 March 2016 relates to the Hawk acquisition, a full impairment review has been carried out and due to Post Office Management Services (within which this Goodwill sits) being profit making, cash generative and forecast to continue to be so no impairment is considered necessary. Further to this the Goodwill is based on purchase price which was based on an external valuation, purchase was within the second half of the financial year.

19.6 Non-current assets within subsidiaries

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

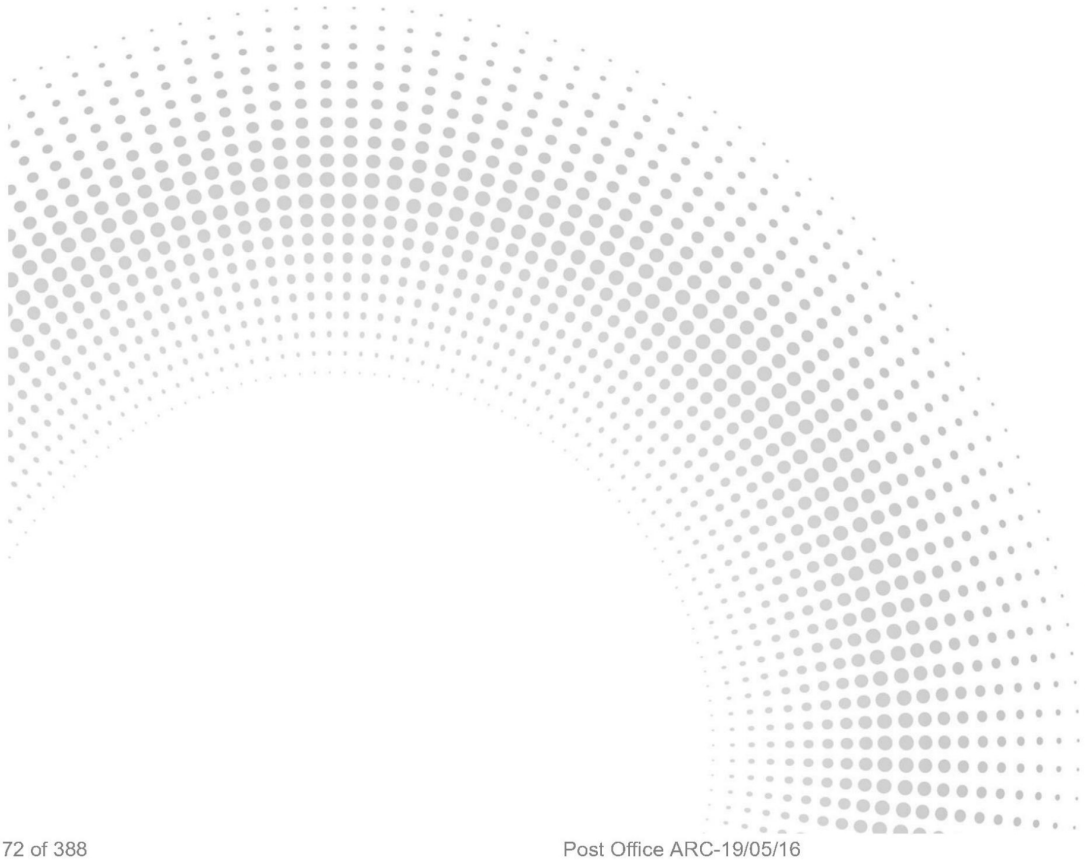
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Post Office Limited

Audit Results Report to the Audit and Risk Committee

for the 52 week period ending 27 March 2016

19 May 2016



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 Audit Committee, Board of Directors and Management of Post Office Limited in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit Committee, Board of Directors and Management of Post Office Limited those matters we are required to state to them in this report and for no other purpose.

To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, Board of Directors and Management of Post Office Limited for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.

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Private and confidential

12 May 2016

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

Dear Members of the Audit and Risk Committee

Audit Results Report

We are pleased to present our Audit Results Report for the forthcoming meeting of the Audit and Risk Committee. This report summarises our preliminary audit conclusion in relation to Post Office Limited's financial position and results of operations for the 52 week period ended 27 March 2016 ("the period").

The audit is designed to express an opinion on the Post Office Limited ("Post Office") Group and Company financial statements for the period ended 27 March 2016 and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Post Office's accounting policies and judgments and material internal control findings.

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

This report is intended solely for the information and use of the Audit and Risk Committee, Board of Directors and Management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Risk Committee meeting scheduled on 19 May 2016.

Yours faithfully

Peter McIver
Engagement Partner
For and on behalf of Ernst & Young LLP

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Overview

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Overview

This overview is intended for use as an outline agenda for our discussion at the Audit and Risk Committee meeting to be held on 19 May 2016 and includes a summary of our principal findings. Further details are contained within the main body of this report.

We conducted our audit for the 52 week period ending 27 March 2016 in accordance with International Standards on Auditing (UK and Ireland) in order to provide reasonable assurance that your financial statements are free of material misstatement, as set out in our engagement letter dated 22 January 2016.

Status of the audit (page 10)

A status of our work is included on page 10. We will provide the Audit and Risk Committee with a verbal update on the progress and conclusion of our audit at its meeting on 19 May 2016.

Materiality

We have recalculated our materiality based on 1% of actual revenue as per draft Group Consolidated Financial Statements. We did not identify significant changes compared to the materiality communicated to you in our Audit Planning Report dated 17 March 2016.

The overall materiality used remained at £10.8m. Our performance materiality was set at 50% of overall materiality and was £5.4m. Our reporting threshold for audit differences remained at £542k.

Scope update

There were no changes in our audit scope compared to that which was communicated in our Audit Planning Report dated 17 March 2016. As explained in our Audit Quality Enhancements paper dated 19 April 2016, we re-considered our audit approach in response to the identified significant risks.

Significant accounting and auditing matters (page 12)

We focused on accounting and auditing matters identified as significant for 2016 audit. We summarised the key areas of focus and preliminary findings from our audit procedures performed as of 12 May 2016 below.

Significant risks (page 13)

- **Completeness of Postmasters Compensation Provision (£134m):** As a result of our audit procedures, we identified an understatement of Postmasters Compensation provision by £1.0m. This understatement relates to 56 Post Office branches which are currently "being engaged", based on the average compensation of £17,396 per branch being forced to leave the network. This judgmental adjustment has been recorded by Management. No other significant differences were identified.
- **Revenue recognition across diverse range of revenue streams (£1,111m):** As a result of our audit procedures, we are satisfied that revenue for the group is materially correct and has been recognised in compliance with group policy and IFRS.
- **Classification of exceptional items relating to Transformation (£283m) and utilisation of Government Grant (£150m):** As part of our audit procedures, we concurred with Management's classification of exceptional items being consistent with group policy and IFRS. As part of our test of details we identified the following judgmental differences:
  - an understatement of a provision related to the IT Support services provided by Royal Mail Group to Post Office post separation under Master Services Agreement. The total amount of understatement is £0.8m. This adjustment has now been recorded by Management;
  - an overstatement of accrual balances related to Network Transformation: Project Enabling Works (£2.7m) older than 12 months and Operational Business Change ("OBC") (£1.2m) older than 6 months. Based on previous experience and historical data we would have expected these balances are utilised within respective period, therefore proposed to reverse these accruals. These have both been adjusted by Management.
- **Risk of management override around estimates and judgments:** We have performed various procedures to address the risk of fraud and management override throughout our audit focussing on revenue recognition, completeness of Postmasters' compensation provision, areas susceptible to judgements and estimates and unusual transactions. No issues were identified.

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Overview (cont'd)

Other areas of audit focus (page 22)

- **Horizon Subpostmasters Claim:** As part of our discussion with the Group Chief Financial Officer and the Group Legal Counsel we understand that Post Office Limited have received a formal Letter of Claim from Freeths Solicitors on behalf of 91 applicants on 28 April 2016. We have received the copy of this letter. It contains a number of allegations made against Post Office. We understand that there is no quantification of the claim for damages at this point of time. At the date of this report Management are in the process of reviewing this letter and will prepare the necessary response and the litigation strategy. There is no provision recognised as at 27 March 2016 for this claim. The financial statements now include a generic contingent liability note regarding receipt of such claims, stating no material impact is expected. We will update our assessment as part of subsequent events review procedures performed up to our sign-off date.
- **Acquisition of Insurance Business division from Bank of Ireland (Project Hawk):** We reviewed the Project Hawk accounting papers prepared by Management. As part of our audit procedures, we are satisfied that the acquisition of the Bank of Ireland Insurance Business division was appropriately accounted for as a business combination under IFRS 3. We also concurred with Management assumptions on the assessment of the impairment of goodwill (£43.9m) recognised as a result of this transaction and the write-off of c.£2.6m of acquisition related costs.
- **Release of deferred commission received from Bank of Ireland in relation to the sales of the insurance products by Post Office:** As part of our audit procedures we noted that following the finalisation of acquisition of Bank of Ireland Insurance Business division discussed above, Post Office Limited released £5m of deferred revenue. This represents the element of the commission previously received from Bank of Ireland under the Financial Services Join Venture Agreement related to the sales of Bank of Ireland insurance products through the Post Office network. We discussed with Management, sought representations and checked with the contract terms whether there are any claw-back conditions to return part of commission to Bank of Ireland and identified none. We concurred with Management's assumption to release part of deferred commission and recognise as revenue in 2016.
- **Pension valuation and accounting (net surplus £196m):** As part of our audit procedures, we are satisfied with Management's assumptions used for pension liability valuation, being within the acceptable range. At the date of writing this report we are yet to finalise our audit procedures in relation to pension plan assets valuation. In February 2016, Post Office commenced a formal consultation with active members (and their representatives) of the Post Office section of the Royal Mail Pension Plan ("RMPP") with regards to the potential closure of the RMPP to future accrual with effect from 1 September 2016. The closure is subject to the outcome of the pensions consultation and no final decision will be made until the formal consultation is completed. The proposed closure will also require consent of the Trustee of the RMPP. This closure, if it occurs, could affect the pension average pay in the 2016/17 financial year.
- **IT and SAP CFS (Core Finance System):** We engaged our EY ITRA team to assist us in testing of IT General controls over in-scope IT applications for 2016 audit. This includes HNGX, POLSAP, SAP CFS and SAP HRP. We identified user access issues for POLSAP and SAP CFS. We instructed Management to perform alternative procedures to validate whether access maintained by the users of these two applications was appropriate throughout 2015/16 year. As at the date of this report this analysis is yet to be finalised.
- **Supply Chain Restructuring (Project Iris):** We discussed with the Supply Chain Director and the Network & Sales Finance Director the timing of the Supply Chain Restructuring project. Post Office Limited Management is preparing a detailed restructuring plan and consultation which is to be completed by 19 May 2017. We reviewed the Project Iris timetable and the Board of Directors minutes. Based on our audit procedures performed we are satisfied with Management's conclusion that there is no restructuring provision obligation as at 27 March 2016.

Our detailed comments and the results of our audit procedures on these items are included on pages 22 to 25.

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Overview (cont'd)

Summary of audit differences (page 27)

As at the date of this report, we have not identified any unadjusted audit differences above our reporting threshold of £542k for the year ended 27 March 2016. We summarised the audit adjustments identified as part of our audit which have been now recorded by Management on page 27.

Control themes and observations (page 29)

Our preliminary control observations and recommendations have been documented on page 29. These are currently being discussed with Management. We will be summarising our final observations in Management letter as there continues to be opportunities for further consistency and efficiency of processes and controls across the business.

Independence (page 32)

We consider ourselves to remain independent and objective. Please refer to our independence report in Appendix A.

Audit Opinion

Subject to finalisation of our audit work, we expect to issue unmodified audit opinion.

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Status of the audit

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Status of the audit

The audit is well progressed with our procedures now primarily focussed on the audit of the financial statements and certain balances. Our audit work in respect of the opinion on Post Office Limited consolidated financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of drafting this report. We will provide the Committee with a verbal update at its meeting on 19 May 2016.

Item	Actions to resolve	Responsibility
Annual report and accounts	• Review of the final version of 'front end' of the annual report including review of aspects of the Directors' Remuneration Report, Chairman's and CEO's statements and completion procedures thereon; • Review of directors' emoluments disclosures once final bonus outturns confirmed; • Review of the final version of 'back half' including comments on financial statements and disclosure notes; and • Detailed review of subsequent events; • Financial statements to be approved by Management and the Audit Report to be signed by EY.	Management and EY
Postmasters' Compensation Provision	• Finalisation of audit documentation upon receipt of remaining supporting documentation as part of our sample selected for testing.	Management and EY
Exceptional items	• Finalisation of audit documentation upon receipt of remaining supporting documentation as part of our sample selected for testing.	Management and EY
Pension plan assets confirmations	• Follow up remaining pension plan assets confirmations; • Review and follow up the differences with confirmations received (if any).	Management and EY
IT Audit	• Finalisation of alternative procedures to support the appropriateness of user access for SAP CFS and POLSAP; • EY to review analysis prepared by Management.	Management and EY
Corporate tax	• Follow up on comments provided to date; • Review of final corporation tax supporting files and corporate tax financial statement disclosures.	Management and EY
Subsequent events procedures	To be completed through to the date of our audit opinion on the Group and Company financial statements (matters to be updated include: enquiries of Management, review of latest management accounts, unrecorded liabilities testing and board minute review to date of signing).	Management and EY
Letter of representation	To be signed/ dated contemporaneous with our audit opinion on the Group and Company financial statements, which is anticipated to be in June/July 2016.	Management and Audit committee
Journal entries testing	• Finalisation of audit documentation upon receipt of remaining supporting documentation as part of our sample selected for testing; • Follow up on queries to Company in relation to journal entries selected for testing.	Management and EY
FRES - Interoffice reporting deliverables	• Follow up on final signed deliverables from PwC FRES component audit team; • Review of PwC component team's working papers for FRES audit.	EY
Goodwill impairment analysis	Finalisation of EY review of Management's assumptions for analysis of CGU's identification and impairment of goodwill.	Management and EY
Going concern assessment	EY to finalise the review the Management's going concern assessment	Management and EY

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Significant accounting and auditing matters

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Significant accounting and auditing matters

Introduction

Where there are significant transactions or matters arising during the year we have performed our audit procedures on these items as they arise. Our year end report only deals with new and open items. We have summarised below the key financial reporting matters that we have previously considered and reported to you during FY2016.

Accounting and auditing matters subject to significant judgements and estimates

Management is required to disclose significant estimates and judgements in the financial statements. The following outlines the basis for our assessment of the level of subjectivity involved in accounting matters reported to you.

Level of subjectivity

This rating applies only to significant estimates and indicates the level of subjectivity in the estimate as well as the reliability of the underlying data used to develop the estimate.

Subjectivity rating	Description
High	Estimate involves significant judgement and is made with little verifiable historical experience, current trend information or market and industry comparative information.
Medium	Estimate still involves some judgement and is made with verifiable historical experience, current trend information, or market industry comparative information.
Low	Estimate involves limited judgement and is made with verifiable historical experience, current trend information, or market industry comparative information.

The following 'dashboard' summarises the significant accounting and auditing matters set out in this report. It seeks to provide the Audit Committee with an overview of the subjectivity involved based on the above criteria. The detail of each accounting matter is set out after the dashboard.

Areas of audit emphasis	Level of subjectivity 2016
Completeness of Postmasters Compensation Provision* (page 13)	High
Revenue recognition across diverse range of revenue streams* (page 14)	Medium
Classification of exceptional items relating to Transformation and utilisation of Government Grant* (page 15)	High
Impairment of fixed assets and intangible assets, including goodwill (page 19)	Medium
Pension valuation (page 22)	Medium

* Identified as a significant risk under International Standards on Auditing and communicated in our Audit Planning Report in March 2016

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Significant accounting and auditing matters (cont'd)

Significant risks

In our Audit Planning Report we identified four areas of audit risk that we deemed to be significant in the context of our audit of Post Office Limited. Auditing standards define significant risks as those with a high likelihood of occurrence and, if they were to occur, could result in a material misstatement of the consolidated financial statements. These significant risks are discussed below.

1. Completeness of Postmasters Compensation Provision of £133m (2015: £127m)

In August 2015 Management of Post Office Limited ("POL") identified that the Provision for Postmasters' Compensation had not been fully recognised in the financial statements for the half year ended 28 September 2014 and for the year ended 29 March 2015. The total amount of restatement recognised was £87 million and £67 million for the year ended 29 March 2015 and the half year ended 28 September 2014 respectively. We concurred with the accounting treatment of prior year adjustment and the amount of restatement recognised.

We have assessed the completeness of Postmasters Compensation Provision as a fraud risk (as defined by auditing standards) and thus as a significant risk (as fraud risks are also significant risks). Our focus has been specifically on the completeness of the provision recorded as at 27 March 2016. As part of our audit procedures we noted that Management recorded a £123m additional charge, which was offset by £95m payments made during the year and a release of provision totalling £21m (as explained below). The net provision now stands at £134m.

£m	Movements	52 week period ended 27 March 2016
Opening balance (as restated)		**127**
Charged during 1H 2016	*47*	
Charged during 2H 2016	*75*	
Total charged for the year		**123***
Provision utilised (payments made) 1H 2016	*(46)*	
Provision utilised (payments made) 2H 2016	*(49)*	
Total provision utilised (payments made)		**(95)**
Release of unused provision		**(21)***
Closing balance		**134**

In order to address this risk we performed our planned audit procedures as follows:

- To ensure that every branch has been accounted for and that the Postmasters' compensation provision is complete, we have performed an independent reconciliation of 100% of the branch population. This involved checking the status of each of the 12,471 branches at 27 March 2016 and understanding the journey they have made since the half year. We compared this to Management's results and used this to identify anomalies and challenge the provision analysis provided by Management. We have satisfied ourselves that the movement in the journey of the branches is reasonable.
- To ensure that every branch in the Post Office Network is classified correctly, we have independently categorised each branch into their categories into a specific type of journey at 27 March 2016, based on their individual attributes and challenged Management's assessment by comparing results. No exceptions were identified.
- To vouch the attributes and classification of the branches in the network we selected a sample of 594 branches and checked supporting documentation to check that where a provision is applicable, it has been recognised in the correct period by obtaining the signed contracts and checking that the dates of the signed agreements. We checked that branches selected for testing are not duplicated in any other category. Where we identified unusual items or categories, these were communicated to Management and adjusted where necessary.

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Significant accounting and auditing matters (cont'd)

1. Completeness of Postmasters Compensation Provision of £134m (2015: £127m) (cont'd)

- To check the validity and accuracy of POL's records we selected a sample of 50 Conditional Resignation Pack (CRP) contracts and checked dates for correct cut off and sign off. We also traced the contracted amounts of these CRPs per POL's records to POL's cash utilisation reconciliation and bank statements, showing the amount being settled post year end.
- To further gain assurance on the completeness of the exceptional items charge we have challenged Management's charge by performing a reasonableness test on each category of the Postmasters compensation elements by comparing costs incurred to date against budgeted costs and estimated costs to complete for the various programmes. This involved understanding the number of open projects and how the estimated costs to complete are computed. At the date of this report this work is still in progress.
- We have had held discussions with the Director of Network (Sharon Bull) and other senior non finance members of the organisation to improve our knowledge and understanding of developments that could impact the Postmaster compensation provision and the progress the transformation is making against its planned targets, this enabled us to corroborate our testing results and Management explanations.
- We have performed an unrecorded liabilities test on 100% of the subsequent cash payments to Postmasters made post year end (for April 2016). This was done by checking that all payments to Postmasters made post year end are included in the provision at year end and we are now independently sampling 25 selected payments for May and June months post year end to actual bank statements. At the date of this report this work is still in progress.
- We have not identified any material differences as part of our test, with the exception of the following:

  As a result of our audit procedures, we identified an understatement of the charge for Postmasters Compensation provision of £1.0m. This understatement relates to a group 56 Post Office branches identified by Management as currently "being engaged". Following discussions with Management we understood these branched are likely to result in compensation once engagement concludes and therefore should be provided for as at 27 March 2016. We determined the £1.0m balance based on the average compensation of £17,396 per branch included within Fixed Pay Compensation (FPC). The FPC branches are those branches which had not confirmed to POL that they were to convert nor leave the Network and so were being forced out of the Network by POL. This judgemental adjustment has now been recorded by Management. No other significant differences were identified and this has been corrected by Management and is included in the provision of £134m.

As part of our audit procedures, we identified that in the second half of the year following a detailed analysis and new information received, Management released part of the provision totalling £21m.

- This represents Management's best estimate of the release to account for Post Office branches now unlikely to convert. These branches were advertised as leavers in the previous period and the Post Office has now not been able to find a replacement. The Postmaster's resignation obligation is conditional on Post Office finding a replacement. This detailed analysis was performed by Management and resulted in 501 branches identified as being unlikely to convert.
- This is in line with Management's expectation as the original programme was set out to transform up to 8,000 branches (non-community and non-pilot branches), which has been subsequently revised down to 7,500 branches due to Management's expectation that they will not be able to find a replacement for 500 branches.
- Management have put together a task force for the first half of FY2017 to further assist in finding replacements for these branches. At this stage, Management has predicted that it would sensible to reduce the provision for leavers payments by around 250 leavers, even considering a high success of the task force, management expects there to still be at least 250 unplaced branches.
- We acknowledge that this is an area of judgement and it illustrates the difficulty to assess this Postmasters' Compensation Provision. We recommend that Management performs regular review of the assumptions applied and revise accordingly when new information become available. For the purposes of 2016 audit we concurred with Management's assumptions to assess the amount of provision release. We will update our testing of the reasonableness of this assumption as part of subsequent events procedures.

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Significant accounting and auditing matters (cont'd)

2. Revenue recognition across diverse range of revenue streams (£1,111m)

The Company continues to sell a large variety of products/services across a number of revenue streams. Most of these revenue streams will have their own specific rates, commissions and calculations for allocating the amount of revenue owing to Post Office, which are defined in the specific underlying contracts.

As detailed in our planning board report, the main risk associated with the diverse range of revenue streams is ensuring the correct contractual terms are being applied to the revenue lines. We also note that reward and incentive schemes based on achieving profit targets may place undue pressure on Management to achieve revenue forecasts. We have therefore identified revenue recognition and management override as a significant and fraud risks both of which impact our revenue testing.

The main focus of our testing to address the risk of revenue recognition is summarised as follows:

- We performed system walkthroughs over POL's revenue lines and also performed detailed test of controls work on those revenue lines, this testing involved checking correct contractual rates and volumes data in their calculations. No issues were identified and we have taken a controls-based approach to all revenue lines.
- We performed detailed testing on over 19 key customers giving us a coverage totalling 95% of the group revenue. Our detailed tests included checking that revenue rates and commissions for each revenue line is being appropriately applied in accordance with the terms of the relevant sales contracts. Further we checked all revenue transaction with these key customers back to invoice and cash receipts.
- Where a revenue estimate is made for a revenue line for a month prior to actual sales volumes and billing reports being available, we have checked invoices subsequently posted in order to check that adjustments were made for the estimated revenue figure to reflect the actual sales for all periods tested.
- Our audit procedures also considered the accounting treatment for significant products or revenue streams where applicable by reviewing all new significant revenue contracts and any changes to existing contracts with customers. We did not identify any exceptions in relation to Management's application of its revenue recognition policy.
- To ensure that revenue has been included in the correct period, in addition to the procedures above, we have performed detailed cut-off procedures over revenue postings before and after period end, and checked that the amounts recognised as revenue are appropriate, and that where appropriate they have been correctly recognised in trade debtors, accrued revenue or deferred revenue in the appropriate period.
- We also examined the fluctuations of revenue against budget and prior year by corroborating variances to the relevant evidence obtained through our other testing procedures. In addition, where appropriate we have corroborated Management's explanations for movements using our knowledge of developments in the industry and business.
- Post Office Management Services Limited ("POMS") is a full scope component and a fully owned subsidiary and comprises £30m (3%) of the POL Group revenue. We performed similar audit procedures on the POMS revenue to the procedures performed above for POL sample, which included 55 key items with a coverage of 99% of total POMS revenue. No issues were identified. The materiality used remained set at £323,000 and the performance materiality at 50% of overall materiality (£161,500).

Based on the procedures performed, we conclude that revenue, accrued income and deferred income balances for the FY16 financial year are appropriately stated.

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant

Post Office is executing a Transformation across its network in order to modernise it as part of the overall strategy to make the Post Office competitive for the future. This one-off programme is expected to continue until FY2017-18. Management note that the costs of Network Transformation are exceptional in nature given that a branch modernisation programme of this scale has not been carried out before. As such, Management believe this requires separate presentation on the face of the Income Statement to allow a better understanding of financial performance in the year.

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Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

In addition, the Department of Business, Innovation & Skills ('BIS') provides a government grant to POL to subsidise network transformation expenditure, agents compensation and related capital expenditure. POL offsets this government grant against the related expenses in the exceptionals section of their Income Statement, in line with IAS 20 Government Grants.

Please refer to the table below for the details on exceptional items recorded for 2016 year:

	Note	FY2016 £m	FY2015 £m
Network Transformation costs	3.1	(75)	(73)
Agents Compensation	3.2	(102)	(154)
Network transformation including subpostmasters compensation		**(177)**	**(227)**
Crown Transformation	3.1	(23)	(10)
Redundancy	3.3	(29)	(25)
Separation	3.4	(11)	(8)
Total Network and Crown transformation costs		**(240)**	**(270)**
IT Transformation costs	3.5	(30)	(16)
Business Transformation Programme	3.6	(9)	(12)
Business Transformation costs		(4)	(1)
Other		-	(3)
Total restructuring costs		**(283)**	**(301)**
Intangible and tangible assets impairment	**3.8**	**(136)**	**(141)**
Government Grants	**3.9**	**150**	**170**
Total operating exceptional expense, net		**(269)**	**(272)**

3.1 Network Transformation (£75m) and Crown Transformation costs (£23m)

The Network Transformation and Crown Transformation costs are attributable to the modernisation of Post Office's existing branches as part of the transformation programme.

The network transformation has reached approximately 75% of completion, tracking in line with budget.

Management note that the costs of network and crown transformation are exceptional in nature given that a branch modernisation programme of this scale has not been carried out before and it is not treated as business as usual within the Post Office. We agree with Management's conclusion that this transformation is significant in nature, and an one off event, subsidised by the government grant (also an exceptional item) and therefore is appropriately presented on the face of the income statement to allow a better understanding of financial performance in the year.

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Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

3.1 Network Transformation (£75m) and Crown Transformation costs (£23m) (cont'd)

Substantive audit procedures performed:

- In additions to discussions held with Management as part of our audit procedures we have also had held discussions with the Director of Network (Sharon Bull) and other senior non finance members of the organisation to improve our knowledge and understanding of developments that could impact the both the Network and Crown transformation and understand how it is tracking to plan. This has enabled us to corroborate our testing results and Management explanations.
- We selected a sample of 57 transactions giving us a coverage of 49% for Network Transformation cost in the year and we tested over 50% of the Crown transformation costs. Our tests involved obtaining the details and the nature of the costs incurred against the overall strategy of the programme and we checked each transaction to supporting documentation such as invoices and project approvals to validate that they are directly related to transformation costs and not related to routine expenses related to the normal course of the business.
- As a result of our audit procedures, we initially identified two judgemental adjustments relating to the overstatement of accrual balances with Network Transformation Exceptional items, relating to Project Enabling Works (£2.7m) and Operational Business Change (OBC) (£1.2m). We identified that the Project Enabling Works accruals were older than 12 months, these costs relate to costs incurred by Postmasters that are to be reimbursed by POL. For the OBC accrual we have identified the costs relating to accruals older than 6 months, these accruals are for works that POL have placed with suppliers for equipment services, which we would expect to have been settled. These have both been adjusted by Management now.

Management's overall treatment is consistent with the approach followed in the prior year and the basis on which the government grant, which partially funds the Post Office Transformation spend, was agreed.

3.2 Agents Compensation expense (£102m)

Postmasters compensation charge continues to be significant in the year. The postmasters continued to be incentivised and compensated for ensuring their branches take part in the Network Transformation programme. We coordinated our testing approach with the audit procedures we performed to address identified significant risk in relation to completeness of Postmasters' compensation provision. Please refer to respective section on page 13.

3.3 Redundancy costs (IRRELEVANT)

Redundancy costs largely related to the Crown Transformation programme and the redundancy of staff as part of cost saving initiatives and as such are treated as exceptional.

We reviewed the respective signed conditional resignation notices given to agents and vouched a sample of 17 items to termination payments to notices submitted and concluded the cost is appropriate. We have also obtained the breakdown of the redundancy plans and checked corroborated the charge against Management's formal plans.

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Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

3.4 Separation IRRELEVANT

Separation costs comprise of costs incurred to achieve separation from Royal Mail. In line with prior year, POL has continued to incur separation costs with respect to building internal functional capabilities and implementing new commercial relationships. Since the separation Royal Mail Group ("RMG"), the Company has had a Master Services Agreement(MSA) in place which relates to an agreement with RMG to provide IT support services to POL post-Separation. These costs are part of a defined programme and are designed to bring about significant changes to the business. The MSA was supposed to end in September 2015.

However, due to delays in separating out some of the IT services, there was a need to extend this arrangement to 31 March 2016. POL have now formally separated all of the services and the Separation programme has been formally closed down. POL have estimated internally that the maximum extension costs and penalty charges which RMG could try to levy on them is approximately IRRELEVANT plus irrecoverable VAT IRRELEVANT POL have accrued for IRRELEVANT of these costs (including irrecoverable VAT) in exceptional items as it arises as a result of the Separation Programme, which has been consistently accounted for as exceptional. The costs are still under negotiation with RMG to finalise a settlement. We proposed to increase the provision by IRRELEVANT which has been recorded by Management.

We would not expect any further costs next year, however have confirmed costs are of the same nature as the prior year.

3.5 IT Transformation Costs (£30m)

The IT transformation was one of Post Office's key programmes to deliver the commitments made in 2010 in the Government Funding and Strategic Plan. During the year Management terminated an agreement with IBM who were contracted to perform IT Transformation work in respect of Front Office software for the POL branches. The agreement with IBM was terminated for commercial reasons and this work has been contracted to Fujitsu in the year. Termination costs of £20.7m have been incurred and are included in the exceptional items in the year. Management's view was that this cost arose as part of the Transformation programme and was fundamental in achieving the objectives of the POL Transformation.

We selected a sample of 17 transactions giving us a coverage of 79% of IT Transformation cost. Our tests involved obtaining the details and the nature of the costs incurred against the overall strategy of the programme and we checked each transaction to supporting documentation such as contracts, invoices and project approvals to validate that they are directly related to IT transformation costs and not related to routine expenses related to the normal course of the business.

We have held various meetings across the business with the Heads of the Network and IT Transformation programmes to corroborate our testing results.

Consistent with prior year, Management treats this specific transformation project as an exceptional cost given the project results in a fundamental change to the entire Post Office IT model. In our view we would not generally expect IT upgrades to be considered as exceptional items, however due to the unique IT environment POL finds itself in post separation from Royal Mail and the IT infrastructure required to create an independent group, we can accept these IT costs being treated as exceptional. Given the continuing rationale of impairing assets, these costs have been impaired as an exceptional item. Management noted that the changes in the Network Transformation project would not be achievable without the IT transformation project. Management continues to be consistent in its treatment of IT Transformation costs.

We have revisited the appropriateness of classifying such costs as exceptional and reviewed supporting documents to satisfy ourselves that these costs link to one-off major IT project costs relating to transformation.

We concurred with Management's treatment of these costs in FY16 as exceptional and we have challenged Management to continue to assess these future costs on a specific basis to determine when they become business as usual costs.

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Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of

3.6 Business Transformation Programme (£9m)

The Business Transformation Programme is a wide reaching programme tasked with delivering £300m of cost savings. As such, it is expected to radically transform the structure of the business. The Business Transformation Programme has begun its work and has already identified medium term costs saving opportunities of £100m which, owing to the one-off nature of the events giving rise to them, were deemed appropriate by Management to include as an exceptional item.

We checked the nature of the costs that make up the £9m to supporting invoices. We checked £6.2m which is c.69% of the total vouched that this it consist of consultancy costs related to the Business Transformation Programme cost saving initiative payable to consultants. We concur with Management's treatment of these costs in FY16 as exceptional, but we have challenged Management to continue to assess these future costs on a specific basis to determine when they become business as usual costs.

3.7 Intangible and Fixed Asset Impairment

Post Office continue to adopt a policy of fully impairing all intangible and fixed asset and long leasehold additions made during the year in which they are purchased, except for freehold land and buildings. Management's justification for adopting this policy is due to the fact that Post Office has historically been, and continues to be a loss making entity excluding the Network Subsidy Payment and Government grant it receives and in its current form is not a viable commercial business (without the government support).

As an additional factor in the decision to impair, Post Office has been working on a major programme of network change that will cost approximately £500m. We observed the transformation spend and strategy is included within the current State Aid funding package and investment of this scale will lead to significant cash outflows for the immediate future. The resulting transformational change is specifically designed to impact the longer term profitability of the organisation and accordingly Management believes that Post Office will continue to be loss making entity in the near to medium term.

We have challenged Management on the appropriateness of this policy. Management's view is that there is no current evidence to support the profitability of the business without state aid. On the basis of our discussions with Management we believe Management's approach is appropriate and prudent in 100% impairing all assets on acquisition, reflecting value in use and cost.

The fixed asset impairment charge for the year is £136m (PY: £141m). The year on year increase in fixed asset additions is mainly a consequence of network and crown transformation related capital expenditure to modernise POL branches.

For the reasons noted above we continue to agree that Post Office's accounting policy for impairment and disclosure of the charge as an exceptional item is reasonable, and in line with IAS 36, Impairment of Assets.

We discussed with Management the impact on the financial statements and forecasting as it becomes more likely that Post Office will be cash generative without reliance on government grants. We recommend Management should continue to review its impairment policy at each reporting period in relation to these assets, produce full DCF impairment models and ensure the fixed asset registers are appropriately maintained.

We have received a full impairment considerations analysis for Goodwill related to Bank of Ireland insurance business combinations and we are finalising our review. Based on our discussions with Management we understood this Goodwill is covered by an individual Cash Generating Unit (CGU) for the insurance business segment. Based on the preliminary analysis prepared by Management and reviewed by us there is no impairment required. We will finalise our review once the full analysis is received. Please also refer to "Other areas of focus" section of this report on page 23.

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Significant accounting and auditing matters (cont'd)

3. Classification of exceptional items relating to Transformation and utilisation of Government Grant (cont'd)

3.7 Government grant - State Aid Funding

On 19 March 2015, POL received confirmation that its application for State Aid funding for 2015/16 to 2017/18 had been approved. This approval entitles POL to receive the following funding from the Department of Business, Innovation & Skills ('BIS') by way of grants: FY2015/16 - £280m, FY2016/17 - £220m, FY2017/18 - £140m.

Of the amounts above, £130m (2015/16), £80m (2016/17), and £70m (2017/18) were agreed to be made by way of a network subsidy payment, which has been regularly paid by the government to POL over the last few years, enabling the company to keep branches open that would otherwise not be viable. We have confirmed receipt of the government grant and reviewed updates to the terms and conditions of the funding agreement, no issues identified. POL received the full funds for FY2015/16 grant allocation from BIS in April 2015; £130m by way of a draw down of the network subsidy and an additional £150m to fund capital projects and transformation costs. We have confirmed receipt of the government grant and have confirmed that there have not been any updates to the terms and conditions of the funding agreement. The full £150m which is classified as exceptional has been utilised in the year to date against capital spend, network transformation and IT transformation costs and subpostmasters compensation.

Based on our procedures performed, we conclude that the government grant has been appropriately recognised in the income statement in accordance with the contract from BIS.

4. Risk of management override around estimates and judgements

During the normal course of an audit, we are required to perform procedures to address risks that could result in material misstatement due to fraud and error including the risk of management override of controls. There are both specific and tailored procedures performed to ensure that sufficient consideration is given to these risks.

The risk of fraud and management override exists in all businesses and is heightened where the economic environment is challenging and where there is significant change being implemented across a business potentially giving rise to the opportunity, pressure or incentive to perpetrate a fraud. Areas of focus from an audit perspective to address the risk of management override include:

- Revenue recognition
- Estimates and judgements; and
- Unusual transactions

The table below highlights the specific areas which we believe are more susceptible to the risk of management override or bias for Post Office and the procedures we have performed to address the risk.

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Significant accounting and auditing matters (cont'd)

4. Risk of management override around estimates and judgements (cont'd)

Area of focus	Details of procedures performed/cross reference to detail included in this report.
Revenue recognition – Our focus was on cut off via manipulation of revenue recorded close to yea rend.	Refer to page 15 for details.
Impairment of goodwill – There is subjectivity relating to the assumptions used to value acquired intangible assets.	Refer to page 19 for details.
Valuation of provisions – There is subjectivity in management's determination of their best estimate of amounts provided.	Refer to page 13 for details.
Journal entries – By their nature, there is the potential for the risk of management override of the financial statements through processing of journal entries.	We have performed journal entry testing at the group level and at component level focussing on: ► Entries made near to the year end; ► Post – closing adjustments; ► Entries made in relation to transactions outside the normal course of business; ► Analysis of journal entries by user profile and the posting day of the week; ► Entries relating to our fraud risk around revenue recognition (Refer to page 15).
Entity level controls – There is a risk that controls operating at the centre are not implemented consistently across the group.	We performed various procedures to assess the 'tone from the top' and the design and implementation of key entity level controls and assessed the overall control environment to be effective.

During the course of our audit, we found no evidence of material, or potentially material fraud or error in the financial statements.

We have not been made aware of any further material instances of known fraud within the group in addition to those previously reported.

In addition, for provisions we have challenged senior management to understand the material movements in provisions in the year. We considered the aspects and attributes of each provision individually, assessing whether its accounting treatment meet the requirements of IAS 37. Material movements within provisions related mainly to utilisation and charge of severance and agents' compensation provisions.

We have vouched a sample of provision charges to supporting documents such as formal redundancy and severance plans for severance provision increases and signed voluntary and/or compulsory redundancy notifications for increases in agent's compensation provision in the year. This enabled us to check the validity of charges to provisions in the year. Where provisions have been utilised in the year we have vouched a sample to evidence of payment.

We concluded that each individual provision meets the criteria of provisions as per the requirements of IAS 37 – Provisions, and have therefore been appropriately provided for at the end of the year.

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Significant accounting and auditing matters (cont'd)

Other areas of audit focus

In addition to the significant risk areas highlighted in the previous section, there were a number of other accounting and auditing matters which have arisen during the year. Details of each are provided below:

Horizon Subpostmaster claim

As part of our discussion with Group Chief Financial Officer and Group Legal Counsel we understand that Post Office Limited have received a formal Letter of Claim from Freeths Solicitors on behalf of 91 applicants on 28 April 2016. We have received the copy of this letter. It contains the number of allegation made to Post Office. We understood that there is no quantification of the claim for damages at this point of time. At the date of this report Management is in process of reviewing this letter and will be preparing the necessary response and will be preparing the litigation strategy. There is no provision recognised as at 27 March 2016 for this claim. The financial statements now include a generic contingent liability note regarding receipt of such claims, stating no material impact is expected. We will update our assessment as part of subsequent events review procedures performed up to our sign-off date.

Pensions valuation and accounting

Pensions accounting can be a highly subjective area given the impact that relatively minor changes in assumptions can have on the valuation of the defined benefit liability. Based on current calculations, Post Office has a net surplus at the year end of £196m (2015: £205m) as follows:

£m	FY2016		FY2015	
	RMPP	RMSEPP	RMPP	RMSEPP
Fair value of pension plan assets	407	30	379	31
Pension liabilities	(184)	(27)	(150)	(26)
Surplus in plan before assets ceiling adjustment	223	3	229	5
Effect of assets ceiling	(29)	(1)	(27)	(2)
Surplus in plan after assets ceiling adjustment	194	2	202	3

We have confirmed that the approach and methodology applied by Management are consistent with previous reporting periods. We have reviewed and challenged Management's calculations, specifically with respect to the pension assumptions. The key assumptions are noted in the table below along with our assessment of where these assumptions are within our acceptable range of outcomes.

Financial assumptions		**Prudent**	**Central**	**Optimistic**
Discount rate			3.50%	
Price inflation (RPI)			2.90%	
Price inflation (CPI)			1.80%	
Salary increases (above RPI infl) [1]			-0.10%	
Pens incs in payt (above infl)	LPI 5% (RPI) [1] [3]		-0.10%	
	CPI [2] [4]		+0.00%	
Pens incs def (above CPI) [2]			+0.00%	
Demographic		**Prudent**	**Central**	**Optimistic**
Mortality in retirement	Males		106% S1PMA MC 1.25% u/pin	
	Females		101% S1DFA MC 1.25% u/pin	
Retirement age			60	
Commutation [3]			15% of Pension	

Consistent with prior years, we used an EY actuarial specialist to evaluate these assumptions and we consider them to be within an acceptable range, albeit the inflation assumption continues to be at the upper end of the acceptable range.

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Significant accounting and auditing matters (cont'd)

Acquisition of Insurance Business division from Bank of Ireland (Project Hawk)

Post Office Limited ("POL") and Bank of Ireland ("BoI") had a contractual arrangement (Financial Services Joint Venture Agreement) under which they agreed that they will together carry on the business of selling to customers of POL throughout the UK a range of retail financial services products endorsed by the POL and manufactured by or on behalf of BOI. Under this contract POL had an option to acquire insurance business division of BOI during the period from September 2014 to March 2016. POL indicated its interest in BOI's insurance business and exercised this option in March 2016.

POL completed the acquisition of BOI's insurance division business, trade and assets on 1 October 2015. The purchase price paid by POL to BOI was determined by an independent consultant based on external valuation and was £43.9m. The purchase price was paid in full in cash. POL incurred approximately £1.3m of acquisition related costs, including legal expenses, various M&A fees, etc. The acquisition of BOI's insurance business was subject to FCA regulations, therefore the decision was made to sell the acquired business to POMS. POMS incurred additional £1.3m acquisition related costs, which were expensed in POMS accounts.

We reviewed the Project Hawk accounting papers prepared by Management. The transactions meet the definition of a business combination under IFRS 3 Business Combinations on the basis that the Group purchased an integrated set of assets that are capable of being conducted and managed as a business by a market participant. We are yet to finalise our audit procedures on impairment considerations of goodwill recognised as a result of this transaction. Based on our discussions with Management we understand there is no impairment of goodwill required.

Release of deferred commission received from Bank of Ireland in relation to sales of insurance products by Post Office

As part of our audit procedures we noted that following finalisation of acquisition of Bank of Ireland Insurance Business division, Post Office Limited released £5m of deferred revenue. This represents part of commission previously received from Bank of Ireland under Financial Services Join Venture Agreement relating to sales of Bank of Ireland insurance products by Post Office. We discussed with Management, sought representations and checked with the contract terms whether there are any claw-back conditions to return part of commission to Bank of Ireland and identified none. We concurred with Management's assumption to release part of deferred commission and recognise as revenue in 2016.

VAT Considerations

The business has been fairly stable over the past year in terms of service offerings and the market. In light of this, the VAT processes and systems have not had any major changes in the year.

The work carried our by our VAT specialists included;

- Review of POL process notes for Accounts Payable and Accounts Receivable and VAT return compilation.
- Review of the quarterly VAT records throughout the year, including the January - March 2016 VAT submission and the reconciled the draft (unsubmitted) VAT figures to the year end VAT ledger balance
- Understand and review of any changes to the VAT group during FY16.
- Check of any VAT assessments and disclosures to HMRC, along with confirmation that there are no outstanding issues.
- Enquiring about any complex, unusual or significant transactions that have occurred during FY16.

The above work was carried out by reviewing the relevant documentation, taking part in detailed discussions with Carl Nielsen (Head of VAT) and Ian Lakin (Tax Compliance Manager), and walking through the AP/AR processes with the relevant POL finance staff.

We have also reviewed correspondence with HMRC on other complex, unusual, or significant transactions or issues with VAT, and note that there are no outstanding queries with HMRC or other VAT provisions. Management has also confirmed that there are no further unusual transactions or VAT planning arrangements apart from those disclosed to us.

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Significant accounting and auditing matters (cont'd)

VAT Considerations (cont'd)

Based on the work performed, including by our VAT experts, no errors were identified on the returns in respect of POL's inputs and outputs compared to the overall turnover and expenses figures. The partial exemption recovery method agreed with HMRC in July 2014 has not been amended in FY16. The method allows for direct attribution of fully taxable supplies followed by an allocation of the residual input VAT based on the value of POL's supplies in relation to 'mail' and 'non-mail' services for that period. The provisional rate of residual input VAT recovery for FY16 has been set at 55%. This rate has been hardcoded into the POL's IT platform (CFS) during the year as recommended by us in the prior year. Based on the work performed we consider the current VAT processes to be robust and responsive to changes in the legislation and HMRC's approach.

We would advise Management to continue to assess the VAT recovery rate on a regular basis to ensure VAT is appropriately monitored and recorded through out the year.

As a result of our work, we believe that the financial statements are free from material misstatement in this area.

Corporation Tax Considerations

Current tax

POL outsource the preparation of their tax computations to Wilkins Kennedy. We have audited the tax charge, involving experts from our EY tax team where appropriate.

Our testing focused on the following key areas:

£m	FY2016	FY2015
(Loss)/Profit before tax	(169)	(167)
Tax Credit in Income Statement	(4)	(26)
Tax charge – items taken directly to equity	(5)	9

A [illegible] eness and correct classifications in accordance with IAS 12 is still in progress.

Deferred tax assets and liabilities

At 27 March 2016, the Group has a net deferred tax balance of £nil on the balance sheet (2015: £nil). A deferred tax liability of £5m in respect of the movement in the pension surplus has been recorded through OCI. This is offset by the recognition of an equal deferred tax asset in respect of tax losses carried forward at 29 March 2015 which has been recorded in the income statement.

The deferred tax liability referred to above relates to the pension surplus of £226m (before withholding tax) recognised for accounting purposes. We understand that it is Management's expectation that £139m of the pension surplus will be recovered solely through a reduction in future pension contributions over the life of the scheme as advised by actuaries. The reduction in future pension contributions will increase the future current tax liabilities of Post Office and, therefore, a taxable temporary difference arises in respect of which a deferred tax liability is recognised. It is Management's intention that the remaining element of the surplus of £87m will be recovered through refunds from the scheme. Accordingly, the surplus has been shown on the face of the balance sheet net of a 35% withholding tax of £30m. We agree this treatment is appropriate and in line with EY's interpretation of IFRIC 14. Consistent with prior years, no deferred tax assets have been recognised in respect of losses and other temporary differences for the year ended 27 March 2016 (other than to match the deferred tax liability arising on the pension surplus), due to uncertainty around the availability of future taxable profits.

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Significant accounting and auditing matters (cont'd)

Supply Chain Restructuring (Project Iris)

We discussed with the Supply Chain Director and Network & Sales Finance Director the timing of Supply Chain Restructuring project. Post Office Limited Management has prepared a detailed restructuring plan and consultation which is to be approved by 19 May 2017. We reviewed Project Iris timetable and conducted a Board of Directors minutes review. Based on our audit procedures performed we are satisfied with Management conclusion that there was no restructuring provision obligation as at 27 March 2016 as no formal decision was made pre 27 March 2016 therefore POL was not demonstrably committed to the restructure at year end.

Going concern considerations

POL continues to operate in a net liability position and continues to experience net cash outflows (excluding government State Aid funding). POL therefore continues to be reliant on State Aid to remain a going concern. State Aid approval for the funding for 2015-16 to 2017-18 was received on 19 March 2015 as detailed above. In addition to State Aid approval POL has an existing working capital facility with BIS with a limit of £950 million from 31 March 2015 up to 31 March 2018.This working capital facility is used to finance network cash requirements.

Management's cash flow forecast up to 2020-21 indicates that POL will continue to see cash outflows until 2016/17, even including State Aid. We have received Management's year end going concern assessment. At the date of this report we are yet to finalise our review. The draft financial statements include a going concern note covering the above.

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Summary of audit differences

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Summary of audit differences

Summary of audit differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and amounts actually recorded.

These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

We have identified five judgmental audit differences, including Network transformation Project Enabling accrual over older than 12 months and Operation Business Change over 6 months, understatement of Postmasters Compensation Provision, understatement of provision for Royal Mail Separation costs and impairment for software intangible assets of POMS. All these adjustments have been now recorded by Management.

We also identified one reclassification audit difference in relation to reclassification of Royal Mail Separation contract costs from accrued liabilities to provisions which has been corrected by Management.

Misstatements (£m)	Assets current	Assets non-current	Liabilities current	Income/ expenses
Judgemental	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/(Credit) Current period
Corrected misstatements:				
Network Transformation OBC Accrual - This is a release of an accrual where projects have no dates or are over 6 months old. These are for vendor costs where it is generally expected that the costs should be paid within 2 months.			1.2	(1.2)
Network Transformation Project Enabling Works Accrual - This relates to an accrual for agents claiming back for work carried out in order to convert branches. This is the release of any costs greater 12 months old as it would be expected that these costs are claimed back within this time frame.			2.7	(2.7)
Understatement of Postmasters Compensation Provision for all branches that are currently being engaged (56 branches at an average amount of £17,396).			(1.0)	1.0
IRRELEVANT				
		(2)		2
Impairment of POMS assets within POL Group accounts				
IRRELEVANT				
Balance sheet totals	-		IRRELEVANT	

Conclusion: Subject to our outstanding items, there are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 27 March 2016.

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Control themes and observations

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Control themes & observations

As part of our audit of the financial statements, we obtain an understanding of the internal control and IT environment sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you any significant deficiencies in internal control.

We can confirm that on the basis of our audit work performed, we did not identify any significant deficiencies in internal controls. However we have identified certain control deficiencies below from this year's audit cycle. We anticipate providing a detailed Management Letter incorporating certain recommendations for process improvements noted by us in the performance of our procedures.

The following is a summary of our considerations:

1. Financial statements implications:

Revenue

- We recommend Management maintains robust and detailed analytical review of revenue fluctuations and deviations during the year in comparison with historical data and industry data on a individual revenue lines basis. We expect this to cover the precision level and expectations developed by Management. We understood Management is working on formalising this analysis.

Exceptional items

- As part of our audit procedures we noted that the company maintains large volume of information related to exceptional items in Excel spreadsheets. This may result in manual errors and completeness issues as a result of various sources of information used. We recommend the Company to develop a uniformed database and standardised procedures for exceptional items recordkeeping.

2. Observations on the IT Environment

The following IT applications are in scope for our audit: HNGX, POLSAP, SAP CFS and SAP HRP.

HNGX and POLSAP are supported by third party service providers Fujitsu and Steria. Our audit approach was to rely on the ISAE 3402 report commissioned by Fujitsu over the controls it operates, and independently test controls operated by Atos, Steria and POL.

HRP has previously been tested as part of the Royal Mail (RM) audit. With the separation of the RM and POL IT environments, this year, HRP was tested as part of the POL audit procedures. Due to the separation of IT infrastructure supporting POL and RM applications, the ISAE 3402 report provided by CSC did not cover the SAP HRP application. As we were unable to rely on this report for the 2016 audit, we have independently tested the controls operated by CSC, Steria and POL for this application.

CFS is supported by CGI and Steria. As no ISAE 3402 reports were available, we performed independent testing of controls operated by CGI, Steria and POL.

- In respect of Fujitsu-operated controls, no significant findings were noted in the ISAE 3402 report, and we have therefore been able to rely upon it as part of our audit approach.
- Our testing of the Post Office operated controls confirmed that some of the control observations raised last year have been remediated and/or the risk formally accepted by Management, whilst some of the observations have recurred.
- Although we noted that a periodic review of users' access rights were implemented in the year for POLSAP covering Supply Chain (SC) and Financial Service Centre (FSC) POLSAP users, the SC review which was initiated in September was incomplete as not all line manager responses had been received. Additionally, we noted that the periodic review had been initiated for CFS users only in January 2016, however such review was also not completed. We recommend Management should ensure that the access for all application users is periodically reviewed and evidence retained.

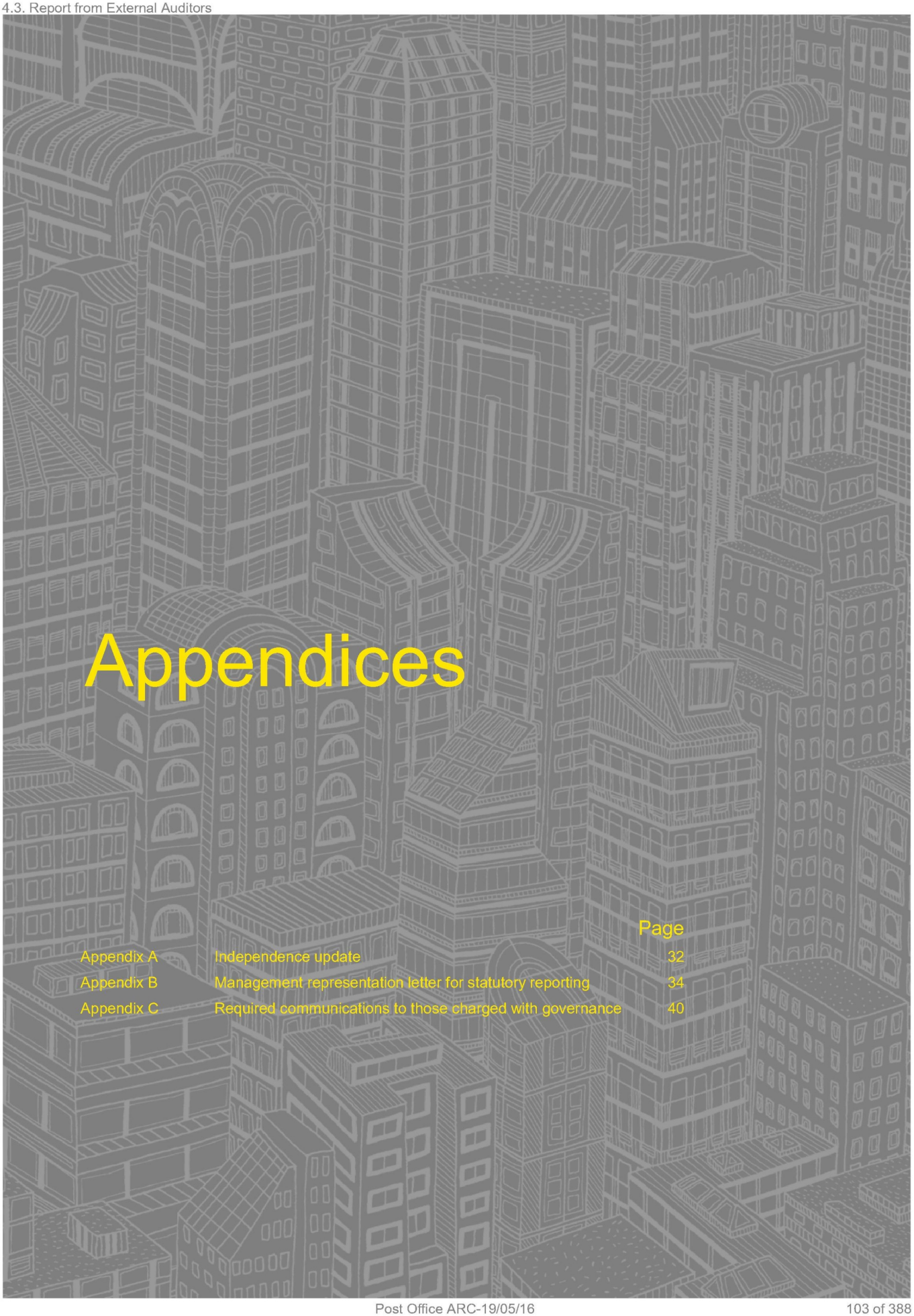
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Control themes & observations (cont'd)

Observations on the IT Environment (cont'd)

- As a result of the incomplete periodic review of users' access rights, we performed alternative procedures to validate that access held by users at the time of our testing was appropriate. Although these additional procedures are currently incomplete, we have observed exceptions that prevent us from being able to fully rely on the controls around appropriateness of access for the CFS and POLSAP applications. These exceptions are currently being validated and discussions being held to determine the effect on the overall audit approach.
- We also observed during our employee leavers testing, that there were a number of active POLSAP, CFS and SAP HRP accounts belonging to leavers that were not removed in a timely manner. We were however able to perform additional procedures to validate that these accounts had not been used after the leaving date and therefore concluded the control deficiency have not significantly impacted our audit of the financial statements. Management should revoke the access of terminated employees immediately and perform investigations to identify the root cause of leavers retaining their access.
- During our change Management procedures on the CFS and HRP applications, we observed that a number of changes had been developed and implemented by the same user which violated the principle of segregating incompatible duties within the change Management process. We are in the process of performing additional procedures to mitigate the risk of inappropriate changes being implemented into the live environment. Management should work with the third parties (CGI and CSC) in implementing a control to segregate incompatible duties when developing and implementing system changes.

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Appendices

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Appendix A Independence update

We confirm there are no changes in our assessment of independence since our previous confirmation in our planning board report. We complied with the APB Ethical Standards and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 19 May 2016.

Relationships, services and related safeguards

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

Description of relationship or service and related independence threat	Period provided/duration	Safeguards adopted and reasons considered to be effective
Service 1: Fujitsu ISAE 3402 report – ISAE3402 report for the Fujitsu services supporting the POL account. This report will provide an assessment of the Fujitsu controls supporting POL business critical systems. We have placed reliance on the ISAE3402 as part of the 2015-156financial statement audit.	Performed on continued annual basis	► Not a prohibited service ► A separate team from the POL IT team has been engaged for the review of the ISAE3402 report, and standard ring fencing applied between two teams. ► Went through review exercise to ensure in line with EY independence rules
Service 2: ISAE 3000 report on POL Note Circulation Scheme related services to the Bank of England for the FY2015-16 period and to be performed in May 2016.	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.
Service 3: Agreed-upon procedures performed which relate to testing of covenants relating to the loan from the Department of Business, Innovation and Skills (BIS).	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.
Service 4: Agreed-upon procedures performed to ensure that the amount which is collected by Post Office Limited on behalf of the DVLA for road tax is subsequently paid over to the DVLA.	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.
Service 4: Agreed-upon procedures performed to ensure that the amount which is collected by Post Office Limited on behalf of the DVLA for road tax is subsequently paid over to the DVLA.	Performed on continued annual basis	► Not a prohibited service ► These are standard agreed-upon-procedures, where Management instructs us on exactly the procedures to be performed and we conclude by issuing a factual findings report only.

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of the audit engagement partner and the audit engagement team have not been compromised.

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Appendix A Independence update (cont'd)

Fees update

As part of our reporting on our independence, we set out below a summary of fees for the year ended 27 March 2016.

£	2016
- Post Office Limited core audit fee*	346,000
Total audit fees	**346,000**
-IAS34 Half year review of consolidated accounts	40,000
- Note Circulation Scheme ISAE 3000 Report	78,000
- BIS Agreed Upon Procedures Report	12,000
- DVLA Agreed Upon Procedures Report	13,000
Total non-audit services	**143,000**
Total*	**489,000**

*Excludes out of pocket expenses incurred

We confirm that none of the services have been provided on a contingent fee basis.

Ernst & Young LLP has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. See below for a summary of our firm wide policies.

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Appendix A – Independence report (cont'd)

Firm-wide policies

Ernst & Young LLP has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Listed below are some of the key policies and processes in place within Ernst & Young LLP for maintaining objectivity and independence.

Further details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Ernst & Young LLP Transparency Report which the Firm is required to publish by law. The most recent version of this Report is for the 2015 year and can be found at http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015

Service	Timing
Financial interests	Our Partners and client facing (technical) staff are prohibited from investing in any audit client around the World. All partners and staff are required to confirm their compliance each year with the firm's independence policies. Monitoring of compliance in respect of all partners and professional managers takes place through a worldwide investment tracking system. New starters are required to confirm their compliance with the firm's independence policies on commencement of their employment.
Training	All partners and professional staff are required to undergo regular mandatory training on our Independence and Ethical policies and processes.
Partner rotation	The firm has detailed policies on the rotation of the audit partner, and in the case of listed clients key audit partners, the independent partner and 'other partners and staff in senior positions'.
Consultation	The firm requires consultation outside the audit team on complex accounting, auditing and ethical matters. Major issues of principle arising on all audits are referred to a panel of independent experienced audit partners.
Independent partner reviews	Before listed company audit opinions are issued, an audit partner independent of the audit team reviews the nature of the relationship with the client, aspects of the accounts that are subject to significant estimates and judgements, and the adequacy of the presentation of information in the accounts.
Quality reviews	The firm operates a worldwide programme under the direction of senior partners that annually assesses the quality of our work. Over a three year period, a proportion of the work of all audit partners is reviewed. The results of the programme help us to evaluate the firm's quality controls and personnel performance and identify areas for improvement. As with other firms, EY's audit practice is subject to annual review by the Audit Inspection Unit (AIU) and the Quality Assurance Directorate (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) for compliance with Audit Regulations. As part of its visits, the AIU/QAD evaluates the system of quality control operated by the firm for its audit practice.
Business relationships	EY UK has implemented a centralised process for the review and pre-approval, by our quality and risk management team, of all new business relationships. A submission must be made and approved for each new business relationship before committing the firm. In addition, all new business relationships must be notified and approved by the lead audit or client service partner before committing the firm.
Ethics	Our Global Code of Conduct provides an ethical framework on which we base our decisions and our actions – as individuals and as members of our global organisation. Ernst & Young LLP has also established the EY/Ethics hotline which will allow any person, inside or outside of EY, to confidentially and anonymously report an activity that they believe may involve conduct that is unethical, illegal, in breach of professional standards, or is otherwise inconsistent with EY's established policies and Code of Conduct.
Non-audit services	Our audit engagement partners must approve any non-audit services offered to their clients. This allows them to: ► Ensure the objectives of the proposed engagement are not inconsistent with the objectives of the audit of the financial statement; ► Identify and assess any related threats to our objectivity; and ► Assess the effectiveness of available safeguards to eliminate such threats or reduce them to an acceptable level. Where no satisfactory safeguards exist we do not carry out the non-audit service.

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Appendix B
Management representation letter for statutory reporting

June 2016

Ernst & Young

1 More London Place

London SE1 2AF

Attn: Peter McIver, Audit Partner

Post Office Limited – Financial Statements for the 52 week period ended 27 March 2016

Dear Sirs,

This letter of representations is provided in connection with your audit of the consolidated and parent company financial statements of Post Office Limited ("the Group and Company") for the 52 week period ended 27 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent company financial statements give a true and fair view of (or 'present fairly, in all material respects,') the Group and Company financial position of Post Office Limited as of 27 March 2016 and of its financial performance and its cash flows for the 52 week period then ended in accordance with, for the Group, International Financial Reporting Standards as adopted by EU ("IFRS"), and for the Company , FRS101.

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

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

A. Financial Statements and Financial Records.

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 22 January 2016, for the preparation of the financial statements in accordance with, for the Group IFRS, and for the Company FRS 101.
2. We acknowledge, as members of management of the Group and Company, our responsibility for the fair presentation of the consolidated and parent company financial statements. We believe the consolidated and parent company financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group in accordance with IFRS and for the Company in accordance with FRS 101, and are free of material misstatements, including omissions. We have approved the consolidated and parent company financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Company financial statements are appropriately described in the Group and Company financial statements.
4. As members of management of the Group and Company, we believe that the Group and Company have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with IFRS for the Group and FRS 101 for the Company that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and parent company financial statements taken as a whole.

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Appendix B
Management representation letter for statutory reporting (continued)

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the Group and Company financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Company's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or parent company financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or parent company financial statements or otherwise affect the financial reporting of the Group or Company.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and parent company financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and parent company financial statements.
3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 52 weeks ended 27 March 2016 to the most recent meeting on the following date: *[list date].*
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Company's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the 27 March 2016. These transactions have been appropriately accounted for and disclosed in the consolidated and parent company financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Company has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and parent company financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. In accordance with FRS 101 paragraph 5, we have notified our shareholders in writing, in accordance with reasonable timeframes and format requirements, of our intention to take advantage of disclosure exemptions in paragraph 8 of FRS 101 (in accordance with paragraphs 6 to 7 of FRS 101) in the company individual financial statements.

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Appendix B
Management representation letter for statutory reporting (continued)

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and parent company financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 20 to the consolidated and parent company financial statements all guarantees that we have given to third parties.
4. We confirm that we have disclosed all relevant information relating to the ongoing challenges and actions in relation to the Horizon Subpostmasters claim to allow an assessment of the financial implications. In addition we have discussed with you any additional information that has come to light subsequent to 29 March 2015. The judgments that we have made reflect the most current advice received from external legal counsel.

F. Subsequent Events

1. Other than the receipt of funding for the financial year 2016/17 described in Note 25 to the consolidated and parent company financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent company financial statements or notes thereto.

H. Comparative information – comparative financial statements

In connection with your audit of the comparative consolidated and parent company financial statements for the year ended 29 March 2015, we represent, to the best of our knowledge and belief, the following:

In preparing the financial statements for the current year, the comparative figures for the year ended 29 March 2015 have been restated. The provision for postmasters' compensation, included in network transformation had not been fully recognised in the financial statements for the year ended 29 March 2015. The restatement affects exceptional costs, provisions and retained earnings due to the loss in the year changing as a result of a restatement to the exceptional charge. Within this report, the comparative income statement, statement of comprehensive income, balance sheet and statement of changes in equity for the year ended 29 March 2015 have been restated. There has been no effect on the cash flow statement.

The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's consolidated and parent company financial statements. There have been no significant errors or misstatements, or changes in accounting policies, other that the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and parent company financial statements.

Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and parent company financial statements for the year ended 29 March 2015 are solely the result of reclassifications for comparative purposes.

I. Going Concern

1. Note 1 to the consolidated and parent company financial statements discloses all of the matters of which we are aware that are relevant to the Group and Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J. Equity

1. We have properly recorded or disclosed in the consolidated and parent company financial statements the share/capital stock repurchase options and agreements, and shares/capital stock reserved for options, warrants, conversions and other requirements.

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Appendix B
Management representation letter for statutory reporting (continued)

K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the Group and Company financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the Group and Company financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

L. Income and Indirect Taxes

1. We acknowledge our responsibility for the tax accounting methods adopted by the Group and Company, which have been consistently applied in the current period, and for the current year income tax provision calculation (and *Value added Tax*)
2. We also acknowledge our responsibility for the plans with respect to future taxable income, which represent our estimates as to the outcome of those plans, based on available evidence, and for the significant assumptions used in our analysis. We would implement such strategies as necessary to prevent a tax operating loss or credit carryforward from expiring.
3. We have disclosed to you all tax opinions, correspondence with tax authorities, or other appropriate information that served as support for the accounting for potentially material matters.

M. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the corporate taxation and pension valuations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and parent company financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

N. Estimates

- Completeness of Postmasters compensation provision;
- Classification of exceptional items relating to Transformation and utilisation of Government Grant;
- Impairment of fixed assets and intangible assets, including goodwill;
- Pension valuation .

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of IFRS for the Group and FRS101 for the Company.
2. We confirm that the significant assumptions used in making the above estimates appropriately reflect our intent and ability to carry out the specific courses of action in relation to those entities on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and parent company financial statements with respect to the accounting estimate(s) are complete and made in accordance with IFRS for the Group and FRS101 for the Company.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and parent company financial statements due to subsequent events.

O. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

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Appendix B
Management representation letter for statutory reporting (continued)

P. Completeness of Postmasters Compensation Provision

1. We have provided to you with access to all information and additional information you have requested in relation to Postmasters Compensation Provision and access to persons within the Company involved in Postmasters Compensation Provision calculation and analysis from whom you determined it necessary to obtain audit evidence.
2. We have not provided you with signed contracts for 140 Pilot branches as these are not retained by us. Prior to the launch of the Network Transformation Programme, the concept was tested through a series of Pilot branches and funded by a separate initial budget and therefore does not need to be provided for within the Network Transformation provision at 27 March 2016.
3. We believe the £21m release of Postmasters Compensation Provision is the best estimate based on the most recent assessment of the branches fail to convert.

Q. Impairment of fixed assets and intangible assets

1. We confirm we assessed the indicators of impairment for fixed assets and intangible assets as at 27 March 2016. We believe the assumptions used in determining the carrying value of the goodwill recorded on a group level are appropriate and not impairment is required as at 27 March 2016.

Yours faithfully,

_____ _____

Chief Executive Officer

_____

Chief Financial Officer

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Appendix C
Required communications with the Audit and Risk Committee

There are certain communications that we must provide to the Audit and Risk Committees. We have detailed these here together with a reference of where and when they were covered:

	Communicate when event occurs	Communicate on a timely basis, at least annually	Planned/actual timing of communication to the Audit and Risk Committee
Communications required on all audits			
Overview of planned scope and timing of the audit		✓	Refer to our 2016 Audit Planning Report
Major issues discussed with management in connection with initial or recurring retention	✓		Refer to our 2016 Audit Planning Report
Other information in documents containing audited financial statements		✓	Discussed within this report.
Significant audit adjustments		✓	Discussed within this report.
Unrecorded misstatements considered by management to be immaterial		✓	Discussed within this report.
Expected modifications to the audit report		✓	Not applicable, we do not anticipate any modifications to our audit report.
Our judgements/views about qualitative aspects of the Company's accounting practices and financial reporting		✓	Discussed within this report.
Disagreements with management	✓		Not applicable, no such instance noted during our audit.
Consultations with other accountants	✓		Not applicable, no such instance noted during our audit.
Serious difficulties encountered in dealing with management when performing the audit	✓		Not applicable, no such instance noted during our audit.
The adoption of, or a change in, an accounting policy	✓		Not applicable, no such instance noted during our audit

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Appendix C
Required communications with the Audit and Risk Committee (cont'd)

	Communicate when event occurs	Communicate on a timely basis, at least annually	Planned/actual timing of communication to the Audit and Risk Committee
Communications required on all audits (cont'd)			
Methods of accounting for significant unusual transactions and for controversial or emerging areas	✓	✓	Discussed within this report.
Events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern	✓	✓	Not applicable - no such events and conditions to communicate to the committee.
Sensitive accounting estimates		✓	Discussed within this report.
Consideration of laws and regulations		✓	Discussed within this report.
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	✓		No such instances of fraud to communicate.
Significant matters arising during the audit in connection with the entity's related parties		✓	Not applicable - no such matters to communicate to the committee.
Management's refusal for us to request external confirmations or our inability to obtain relevant and reliable audit evidence from other procedures		✓	No such instances to communicate.
Representations that the auditor is requesting from management		✓	We have attached a draft management letter of representation in an appendix to this report.
Significant deficiencies and material weaknesses in internal control over financial reporting		✓	This will be included, as necessary, within our Controls, Themes and Observations Report which will be shared with you after the conclusion of our audit.
Group audits ► An overview of the type of work to be performed on the financial information of the components ► An overview of the nature of the Group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ► Instances where the Group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the Group audit, for example, where the Group engagement team's access to information may have been restricted		✓	Discussed within this report.
Fraud or suspected fraud involving Group management, component management, employees who have significant roles in Group-wide controls or others where the fraud resulted in a material misstatement of the Group financial statements.	✓	✓	No such instances of fraud to communicate.

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Appendix C
Required communications with the Audit and Risk Committee (cont'd)

	Communicate when event occurs	Communicate on a timely basis, at least annually	Reference
Audit and Risk Committee pre-approval of services, including specific pre-approval of internal control-related services and non-prohibited tax services		✓	Discussed within this report.
Critical accounting policies and practices. ISA 260 (UK and Ireland) requires the auditor to communicate the auditor's views on the qualitative aspects of the Company's accounting practices and financial reporting		✓	Discussed within this report.
All material alternative accounting treatments discussed with management		✓	Discussed within this report.
Fees		✓	Discussed in our Audit Planning report dated and in this report.
Other material written communications with management		✓	Discussed within this report.
Communication of independence matters		✓	Discussed within this report.
Other findings or issues regarding the oversight of the financial reporting process		✓	Discussed within this report.

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Draft to ARC – IN STRICTEST CONFIDENCE –12 May 2016

The Post Office

2015/16 Annual Report and Financial Statements

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Chairman's Foreword

I was delighted to be appointed Chairman of the Post Office in September 2015, and I have very much enjoyed getting to know the business over the last few months. In the first place the job of the Post Office is to provide some essential services to our customers, and we are very conscious of our obligation to ensure that 90 per cent of the population has a post office within a mile of where they live. This amounts to operating the largest retail network in the UK with over 11600 branches dedicated to meeting the needs of a myriad of different communities throughout the country. I am proud to be part of this long tradition of service to the public. But we are also a commercial business, and in this report we have sought to provide a clear view of how we are performing, and the challenges that lie ahead. For many years the Post Office has relied on a subsidy from the Government and has also received a considerable amount of investment from public sources to modernise the network. As a result of this investment, and thanks to the efforts of postmasters and our staff to improve our business in many areas, the public subsidy has declined steadily and EBITDAS, our key measure of performance before subsidy, has improved from a loss of £57m last year to a loss of £24m in 2015/16. Considering that the EBITDAS three years ago was a loss of £116m, this demonstrates the substantial progress made in recent years. During 2015/16 the actual Network Subsidy Payment received from the government reduced from £160m to £130m.

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

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

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

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

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

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

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

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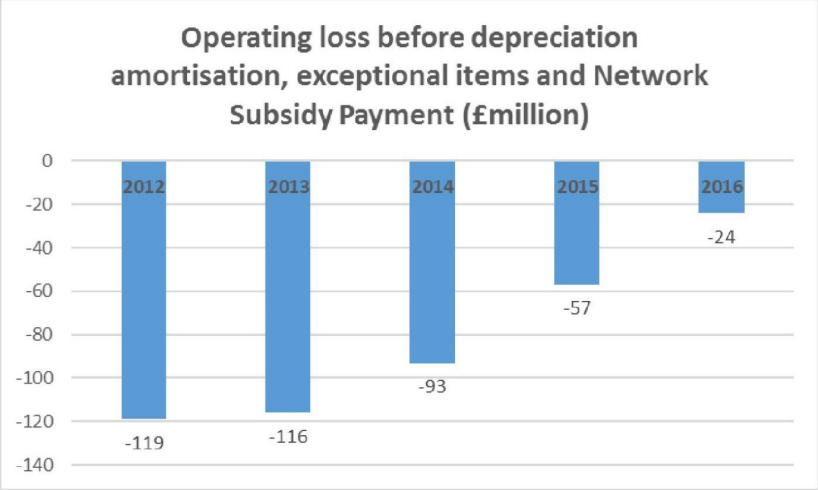
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Chief Executive's Statement

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

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

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



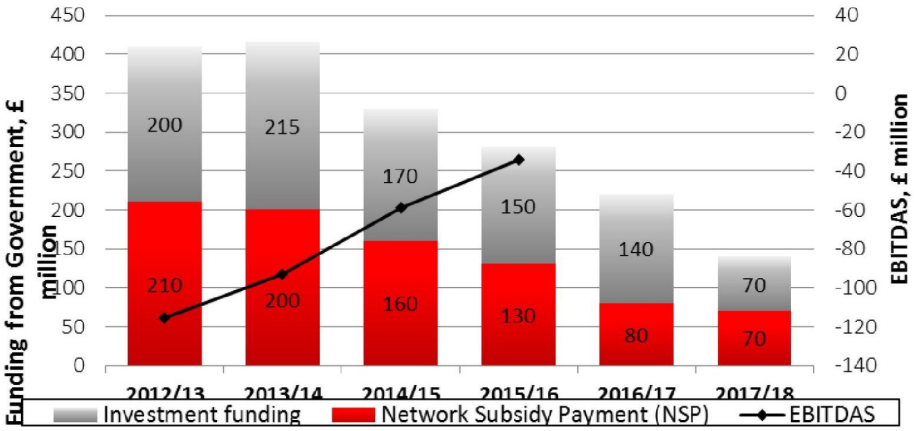
The cash position of the company continues to be sound. It operates well within its facilities to meet its own trading needs as well as enabling its network of Post Offices to pay and receive money on behalf of the range of partners with whom we operate.

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

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The implementation of this strategy is reflected in our performance;



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

This requires:

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

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

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

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

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

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

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

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

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Financial and Business Review

Summary results

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

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

Key Financial Performance Indicators

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

Profit and Loss Summary

	2016 £m	2015 Restated £m	Variance £m	Variance %
Mails and Retail	380	388	(8)	(2.1)
Financial Services	303	290	13	4.5
Government Services	128	141	(13)	(9.2)
Telecoms	130	120	10	8.3
Other income	40	37	3	8.1
Turnover	981	976	5	0.5
Network Subsidy Payment	130	160	(30)	(18.8)
Revenue	**1,111**	**1,136**	**(25)**	**(2.2)**
People costs	(233)	(238)	5	2.1
Other operating costs	(808)	(831)	23	2.8
Total costs	**(1,041)**	**(1,069)**	**28**	**2.6**
Share of profit from joint ventures and associates	35	36	(1)	(2.8)
Operating profit before exceptional items from continuing operations	**105**	**103**	**2**	**1.9**
Add: Depreciation	1	-		
Less: Network Subsidy Payment	(130)	(160)	30	(18.8)
EBITDAS	**(24)**	**(57)**	**32**	**56.1**

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Revenue

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

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

The payment decreased by £30 million in the year to £130 million and is recognised in revenue.

Mails and Retail

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

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

Overall mails services revenue reduced by £6 million (1.8%) to £334 million. However, this was driven by a planned reduction of £7 million in the fixed fee part of the contract with Royal Mail Group. Product sales improved slightly by £1 million in the year. This position was underpinned by a good sales and service performance over the Christmas peak period (year on year trading income was 3.6% higher) and by growth in areas related to online shopping (Home shopping returns grew by 25%). The mails market remains competitive and fast changing as it continues to shift towards package related activity and premium tracked products like Special Delivery.

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

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Financial Services

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

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

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

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

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

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

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

Government Services

The Government Services pillar covers services provided under contract to Government departments. This includes services in relation to the work of the Department for Work and Pensions (DWP), the Driver and Vehicle Licensing Agency (DVLA) and the Home Office including Her Majesty's Passport Office (HMPO) and UK Visas and Immigration (UKVI).

	2016	2015	Variance
	£m	£m	%
DWP	75	87	(13.8)
Home Office	34	30	13.3
DVLA	10	20	(50.0)
Other Government Services	9	4	125.0
Government Services	**128**	**141**	(9.2)

Government Services turnover of £128 million decreased by £13 million (2015: £141 million). DVLA turnover decreased by £10 million as customers increasingly use the online channel for motor vehicle licence payments, a trend which has accelerated since the paper disc was withdrawn in October 2014. DWP turnover also decreased, by £12 million to £75 million due to a decline in the number of active Post Office Card Accounts and new contractual terms. This however remains a

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significant market and Post Office service remains important to a substantial number of customers of Government services.

Counteracting the structural decline in the more traditional parts of the market, identity related services posted strong growth. Home Office revenue has increased by £4 million, driven by passport check and send services and biometric enrolment services. Other Government Services turnover has increased by £5 million largely due to the identity related services, including Cabinet Office's new Verify online identity service where Post Office has the highest market share and best first time success rate.

Telecoms

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

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

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

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

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

Discontinued operations

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

Other income

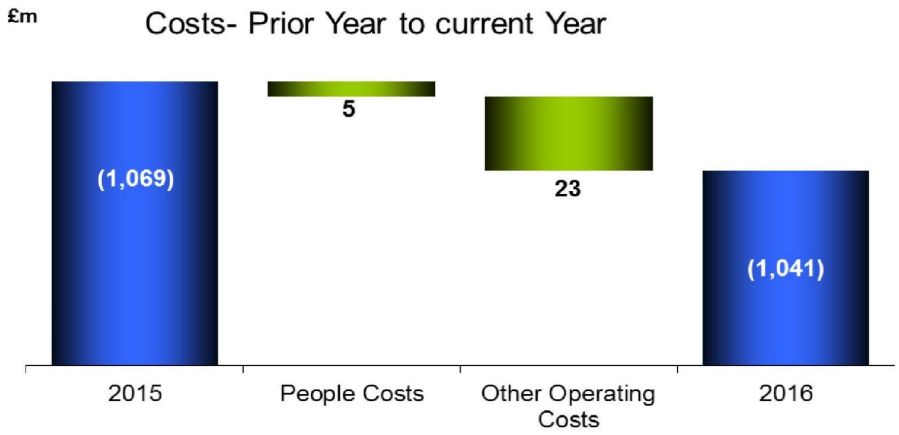
Other income increased by £3 million to £40 million largely due to a change in the amortisation of a historical agreement. Other income is generated primarily from the Supply Chain business that manages and distributes cash for Post Offices and for third parties. The revenue generated by the Supply Chain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

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Costs

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



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

Joint venture

Post Office Limited has a joint venture with the Bank of Ireland with each holding 50% of the business. First Rate Exchange Services Holdings Limited, whose principal activity is the supply of foreign exchange in the UK to the Post Office and others. The share of operating profit from the joint venture was £35 million (£1 million lower than in 2014/15), the small decrease is due to competitive pressures on the high street.

Acquisition of joint insurance business

On 30 September 2015 Post Office Limited acquired from Bank of Ireland the remaining 50% of the business and assets of our joint insurance business. The consideration of £43,900,000 was settled in cash. The full acquisition cost is recognised as goodwill on the balance sheet and was reviewed for impairment on the date of acquisition and at the year end. There are no indicators of impairment. Immediately following acquisition, Post Office Limited transferred the business to its subsidiary Post Office Management Services Limited, which operates the business alongside its existing travel insurance activities.

From the date of acquisition the former joint insurance business has contributed £17 million of revenue and £0.8 million of profit before tax to the Group's results.

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Exceptional Items

Exceptional items are shown below:

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

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

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

Restructuring costs

Restructuring costs are shown below:

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

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Impairment

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

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

Government grants

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

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

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

Cash Flow and Net Debt

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

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

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

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

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

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

Pensions

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

Royal Mail plc is the principal employer of the Royal Mail Senior Executives' Pension Plan (RMSEPP) and Post Office Limited is a participating employer within RMSEPP. RMPP and RMSEPP are both defined benefit plans. The Post Office operates a Defined Contribution Scheme – the Post Office Pension Plan.

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

On this date, the RMPP was also sectionalised, with Royal Mail plc and Post Office Limited each responsible for their own sections from that point. This pensions transfer left the RMPP fully funded on an actuarial basis in respect of historic liabilities at this date.

The balance sheet pension position moved from an asset of £205 million at March 2015 to an asset of £196 million at March 2016. The movement in the surplus is primarily due to an increase in the long term liability partly offset by an improvement in the asset values.

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

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

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

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

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

The regular future service contributions cash rate for RMPP expressed as a percentage of pensionable pay remained at 17.1% (2015: 17.1%). The regular rate of employee contributions for the RMPP remains unchanged at 6%.

Events after the reporting period

In accordance with the funding agreement with government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £220 million of funding on 1 April 2016, £80 million of which was the Network Subsidy Payment and £140 million other Government Grant funding towards the transformation programme.

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Governance

Good corporate governance continues to support Post Office's journey

Legal Ownership Structure

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

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

A strong commercial link remains between Post Office and Royal Mail, underpinned by a contractual agreement, which is at arm's length, to continue to supply Royal Mail products and services through Post Office.

Insert Corporate Structure chart

Corporate Governance Overview 2015/16

At Post Office we maintain standards of corporate governance appropriate for our ownership structure, our commitment to social purpose and our strategy to achieve commercial sustainability. We regularly review these standards to ensure they continue to deliver at the appropriate level for our developing business needs and relevant legal and regulatory advances. Mindful of this commitment, in 2015/16 we reviewed our oversight of risk and as a result rationalised the Board's committee structure to ensure a more streamlined and robust overview of risk at the Audit, Risk and Compliance Committee and implemented the elements of a new risk management framework. At Post Office we are committed to conducting our business ethically and as a Government-owned entity we are committed to acting in accordance with the Nolan Principles of Public Life, namely: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The Board is mindful of these principles both in its decision making and in its responsibility for organisational culture.

On 30 September 2015 Post Office Limited acquired from Bank of Ireland (UK) plc the business and assets of our joint insurance business. Immediately following acquisition, Post Office Limited transferred the business to its subsidiary Post Office Management Services Limited. Appropriate governance structures have been established to manage any potential conflicts of interest and to ensure proper reporting lines between the FCA regulated principal, POMS, and Post Office as its parent and authorised representative for sales across the Post Office network.

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Rationalisation of Committee Structure

One of the outcomes of the 2014/15 Board effectiveness review was the need for the Board to review its committee structure. The proposals resulting from this review were to dissolve two committees: Financial Services; and Pensions.

The Board's Audit, Risk and Compliance Committee (ARC) has delegated responsibility for the oversight of Post Office's risk management systems, operational controls and key systems. However, with the Financial Services Committee also having responsibility for financial services risk and the Pensions Committee for pensions risk, there was some fragmentation of risk oversight. The Board was also mindful of the importance of strengthening the governance of conduct risk and of maintaining oversight of insurance risk, managed through the ARC of the Post Office's subsidiary Post Office Management Services Limited (POMS).

The Board approved these proposals in September 2015, to be effective from 1 October 2015 and the old and new structures are provided for comparison. Following the dissolution of the two committees, financial services and pensions risk is now considered by the ARC as part of a consolidated risk approach. In considering the implementation of these changes, the Board reviewed and revised the ARC's terms of reference and membership to ensure that members had sufficient expertise and experience, particularly in financial services. A formal arrangement was also put in place for the POMS ARC to report into the Post Office ARC.

Insert old Committee Structure

Insert new Committee Structure

Previous Committees

These two committees operated during the year but were dissolved effective 1 October 2015. The rationale behind this committee change is set out above.

Financial Services Committee

Membership and attendance

The Committee was chaired by Virginia Holmes and the other members were Tim Franklin, non-executive director and Alisdair Cameron, Chief Financial Officer. There were no changes to the membership.

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The Committee's terms of reference required it to meet a minimum of four times a year and that two members were required for a quorum. In 2015/16 from the beginning of the financial year until the committee was dissolved, it met twice and the members' attendance is set out in the table:

Committee Member	Meetings Attended *(attended/eligible to attend)*
Virginia Holmes	2/2
Alisdair Cameron	2/2
Tim Franklin	2/2

Role of the Committee

The Committee operated in accordance with its Terms of Reference which were approved by the Board in January 2014 when the Committee was established. The Committee's key responsibilities were to: provide guidance on, oversight of and authorisation for, the development of the Post Office's financial services; review key activities of the financial services strategic programme, including those activities of First Rate Exchange Services Holdings Limited (a 50 per cent joint venture with the Bank of Ireland (UK) plc); and to consider financial services risk management matters including receiving quarterly a copy of the risk register.

Work carried out by the Committee in 2015/16

The Committee continued to review and provide guidance on all aspects of Post Office's financial services, including strategy development, the monitoring of sales volumes for financial services products and the consideration of risk.

Pensions Committee

Membership and attendance

The Committee was chaired by Virginia Holmes and the other members were Richard Callard (the ShEx representative) and Alisdair Cameron, Chief Financial Officer. There were no changes to the membership.

The Committee's terms of reference required it to meet a minimum of three times a year and that two members were required for a quorum. In 2015/16 from the beginning of the financial year until the committee was dissolved, it met three times and the members' attendance is set out in the table:

Committee Member	Meetings Attended *(attended/eligible to attend)*
Virginia Holmes	3/3
Richard Callard	3/3
Alisdair Cameron	3/3

Role of the Committee

The Committee operated in accordance with its Terms of Reference which were last reviewed by the Committee in July 2014 and approved by the Board. The Committee's key responsibilities were to: make recommendations to the Board in respect of pensions and pre-retirement risk benefits provision within Post Office; put into effect appropriate investment strategies for the Post Office section of the Royal Mail Pension Plan (RMPP) on behalf of the Board and in line with the Board's investment beliefs; and to monitor and keep under review the investment of RMPP assets.

Work carried out by the Committee in 2015/16

The Committee continued to monitor the funding and investments of the Royal Mail Pension Plan (RMPP) and had oversight over the pensions project with regards to the proposed closure of the RMPP to future accrual.

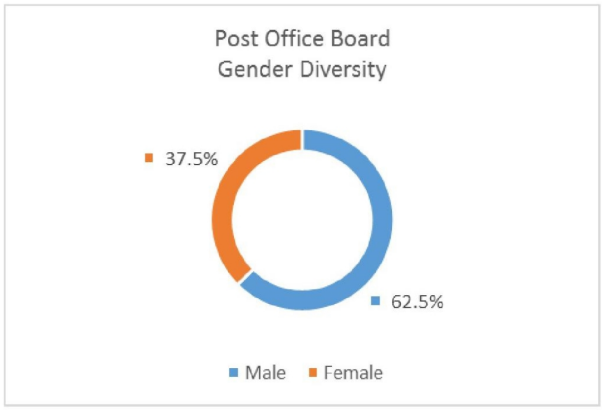
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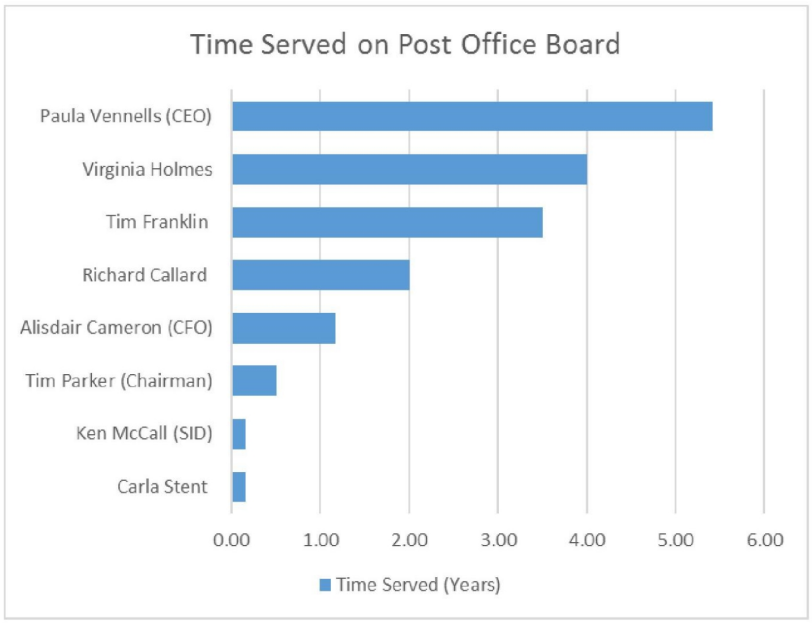
Board of Directors (as at 27 March 2016)

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

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



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



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

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

Three new Non-Executive Directors were appointed to the Board in 2015/16 and the process followed for their recruitment is set out in more detail in the Nominations Committee report on pages XX. Post Office seeks the most suitable candidates as directors and considers diversity in its appointments, including diversity of skills and experience. This is in keeping with the belief of Post Office that a varied balance of backgrounds, experience and insights and a culture of inclusivity across the entire workforce is in the best long-term interests of Post Office and should reflect the communities it serves. In April 2015, Post Office was included in The Times' top 50 employers for women.

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

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

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

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Group Executive (as at 27 March 2016)

Below main Board level, the Group Executive is the most senior management body and is comprised of the Chief Executive, each of her direct reports and the Company Secretary

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

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

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

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

Role of the Group Executive
The Group Executive implements the strategy agreed by the Board and monitors business performance and development at a day to day level. It meets regularly to discuss latest developments, to discuss proposals for new business development, to receive financial and other performance reports and to monitor business transformation and commercial development. It will also address any urgent issues that have arisen within the business and which require senior level resolution. Twice yearly, it reviews the results of personal performance assessments undertaken throughout the organisation.

The Chief Executive, Chief Financial Officer and the Company Secretary also attend meetings of the Board which facilitates and strengthens the communication channels between the senior leadership, the Board and its Committees.

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Board

Role and responsibilities

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

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

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

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

Accountability

The Board is accountable to its Shareholder and to the large and diverse group of stakeholders of the Post Office. It fulfils these accountabilities through regular briefings by the Chief Executive and Chief Financial Officer to the Shareholders and by the provision of its annual report and financial statements and its mid-year interim report. Of particular importance for accountability is its identification of principal risks, their impacts and mitigations and its assurance of the existence of sound risk management and internal control systems.

Key focus and achievements in 2015/16

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

In 2015/16 the Board went through a period of transition with a change in 50 per cent of its Non-Executive Directors. This refreshed Board will focus in 2016/17 on driving forwards

2015/16 Highlights

- Delivering significant progress in network transformation
- Continued development and successful implementation of the financial services strategy
- Successful transition to a revised Board membership

2016/17 Forward Focus

- Driving forwards efficiency
- Ensuring support services are optimised to deliver the ongoing transformation journey

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efficiency and ensuring that all support services are optimised to deliver the ongoing transformation journey towards a sustainable and thriving network of Post Offices.

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

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

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

Time Commitment

All Board directors should allocate sufficient time to the organisation to enable them to discharge their responsibilities effectively. There is an implied terms within all the Non-Executive Directors' letters of appointment that they will devote an appropriate amount of time to their role, which will enable them to fulfil their functions satisfactorily. The Board effectiveness review to be carried out in 2016 will consider whether directors have devoted sufficient time to their role.

Roles

The Board is comprised of six non-executive and two executive directors and the Company Secretary. The key responsibilities of these roles are set out below:

Non-Executive

Chairman – As Chairman, Tim Parker is responsible for leadership of the Board and for ensuring its effectiveness on all aspects of its role.

Senior Independent Director – The Board has appointed Ken McCall, one of its independent Non-Executive Directors, as the Senior Independent Director. He provides a sounding board for the Chairman and serves as an intermediary for the other directors when necessary.

Non-Executive Directors – Non-Executive Directors constructively challenge the executive and use their experience and expertise to help develop proposals on strategy and to maintain appropriate oversight of the business' management and performance.

Executive

Chief Executive Officer – As CEO, Paula Vennells is responsible for delivering the strategy as set by the Board and within the authorities delegated to her by the Board and for ensuring the successful day to day management of the business.

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Chief Financial Officer – As CFO, Alisdair Cameron supports the CEO in developing and implementing the strategy and oversees the financial delivery and performance of Post Office Group.

Company Secretary – As Company Secretary, Alwen Lyons is responsible for advising the Board, through the Chairman, on all governance matters and ensuring good information flows within the Board, its committees and senior management. The Company Secretary also facilitates the Board induction process, assists with professional development and ensures compliance with Board processes, Directors' potential conflicts of interest, indemnity arrangements and other significant agreements.

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Board Meetings

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

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

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

Conflicts of Interest and Independence

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

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

During the periods of their appointments in 2015/16, Alice Perkins (outgoing Chairman), Tim Parker (incoming Chairman), Tim Franklin, Virginia Holmes, Alasdair Marnoch, Ken McCall (incoming Senior Independent Director), Neil McCausland (outgoing Senior Independent Director) and Carla Stent met, and continue to meet, the criteria for independence as set out in the UK Corporate Governance Code and are therefore considered by the Board to be independent.

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

Induction, Training and Visits

All Board members receive a comprehensive induction on appointment which includes training on their responsibilities as statutory directors. In 2015/16 the three new Non-Executive Directors, in addition to meeting with members of the Group Executive, attended a series of branch visits. These visits were to Crown and local network branches and were valuable in enhancing their visibility with branch colleagues and their familiarity with the business.

Additionally, the Chairman addressed the Post Office top 300 leaders at the first conference for the newly formed L300 and continued his programme of branch visits from his appointment throughout the year.

Board Members also receive regular briefings to update and refresh their skills and knowledge. As the branch transformation progressed throughout the year, directors were invited to attend transformed branch openings in their local areas.

Effectiveness

The effectiveness of the Board is vital to the success of Post Office. Improvements in effectiveness have been delivered in 2015/16 through the implementation of recommendations from the internal Board effectiveness review from 2014/15, such as enhancing the effectiveness of Board and committee papers and reviewing the committee structure (see page XX).

Since the Board underwent a period of transition during 2015/16 a formal review of effectiveness did not take place. However, as part of the process of appointing new Non-Executive Directors, the composition and effectiveness of the Board was given much consideration. In March and April 2016, the three committees all reviewed performance against their Terms of Reference.

An externally facilitated review of the Board's effectiveness is planned for 2016 and will be led by Ken McCall the Senior Independent Director. The review will seek to give assurance that directors have the requisite balance of skills, experience, balance and knowledge to enable them to discharge effectively their respective duties and responsibilities.

Committees

To assist in the execution of its corporate governance responsibilities, the Board has established a governance structure of three committees which deal with specific topics requiring independent oversight, specifically: audit, risk and compliance; nominations; and remuneration. Until 1 October 2015 the Board also had committees to consider financial services and pensions, please see pages XX for more details of the work of these committees and page XX for the current committee structure. Each committee is chaired by a Non-Executive Director and the Board delegates certain authorities to these committees which operate within their own agreed, documented Terms of Reference.

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Nominations Committee

Insert Tim's photo

Tim Parker

Chaiman of the Nominations Committee since 1 October 2015

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

2015/16 Priorities

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

2016/17 Forward Focus

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

Introduction from the Committee Chairman

This year has been one of transformation, in terms of the continuing transformation of the branch network but also for the non-executive leadership of the business.

The Committee has been key in bringing this new capability into the non-executive to ensure the right talent is in place to support the Post Office during its ongoing transformation. To do so we have used a combination of external search capability couple with internal resourcing. This ensures that we are able to access specialist expertise relevant to each role. This expertise, together with the skills matrix, assists the Committee in finding those individuals with the right knowledge, skills and experience. The Committee is mindful of the value which diversity brings to the Board and considers this when making any proposals for appointments.

While the focus in 2015/16 has been on external appointments, as we move to the next phase of business transformation, the Committee's focus, with its refreshed membership, will move to ensuring that we begin to build a strong internal talent pipeline to create a sustainable organisation.

Tim Parker

Membership and Attendance

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

The Committee's Terms of Reference require that it meets a minimum of twice a year and that two members must be in attendance for a meeting to be quorate. In 2015/16 there were five meetings of the Committee (including one meeting by telephone) and the members' attendance is set out below.

Committee Member	Meetings Attended *(attended/eligible to attend)*
Alice Perkins[1]	2/2
Virginia Holmes	5/5
Neil McCausland[2]	2/2
Tim Parker[3]	3/3
Ken McCall[4]	1/1

1. Alice Perkins resigned 31 July 2015
2. Neil McCausland resigned 30 September 2015
3. Tim Parker was appointed to the committee 1 October 2015
4. Ken McCall was appointed to the committee 21 January 2016

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Nominations Committee

Role

The Committee operates in accordance with its Terms of Reference, which were last approved by the Board in March 2015. A copy of the Terms of Reference can be downloaded from postoffice.co.uk.

The overall responsibility of the Committee is to effectively manage all senior executive and non-executive appointments. This includes active management of succession planning with consideration of skills, experience and diversity.

Evaluation

In November 2015 the Committee reviewed its Terms of Reference. This review was followed by an evaluation in April 2016 of the Committee's effectiveness and performance against its Terms of Reference. The evaluation concluded that the Committee had met the requirements of its Terms of Reference.

The Committee' key responsibilities are to:

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

Work carried out by the Committee in 2015/16

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

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

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

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Remuneration Committee

Ken McCall

Chaiman of the Remuneration Committee since 21 January 2016

(Neil McCausland was the prior Committee Chairman)

2015/16 Priorities

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

2016/17 Forward Focus

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

Introduction from the Committee Chairman

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

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

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

Ken McCall

Membership and Attendance

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

The Committee's Terms of Reference require that it meets a minimum of three times a year and that two members must be in attendance for a meeting to be quorate. In 2015/16 there were four meetings of the Committee and the members' attendance is set out below.

Committee Member	Meetings Attended *(attended/eligible to attend)*
Alice Perkins[1]	2/2
Virginia Holmes	4/4
Neil McCausland[2]	2/2
Tim Parker[3]	2/2
Ken McCall[4]	1/1

1. Alice Perkins resigned 31 July 2015
2. Neil McCausland resigned 30 September 2015
3. Tim Parker was appointed to the committee 1 October 2015
4. Ken McCall was appointed to the committee 21 January 2016

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The Chief Executive may attend meetings, at the invitation of the Chairman, to discuss matters relating to the remuneration of the Chief Financial Officer and members of the Group Executive. However, the Committee is careful to recognise and manage any potential conflicts of interest when receiving views from the Group Executive and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

Remuneration Committee

Role

The Committee operates in accordance with its Terms of Reference, which were last approved by the Board in March 2015. A copy of the Terms of Reference can be downloaded from postoffice.co.uk.

The overall responsibility of the Committee is to recommend to the Board the remuneration strategy and any changes to individual elements of the remuneration package for: executive directors of Post Office; members of the Group Executive who report directly to the Chief Executive; other significant senior level appointments with comparable remuneration; and to provide an oversight function for the remuneration of the directors of Post Office Management Services Limited.

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

The Committee' key responsibilities are to:

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

Further details of the incentive schemes now in place and a table setting out the remuneration paid to all Directors in the year to 27 March 2016 are provided in the Directors' Remuneration Report on pages XX-XX.

Evaluation

In November 2015 the Committee reviewed its Terms of Reference. This review was followed by an evaluation in April 2016 of the Committee's effectiveness and performance against its Terms of Reference. The evaluation concluded that the Committee had met the requirements of its Terms of Reference.

Work carried out by the Committee in 2015/16

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

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

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

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

Directors' Remuneration Report

Statement by the Chair of the Remuneration Committee

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

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

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

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

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

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

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

Details of directors' remuneration can be found at XX

Ken McCall

Chair, Remuneration Committee

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Audit, Risk and Compliance Committee

Carla Stent

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

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

2015/16 Priorities

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

2016/17 Forward Focus

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

Introduction from the Committee Chairman

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

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

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

I am confident that the revised membership of the Committee encompasses a strong set of relevant skills and experience and will enable the Committee to discharge its duties robustly and with effective challenge in the year to come.

Carla Stent

Membership and Attendance

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

The Committee's Terms of Reference require that it meets a minimum of three times a year and that two members must be in attendance for a meeting to be quorate. In 2015/16 there were five meetings of the Committee and the members' attendance is set out below:

Committee Member	Meetings Attended *(attended/eligible to attend)*	Notes
Richard Callard[1]	2/2	1. Richard Callard appointed to the Committee 25 November 2015 2. Alasdair Marnoch resigned 31 July 2015 3. Ken McCall was appointed to the Committee 21 January 2016 4. Neil McCausland resigned 30 September 2015 5. Tim Parker was a member of the Committee 28 October 2015 until 20 January 2016 6. Carla Stent appointed to the Committee 21 January 2016
Tim Franklin	5/5	
Alasdair Marnoch[2]	1/1	
Ken McCall[3]	2/2	
Neil McCausland[4]	2/2	
Tim Parker[5]	1/1	
Carla Stent[6]	2/2	

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

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

Audit, Risk and Compliance Committee

Role

The Committee operates in accordance with its Terms of Reference, which were last reviewed by the Committee and approved by the Board in September 2015. A copy of the Terms of Reference can be downloaded from postoffice.co.uk.

The overall responsibility of the Committee is to assist the Board in fulfilling its fiduciary responsibilities by:

- contributing an independent view on the accounting, financial control and financial reporting practices of Post Office;
- taking all reasonable steps to ensure accurate and informative corporate financial reporting and disclosures which meet appropriate accounting and corporate governance standards; and
- providing oversight of the Post Office risk management systems, including the steps taken to mitigate those risks.

The Committee' additional responsibilities are to:

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

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

Evaluation

In September 2015 the Committee reviewed its Terms of Reference and the resulting amendments were approved by the Board. This review was followed by an evaluation in March 2016 of the Committee's effectiveness and performance against its revised Terms of Reference. The evaluation concluded that the Committee had met the requirements of its Terms of Reference.

Work carried out by the Committee in 2015/16

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

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internal audit function and the external auditors, Ernst & Young LLP.

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

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

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

Internal Audit

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

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

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

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

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

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External Audit

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

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

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

Annual Assessment

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

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

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

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

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Management of Risks

Our Approach to Risk

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

Risk Management Governance

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

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

Our Risk Management Framework

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

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

Our Control Framework

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

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

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

Progress during the year and plans for next year

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

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

Our Principal Risks and Mitigations

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

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

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

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

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Directors' Report

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

Expected future developments

Expected future developments are detailed in pages XX to XX.

Results and dividends

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

Political contributions

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

Research and development

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

Directors and their interests

The following served as Directors during the year:

R J Callard

A C J Cameron

T A Franklin

V A Holmes

A Marnoch (resigned 31 July 2015)

K S McCall (appointed 21 January 2016)

N W McCausland (resigned 30 September 2015)

T C Parker (appointed 1 October 2015)

A Perkins CB (resigned 31 July 2015)

C R Stent (appointed 21 January 2016)

P A Vennells

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

People

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

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

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

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

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

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

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

Corporate responsibility

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

Disabled employees

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

Post balance sheet events

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

Going concern

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

Financial instrument risk

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

Audit information

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

Auditor

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

By Order of the Board

Alwen Lyons
Secretary

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

X June 2016

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The Post Office

2015/16 Annual Report and Financial Statements

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Our year in numbers

Over 11,600 branches – more than all the banks and building societies combined

97% customer satisfaction in our modernised branches

57.2m unique visits to our website in 2015/16

Over **99%** of the UK population live within 3 miles of a Post Office branch

Around **93%** of the UK population live within 1 mile of a Post Office branch

6,001 branches modernised

6,980 agents signed up to our modernised Post Office branch

Modernised branches offering over **190,000** extra opening hours every week

Over **3000** branches open on Sundays

Over **500** self service kiosks installed at large Post Offices

Around **1 billion** customer transactions during the year

We were visited by [xx] people per week

There are around 60,000 people working in and supporting Post Offices throughout the UK

We operate **45** mobile Post Offices serving over **300** rural communities

Key Performance Indicators for 2015/16.

	2016	2015	Change
Turnover	£981m	£976m	£5m
Operating profit before exceptional items	£105m	£103m	£2m
Operating loss before, depreciation, amortisation, exceptional items and Network Subsidy Payment (EBITDAS)*	(£24m)	(£57m)	£33m
Net cashflow	(109m)	£184m	(£293m)
Owned branch profit / (losses)	£2.7m	(£12m)	£14.7m
Customer satisfaction	87%	88%	(1%)
New main and local format branches	6,001	4,097	1,904
Employee engagement index	58%	62%	(4%)

* This metric is abbreviated and known within the Post Office as 'EBITDAS'

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Chairman's Foreword

I was delighted to be appointed Chairman of the Post Office in September 2015, and I have very much enjoyed getting to know the business over the last few months. In the first place the job of the Post Office is to provide some essential services to our customers, and we are very conscious of our obligation to ensure that 90 per cent of the population has a post office within a mile of where they live. This amounts to operating the largest retail network in the UK with over 11600 branches dedicated to meeting the needs of a myriad of different communities throughout the country. I am proud to be part of this long tradition of service to the public. But we are also a commercial business, and in this report we have sought to provide a clear view of how we are performing, and the challenges that lie ahead. For many years the Post Office has relied on a subsidy from the Government and has also received a considerable amount of investment from public sources to modernise the network. As a result of this investment, and thanks to the efforts of postmasters and our staff to improve our business in many areas, the public subsidy has declined steadily and EBITDAS, our key measure of performance before subsidy, has improved from a loss of £57m last year to a loss of £24m in 2015/16. Considering that the EBITDAS three years ago was a loss of £116m, this demonstrates the substantial progress made in recent years. During 2015/16 the actual Network Subsidy Payment received from the government reduced from £160m to £130m.

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

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

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

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

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

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

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

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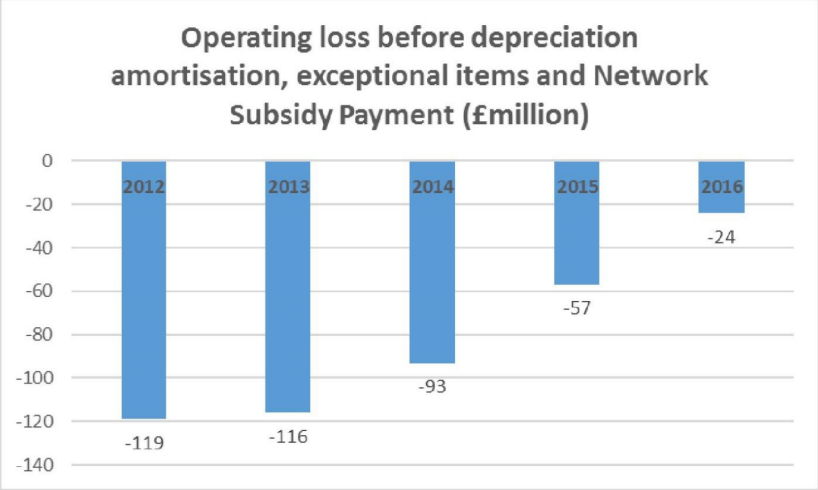
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Chief Executive's Statement

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

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

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



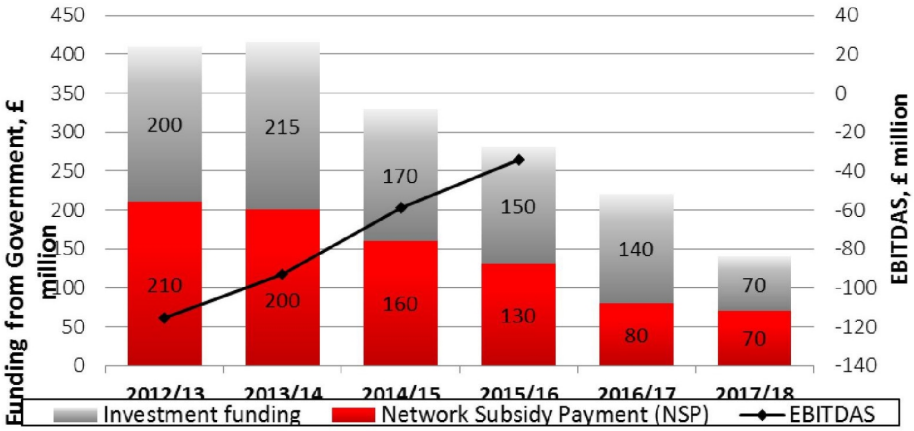
The cash position of the company continues to be sound. It operates well within its facilities to meet its own trading needs as well as enabling its network of Post Offices to pay and receive money on behalf of the range of partners with whom we operate.

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

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The implementation of this strategy is reflected in our performance;



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

This requires:

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

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

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

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

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

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

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

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

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Financial and Business Review

Summary results

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

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

Key Financial Performance Indicators

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

Profit and Loss Summary

	2016 £m	2015 Restated £m	Variance £m	Variance %
Mails and Retail	380	388	(8)	(2.1)
Financial Services	303	290	13	4.5
Government Services	128	141	(13)	(9.2)
Telecoms	130	120	10	8.3
Other income	40	37	3	8.1
Turnover	981	976	5	0.5
Network Subsidy Payment	130	160	(30)	(18.8)
Revenue	**1,111**	**1,136**	**(25)**	**(2.2)**
People costs	(233)	(238)	5	2.1
Other operating costs	(808)	(831)	23	2.8
Total costs	**(1,041)**	**(1,069)**	**28**	**2.6**
Share of profit from joint ventures and associates	35	36	(1)	(2.8)
Operating profit before exceptional items from continuing operations	**105**	**103**	**2**	**1.9**
Add: Depreciation	1	-		
Less: Network Subsidy Payment	(130)	(160)	30	(18.8)
EBITDAS	**(24)**	**(57)**	**32**	**56.1**

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Revenue

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

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

The payment decreased by £30 million in the year to £130 million and is recognised in revenue.

Mails and Retail

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

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

Overall mails services revenue reduced by £6 million (1.8%) to £334 million. However, this was driven by a planned reduction of £7 million in the fixed fee part of the contract with Royal Mail Group. Product sales improved slightly by £1 million in the year. This position was underpinned by a good sales and service performance over the Christmas peak period (year on year trading income was 3.6% higher) and by growth in areas related to online shopping (Home shopping returns grew by 25%). The mails market remains competitive and fast changing as it continues to shift towards package related activity and premium tracked products like Special Delivery.

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

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Financial Services

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

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

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

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

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

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

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

Government Services

The Government Services pillar covers services provided under contract to Government departments. This includes services in relation to the work of the Department for Work and Pensions (DWP), the Driver and Vehicle Licensing Agency (DVLA) and the Home Office including Her Majesty's Passport Office (HMPO) and UK Visas and Immigration (UKVI).

	2016	2015	Variance
	£m	£m	%
DWP	75	87	(13.8)
Home Office	34	30	13.3
DVLA	10	20	(50.0)
Other Government Services	9	4	125.0
Government Services	**128**	**141**	(9.2)

Government Services turnover of £128 million decreased by £13 million (2015: £141 million). DVLA turnover decreased by £10 million as customers increasingly use the online channel for motor vehicle licence payments, a trend which has accelerated since the paper disc was withdrawn in October 2014. DWP turnover also decreased, by £12 million to £75 million due to a decline in the number of active Post Office Card Accounts and new contractual terms. This however remains a

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significant market and Post Office service remains important to a substantial number of customers of Government services.

Counteracting the structural decline in the more traditional parts of the market, identity related services posted strong growth. Home Office revenue has increased by £4 million, driven by passport check and send services and biometric enrolment services. Other Government Services turnover has increased by £5 million largely due to the identity related services, including Cabinet Office's new Verify online identity service where Post Office has the highest market share and best first time success rate.

Telecoms

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

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

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

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

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

Discontinued operations

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

Other income

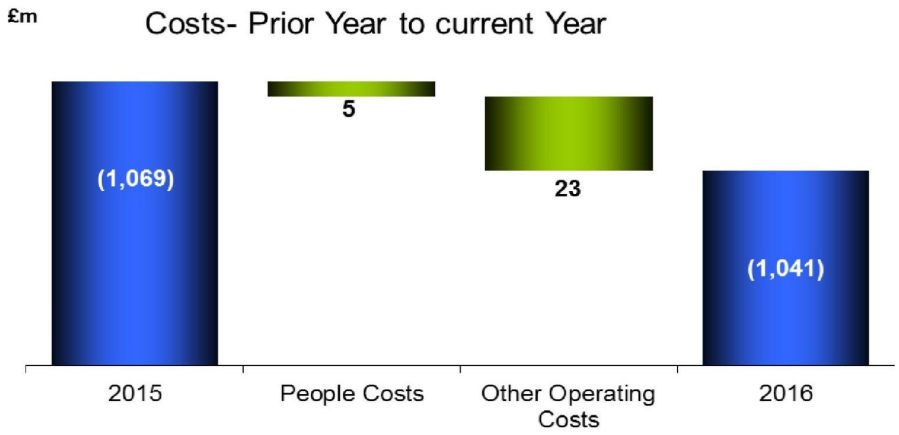
Other income increased by £3 million to £40 million largely due to a change in the amortisation of a historical agreement. Other income is generated primarily from the Supply Chain business that manages and distributes cash for Post Offices and for third parties. The revenue generated by the Supply Chain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

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Costs

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



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

Joint venture

Post Office Limited has a joint venture with the Bank of Ireland with each holding 50% of the business. First Rate Exchange Services Holdings Limited, whose principal activity is the supply of foreign exchange in the UK to the Post Office and others. The share of operating profit from the joint venture was £35 million (£1 million lower than in 2014/15), the small decrease is due to competitive pressures on the high street.

Acquisition of joint insurance business

On 30 September 2015 Post Office Limited acquired from Bank of Ireland the remaining 50% of the business and assets of our joint insurance business. The consideration of £43,900,000 was settled in cash. The full acquisition cost is recognised as goodwill on the balance sheet and was reviewed for impairment on the date of acquisition and at the year end. There are no indicators of impairment. Immediately following acquisition, Post Office Limited transferred the business to its subsidiary Post Office Management Services Limited, which operates the business alongside its existing travel insurance activities.

From the date of acquisition the former joint insurance business has contributed £17 million of revenue and £0.8 million of profit before tax to the Group's results.

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Exceptional Items

Exceptional items are shown below:

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

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

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

Restructuring costs

Restructuring costs are shown below:

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

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Impairment

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

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

Government grants

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

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

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

Cash Flow and Net Debt

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

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

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

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

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

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

Pensions

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

Royal Mail plc is the principal employer of the Royal Mail Senior Executives' Pension Plan (RMSEPP) and Post Office Limited is a participating employer within RMSEPP. RMPP and RMSEPP are both defined benefit plans. The Post Office operates a Defined Contribution Scheme – the Post Office Pension Plan.

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

On this date, the RMPP was also sectionalised, with Royal Mail plc and Post Office Limited each responsible for their own sections from that point. This pensions transfer left the RMPP fully funded on an actuarial basis in respect of historic liabilities at this date.

The balance sheet pension position moved from an asset of £205 million at March 2015 to an asset of £196 million at March 2016. The movement in the surplus is primarily due to an increase in the long term liability partly offset by an improvement in the asset values.

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

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

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

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

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

The regular future service contributions cash rate for RMPP expressed as a percentage of pensionable pay remained at 17.1% (2015: 17.1%). The regular rate of employee contributions for the RMPP remains unchanged at 6%.

Events after the reporting period

In accordance with the funding agreement with government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £220 million of funding on 1 April 2016, £80 million of which was the Network Subsidy Payment and £140 million other Government Grant funding towards the transformation programme.

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Governance

Good corporate governance continues to support Post Office's journey

Legal Ownership Structure

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

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

A strong commercial link remains between Post Office and Royal Mail, underpinned by a contractual agreement, which is at arm's length, to continue to supply Royal Mail products and services through Post Office.

Insert Corporate Structure chart

Corporate Governance Overview 2015/16

At Post Office we maintain standards of corporate governance appropriate for our ownership structure, our commitment to social purpose and our strategy to achieve commercial sustainability. We regularly review these standards to ensure they continue to deliver at the appropriate level for our developing business needs and relevant legal and regulatory advances. Mindful of this commitment, in 2015/16 we reviewed our oversight of risk and as a result rationalised the Board's committee structure to ensure a more streamlined and robust overview of risk at the Audit, Risk and Compliance Committee and implemented the elements of a new risk management framework. At Post Office we are committed to conducting our business ethically and as a Government-owned entity we are committed to acting in accordance with the Nolan Principles of Public Life, namely: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The Board is mindful of these principles both in its decision making and in its responsibility for organisational culture.

On 30 September 2015 Post Office Limited acquired from Bank of Ireland (UK) plc the business and assets of our joint insurance business. Immediately following acquisition, Post Office Limited transferred the business to its subsidiary Post Office Management Services Limited. Appropriate governance structures have been established to manage any potential conflicts of interest and to ensure proper reporting lines between the FCA regulated principal, POMS, and Post Office as its parent and authorised representative for sales across the Post Office network.

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Rationalisation of Committee Structure

One of the outcomes of the 2014/15 Board effectiveness review was the need for the Board to review its committee structure. The proposals resulting from this review were to dissolve two committees: Financial Services; and Pensions.

The Board's Audit, Risk and Compliance Committee (ARC) has delegated responsibility for the oversight of Post Office's risk management systems, operational controls and key systems. However, with the Financial Services Committee also having responsibility for financial services risk and the Pensions Committee for pensions risk, there was some fragmentation of risk oversight. The Board was also mindful of the importance of strengthening the governance of conduct risk and of maintaining oversight of insurance risk, managed through the ARC of the Post Office's subsidiary Post Office Management Services Limited (POMS).

The Board approved these proposals in September 2015, to be effective from 1 October 2015 and the old and new structures are provided for comparison. Following the dissolution of the two committees, financial services and pensions risk is now considered by the ARC as part of a consolidated risk approach. In considering the implementation of these changes, the Board reviewed and revised the ARC's terms of reference and membership to ensure that members had sufficient expertise and experience, particularly in financial services. A formal arrangement was also put in place for the POMS ARC to report into the Post Office ARC and the oversight of First Rate Exchange Services Limited is now managed at an executive level and through consideration of financial services at the ARC.

Insert old Committee Structure

Insert new Committee Structure

Previous Committees

These two committees operated during the year but were dissolved effective 1 October 2015. The rationale behind this committee change is set out above.

Financial Services Committee

Membership and attendance

The Committee was chaired by Virginia Holmes and the other members were Tim Franklin, non-executive director and Alisdair Cameron, Chief Financial Officer. There were no changes to the membership.

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The Committee's terms of reference required it to meet a minimum of four times a year and that two members were required for a quorum. In 2015/16 from the beginning of the financial year until the committee was dissolved, it met twice and the members' attendance is set out in the table:

Committee Member	Meetings Attended *(attended/eligible to attend)*
Virginia Holmes	2/2
Alisdair Cameron	2/2
Tim Franklin	2/2

Role of the Committee

The Committee operated in accordance with its Terms of Reference which were approved by the Board in January 2014 when the Committee was established. The Committee's key responsibilities were to: provide guidance on, oversight of and authorisation for, the development of the Post Office's financial services; review key activities of the financial services strategic programme, including those activities of First Rate Exchange Services Holdings Limited (a 50 per cent joint venture with the Bank of Ireland (UK) plc); and to consider financial services risk management matters including receiving quarterly a copy of the risk register.

Work carried out by the Committee in 2015/16

The Committee continued to review and provide guidance on all aspects of Post Office's financial services, including strategy development, the monitoring of sales volumes for financial services products and the consideration of risk.

Pensions Committee

Membership and attendance

The Committee was chaired by Virginia Holmes and the other members were Richard Callard (the ShEx representative) and Alisdair Cameron, Chief Financial Officer. There were no changes to the membership.

The Committee's terms of reference required it to meet a minimum of three times a year and that two members were required for a quorum. In 2015/16 from the beginning of the financial year until the committee was dissolved, it met three times and the members' attendance is set out in the table:

Committee Member	Meetings Attended *(attended/eligible to attend)*
Virginia Holmes	3/3
Richard Callard	3/3
Alisdair Cameron	3/3

Role of the Committee

The Committee operated in accordance with its Terms of Reference which were last reviewed by the Committee in July 2014 and approved by the Board. The Committee's key responsibilities were to: make recommendations to the Board in respect of pensions and pre-retirement risk benefits provision within Post Office; put into effect appropriate investment strategies for the Post Office section of the Royal Mail Pension Plan (RMPP) on behalf of the Board and in line with the Board's investment beliefs; and to monitor and keep under review the investment of RMPP assets.

Work carried out by the Committee in 2015/16

The Committee continued to monitor the funding and investments of the Royal Mail Pension Plan (RMPP) and had oversight over the pensions project with regards to the proposed closure of the RMPP to future accrual.

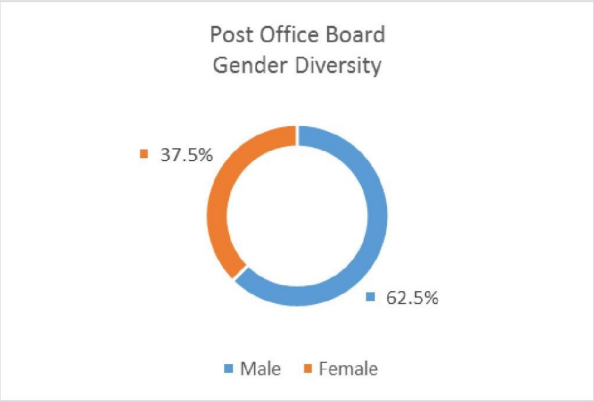
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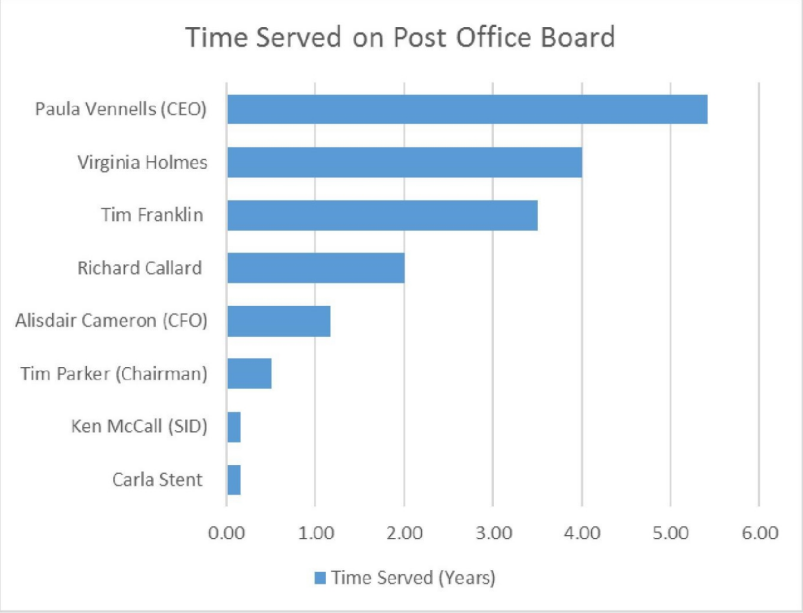
Board of Directors (as at 27 March 2016)

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

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



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



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

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

Three new Non-Executive Directors were appointed to the Board in 2015/16 and the process followed for their recruitment is set out in more detail in the Nominations Committee report on pages XX. Post Office seeks the most suitable candidates as directors and considers diversity in its appointments, including diversity of skills and experience. This is in keeping with the belief of Post Office that a varied balance of backgrounds, experience and insights and a culture of inclusivity across the entire workforce is in the best long-term interests of Post Office and should reflect the communities it serves. In April 2015, Post Office was included in The Times' top 50 employers for women.

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

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Richard Callard

Non-Executive Director

Joined the Board 26 March 2014

PHOTO

Alisdair Cameron

Chief Financial Officer

Joined the Board 28 January 2015

PHOTO

Tim Franklin

Non-Executive Director

Joined the Board 19 September 2012

PHOTO

Virginia Holmes

Non-Executive Director

Joined the Board 4 April 2012

PHOTO

Carla Stent

Non-Executive Director

Joined the Board 21 January 2016

PHOTO

Alwen Lyons

Company Secretary

Appointed as Company Secretary 4 July 2011

PHOTO

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

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Group Executive (as at 27 March 2016)

Below main Board level, the Group Executive is the most senior management body and is comprised of the Chief Executive, each of her direct reports and the Company Secretary

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

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

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

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

Role of the Group Executive
The Group Executive implements the strategy agreed by the Board and monitors business performance and development at a day to day level. It meets regularly to discuss latest developments, to discuss proposals for new business development, to receive financial and other performance reports and to monitor business transformation and commercial development. It will also address any urgent issues that have arisen within the business and which require senior level resolution. Twice yearly, it reviews the results of personal performance assessments undertaken throughout the organisation.

The Chief Executive, Chief Financial Officer and the Company Secretary also attend meetings of the Board which facilitates and strengthens the communication channels between the senior leadership, the Board and its Committees.

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Board

Role and responsibilities

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

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

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

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

Accountability

The Board is accountable to its Shareholder and to the large and diverse group of stakeholders of the Post Office. It fulfils these accountabilities through regular briefings by the Chief Executive and Chief Financial Officer to the Shareholders and by the provision of its annual report and financial statements and its mid-year interim report. Of particular importance for accountability is its identification of principal risks, their impacts and mitigations and its assurance of the existence of sound risk management and internal control systems.

Key focus and achievements in 2015/16

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

In 2015/16 the Board went through a period of transition with a change in 50 per cent of its Non-Executive Directors. This refreshed Board will focus in 2016/17 on driving forwards

2015/16 Highlights

- Delivering significant progress in network transformation
- Continued development and successful implementation of the financial services strategy
- Successful transition to a revised Board membership

2016/17 Forward Focus

- Driving forwards efficiency
- Ensuring support services are optimised to deliver the ongoing transformation journey

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efficiency and ensuring that all support services are optimised to deliver the ongoing transformation journey towards a sustainable and thriving network of Post Offices.

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

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

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

Time Commitment

All Board directors should allocate sufficient time to the organisation to enable them to discharge their responsibilities effectively. There is an implied terms within all the Non-Executive Directors' letters of appointment that they will devote an appropriate amount of time to their role, which will enable them to fulfil their functions satisfactorily. The Board effectiveness review to be carried out in 2016 will consider whether directors have devoted sufficient time to their role.

Roles

The Board is comprised of six non-executive and two executive directors and the Company Secretary. The key responsibilities of these roles are set out below:

Non-Executive

Chairman – As Chairman, Tim Parker is responsible for leadership of the Board and for ensuring its effectiveness on all aspects of its role.

Senior Independent Director – The Board has appointed Ken McCall, one of its independent Non-Executive Directors, as the Senior Independent Director. He provides a sounding board for the Chairman and serves as an intermediary for the other directors when necessary.

Non-Executive Directors – Non-Executive Directors constructively challenge the executive and use their experience and expertise to help develop proposals on strategy and to maintain appropriate oversight of the business' management and performance.

Executive

Chief Executive Officer – As CEO, Paula Vennells is responsible for delivering the strategy as set by the Board and within the authorities delegated to her by the Board and for ensuring the successful day to day management of the business.

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Chief Financial Officer – As CFO, Alisdair Cameron supports the CEO in developing and implementing the strategy and oversees the financial delivery and performance of Post Office Group.

Company Secretary – As Company Secretary, Alwen Lyons is responsible for advising the Board, through the Chairman, on all governance matters and ensuring good information flows within the Board, its committees and senior management. The Company Secretary also facilitates the Board induction process, assists with professional development and ensures compliance with Board processes, Directors' potential conflicts of interest, indemnity arrangements and other significant agreements.

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Board Meetings

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

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

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

Conflicts of Interest and Independence

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

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

During the periods of their appointments in 2015/16, Alice Perkins (outgoing Chairman), Tim Parker (incoming Chairman), Tim Franklin, Virginia Holmes, Alasdair Marnoch, Ken McCall (incoming Senior Independent Director), Neil McCausland (outgoing Senior Independent Director) and Carla Stent met, and continue to meet, the criteria for independence as set out in the UK Corporate Governance Code and are therefore considered by the Board to be independent.

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

Induction, Training and Visits

All Board members receive a comprehensive induction on appointment which includes training on their responsibilities as statutory directors. In 2015/16 the three new Non-Executive Directors, in addition to meeting with members of the Group Executive, attended a series of branch visits. These visits were to Crown and local network branches and were valuable in enhancing their visibility with branch colleagues and their familiarity with the business.

Additionally, the Chairman addressed the Post Office top 300 leaders at the first conference for the newly formed L300 and continued his programme of branch visits from his appointment throughout the year.

Board Members also receive regular briefings to update and refresh their skills and knowledge. As the branch transformation progressed throughout the year, directors were invited to attend transformed branch openings in their local areas.

Effectiveness

The effectiveness of the Board is vital to the success of Post Office. Improvements in effectiveness have been delivered in 2015/16 through the implementation of recommendations from the internal Board effectiveness review from 2014/15, such as enhancing the effectiveness of Board and committee papers and reviewing the committee structure (see page XX).

Since the Board underwent a period of transition during 2015/16 a formal review of effectiveness did not take place. However, as part of the process of appointing new Non-Executive Directors, the composition and effectiveness of the Board was given much consideration. In March and April 2016, the three committees all reviewed performance against their Terms of Reference.

An externally facilitated review of the Board's effectiveness is planned for 2016 and will be led by Ken McCall the Senior Independent Director. The review will seek to give assurance that directors have the requisite balance of skills, experience, balance and knowledge to enable them to discharge effectively their respective duties and responsibilities.

Committees

To assist in the execution of its corporate governance responsibilities, the Board has established a governance structure of three committees which deal with specific topics requiring independent oversight, specifically: audit, risk and compliance; nominations; and remuneration. Until 1 October 2015 the Board also had committees to consider financial services and pensions, please see pages XX for more details of the work of these committees and page XX for the current committee structure. Each committee is chaired by a Non-Executive Director and the Board delegates certain authorities to these committees which operate within their own agreed, documented Terms of Reference.

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Nominations Committee

Insert Tim's photo

Tim Parker

Chaiman of the Nominations Committee since 1 October 2015

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

2015/16 Priorities

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

2016/17 Forward Focus

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

Introduction from the Committee Chairman

This year has been one of transformation, in terms of the continuing transformation of the branch network but also for the non-executive leadership of the business.

The Committee has been key in bringing this new capability into the non-executive to ensure the right talent is in place to support the Post Office during its ongoing transformation. To do so we have used a combination of external search capability couple with internal resourcing. This ensures that we are able to access specialist expertise relevant to each role. This expertise, together with the skills matrix, assists the Committee in finding those individuals with the right knowledge, skills and experience. The Committee is mindful of the value which diversity brings to the Board and considers this when making any proposals for appointments.

While the focus in 2015/16 has been on external appointments, as we move to the next phase of business transformation, the Committee's focus, with its refreshed membership, will move to ensuring that we begin to build a strong internal talent pipeline to create a sustainable organisation.

Tim Parker

Membership and Attendance

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

The Committee's Terms of Reference require that it meets a minimum of twice a year and that two members must be in attendance for a meeting to be quorate. In 2015/16 there were five meetings of the Committee (including one meeting by telephone) and the members' attendance is set out below.

Committee Member	Meetings Attended *(attended/eligible to attend)*
Alice Perkins[1]	2/2
Virginia Holmes	5/5
Neil McCausland[2]	2/2
Tim Parker[3]	3/3
Ken McCall[4]	1/1

1. Alice Perkins resigned 31 July 2015
2. Neil McCausland resigned 30 September 2015
3. Tim Parker was appointed to the committee 1 October 2015
4. Ken McCall was appointed to the committee 21 January 2016

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Nominations Committee

Role

The Committee operates in accordance with its Terms of Reference, which were last approved by the Board in March 2015. A copy of the Terms of Reference can be downloaded from postoffice.co.uk.

The overall responsibility of the Committee is to effectively manage all senior executive and non-executive appointments. This includes active management of succession planning with consideration of skills, experience and diversity.

Evaluation

In November 2015 the Committee reviewed its Terms of Reference. This review was followed by an evaluation in April 2016 of the Committee's effectiveness and performance against its Terms of Reference. The evaluation concluded that the Committee had met the requirements of its Terms of Reference.

The Committee' key responsibilities are to:

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

Work carried out by the Committee in 2015/16

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

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

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

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Remuneration Committee

Ken McCall

Chaiman of the Remuneration Committee since 21 January 2016

(Neil McCausland was the prior Committee Chairman)

2015/16 Priorities

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

2016/17 Forward Focus

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

Introduction from the Committee Chairman

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

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

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

Ken McCall

Membership and Attendance

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

The Committee's Terms of Reference require that it meets a minimum of three times a year and that two members must be in attendance for a meeting to be quorate. In 2015/16 there were four meetings of the Committee and the members' attendance is set out below.

Committee Member	Meetings Attended *(attended/eligible to attend)*
Alice Perkins[1]	2/2
Virginia Holmes	4/4
Neil McCausland[2]	2/2
Tim Parker[3]	2/2
Ken McCall[4]	1/1

1. Alice Perkins resigned 31 July 2015
2. Neil McCausland resigned 30 September 2015
3. Tim Parker was appointed to the committee 1 October 2015
4. Ken McCall was appointed to the committee 21 January 2016

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The Chief Executive may attend meetings, at the invitation of the Chairman, to discuss matters relating to the remuneration of the Chief Financial Officer and members of the Group Executive. However, the Committee is careful to recognise and manage any potential conflicts of interest when receiving views from the Group Executive and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

Remuneration Committee

Role

The Committee operates in accordance with its Terms of Reference, which were last approved by the Board in March 2015. A copy of the Terms of Reference can be downloaded from postoffice.co.uk.

The overall responsibility of the Committee is to recommend to the Board the remuneration strategy and any changes to individual elements of the remuneration package for: executive directors of Post Office; members of the Group Executive who report directly to the Chief Executive; other significant senior level appointments with comparable remuneration; and to provide an oversight function for the remuneration of the directors of Post Office Management Services Limited.

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

The Committee' key responsibilities are to:

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

Further details of the incentive schemes now in place and a table setting out the remuneration paid to all Directors in the year to 27 March 2016 are provided in the Directors' Remuneration Report on pages XX-XX.

Evaluation

In November 2015 the Committee reviewed its Terms of Reference. This review was followed by an evaluation in April 2016 of the Committee's effectiveness and performance against its Terms of Reference. The evaluation concluded that the Committee had met the requirements of its Terms of Reference.

Work carried out by the Committee in 2015/16

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

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

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

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

Directors' Remuneration Report

Statement by the Chair of the Remuneration Committee

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

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

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

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

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

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

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

Details of directors' remuneration can be found at XX

Ken McCall

Chair, Remuneration Committee

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Audit, Risk and Compliance Committee

Insert Carla's photo

Carla Stent

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

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

2015/16 Priorities

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

2016/17 Forward Focus

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

Introduction from the Committee Chairman

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

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

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

I am confident that the revised membership of the Committee encompasses a strong set of relevant skills and experience and will enable the Committee to discharge its duties robustly and with effective challenge in the year to come.

Carla Stent

Membership and Attendance

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

The Committee's Terms of Reference require that it meets a minimum of three times a year and that two members must be in attendance for a meeting to be quorate. In 2015/16 there were five meetings of the Committee and the members' attendance is set out below:

Committee Member	Meetings Attended *(attended/eligible to attend)*	Notes
Richard Callard[1]	2/2	1. Richard Callard appointed to the Committee 25 November 2015 2. Alasdair Marnoch resigned 31 July 2015 3. Ken McCall was appointed to the Committee 21 January 2016 4. Neil McCausland resigned 30 September 2015 5. Tim Parker was a member of the Committee 28 October 2015 until 20 January 2016 6. Carla Stent appointed to the Committee 21 January 2016
Tim Franklin	5/5	
Alasdair Marnoch[2]	1/1	
Ken McCall[3]	2/2	
Neil McCausland[4]	2/2	
Tim Parker[5]	1/1	
Carla Stent[6]	2/2	

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

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

Audit, Risk and Compliance Committee

Role

The Committee operates in accordance with its Terms of Reference, which were last reviewed by the Committee and approved by the Board in September 2015. A copy of the Terms of Reference can be downloaded from postoffice.co.uk.

The overall responsibility of the Committee is to assist the Board in fulfilling its fiduciary responsibilities by:

- contributing an independent view on the accounting, financial control and financial reporting practices of Post Office;
- taking all reasonable steps to ensure accurate and informative corporate financial reporting and disclosures which meet appropriate accounting and corporate governance standards; and
- providing oversight of the Post Office risk management systems, including the steps taken to mitigate those risks.

The Committee' additional responsibilities are to:

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

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

Evaluation

In September 2015 the Committee reviewed its Terms of Reference and the resulting amendments were approved by the Board. This review was followed by an evaluation in March 2016 of the Committee's effectiveness and performance against its revised Terms of Reference. The evaluation concluded that the Committee had met the requirements of its Terms of Reference.

Work carried out by the Committee in 2015/16

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

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internal audit function and the external auditors, Ernst & Young LLP.

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

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

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

Internal Audit

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

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

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

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

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

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External Audit

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

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

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

Annual Assessment

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

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

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

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

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Management of Risks

Our Approach to Risk

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

Risk Management Governance

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

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

Our Risk Management Framework

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

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

Our Control Framework

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

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

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

Progress during the year and plans for next year

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

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

Our Principal Risks and Mitigations

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

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

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

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

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Directors' Report

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

Expected future developments

Expected future developments are detailed in pages XX to XX.

Results and dividends

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

Political contributions

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

Research and development

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

Directors and their interests

The following served as Directors during the year:

R J Callard

A C J Cameron

T A Franklin

V A Holmes

A Marnoch (resigned 31 July 2015)

K S McCall (appointed 21 January 2016)

N W McCausland (resigned 30 September 2015)

T C Parker (appointed 1 October 2015)

A Perkins CB (resigned 31 July 2015)

C R Stent (appointed 21 January 2016)

P A Vennells

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

People

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

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

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

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

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

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

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

Corporate responsibility

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

Disabled employees

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

Post balance sheet events

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

Going concern

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

Financial instrument risk

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

Audit information

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

Auditor

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

By Order of the Board

Alwen Lyons
Secretary

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

X June 2016

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Directors' Remuneration Report

Statement by the Chair of the Remuneration Committee

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

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

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

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

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

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

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

Ken McCall
Chair, Remuneration Committee
Post Office Limited

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Post Office Limited

Registered Number 2154540

Post Office Limited

Financial Statements

2015-2016

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Post Office Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Directors are responsible for preparing the Directors' report and the Corporate Governance report in accordance with the Companies Act 2006 and applicable regulations.
The Directors confirm that to the best of their knowledge:

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

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Independent auditor's report to the members of Post Office

We have audited the consolidated financial statements of Post Office Limited for the 52-week period ended 27 March 2016 which comprise the Group Income Statement, the Group Balance Sheet, the Group Statement of Comprehensive Income, the Group Statement of Cash Flows, the Group Statements of Changes in Equity, the Parent Company Statement of Comprehensive Income, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 27 March 2016 and of the group's loss for the 52-week period then ended;
- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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Post Office Limited

Other matters

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

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

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Post Office Limited

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

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

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Post Office Limited

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

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

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

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

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

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Consolidated balance sheet
at 27 March 2016 and 29 March 2015

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

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

P A Vennells
Chief Executive

A Cameron
Chief Financial Officer

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

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

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

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Post Office Limited

Notes to the financial statements

1. Accounting Policies

Financial year

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

Basis of preparation

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

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

Basis of consolidation

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

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

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

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

Annual Improvements 2012-2014 Cycle

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

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

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

IAS 19 Employee Benefits

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

Amendments to IAS 1 Disclosure Initiative

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

• The materiality requirements in IAS 1;

• That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;

• That entities have flexibility as to the order in which they present the notes to financial statements;

• That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

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

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

Fundamental accounting concept – going concern

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

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

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

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

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

The Directors are satisfied with the continued progress made towards modernisation during 2015/16 and that the plans in place and the substantial investment secured will enable the Group to continue to modernise and to secure its future. However, they note that the scale of change required remains significant and is not without risk.

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

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

Prior year restatement

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

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

Critical accounting estimates and judgements in applying accounting policies

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

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Group are determined using methods relying on actuarial estimates and assumptions. These pension figures are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary. Details of the key assumptions are set out in note 17.

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

Provisions

The Group has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. Postmasters' compensation provisions are recognised when either Postmaster's agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for Postmasters' compensation at the yearend date represents management's best estimate of the future obligation. Provisions are detailed in note 16. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

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

Impairment of non-current assets

The Group assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use. Due to on-going operational losses (excluding the Network Subsidy Payment) the carrying value of some assets are impaired to zero on acquisition. Each asset category is described below:

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

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

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

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

Freehold property, long leasehold property and land:

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

	Range of asset lives
Land and buildings:	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life

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

Intangible assets with a finite useful life:

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

Software	1 to 6 years

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

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

Goodwill

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

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

Non-current assets within subsidiaries

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

Revenue

Turnover from Government Services, Financial Services, Mails and Retail and Telecoms comprises the value of services provided from the Group's principle activities in providing a whole range of services through its physical and digital channels. Turnover from Financial Services and some Retail services comprises the commission received. Turnover relating to line rental for telecoms services is recognised evenly over the period to which the charges relate and revenue from calls is recognised at the time the call is made. Turnover from all other transactions is recognised when the transaction is completed. All turnover is derived wholly from within the United Kingdom.

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

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

Operating exceptional items
Operating exceptional items are items of income and expenditure arising from the operations of the business which, due to the nature of the events giving rise to them, require separate presentation on the face of the income statement to allow a better understanding of financial performance in the year and in comparison to prior years. Items classified within here will be material either because of size or nature and relate to the transformation of the business rather than ordinary trading. This separate reporting of exceptional items helps to provide a better picture of the Company's underlying performance.

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

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

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

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

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

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

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

- initial recognition of goodwill

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

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

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

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

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

Pensions and other post-retirement benefits
Membership of occupational pension schemes is open to most permanent UK employees of the Company. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme.

The pension assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial funding valuations are carried out

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at intervals not normally exceeding three years as determined by the Trustees and, actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed. When the calculation at the balance sheet date results in net assets to the Group, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling).

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

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

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

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

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

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

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

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

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

Financial assets
Financial assets are measured at fair value at the balance sheet date. They are classified into the following categories loans and receivables or available for sale as appropriate based on the purpose for which they were required. Financial liabilities are measured at either fair value at the balance sheet date or as financial liabilities measured at amortised cost.
Financial liabilities – interest-bearing loans and borrowings
All loans and borrowings are classified as financial liabilities measured at amortised cost.

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

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

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

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

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

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

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

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

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.
The subsidiary Post Office Management Services Limited holds some fiduciary cash balances, there are held on trust on behalf of insurance third parties, see note 12 for details.

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

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

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

Total employee numbers can be categorised as follows:

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

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3. Operating profit from continuing operations before exceptional items

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

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

4. Operating exceptional items

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

Restructuring:

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

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

Impairment:

See the accounting policies on page XX for details.

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5. Directors' emoluments

The Directors received the following emoluments:

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

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

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

The highest paid Director received the following emoluments:

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

Remuneration for each director for the financial year 2015/16

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

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

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

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

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

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

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

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

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

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

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

Remuneration Policy Summary

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

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

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

Differences in remuneration policy for the Executive Directors and employees generally

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

Claw-back provision

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

6. Net finance costs

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

7. Taxation

(a) Taxation gains recognised in the year

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

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

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

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

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

(c) Deferred tax

Deferred tax assets relate to the following:

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

(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £165 million (2015: £141 million), comprising £78 million (2015: £74 million) relating mainly to fixed asset timing differences, £1 million (2015: £1 million) relating to timing differences on provisions and £86 million (2015: £66 million) relating to tax losses that are available to offset against future taxable profits. The Group has rolled over capital gains of £2 million (2015: £3 million); no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

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

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8. Intangible assets

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

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

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

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9. Property, plant and equipment

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

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

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

10. Investments in joint ventures

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

Joint ventures

During 2015/16 and 2014/15, the Group's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road,

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

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

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

11. Trade and other receivables

	2016 £m	2015 £m
Current:		
Trade receivables	**93**	101
Prepayments and accrued income	**73**	106
Client receivables	**229**	162
Other receivables	**14**	28
Total	**409**	397
Non-current:		
Prepayments	**12**	10

The Group receives and disburses cash on behalf of Government agencies and other clients to customers through its branch network. Amounts owed from/to government agencies and other clients are disclosed separately as client receivables (as above) and client payables (see note 13).

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

	2016 £m	2015 £m

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

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

12. Cash and cash equivalents

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

Where interest is earned it is at a floating or short term fixed rate. The fair value of cash and cash equivalents is not materially different from the carrying value.
The fiduciary cash balances are held within Post Office Management Services Limited and are held on trust on behalf of insurance third parties and cannot be called upon should the Company become insolvent.

13. Trade and other payables

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

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

14. Financial liabilities – interest bearing loan and borrowings

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

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

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

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

15. Provisions

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

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

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

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

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16. Financial assets and liabilities

a. Financial assets and liabilities by category

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

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

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

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

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

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

b. Financial risk management objectives and policies

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

Interest rate risk

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

Foreign currency risk

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

The currencies which these transactions are primarily denominated are the US dollar and Euro. The Group's foreign currency risk management objective is to minimise the impact on the Income Statement of fluctuations in the exchange rates. The Group hedges its foreign currency risk principally through external forward foreign currency contracts to cover near-term future revenues with a number of providers including First Rate Exchange Services Holdings Limited.

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) in US dollar rate	Effect on profit before tax	Effect on equity	Strengthening / (weakening) in euro rate	Effect on profit before tax	Effect on equity
	per cent	£m	£m	per cent	£m	£m
	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)
2016	**10**	**2**	**2**	**10**	**4**	**4**
	(10)	**(2)**	**(2)**	**(10)**	**(4)**	**(4)**
2015	10	1	1	10	3	3
	(10)	(1)	(1)	(10)	(3)	(3)

Credit risk

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

The Group aims to minimise its financial credit risk through the application of risk management policies approved by the Board. Counterparties are limited to major banks and financial institutions. The policy restricts the exposure to any one counterparty by setting appropriate credit limits. The maximum exposure to credit risk is limited to the carrying value of each class of asset summarised in note 11.

Business credit risk is monitored centrally. The level of bad debt provision is less than 2% (2015: less than 2%) of turnover.

Capital management

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

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include short term bank deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The Group has adequate cash reserve to meet operating requirements in the next 12 months.

At 27 March 2016 the Group has unused facility of £485 million (2014: £840 million). The facility expires in 2018.

The tables below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest, where applicable.

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At 27 March 2016	12 Months	1-2 Years	2-5 Years	> 5 Years	**Total £m**
Financial assets					
Trade and other receivables	394	-	-	-	**394**
Cash and cash equivalents	712	-	-	-	**712**
Financial liabilities					
Trade and other Pavables	(614)	(4)	-	-	**(618)**
Interest bearing loan	(465)	-	-	-	**(465)**
Finance leases obligations	(8)	-	-	-	**(8)**
Total financial assets/ (liabilities)	**19**	**(4)**	**-**	**-**	**15**

At 29 March 2015	12 Months	1-2 Years	2-5 Years	> 5 Years	Total £m
Financial Assets					
Trade and other receivables	378	-	-	-	378
Cash and cash equivalents	821	-	-	-	821
Financial Liabilities					
Trade and other Pavables	(689)	(2)	-	-	(691)
Bank overdraft	-	-	-	-	-
Interest bearing loan	(310)	-	-	-	(310)
Finance leases obligations	-	-	-	-	-
Total financial assets/ (liabilities)	200	(2)	-	-	198

17. Pensions

The disclosures in this note reflect the two defined benefit schemes: Post Office Limited sectionalised RMPP scheme which is independently operated by the Group and the 7% share of the RMSEPP scheme. Royal Mail Group Limited is the principal employer in Royal Mail Senior Executive Pension Plan (RMSEPP) and Post Office Limited became a participating employer with effect from 1 April 2012. It also includes the defined contribution scheme Post Office Pension Plan.

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

The Group participates in pension schemes as detailed below.

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

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*From 1 April 2015 the Post Office Pension plan replaced the Royal Mail Defined Contribution Plan.

Defined Contribution
The charge in the income statement for the defined contribution schemes and the Group contributions to these schemes was £3 million (2015: £3 million) during the year. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Group for a year.

Defined Benefit
Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds. The latest full actuarial funding valuation of RMPP was carried out as at 1 April 2012 using the projected unit method. For RMPP, this valuation was concluded at £135 million surplus. The latest full actuarial funding valuation of RMSEPP was carried out as at 31 March 2012 using the projected unit method. For 100% of the RMSEPP plan, the valuation was concluded at £83 million deficit. Valuations are carried out triennially and the next one is being performed as at 1 April 2015. The valuation has not yet been completed due to the current consultation on proposals to closing the scheme to future accrual. RMPP includes sections A, B and C each with different terms and conditions:

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

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

The changes encompassed:

- the Plans closed to new members from 31 March 2008;
- all pensions and benefits earned before 1 April 2008 are linked to final pensionable salary, but defined benefits built up from 1 April 2008 are earned on a "career average pensionable salary" basis;
- from 1 April 2014, pensionable salary was amended to the amount in force at that date, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases. This change resulted in a one-off exceptional gain of £102 million for the 2013/14 financial year;
- employees can continue to take their pension on reaching 60 but the normal retirement age increased to 65 for benefits earned from 1 April 2010;
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age at 55, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached; and
- RMSEPP was closed to future accruals on 31 December 2012.

Payment of £17 million (2015: £19 million) was made by the Group during the year in respect of regular future service contributions, nearly all relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1% (2015: 17.1%), effective from April 2010. This rate is not expected to change materially during 2016/17. However, in February 2016, Post Office went out to formal consultation with active members (and their representatives) of the Post Office section of the Royal Mail Pension Plan regards to the potential closure of the RMPP to future accrual with effect from 1 September 2016. The closure is subject to the outcome of the pensions consultation and no final decision will be until the formal consultation has been completed. The proposed closure will also require consent of the Trustee of the RMPP. This closure if it occurs could affect the rate paid in 2016/17.

The Group pays 7% of the total deficit payment required to fund the deficit in RMSEPP and a payment of £1 million (2015: £1 million) was made by the Group during the year. No RMPP deficit payments were made during 2014/15 or 2015/16. For RMSEPP, deficit recovery payments will be £1 million per annum, from 1 April 2010 to 31 January 2024.

A current liability of £nil (2015: £1 million) has been recognised for payments to the pension schemes relating to redundancy. During the year, payments of £3 million (2015: £2 million) relating to redundancy were made.

The weighted average duration of the RMPP fund is 26 years, and for the RMSEPP fund is 21 years. Over the next financial reporting period to 27 March 2016 it is expected that employer contributions to the plans will be £17 million and £1 million for RMPP and RMSEPP respectively.

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

a) Major long-term assumptions

The size of the RMPP pension surplus, which is large in the context of the Group and its finances, is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on the

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surplus and overall income statement charge. The major long-term assumptions in relation to both RMPP and RMSEPP were:

	At 27 March 2016 % pa	At 29 March 2015 % pa
Rate of increase in salaries	**2.8**	2.8
Rate of pension increases – RMPP sections A/B	**1.8**	1.9
Rate of pension increases – RMPP section C	**2.8**	2.8
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of pension increases – RMSEPP all other members	**2.8**	2.8
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of increase for deferred pensions	**1.8**	1.9
Discount rate	**3.5**	3.5
Inflation assumption (RPI) – RMPP & RMSEPP	**2.9**	3.0
Inflation assumption (CPI) – RMPP & RMSEPP	**1.8**	1.9

The ultimate cost of the RMPP plan to the Group will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets, for example Corporate Bonds, which mitigates the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes pensionable pay in RMPP, which was amended with effect from 1 April 2014. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this will be partially offset by an increase in the value of the bond holdings and, to some extent, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would increase because pensions would be paid for a longer time.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were transferred to the Royal Mail Statutory Pension Scheme. These liabilities are substantially no longer an obligation of the Group and consequently the transfer resulted in a significant removal of pension risk from the Group.

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

	2016 £m	2015 £m
Changes in RPI and CPI inflation of +0.1% pa	**(5)**	(4)
Changes in discount rate of +0.1%pa	**5**	4
Changes in real salary growth of +0.1% pa	**(2)**	(1)
Changes in CPI assumptions of +0.1% pa	**(1)**	(1)
An additional 1 year life expectancy	**(6)**	(5)

The sensitivity analysis has been prepared using projected benefit cashflows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited

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by the extent to which the profiles of the plan cashflows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

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

Average expected life expectancy from age 60:	**2016**	2015
For a current 60 year old male RMPP member	**27 years**	27 years
For a current 60 year old female RMPP member	**30 years**	30 years
For a current 40 year old male RMPP member	**29 years**	29 years
For a current 40 year old female RMPP member	**32 years**	32 years

b) Plans' assets

The assets in the plans for the Group were:

Sectionalised RMPP	**Market value 2016 £m**	Market value 2015 £m
UK equities	**-**	1
Overseas equities	**-**	10
Corporate bonds*	**233**	217
Property	**11**	8
Private Equity	**10**	12
Cash and cash equivalents	**41**	6
Bond/fixed interest funds	**41**	50
Index-linked funds	**-**	10
Other loan/debt funds	**28**	20
Alternative asset funds	**43**	11
Equity funds	**-**	34
Fair value of RMPP assets	**407**	379
Present value of RMPP liabilities	**(184)**	(150)
Surplus in plan before asset ceiling adjustment	**223**	229
Less effect of asset ceiling	**(29)**	(27)
Surplus in plan after asset ceiling adjustment	**194**	202

*£15 million relates to UK Government Bonds. £215 million to an LDI investment containing UK Government Bonds, it is a liability driven investment and £3 million to an infrastructure debt holding which is EUR denominated and fixed interest.

Share of RMSEPP	**Market value 2016 £m**	Market value 2015 £m
UK equities	**1**	1
Overseas equities	**10**	11
Government bonds	**15**	16
Alternative asset funds	**2**	-
Property	**2**	2
Other assets	**-**	1
Fair value of share in plan assets for RMSEPP	**30**	31
Present value of share in plan liabilities for RMSEPP	**(27)**	(26)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**3**	5
Less effect of asset ceiling	**(1)**	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**2**	3

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A retirement benefit surplus of £196 million is disclosed on the balance sheet, representing the surplus in plans of £223 million and £3 million for RMPP and RMSEPP respectively, and net of tax of £30 million at a rate of 35% on the element of the surplus which is recoverable through a refund from the plans.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. All RMPP and RMSEPP assets are securities with a quoted price in an active market.

c) Movement in plans' assets and liabilities

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

Assets	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Assets in sectionalised RMPP at beginning of period	**379**	260
Contributions paid	**19**	21
Employee contributions paid	**6**	7
Finance income	**14**	12
Actuarial (losses)/gains	**(8)**	81
Benefits paid to members	**(3)**	(2)
Assets in sectionalised RMPP at end of period	**407**	379

Assets	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of assets in RMSEPP at beginning of period	**31**	26
Contributions paid	**1**	1
Finance income	**1**	1
Actuarial (losses)/gains	**(2)**	4
Benefits paid to members	**(1)**	(1)
Share of assets in RMSEPP at end of period	**30**	31

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

Liabilities	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Liabilities in sectionalised RMPP at beginning of period	**(150)**	(90)
Current service cost	**(27)**	(25)
Curtailment costs*	**(1)**	(1)
Finance cost	**(6)**	(5)
Employee contributions	**(6)**	(7)
Actuarial loss	**-**	(23)
Experience adjustments on liabilities	**3**	(1)
Benefits paid	**3**	2
Liabilities in sectionalised RMPP at end of period	**(184)**	(150)

Liabilities	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of liabilities in RMSEPP plans at beginning of period	**(26)**	(24)
Finance cost	**(1)**	(1)
Actuarial loss	**(1)**	(2)
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(27)**	(26)

*The curtailment costs in the income statement are recognised on a consistent basis with the associated compensation costs. Estimates of both are included, for example, in any redundancy provisions raised. The

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curtailment costs above represent the costs associated with those people paid compensation in respect of redundancy during the accounting period. Such payments may occur in an accounting period subsequent to the recognition of costs in the income statement.

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

	Sectionalised RMPP 2016 £m	Sectionalised RMPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptio items:		
Current service cost	**27**	25
Total charge to operating profit before exceptional items	**27**	25
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments	**1**	1
Total charge to operating profit	**28**	26
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**6**	5
Interest income on plan assets	**(14)**	(12)
Net pensions credit to financing	**(8)**	(7)
Net charge to the income statement before deduction for tax	**20**	19
Analysis of amounts recognised in the statement of comprehens income:		
Actual return on plan assets	**6**	93
Less: expected interest income on plan assets	**(14)**	(12)
Less: taxation on surplus recoverable through plan refunds	**(2)**	(4)
Actuarial (losses)/gains on assets (all experience adjustments)	**(10)**	77
Experience adjustments on liabilities	**3**	(1)
Effects of changes in actuarial assumptions on liabilities	**-**	(23)
Actuarial losses on liabilities	**3**	(24)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(7)**	53

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	Share of RMSEPP 2016 £m	Share of RMSEPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to net pensions interest:		
Interest on plan liabilities	**1**	1
Interest income on plan assets	**(1)**	(1)
Net pensions credit to financing	**-**	-
Net charge to the income statement before deduction for tax	**-**	-
Analysis of amounts recognised in the statement of comprehensi income:		
Actual return on plan assets	**(1)**	5
Less: expected interest income on plan assets	**(1)**	(1)
Less: taxation on surplus recoverable through plan refunds	**1**	(1)
Actuarial (losses)/gains on assets (all experience adjustments)	**(1)**	3
Experience adjustments on liabilities		-
Effects of changes in actuarial assumptions on liabilities	**(1)**	(2)
Actuarial losses on liabilities	**(1)**	(2)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(2)**	1

18. Equity:

Called up share capital:

	2016 £	2015 £
Authorised		
Ordinary shares of £1 each	**51,000**	51,000
Total	**51,000**	51,000
Allotted and issued and fully paid		
Ordinary shares of £1 each	**50,003**	50,003
Total	**50,003**	50,003

Other reserves:

Other reserves of £2 million relate to First Rate Exchange Services Holdings Limited, the joint venture entity.

Share premium:

On 7 August 2007 1,000 ordinary shares of £1 each were issue in return for £313 million cash paid by the the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Innovations and Skills Reform. A share premium of £151,999,998 resulted from this subscription.

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19. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £62 million (2015: £96 million).

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

	Land and buildings	
	2016 £m	2015 £m
Within one year	**14**	17
Between one and five years	**35**	43
Beyond five years	**29**	27
Total	**78**	87

Contingent liabilities: As a large, nationwide retailer operating in dynamic and competitive markets, we may be subject to regulatory investigations and may face damage to our reputation and legal claims.

From time to time, we may be named as a defendant in legal claims or be required to respond to regulatory actions in connection with our activities. This may include claims for substantial or indeterminate amounts of damages from customers, employees, consultants and contractors, or may result in penalties, fines, or other results adverse to us. Like any large company, we may also be subject to the risk of potential employee or agent misconduct, including non-compliance with policies and improper use or disclosure of our assets or confidential information.

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

20. Finance lease liabilities

	2016		2015	
	Minimum payments	**Present value of minimum lease payments**	Minimum payments	Present value of minimum lease payments
	£m	**£m**	£m	£m
Within one year	**8**	**8**	-	-
Between one and five years	**-**	**-**	-	-
Total minimum lease payments	**8**	**8**	-	-
Less amounts representing finance charges	**-**	**-**	-	-
Present value of minimum lease payments			-	-
Of which:				
Current	**8**	**8**	-	-
Non-current	**-**	**-**	-	-

The aggregate finance charges allocated for the period in respect of finance leases was £nil (2015: £211,078). The fair value of finance lease liabilities is not materially different from the carrying value.

The Group has finance lease contracts for equipment.

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21. Business combinations

On 30 September 2015, the Group acquired the remaining 50% of its former insurance joint undertaking from the Bank of Ireland. The consideration of £43,900,000 was settled in cash.

The fair values of the identifiable assets and liabilities of the business as at the date of acquisition were:

	Fair Value £m
Cash	1
Provision	(1)
Net Assets	-
Goodwill arising on acquisition	44
Consideration paid	44

The full acquisition cost is recognised as goodwill due to there being no separately identifiable assets and liabilities other than the cash and provision noted above. The acquisition costs and therefore the Goodwill were based on an independent external valuation provided to both parties. Goodwill has been reviewed for impairment at acquisition and at year end and at both times the amount is considered to represent fair value. There are no indicators of impairment. The Goodwill sits within Post Office Management Services Limited.

From the date of the acquisition to 27 March 2016, the additional 50% of the former joint insurance undertaking of Post Office Limited and Bank of Ireland has contributed £17,190,518 of revenue and £755,922 to profit before tax.

22. Discontinued Operation

In March 2016 the Group decided to discontinue its mobile operation. The results of this operation are disclosed below:

	2016 £m	2015 £m
Revenue	**-**	-
Expenses	**(10)**	(4)
Loss before taxation	**(10)**	(4)
Taxation	**-**	-
Loss for the year from discontinued operation	**(10)**	(4)

Balances on the balance sheet at year end for project closure costs and termination charges are as follows:

	2016 £m	2015 £m
Provisions	**3**	-
Total Liabilities (note 15)	**3**	-

Write down of intangible assets and prepayments

Intangible assets for mobile amounted to £2 million in the year (£1 million in prior year) and these were impaired at acquisition in line with Group policy so no further write down was required on closure of the operation. The impairment is included in the £10 million above (£4 million above prior year). There were prepayments on the balance sheet of £2 million prior to the decision to discontinue this operation and these have been written down to £nil as the costs included in the £10 million expenses noted above.

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23. Related party disclosures

Joint venture

The following company is a joint venture of the Group:

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

All shareholdings are equity shares.

Related party transactions

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

	Sales/recharges to related party		Purchases/recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
First Rate Exchange Services Holdings Limited	**26**	26	**122**	129	**10**	7	**7**	6

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

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

Separately:

- the Group has certain loan facilities with Government (note 14);
- the Group has received a Government Grant of £150 million, all of which was recognised through the income statement; and
- the Group has received the Network Subsidy Payment from Government (note 1).

Key management comprises Executive and Non-Executive Directors of the Post Office Limited Board and the members of the Group Executive at 27 March 2016. The aggregate remuneration of the key management personnel of the Post Office Group is set out below:

	2016 £000	2015 £000
Short-term employee benefits*	**TBC**	3,380
Post-employment benefits	**TBC**	68
Other long-term benefits	**TBC**	307
Total	**TBC**	3,755

*Payment in lieu of notice has been included in short-term employee benefits. Please refer to the Director's Remuneration Report on page XX for further details.

24. Post balance sheet events

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

25. Immediate and ultimate parent company

At 27 March 2016, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company. The largest group to consolidate the results of the company is Postal Services Holding Company Limited, a company registered in the United Kingdom. Postal Services Holding Company Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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Parent Company Financial Statements

2015-2016

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Company statement of comprehensive income
At 27 March 2016

	Notes	**2016 £m**	2015 Restated £m
Loss for the financial year from continuing operations		**(157)**	(143)
Loss for the financial year from discontinued operations		**(10)**	(4)
Loss for the financial year		**(167)**	(147)
Other comprehensive income not to be reclassified to profit or loss in future periods			
Remeasurements on defined benefit surplus	11	**(9)**	54
Income tax effect		**5**	(9)
Total comprehensive income for the year		**(171)**	(102)

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

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Company balance sheet
at 27 March 2016

	Notes	2016 £m	2015 (Restated) £m
Non-current asset			
Intangible assets	2	**-**	-
Property, plant and equipment	3	**9**	10
Investment in subsidiaries	4	**50**	-
Investments in joint ventures	5	**1**	1
Retirement benefit surplus	11	**196**	205
Trade and other receivables	6	**12**	10
Total non-current assets		**268**	226
Current assets			
Inventories		**6**	6
Trade and other receivables	6	**411**	399
Cash and cash equivalents	7	**698**	817
Total current assets		**1,115**	1,222
Total assets		**1,383**	1,448
Current liabilities			
Trade and other payables	8	**(648)**	(716)
Financial liabilities - interest bearing loans and borrowings	9	**(465)**	(310)
- obligations under finance leases	13	**(8)**	-
Provisions	10	**(150)**	(144)
Total current liabilities		**(1,271)**	(1,170)
Non-current liabilities			
Other payables	8	**(25)**	(30)
Provisions	10	**(16)**	(6)
Total non-current liabilities		**(41)**	(36)
Net assets		**71**	242
Equity			
Share capital	12	**-**	-
Share premium	12	**465**	465
Retained earnings		**(394)**	(223)
Total equity		**71**	242

The financial statements on pages XX to XX were approved by the Board of Directors on XXX 2015 and signed on its behalf by:

P A Vennells
Chief Executive

A Cameron
Chief Financial Officer

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Company statement of changes in equity
at 27 March 2016

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 30 March 2015 (restated)		**465**	**(223)**	**242**
Loss for the year		**-**	**(167)**	**(167)**
Remeasurements on defined benefit surplus	11	**-**	**(9)**	**(9)**
Income tax effect		**-**	**5**	**5**
At 27 March 2016		**465**	**(394)**	**71**

	Notes	Share premium £m	Retained earnings £m	Total equity £m
At 31 March 2014		465	(121)	344
Loss for the year (restated)		-	(147)	(147)
Remeasurements on defined benefit surplus	11	-	54	54
Income tax effect		-	(9)	(9)
At 29 March 2015 (restated)		465	(223)	242

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Notes to the financial statements

1. Accounting Policies

The accounting policies which follow set out those which apply in preparing the financial statements for the year ended 27 March 2016.

Financial year

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

Authorisation of financial statements

The parent company financial statements of Post Office Limited (the 'Company') for the year ended 27 March 2016 were authorised for issue by the Board of Directors on XX xxx 2016 and the balance sheet was signed on the Board's behalf by P A Vennells and A Cameron. Post Office Limited is a limited company incorporated and domiciled in England and Wales.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Theses financial statements are prepared under the historical cost convention.

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own income statement. The result dealt with in the accounts of the company amounted to £167 million loss (2015 (restated): £60 million loss).

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

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

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

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

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

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

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

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

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

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

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

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

Fundamental accounting concept – going concern

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

Prior year restatements

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

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	As previously reported	Restatement	29 March 2015 Restated
Total provisions	(63)	(87)	(150)
Operating exceptional items - restructuring costs	(214)	(87)	(301)
Shareholders' funds (retained earnings)	(136)	(87)	(223)
Profit/(loss) for the year	(60)	(87)	(147)

Critical accounting estimates and judgements in applying accounting policies

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

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Company are determined using methods relying on actuarial estimates and assumptions. These pension figures are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Company exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary. Details of the key assumptions are set out in note 11.

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

Provisions

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate the risks specific to that liability.*Impairment of non-current assets*
The Group assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use. Due to on-going operational losses (excluding the Network Subsidy Payment) the carrying value of some assets are impaired to zero on acquisition. Each asset category is described below:

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

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and due to on-going operational losses (excluding Network Subsidy payment) they are impaired to zero on acquisition. If they were not impaired they would be depreciated on a straight-line basis over the following useful lives:

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

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value, therefore these assets are not impaired on acquisition but would be considered for impairment if

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indicators existed in line with Group policy noted above. They are instead depreciated on a straight-line basis over the following useful lives:

	Range of asset lives
Land and buildings:	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life

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

Intangible assets with a finite useful life:

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

Software	1 to 6 years

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

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

Goodwill

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

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

Leases

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

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

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

Investments in joint ventures

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

Investments in subsidiaries

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

Inventories

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

Taxation

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

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

- initial recognition of goodwill

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

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

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

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

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

Pensions and other post-retirement benefits
Membership of occupational pension schemes is open to most permanent UK employees of the Company. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme.

The pension assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed. When the calculation at the balance sheet date results in net assets to the Company, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling).

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

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

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

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

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

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

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

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

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Financial instruments
Financial assets

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

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

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

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

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

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

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

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

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

2. Intangible assets

Cost	**2016 £m**	2015 £m
At 30 March 2015, 31 March 2014	297	243
Reclassifications	-	(3)
Additions	91	57
Disposals	-	-
At 27 March 2016, 29 March 2015	388	297
Impairment		
At 30 March 2015, 31 March 2014	297	243
Reclassifications	-	(3)
Impairment (see note 5 in the Group financial statements)	91	57
Disposals	-	-
At 27 March 2016, 29 March 2015	388	297
Net book value		
At 27 March 2016, 29 March 2015	-	-

The above intangible assets relate to software.

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3. Property, plant and equipment

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

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

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

4. Investment in subsidiaries

The carrying value of £50,000,100 relates solely to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company. It relates to 50,000,000 shares with a nominal value of £1 and 1 share with a nominal value of £100. The registered address of Post Office Management Services Limited is Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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5. Investments in joint ventures

	2016 £m	2015 £m
Investment in joint ventures	**1**	1

Joint ventures

During 2015/16 and 2014/15, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited with a carrying value of £0.6 million (2015: £0.6 million), whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

6. Trade and other receivables

	2016 £m	2015 £m
Current:		
Trade receivables	**93**	101
Amounts owed by group undertakings	**6**	2
Prepayments and accrued income	**68**	106
Client receivables	**229**	162
Other receivables	**15**	28
Total	**411**	399
Non-current:		
Prepayments and accrued income	**12**	10

7. Cash and cash equivalents

	2016 £m	2015 £m
Cash in the Post Office Limited Network	**653**	708
Short-term Bank Deposits	**45**	89
Money market fund investments	**-**	20
Total	**698**	817

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8. Trade and other payables

	2016 £m	2015 £m
Current:		
Trade payables	**51**	29
Accruals	**157**	159
Deferred income	**39**	29
Social security	**8**	9
Client payables	**375**	454
Capital payables	**16**	25
Other payables	**2**	11
Total	**648**	716
Non-current:		
Other payables	**25**	30

9. Financial liabilities – interest bearing loans and borrowings

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

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

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

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

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10. Provisions

	Network Transformation £m	Other £m	Total £m
At 29 March 2015 (restated)	127	23	150
Charged in operating exceptional items	123	54	177
Charged in operating costs	-	5	5
Charged for discontinued operation	-	3	3
Utilisation	(95)	(46)	(141)
Unused amounts in the year – operating exceptionals	(21)	(5)	(26)
Unused amounts in the year – operating costs	-	(2)	(2)
At 27 March 2016	**134**	**32**	**166**
Disclosed as:			
Current	**132**	**18**	**150**
Non - current	**2**	**14**	**16**
	134	**32**	**166**

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

Other provisions of £32 million (2015: £23 million) include £29 million for continuing operations, this includes £19 million onerous lease obligations, £3 million severance and £7 million of smaller provisions including £1 million for personal injury claims. It also includes £3m in relation to the discontinued operation as disclosed in note 19.

11. Pensions

The disclosures in this note reflect the two defined benefit schemes: Post Office Limited sectionalised RMPP scheme which is independently operated by the Company and the 7% share of the RMSEPP scheme. Royal Mail Group Limited is the principal employer in Royal Mail Senior Executive Pension Plan (RMSEPP) and Post Office Limited became a participating employer with effect from 1 April 2012. It also includes the defined contribution scheme Post Office Pension Plan.

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

The Company participates in pension schemes as detailed below.

Name	Eligibility	
Royal Mail Pension Plan (RMPP)	UK employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	UK senior executives	Defined benefit
Post Office Pension Plan*	UK employees	Defined contribution

*From 1 April 2015 the Post Office Pension plan replaced the Royal Mail Defined Contribution Plan.

Defined Contribution
The charge in the income statement for the defined contribution schemes and the Company contributions to these schemes was £3 million (2015: £3 million) during the year. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the Company for a year.

Defined Benefit
Both RMPP and RMSEPP are funded by the payment of contributions to separate trustee administered funds. The latest full actuarial funding valuation of RMPP was carried out as at 1 April 2012 using the projected unit method. For RMPP, this valuation was concluded at £135 million surplus. The latest full actuarial funding valuation of RMSEPP was carried out as at 31 March 2012 using the projected unit method. For 100% of the RMSEPP plan, the

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valuation was concluded at £83 million deficit. Valuations are carried out triennially and the next one is being performed as at 1 April 2015. The valuation has not yet been completed due to the current consultation on proposals to close the scheme to future accrual. RMPP includes sections A, B and C each with different terms and conditions:

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

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

The changes encompassed:

- the Plans closed to new members from 31 March 2008;
- all pensions and benefits earned before 1 April 2008 are linked to final pensionable salary, but defined benefits built up from 1 April 2008 are earned on a "career average pensionable salary" basis;
- from 1 April 2014, pensionable salary was amended to the amount in force at that date, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases. This change resulted in a one-off exceptional gain of £102 million for the 2013/14 financial year;
- employees can continue to take their pension on reaching 60 but the normal retirement age increased to 65 for benefits earned from 1 April 2010;
- from 1 April 2010 it is possible to draw pension earned before the change to normal retirement age at 55, and continue working while still contributing to the Pension Plan until the maximum level of benefits has been reached; and
- RMSEPP was closed to future accruals on 31 December 2012.

Payment of £17 million (2015: £19 million) was made by the Company during the year in respect of regular future service contributions, nearly all relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1% (2015: 17.1%), effective from April 2010. However, in February 2016, Post Office went out to formal consultation with active members (and their representatives) of the Post Office section of the Royal Mail Pension Plan regards to the potential closure of the RMPP to future accrual with effect from 1 September 2016. The closure is subject to the outcome of the pensions consultation and no final decision will be until the formal consultation has been completed. The proposed closure will also require consent of the Trustee of the RMPP. This closure if it occurs could affect the rate paid in 2016/17.

The Company pays 7% of the total deficit payment required to fund the deficit in RMSEPP and a payment of £1 million (2015: £1 million) was made by the Company during the year. No RMPP deficit payments were made during 2014/15 or 2015/16. For RMSEPP, deficit recovery payments will be £1 million per annum, from 1 April 2010 to 31 January 2024.

A current liability of £nil (2015: £1 million) has been recognised for payments to the pension schemes relating to redundancy. During the year, payments of £3 million (2015: £2 million) relating to redundancy were made.

The weighted average duration of the RMPP fund is 26 years, and for the RMSEPP fund is 21 years. Over the next financial reporting period to 27 March 2016 it is expected that employer contributions to the plans will be £17 million and £1 million for RMPP and RMSEPP respectively.

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

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b) Major long-term assumptions

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

	At 27 March 2016 % pa	At 29 March 2015 % pa
Rate of increase in salaries	**2.8**	2.8
Rate of pension increases – RMPP sections A/B	**1.8**	1.9
Rate of pension increases – RMPP section C	**2.8**	2.8
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of pension increases – RMSEPP all other members	**2.8**	2.8
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**1.8**	1.9
Rate of increase for deferred pensions	**1.8**	1.9
Discount rate	**3.5**	3.5
Inflation assumption (RPI) – RMPP and RMSEPP	**2.9**	3.0
Inflation assumption (CPI) – RMPP and RMSEPP	**1.8**	1.9

The ultimate cost of the RMPP plan to the Company will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets, for example Corporate Bonds, which mitigates the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes pensionable pay in RMPP, which was amended with effect from 1 April 2014. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this will be partially offset by an increase in the value of the bond holdings and, to some extent, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would increase because pensions would be paid for a longer time.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were transferred to the Royal Mail Statutory Pension Scheme. These liabilities are no longer an obligation of the Company and consequently the transfer resulted in a significant removal of pension risk from the Company.

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

	2016 £m	2015 £m
Changes in RPI and CPI inflation of +0.1% pa	**(5)**	(4)
Changes in discount rate of +0.1%pa	**5**	4
Changes in real salary growth of +0.1% pa	**(2)**	(1)
Changes in CPI assumptions of +0.1% pa	**(1)**	(1)
An additional 1 year life expectancy	**(6)**	(5)

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The sensitivity analysis has been prepared using projected benefit cashflows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cashflows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

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

Average expected life expectancy from age 60:	**2016**	2015
For a current 60 year old male RMPP member	**27 years**	27 years
For a current 60 year old female RMPP member	**30 years**	30 years
For a current 40 year old male RMPP member	**29 years**	29 years
For a current 40 year old female RMPP member	**32 years**	32 years

b) Plans' assets

The assets in the plans for the Company were:

Sectionalised RMPP	**Market value 2016 £m**	Market value 2015 £m
UK equities	**-**	1
Overseas equities	**-**	10
Corporate bonds*	**233**	217
Property	**11**	8
Private Equity	**10**	12
Cash and cash equivalents	**41**	6
Bond/fixed interest funds	**41**	50
Index-linked funds	**-**	10
Other loan/debt funds	**28**	20
Alternative asset funds	**43**	11
Equity funds	**-**	34
Fair value of RMPP assets	**407**	379
Present value of RMPP liabilities	**(184)**	(150)
Surplus in plan before asset ceiling adjustment	**223**	229
Less effect of asset ceiling	**(29)**	(27)
Surplus in plan after asset ceiling adjustment	**194**	202

*£15 million relates to UK Government Bonds. £215 million to an LDI investment containing UK Government Bonds, it is a liability driven investment and £3 million to an infrastructure debt holding which is EUR denominated and fixed interest.

Share of RMSEPP	**Market value 2016 £m**	Market value 2015 £m
UK equities	**1**	1
Overseas equities	**10**	11
Government bonds	**15**	16
Alternative asset funds	**2**	-
Property	**2**	2
Other assets	**-**	1
Fair value of share in plan assets for RMSEPP	**30**	31
Present value of share in plan liabilities for RMSEPP	**(27)**	(26)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**3**	5
Less effect of asset ceiling	**(1)**	(2)

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Surplus in plan for share of RMSEPP after asset ceiling adjustment	**2**	3

A retirement benefit surplus of £196 million is disclosed on the balance sheet, representing the surplus in plans of £223 million and £3 million for RMPP and RMSEPP respectively, and net of tax of £30 million at a rate of 35% on the element of the surplus which is recoverable through a refund from the plans.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. All RMPP and RMSEPP assets are securities with a quoted price in an active market.

c) Movement in plans' assets and liabilities

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

Assets	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Assets in sectionalised RMPP at beginning of period	**379**	260
Contributions paid	**19**	21
Employee contributions paid	**6**	7
Finance income	**14**	12
Actuarial (losses)/gains	**(8)**	81
Benefits paid to members	**(3)**	(2)
Assets in sectionalised RMPP at end of period	**407**	379

Assets	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of assets in RMSEPP at beginning of period	**31**	26
Contributions paid	**1**	1
Finance income	**1**	1
Actuarial (losses)/gains	**(2)**	4
Benefits paid to members	**(1)**	(1)
Share of assets in RMSEPP at end of period	**30**	31

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

Liabilities	**Sectionalised RMPP 2016 £m**	Sectionalised RMPP 2015 £m
Liabilities in sectionalised RMPP at beginning of period	**(150)**	(90)
Current service cost	**(27)**	(25)
Curtailment costs*	**(1)**	(1)
Finance cost	**(6)**	(5)
Employee contributions	**(6)**	(7)
Actuarial loss	**-**	(23)
Experience adjustments on liabilities	**3**	(1)
Benefits paid	**3**	2
Liabilities in sectionalised RMPP at end of period	**(184)**	(150)

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Liabilities	**Share of RMSEPP 2016 £m**	Share of RMSEPP 2015 £m
Share of liabilities in RMSEPP plans at beginning of period	**(26)**	(24)
Finance cost	**(1)**	(1)
Actuarial loss	**(1)**	(2)
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(27)**	(26)

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

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

	Sectionalised RMPP 2016 £m	Sectionalised RMPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit before exceptio items:		
Current service cost	**27**	25
Total charge to operating profit before exceptional items	**27**	25
Analysis of amounts charged to operating exceptional items:		
Loss due to curtailments	**1**	1
Total charge to operating profit	**28**	26
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**6**	5
Interest income on plan assets	**(14)**	(12)
Net pensions credit to financing	**(8)**	(7)
Net charge to the income statement before deduction for tax	**20**	19
Analysis of amounts recognised in the statement of comprehensive income:		
Actual return on plan assets	**6**	93
Less: expected interest income on plan assets	**(14)**	(12)
Less: taxation on surplus recoverable through plan refunds	**(2)**	(4)
Actuarial (losses)/gains on assets (all experience adjustments)	**(10)**	77
Experience adjustments on liabilities	**3**	(1)
Effects of changes in actuarial assumptions on liabilities	**-**	(23)
Actuarial losses on liabilities	**3**	(24)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(7)**	53

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	Share of RMSEPP 2016 £m	Share of RMSEPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**1**	1
Interest income on plan assets	**(1)**	(1)
Net pensions credit to financing	**-**	-
Net charge to the income statement before deduction for tax	**-**	-
Analysis of amounts recognised in the statement of comprehensi income:		
Actual return on plan assets	**(1)**	5
Less: expected interest income on plan assets	**(1)**	(1)
Less: taxation on surplus recoverable through plan refunds	**1**	(1)
Actuarial (losses)/gains on assets (all experience adjustments)	**(1)**	3
Experience adjustments on liabilities		-
Effects of changes in actuarial assumptions on liabilities	**(1)**	(2)
Actuarial losses on liabilities	**(1)**	(2)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	**(2)**	1

12. Equity

Called up share capital:

	2016 £	2015 £
Authorised		
Ordinary shares of £1 each	**51,000**	51,000
Total	**51,000**	51,000
Allotted and issued		
Ordinary shares of £1 each	**50,003**	50,003
Total	**50,003**	50,003

Share premium:

On 7 August 2007 1,000 ordinary shares of £1 each were issue in return for £313 million cash paid by the the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Innovations and Skills Reform. A share premium of £151,999,998 resulted from this subscription.

13. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £62 million (2015: £96 million).

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

14. Finance lease liabilities

Details of the Company's finance lease liabilities are disclosed in the Group financial statements (note 20).

15. Related party disclosures

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

16. Operating exceptional items

Details of operating exceptional items are disclosed in the Group financial statements (note 4).

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

18. Business combinations
Details of the business combination which arose in the year is included in note 21 in the Group financial statements.

19. Discontinued operations
Details of the discontinued operation are included in note 22 in the Group financial statements.

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

21. Immediate and ultimate parent company

At 27 March 2016, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company. The largest group to consolidate the results of the Company is Postal Services Holding Company Limited, a company registered in the United Kingdom. Postal Services Holding Company Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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Post Office Limited

Corporate information

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POST OFFICE

Financial Reporting and Controls

Author: Dave Carter Sponsor: Al Cameron Date: 19th May 2016

Executive Summary

Context

1. We agreed to provide an update to each ARC on the plans and progress to create sustainable controls to support reliable financial reporting.

Questions addressed in this report

2. The questions covered in this paper are:
   - What progress has been made?
   - What are we doing to provide assurance that we can sign the 2015-16 financial statements?
   - What are the longer term plans to create sustainable and reliable financial reporting?

Conclusions and recommendations

3. Additional assurance to support the 2015/16 year-end accounts is being performed. This includes the recalculation of revenue invoices from source documentation through to the ledgers, and the reconciliation of revenue volumes and values through the various systems (Credence, Horizon, Polsap, BI) to the Core Finance System. In addition, we have performed a detailed review of our balance sheet accounts, which will be further supported by on-going post-balance sheet testing. No further issues have been identified.
4. By the end of May, 80% of invoiced revenue will have been recalculated and confirmed (currently at 74%) representing all material / high risk revenue streams. The remaining 20% comprises a large number of low value / low risk contracts and will be completed before the accounts are signed.
5. Currently 98-100% of revenue volume & value is reconciled between the Core Finance System, Business Information and POLSAP systems. Reconciliation between Credence and Horizon is complex, currently 80% complete with work ongoing through May.
6. Balance sheet testing is 90% complete and will be finalised during May. Immaterial adjustments have been identified through the balance sheet work in 9 out of 250 accounts tested. Cumulative impact to EBITDAS is £1.2m debit. This has been posted to the 15/16 accounts to ensure a clean balance sheet position into 16/17.
7. Plans are in place to ensure we continue to develop a sustainable control environment in 2016/17, providing appropriate support for the financial statements. This includes restructuring of Financial Control, the remediation and self-certification of controls and further development of our core reporting capability.

Input Sought

8. The ARC is asked to comment on the progress and plans.

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The Report

9. Details of the progress and plans are set out below:

Work stream	Actions Taken	Support for 15-16 year-end	Support for 16/17 year-end
Governance	Weekly Financial Reporting Control meetings chaired by CFO embedded since January 2016 Financial Systems & Reporting Steering Group since Oct 2015	Agreed scope and reviewed progress against each work stream. Oversight of controls, remediation of control gaps, balance sheet probity, financial adjustments	On-going throughout 16/17
Structure and Accountabilities	New Financial Control structure agreed to clarify accountabilities, increase segregation of duties between accounting & reporting, remove duplication and re-align to business structure.	Final role changes are being embedded as part of the consultation process starting 11th April Junior role accountabilities agreed and in place	Increased resource dedicated to Financial Control and Governance. This team will be responsible for governing the remediation of control gaps, embedding the financial control framework and rolling out self-certification.
Systems & Reporting	Redesigned BI architecture to remove complexity and manual intervention. Single source of financial reporting.	7 core financial reports live and system generated for year end, including Balance Sheet, P&L, Trial Balance, Income & Expenditure reports, Aged Debt, VAT.	29 reports at sign-off stage. 10 under development Assessing the potential replacement of income spreadsheets with embedded system capability Re-design of core CFS architecture (in IT/Back office strategies for the July board)

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Work stream	Actions Taken	Support for 15-16 year-end	Support for 16/17 year-end
Financial Control Framework	Process mapping of controls, identification and remediation of control gaps across core processes that impact financial accounting Phase 1:PPE & Intangibles, Project accounting, Bill to Cash, Record to Report Phase 2: Payroll, Treasury, Client Settlement, Control Environment Phase 3: Stock Accounting, Purchase to Pay, Taxation	Phase 1 completed Phase 2 & 3 completed subject to final sign-off. Remediation process underway for Phase 1 and 2 processes. 54% of control gaps closed (74 out of 138). Management attestation process implemented Self-certification software identified and under trial.	Remediation of remaining control gaps. Roll-out self-certification software and implement rolling self-assurance over controls supplemented by Internal Audit testing. Repeat management attestation bi-anually
Income reconciliation	100% reconciliation of P1-P10 revenue in CFS back to source systems and data. Recalculation of spreadsheets driving revenue - proving price data, matching volumes and tracing to GL Reconciliation of volumes driving revenue between systems and to client settlement volumes.	Invoices representing 74% of total revenue have been recalculated for accuracy. Will be 80% by May representing all high value/high risk contracts. Remaining 20% of low value/low risk completed in June. System reconciliation status (June completion) - Polsap to CFS 98% - CFS to BI 100% - BI to Credence 98% - Credence to Horizon 80%	Consider the need to repeat in 2016/17
Postmasters' Compensation	Full review of control gaps	Planned controls implemented and tested	Maintain controls

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Work stream	Actions Taken	Support for 15-16 year-end	Support for 16/17 year-end
Balance Sheet Review	Full balance sheet review undertaken by Financial Control, supported by KPMG 100% of balances reviewed and assessed for materiality and risk profile. All material / high risk balances tested for accuracy, completeness and valuation. Reliance placed on experts, systems and 3rd parties where appropriate.	90% of material / high risk balance sheet accounts tested – will be 100% by end of May. 9 balances out of 250 tested have adjustment. No individual item in excess of audit materiality Total cumulative adjustment of £1.2m reduction to EBITDAS has been posted to accounts. Substantial post-balance sheet testing in progress	Improved balance sheet probity process through remediation of control gaps Re-perform 100% testing for 2016/17 year end
Assurance	External Audit re-plan agreed	Revised external audit undertaken, significant additional testing being performed	Internal Audit testing of self-assurance

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5) Risk & Governance Disclosure in Annual Report

Author: Mike Morley-Fletcher Sponsor: Jane MacLeod Meeting date: 19 May 2016

Executive Summary

Context

As agreed by ARC at its previous meeting, compliance with the UK Corporate Governance Code is not sought at present, however, we intend to maintain *"standards of corporate governance appropriate for our ownership structure, our commitment to our social purpose and our strategy for commercial sustainability"*. We have used this to guide our disclosure notes.

For this year's risk, control and assurance disclosures, the Risk and Internal Audit team reviewed the previous PO Annual Report, discussed best practice with our external auditors and considered other relevant organisations' reports to ensure we are providing appropriate, up to date and informative disclosures to our stakeholders. Several enhancements have been made and are detailed below. *Please read in conjunction with relevant sections in the draft Annual Report, extract of which are included in appendix.*

Questions this paper addresses

1. How have we explained our approach to Corporate Governance compliance and disclosure?
2. What changes have we made to the risk and control disclosures on how we manage risk?
3. What changes have we made to the risk and control disclosures on how we govern risk?

Conclusion

1. Corporate Governance compliance statement:
   - Includes our redrafted Corporate Governance statement, *"PO maintains standards of corporate governance appropriate for our ownership structure, our commitment to our social purpose and our strategy for commercial sustainability"*.
2. Managing Risk – for details see appendix 1 and 2:
   - Fuller description of our approach to risk, our risk management framework and our risk governance.
   - Includes details of our Internal Controls Framework, now that we have defined it, to explain to stakeholders the key general controls we use to manage the business.
   - Discloses 14 Principal Risks per the Group Risk Profile (8 included last year), with updated details of causes, consequences and mitigations.
3. Governing Risk– for details see appendix 3:
   - Includes a description of Internal Audit activity, how the annual plan is developed and an overview of the audits conducted in 2015/ 16.
   - Includes a description summarising how the ARC assesses the risk management framework and systems of internal control, on behalf of the Board.

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Input Sought

The Committee is asked to review and approve the disclosures presented, in particular the details of our Principal Risks and Mitigations in appendix 2 and Board Assessment in appendix 3, and provide any input or feedback.

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Appendix 1: Extract from the draft 2015/ 16 Annual Report - Managing our risks

Our Approach to Risk

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

Risk Management Governance

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

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

Our Risk Management Framework

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

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

Our Control Framework

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

- communication of the Group's strategy, objectives and targets
- expectations of standards of conduct by our colleagues as set out in our Code of Business Standards
- definition and review of our social purpose
- annual and three-year operating and capital plans which are reviewed by the Board. This includes the identification and assessment of risks compared to our appetite
- monthly comparisons actual financial performance with budget by operating divisions, with consideration by the Board of year end forecasts

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

Progress during the year and plans for next year

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

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

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Appendix 2: Extract from the draft 2015/ 16 Annual Report – Principal Risks

Our Principal Risk and Mitigations

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

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

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E) Industrial action The withdrawal of support from staff or postmasters to the ongoing implementation of Post Office transformation has the potential to damage the business in terms of both reputation and financial performance particularly if industrial action takes place.	This could result in business disruption leading to loss of revenue, reduced customer satisfaction and brand damage.	• Well defined agreements with relevant unions. • Comprehensive engagement programme in place with staff, unions and postmasters so as to ensure that there is alignment with our vision and strategy around transformation. • Contingency planning in place to minimise the impact of potential industrial action.
OPERATIONAL RISKS		
F) Lack of appropriate capability The Post Office is dependent on its dedicated work force to meet the expectations of its customers and stakeholders. Continuing to attract, motivate, develop and retain people is key to its success.	This could result in not achieving our strategic objectives and loss of staff engagement.	• Continual review of our organisational structure to ensure it evolves and supports our requirements. • Key capabilities for our current and future state needs identified with a capability heatmap. • Investment in developing our people.
G) Decline in customer experience If we are unable to deliver an attractive customer experience, via our products, service and channels, we risk losing the support of our customers.	This could result in reduced customer satisfaction and brand reputation, with consequential loss of market share and revenues.	• Customer strategy continually monitored to ensure that it meets changing customer product and service expectations and reflects current market and competitor trends. • Channel strategy ensures we meet the changing customer requirements for access and utilises available and emerging technology to reflect changing customer needs.
H) Unattractive network proposition As we transform, there is a risk that the Post Office may not be able to retain, or attract sufficient new, retail partners because of the complexity of our network proposition and relative value to the retail partner particularly compared to other categories.	As well as loss of revenue, this could result in shrinkage to our network and breach our public purpose commitment.	• New branch model being developed to provide for retailers an attractive proposition relative to other categories. • New branch model also ensures that we use modern technology to drive simplicity of operations, efficiency and cost reduction for the retailer, as well as a better customer experience. • Branch model continually reviewed and updated to respond to ongoing competitive threat and market conditions.
I) Business interruption and cyber threat Post Office is dependent on the continued availability of its information systems and associated infrastructure. These could be threatened, either due to internal issues, external events or cyber attack.	This could result in disruption of service leading to negative customer experience, breach of contractual obligations and brand damage.	• Business continuity plans updated through review, testing and enhancements. • New contracts have provisions covering the security, resilience and availability of our IT systems and infrastructure. • Information Security policies in place. • Penetration testing schedule to assess and improve the security of our systems.
J) Dependency on third parties Post Office works in partnership with a number of third parties to deliver high quality services. We need to successfully select, contract and monitor our key in-source or out-source relationships and avoid any unintentional breaches of contractual terms.	This could lead to business interruption and additional costs through failure to meet contractual obligations.	• Contract management framework to monitor our contracts and suppliers. • Assessment of risks and monitoring of mitigating actions. • Defined key policies that we require our suppliers to comply with and attest compliance.

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FINANCIAL RISKS		
K) Stakeholder funding The cost of delivering the public purpose of the Post Office and meet the expectations of stakeholders may exceed current forecasts.	This could result in not achieving our growth objectives, failing to meet our public purpose commitment and damaging our reputation with stakeholders.	• Proactive engagement with stakeholders to ensure there is full understanding of, and alignment with, the strategic goals and the investment case required to deliver them. • Annual and three-year operating and capital plans developed and risk assessed. • Scheduled feedback to stakeholders and review.
L) Financial reporting and controls failure Our financial controls are fundamental to delivering our fiduciary responsibilities, management information, financial reporting and compliance with accounting and governance standards. These may not operate effectively if they are not documented, reviewed and monitored regularly.	This could result in loss of revenue, increased costs, financial misstatement and damage to reputation with stakeholders.	• Defined and structured delegation of authority which is reviewed and approved by the Board. • A Financial and Accounting manual and a framework of supporting general controls – see our Internal Controls Framework on page XXX. • Documented financial controls, with additional assurance to be provided from a Control Self-Assessment process.
M) Pension cost increases The cost of servicing the current Defined Benefits scheme could become unbearably onerous as a result of the prolonged low interest rate environment, resulting in substantially increased contributions.	This could result in material increases in required contributions, adversely affecting our ability to achieve commercial sustainability.	• Valuation assumptions and pension funding strategy have regular external and internal monitoring and review. • Options being developed to minimise the impact of an adverse valuation, with assistance from professional advisors. • Consultation process initiated on options for the future of the Defined Benefit plan.
LEGAL & REGULATORY RISKS		
N) Financial regulatory breach The Post Office operates under an extensive regulatory environment, covering areas such as financial and postal services, telecoms, procurement, competition law and data security. This environment continues to evolve, particularly in the financial services arena, and we need to ensure that the changing requirements continue to be identified and met.	This could result in regulatory censure, fines, litigation or curtailment of trading, which could impact income and/ or damage our reputation with customers and suppliers.	• New regulatory obligations monitored by relevant business owners, with support from Corporate Services. • On-going training to our staff on legal and regulatory matters. • Regular compliance tests and monitoring are conducted. • Internal and external assurance programmes are in place (including by our regulatory principals) to ensure that we meet financial services regulatory requirements, including sales practices and conduct, customer experience and product experience and delivery.

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Appendix 3: Extract from the draft 2015/ 16 Annual Report – Board's Annual Assessment of risk management and internal control systems

Annual Assessment

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

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

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

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

Suggestion that we need to reference the accounting issues mentioned on page XXX, as this would be described as a "significant weakness".

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7) Risk & Control Report

Author & sponsor: Mike Morley-Fletcher
Meeting date: 19 May 2016

Executive Summary

Context

This paper updates the ARC on progress against the project plan for developing POL's Risk Framework, in particular how we have been developing POL's Group Risk Profile, Internal Control Environment, Assurance mechanisms and Corporate Governance capability. Please note, our Risk Profile is NOT reviewed at this ARC (nor Incident Reporting) as it is covered at the other four meetings.

Questions this paper addresses

1. What has been the primary focus since the last ARC?
2. What else has been progressed?
3. Is implementation of the Risk Framework on target?

Conclusion

1. This period has been primarily focused on developing our risk, control and assurance disclosure statements for our stakeholders in the Annual Report. We have used our revised position on corporate governance compliance to guide the content and extent of our disclosures, but also compared these with other relevant organisations' reports and discussed them with our external auditors. See paper in agenda item 6 for more details.

2. We have also progressed our work on improving our Internal Control Environment (e.g. dry running/ testing our Internal Control Framework, comlpeting the review and remediation of our Corporate Services key policies, continuing to enhance our Business Continuity capability) and our Assurance Mechanisms (e.g. completing our first Executives' Declaration and starting the control self-assessment of our Financial Reporting controls) – see attached papers.

3. The plan is on schedule (see appendix 1), despite some resource shortages (through illnesses and recruitment holds). However, we have rescheduled developing the Route Map to Corporate Governance Compliance until September, as we have brought forward work on the Internal Control Framework and Executives' Declaration. A summary of Work Done since the March ARC and Next Steps is included in appendix 2.

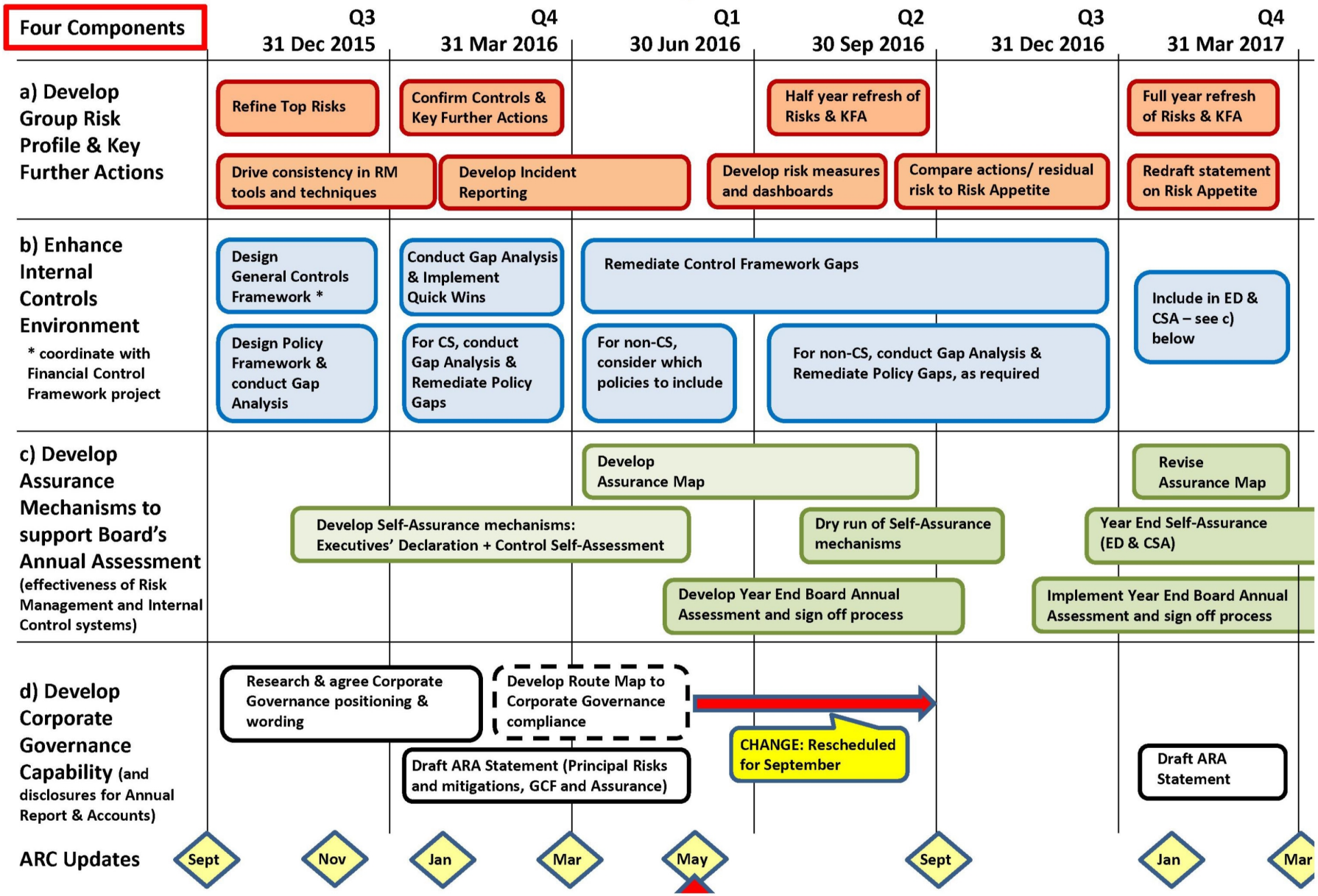
Input Sought

The Committee is asked to review the attached papers and provide feedback, support and approval as appropriate.

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Appendix 1: Risk Framework - Project Plan

Version: 19th May 2016



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Appendix 2 –Risk and Control Framework: Summary of Work Done and Next Steps

We have completed all key and time-critical components against the four main components of the plan (see Appendix 1). Some of the main achievements have been, and next steps:

Work Done	Next Steps
a) Risk Profile and Actions	
Group Risk Profile: • Details are **NOT** reviewed at this RCC/ ARC. • Drafted Principal Risk and Mitigations for disclosure in Annual Report, per d) below. • Provided information on the Top Risks and Key Further Actions to the Strategy Team for consideration in the Business and Strategy planning process for 2016/ 17.	• Risk owners will review Principal Risks and Key Further Actions for reporting to September RCC/ ARC.
b) Internal Controls Environment	
General Controls Framework (GCF): • Reviewed the General Control elements of the Financial Controls Framework project to confirm the design of our GCF, assess its current state, ensure any appropriate remediations have been identified and prepare templates for our subsequent Self-Assessment exercise. • Details of our General Controls have been included in this year's Annual Report in the risk note.	• Conduct dry run at half year 2016/ 17 and full roll out at year end (to help the Board complete its year-end Annual Assessment of Internal Controls for 2016/ 17).
• Considered embedding risk and control accountabilities into GE objectives (or role profiles). GE members briefed and acknowledged responsibility. Decision with Chief of Staff and HR to include in standard wording in role profiles, but action once strategy and TOM revisions completed.	• Ensure risk and control accountabilities are reflected in GE role profiles post strategy/ TOM review (June).

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Work Done	Next Steps
Policy Framework (key policies) – see paper 7a): • Completed remediation of all Corporate Services policies. • Used EY's benchmarking to develop a list of non-Corporate Services key policies, which have been approved by the RCC.	• Consider implementation needs of CS policies, ensuring pragmatic and co-ordinated. • Formalise monitoring mechanism to ensure we can evidence compliance with policies. • Complete a current state assessment of non-Corporate Services key policies to steer which polices need remediating and identify any implementation and monitoring needs.
biii) Business Continuity – see paper 7b): • Major Incident Management processes introduced, in conjunction with Crisis Management Team Construct • Initiation of Business Impact Assessments across business units, with aim to develop and test continuity planning.	• Complete phase 1: - Business Protection Team Training & Invocation Test - CMT Exercise • Continue phase 2: - BC Programme Management Structure Development.
c) Assurance Mechanisms (& assessment of effectiveness of Risk Management and Internal Control systems) – see paper 7c)	
• To provide assurance to Management and the Board (via the ARC): 1. Completed a dry run/ test of the Executives' Declaration return, completed by the General Executive (GE), and 2. Implemented Control Self-Assessment (CSA) techniques for the General Control Framework and Financial Reporting processes.	• Use any lessons learnt to improve self-assessment at half year 2016/ 17 • Conduct full roll out at year end 2016/ 17 (to help the Board complete its year-end Annual Assessment of Internal Controls for 2016/ 17).
d) Corporate Governance Capability (& disclosure in the Annual Report & Accounts) – see paper in agenda item 6	
• For this year's disclosures, we reviewed previous declarations and enhanced the risk information in the Strategic Report (our approach to risk, our Internal Control	• Ernst & Young have provided a review of our compliance gaps, which the Central Risk team will analyse to develop a route map to compliance (over the next 2 or 3 years). This

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Framework and more details on our principal risks) as well as in the Governance section (description of internal audit's approach and audits, plus how the Board conducts their assessment of the risk management framework and systems of internal control), in discussion with our external auditors. • In particular, following RCC and ARC suggestion, compliance with the UK Corporate Governance Code is not sought at present and our compliance statement is now, *"PO maintains standards of corporate governance appropriate for our ownership structure, our commitment to our social purpose and our strategy for commercial sustainability"*.	will enable RCC and ARC to determine if this is appropriate for our needs and practical. • This was originally estimated for presentation in May, but has been rescheduled to September.

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6) Risk & Control Report

Author & sponsor: Mike Morley-Fletcher Meeting date: 19 May 2016

Executive Summary

Context

This paper updates the ARC on progress against the project plan for developing POL's Risk Framework, in particular how we have been developing POL's Group Risk Profile, Internal Control Environment, Assurance mechanisms and Corporate Governance capability. Please note, our Risk Profile is NOT reviewed at this ARC (nor Incident Reporting) as it is covered at the other four meetings.

Questions this paper addresses

1. What has been the primary focus since the last ARC?
2. What else has been progressed?
3. Is implementation of the Risk Framework on target?

Conclusion

1. This period has been primarily focused on developing our risk, control and assurance disclosure statements for our stakeholders in the Annual Report. We have used our revised position on corporate governance compliance to guide the content and extent of our disclosures, but also compared these with other relevant organisations' reports and discussed them with our external auditors. See paper in agenda item 6 for more details.

2. We have also progressed our work on improving our Internal Control Environment (e.g. dry running/ testing our Internal Control Framework, completing the review and remediation of our Corporate Services key policies, continuing to enhance our Business Continuity capability) and our Assurance Mechanisms (e.g. completing our first Executives' Declaration and starting the control self-assessment of our Financial Reporting controls) – see attached papers.

3. The plan is on schedule (see appendix 1), despite some resource shortages (through illnesses and recruitment holds). However, we have rescheduled developing the Route Map to Corporate Governance Compliance until September, as we have brought forward work on the Internal Control Framework and Executives' Declaration. A summary of Work Done since the March ARC and Next Steps is included in appendix 2.

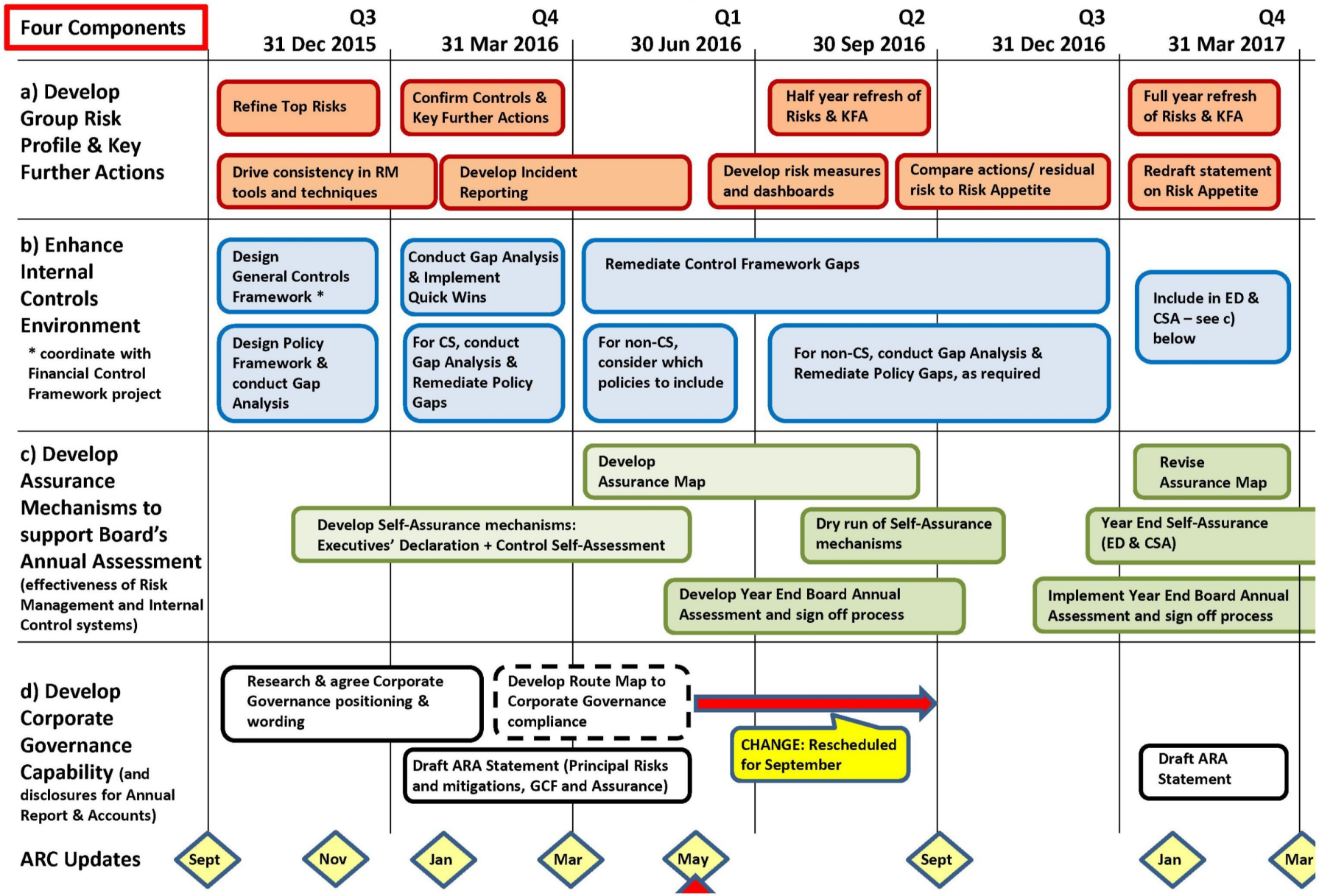
Input Sought

The Committee is asked to review the attached papers and provide feedback, support and approval as appropriate.

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Appendix 1: Risk Framework - Project Plan

Version: 19th May 2016



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Appendix 2 –Risk and Control Framework: Summary of Work Done and Next Steps

We have completed all key and time-critical components against the four main components of the plan (see Appendix 1). Some of the main achievements have been, and next steps:

Work Done	Next Steps
a) Risk Profile and Actions	
Group Risk Profile: • Details are **NOT** reviewed at this RCC/ ARC. • Drafted Principal Risk and Mitigations for disclosure in Annual Report, per d) below. • Provided information on the Top Risks and Key Further Actions to the Strategy Team for consideration in the Business and Strategy planning process for 2016/ 17.	• Risk owners will review Principal Risks and Key Further Actions for reporting to September RCC/ ARC.
b) Internal Controls Environment	
Internal Controls Framework (ICF): • Reviewed the Internal Control elements of the Financial Controls Framework project to confirm the design of our ICF, assess its current state, ensure any appropriate remediations have been identified and prepare templates for our subsequent Self-Assessment exercise. • Details of our internal Controls have been included in this year's Annual Report in the risk note.	• Conduct dry run at half year 2016/ 17 and full roll out at year end (to help the Board complete its year-end Annual Assessment of Internal Controls for 2016/ 17).
• Considered embedding risk and control accountabilities into GE objectives (or role profiles). GE members briefed and acknowledged responsibility. Decision with Chief of Staff and HR to include in standard wording in role profiles, but action once strategy and TOM revisions completed.	• Ensure risk and control accountabilities are reflected in GE role profiles post strategy/ TOM review (June).

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Work Done	Next Steps
Policy Framework (key policies) – see paper 6a): • Completed remediation of all Corporate Services policies. • Used EY's benchmarking to develop a list of non-Corporate Services key policies, which have been approved by the RCC.	• Consider implementation needs of CS policies, ensuring pragmatic and co-ordinated. • Formalise monitoring mechanism to ensure we can evidence compliance with policies. • Complete a current state assessment of non-Corporate Services key policies to steer which polices need remediating and identify any implementation and monitoring needs.
biii) Business Continuity – see paper 6b): • Major Incident Management processes introduced, in conjunction with Crisis Management Team Construct • Initiation of Business Impact Assessments across business units, with aim to develop and test continuity planning.	• Complete phase 1: - Business Protection Team Training & Invocation Test - CMT Exercise • Continue phase 2: - BC Programme Management Structure Development.
c) Assurance Mechanisms (& assessment of effectiveness of Risk Management and Internal Control systems) – see paper 6c)	
• To provide assurance to Management and the Board (via the ARC): 1. Completed a dry run/ test of the Executives' Declaration return, completed by the General Executive (GE), and 2. Implemented Control Self-Assessment (CSA) techniques for the General Control Framework and Financial Reporting processes.	• Use any lessons learnt to improve self-assessment at half year 2016/ 17 • Conduct full roll out at year end 2016/ 17 (to help the Board complete its year-end Annual Assessment of Internal Controls for 2016/ 17).
d) Corporate Governance Capability (& disclosure in the Annual Report & Accounts) – see paper in agenda item 5	
• For this year's disclosures, we reviewed previous declarations and enhanced the risk information in the Strategic Report (our approach to risk, our Internal Control	• Ernst & Young have provided a review of our compliance gaps, which the Central Risk team will analyse to develop a route map to compliance (over the next 2 or 3 years). This

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Framework and more details on our principal risks) as well as in the Governance section (description of internal audit's approach and audits, plus how the Board conducts their assessment of the risk management framework and systems of internal control), in discussion with our external auditors. • In particular, following RCC and ARC suggestion, compliance with the UK Corporate Governance Code is not sought at present and our compliance statement is now, *"PO maintains standards of corporate governance appropriate for our ownership structure, our commitment to our social purpose and our strategy for commercial sustainability"*.	will enable RCC and ARC to determine if this is appropriate for our needs and practical. • This was originally estimated for presentation in May, but has been rescheduled to September.

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6a) Policy Framework Project update

Author: Mark Rodgers Sponsor: Mike Morley-Fletcher Meeting date: 19 May 2016

Executive Summary

Context

The purpose of the Policy Framework Project ("PFP") is to ensure that we know what our key policies are and that they are up to date, implemented and that we can demonstrate this to the Board and third parties. The project also supports other Post Office initiatives such as the Partnership Banking Agreement work.

The project aimed to develop a suite of key policies for Post Office and splits this into two sequential phases: the first was to confirm Corporate Services (CS) policies, review them and, where necessary revise or develop them before implementing them; the second phase has identified key policies from other areas of the business and we will now ensure these are reviewed, re-drafted or developed and implemented. Our external auditors have provided benchmark data which has been used to ensure the reasonableness and completeness of the final suite of policies. As policies are developed or revised they will be presented for approval to the relevant governance body. Policies need implementation plans to articulate what is required to operationalise and monitor them in the business.

Questions this paper addresses

PHASE 1

1) Status of phase 1 plan?
2) How will these be approved and by which governance body?
3) How will we manage subsequent implementation of the policies from phase 1?

PHASE 2

4) For phase 2, can ARC approve the proposed suite of additional key policies?
5) What are the next steps?

Conclusion

PHASE 1

1) The CS policies have been reviewed, redrafted where required and signed off by the sponsor/ Executive Policy Owner (see appendix 1). The Conflicts of Interests and Physical Security policies are going through final stages and will be completed by the end of May. The March 2016 Partnership Banking Agreement ("PBA") project deadline was met for the relevant policies.
2) Governance bodies have been identified for each policy (see appendix 1, column 4). Where policies are new or have needed a degree of updating, RCC has requested a formal Gap Analysis from the policy sponsor/ owner to confirm the extent of any significant remediations needed and to develop proportionate implementation plans. RCC has requested these be completed for three of the revised policies (Financial Crime, Anti-Bribery and Corruption, Anti-Money Laundering) before considering full approval at the July RCC and subsequent presentation to ARC. ARC approval will be requested via circulated papers after the July RCC. Two key policies (Whistleblowing, Business Continuity) already have remediation plans in progress and consequently are now presented for ARC approval (see appendix 2).
3) Policies, once approved, will be rolled out to the business by the policy owner. An outline Policy Implementation Process has been developed to assist individual policy owners (see appendix 3). These will require agreement by key stakeholders of details and timelines.

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PHASE 2

4) Following a review of the proposed list of key policies and benchmarking against data provided by Ernst & Young, we now recommend the set of 23 key policies, as set out in appendix 1.
5) Subject to agreement by ARC of this suite of policies, we will undertake for the phase 2 policies a gap analysis to identify any significant remediations and develop implementation plans with individual policy owners.

Input Sought

ARC is asked to review this paper and invited to provide feedback and comments. In particular to:

- note the progress to date for the phase 1 CS policies,
- agree the proposed suite of policies from other areas of the business for phase 2 as set out in appendix 1, and
- approve the two policies set out in appendix 2 (full copy documents in appendix 4 and 5).

Appendices

Appendix 1: Key Policy Framework – Latest update on strawman
Appendix 2: Policy Approval – Summary of policies and rationale
Appendix 3: Policy Implementation Process – An example
Appendix 4: Policy for approval - Whistleblowing
Appendix 5: Policy for approval – Business Continuity

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Appendix 1: Key Policy Framework – Latest update on strawman

The two tables below together from the suite of key policies, our "Key Policy Framework". Details are provided of policy sponsors (GE members), status of policy review and the governance body for ultimate approval.

The Policy Approval procedure

The proposed governance over the policy approval procedure is for the policy sponsor to sign off the new or revised policy and then for it to be presented to the designated governance body (for instance RCC only, and ARC, or/ and Board) for ultimate approval. These are set out in column 4.

The cycle of review is defined is the policy, but is usually annual, when the policy would be reviewed by the policy owner, signed off by the policy sponsor and any changes presented for approval to the designated governance body.

A) Phase 1 is the suite of Corporate Services key policies, which have been reviewed and then drafted or revised.

Key Framework Policy ("Big P")	Policy Sponsor (GE Owner)	Status of review (Completion = reviewed, revised, signed off by sponsor)	Governance approval body	Proposed approval date
PHASE 1 – CORPORATE SERVICES				
Corporate Governance, including				
1) Board Constitution (covered by our Articles of Association, Matters referred to Board, ToRs, Delegation of Authority)	Jane MacLeod	No changes required	Board	Next approval will be per review cycle
2) Conflicts of Interest	Jane MacLeod	Due for completion by end of May 2016	Board	Board July 2016
3) Enterprise Risk	Jane MacLeod	No changes required - updates 2015	ARC	Per review cycle
4) Internal Audit (covered by IA Charter per Internal Audit Standards)	Jane MacLeod	No changes required	ARC	Per review cycle
5) Whistleblowing	Jane MacLeod	Completed April 2016	ARC/ Board*	ARC May 2016
6) Investigations	Jane MacLeod	Completed April 2016	RCC	RCC July 2016
Information Security, including				
7) Cyber & Information Security	Jane MacLeod	No changes required - updated and approved by RCC 2015. **Request for 7) Cyber & Information Security to also be approved by ARC**	ARC	ARC Sept 2016
8) IS - Acceptable Use	Jane MacLeod		RCC only	Per review cycle
9) Business Information Systems	Jane MacLeod		RCC only	Per review cycle
10) Information Assurance (incl. Data Protection)	Jane MacLeod		RCC only	Per review cycle
Financial Crime, including				
11) Financial Crime	Jane MacLeod	Completed April 2016, **subject to Gap Analysis/ Implementation Plan and RCC approval (July 2016)**	ARC	ARC (post July RCC)
12) Anti-Bribery and Corruption (incl. Gifts & Hospitality Policy)	Jane MacLeod		ARC/ Board*	ARC (post July RCC)
13) Anti-Money Laundering (incl. Counter Terrorism, Sanctions)	Jane MacLeod		ARC/ Board*	ARC (post July RCC)
14) Prosecution (England and Wales)	Jane MacLeod	No changes required – updated and approved in Feb 2016	Board	Next, per review cycle
Resilience, including				
15) Physical Security	Jane MacLeod	Due for completion by end of May 2016	RCC only	RCC July 2016
16) Business Continuity	Jane MacLeod	Completed April 2016	ARC	ARC May 2016

Note: Green = completed and ready for approval by ARC, Yellow = still to complete * Board approval as per Matters reserved to the Board

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B) Phase 2 is the list of proposed key policies from other business areas, which once agreed will be reviewed and where necessary drafted or revised.

These proposals for further "key" policies have been developed through review of other organisations' policy suites and reference to benchmarking examples provided by Ernst & Young. As key policies these are our most material policies and ones we expect to be formally approved by RCC only, and ARC, or/ and Board. In consequence, we have tried to keep the list as contained as possible. Many other areas are covered by policies, but these are less significant and so not considered necessary for ARC or Board review and approval. The list will be kept under review and adjusted as required.

In addition to the 16 CS key policies, we propose seven others, see below, to be considered as "key". Of these two are currently being revised (**Business Change Management, Treasury Risk Management**) and one will be new and needs to be drafted (**Customer Treatment, including Elderly/ Vulnerable**). Once completed, all three will be subject to a Gap Analysis and Implementation Plan before they can be presented to their relevant governance forum for approval.

Key Framework Policy ("Big P")	**Policy Sponsor (GE Owner)**	**Status of review**	**Governance approval body (timing)**
PHASE 2 – NON-CORPORATE SERVICES			
17) Code of Conduct	Neil Hayward	Represented by our Code of Business Standards (GE March 2015)	Board
18) Customer Treatment (including Elderly/ Vulnerable)	Martin George	New policy required, and being developed	ARC (timing tba)
19) Social Purpose - Distribution Network Coverage	Kevin Gilliland	Represented by the Entrustment Letter, Nov 2013	Board (at each funding review)
20) Business Change Management	David Hussey	Policy being developed from recent BCM methodology	RCC only (timing tba)
21) Accounting and Reporting	Alisdair Cameron	Represented by our Accounting and Reporting Manual	ARC (reviewed annually as part of accounting policies year end procedures)
22) Treasury Risk Management	Alisdair Cameron	Policy being revised	ARC (timing tba)
23) Health & Safety	Neil Hayward	Revised April 2015	Board

Note: Yellow = still to complete.

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Appendix 2: Policy Approval – Summary of policies and rationale

These policies have been reviewed and signed off by policy owners:

A) policies that have been approved by RCC and are presented for ARC approval

B) policies that have been approved by RCC, subject to provision of Gap Analysis and remediation plans.

Four relate to the Partnership Banking Agreement project (highlighted by *).

A) Presented for ARC approval

Ref	Key Framework Policy	Sponsor (GE Owner)	Why is this policy needed?	Approved by?	How will the policy be implemented?	How will policy compliance be monitored?
5)	Whistleblowing	Jane MacLeod	To help Post Office meet its legal and regulatory internal and external obligations. To implement good practice and engender good standards in this context.	RCC May and ARC May 2016	Proposal for process to implement policies, including: • where they should be stored • how they should be communicated and supported with training • how they should be controlled, monitored and reviewed. Please refer to appendix 3 for more details.	1. Policy Manager will coordinate, and ensure QA standards, including compliance monitoring. 2. Policy Owner undertakes compliance, and will identify measures, develop monitoring processes, track results and provide reporting with MI to the relevant governance body.
16)* (PBA)	Business Continuity	Jane MacLeod	To embed a framework to identify potential threats to business continuity, and to help manage impacts to business operations. It is a set of standards which support resilience and sets out the capabilities to respond.			

See appendix 4 and 5 for policy documents.

B) To be circulated for ARC approval, following July RCC

Ref	Key Framework Policy	Sponsor (GE Owner)	Why is this policy needed?	Approved by?	How will the policy be implemented?	How will policy compliance be monitored?
11)* (PBA)	Financial Crime	Jane MacLeod	To help Post Office meet legal and regulatory obligations within appetite, and to manage financial crime risks reducing actual loss, avoiding potential losses.	RCC July 2016 and then circulated to ARC members	Proposal for process to implement policies, including: • where they should be stored • how they should be communicated and supported with training • how they should be controlled, monitored and reviewed. Please refer to appendix 3 for more details.	1. Policy Manager will coordinate, and ensure QA standards, including compliance monitoring. 2. Policy Owner undertakes compliance, and will identify measures, develop monitoring processes, track results and provide reporting with MI to the relevant governance body.
12)* (PBA)	Anti-Bribery and Corruption (incl. Gifts & Hospitality)	Jane MacLeod	To help Post Office meet its legal and regulatory obligations within appetite, to help manage ABC risks, and support good conduct standards in all dealings.			
13)* (PBA)	Anti-Money Laundering (incl. Counter Terrorism, Sanctions)	Jane MacLeod	To help Post Office meet its legal and regulatory obligations within appetite, and to help manage AML (CTF and Sanctions) risks whilst reducing actual loss, and avoiding potential losses.			

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Appendix 3: Policy Implementation Process – An example

These are the steps we identified for planning and monitoring implementation of policies. They will be trialled with CS polices before being recommended to other business areas. An illustrated timeline of 6 months has been used.

Implementation Steps	Details	Illustrated timeline (using 6 months)
1) Identify and develop associated controls	❑ Confirm associated controls framework and catalogue controls library ❑ Create matrix of responsibilities ❑ Confirm controls operating as expected	Identify by end of month 1, remediate by end of month 3
2) Add to storage repository and make accessible	❑ Store documents (using SharePoint) ❑ Update Intranet and links (checking searches) ❑ Define maintenance	End of month 1
3) Develop and plan supporting training	❑ Identify learning messages, resources, audience ❑ Develop modules/ materials ❑ Coordinate and deliver training (using Learning Academy) ❑ Publish materials to SharePoint (if appropriate)	End of month 2
4) Communicate policy and requirements	❑ Agree audience for communication ❑ Develop communications policy and messages ❑ Communicate policy and requirements	End of month 2
5) Deliver supporting training	❑ Identify resources and compile modules/ materials (Learning Academy) ❑ Plan training rollout ❑ Coordinate and deliver training	Month 3 - 6
6) Monitor and measure compliance	❑ Identify and define compliance monitoring procedures, systems and controls ❑ Identify measures and test monitoring plans ❑ Commence monitoring routines ❑ Capture results and evaluate	At end of month 6
7) Review policy	❑ Use monitoring results to evaluate current policy controls and continuing appropriateness of policy ❑ Conduct policy review (maintain policy review log) ❑ Report to relevant governance body	Per recommended review cycle, usually annually

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Appendix 4

Post Office Whistleblowing Policy

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Document Control Sheet

SUMMARY			
GE Policy Sponsor	Policy Owner	Policy Implementor	Policy Approver
General Counsel **Jane MacLeod**	Employment Lawyer **Nisha Marwaha**	Employment Lawyer **Nisha Marwaha**	Post Office **RCC and ARC Committees**
Version and Policy Status:	Policy Review Period	Effective from:	Policy location:
Final V1.4	Annual Review (from Effective date)	19th May 2016	Z:\NEW COMPLIANCE\New Policy Framework 2015\Refreshed Policies 2016

REVISION HISTORY			
Version	**Date**	**Author**	**Reason For Change**
Draft v1.3	18/04/16	**Nisha Marwaha**	Policy Owner review
Final v1.4	27/04/16	**Jane MacLeod**	Sponsors review and sign-off

POLICY APPROVAL		
Role/Forum	**Name**	**Date**
Executive Owner and Sponsor	General Counsel (Jane MacLeod)	30 March 2016
Executive Committee	Post Office Risk and Compliance Committee (RCC)	5 May 2016
Board Committee	Post Office Audit, Risk and Compliance Committee (ARC)	19 May 2016

DOCUMENT DISTRIBUTION STATUS			
Distribution (Mark x as appropriate)		Document Sensitivity (Mark x as appropriate)	
Internal Only	X	Non-sensitive	X
External Only		Sensitive	

QUALITY STATEMENT	
Quality Control	Next review date
This document is periodically reviewed and at least once each year starting from the last effective date. This policy has been reviewed against the latest Post Office policy standards.	No later than 19th May 2017

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Section A. Introduction

Chief Executive's Note

Post Office is committed to conducting business with the highest standards of honesty, integrity and openness in order to create a workplace where workers feel able to raise concerns. A culture of openness and accountability is essential in order to prevent illegal, improper or unethical conduct and an effective Whistleblowing Policy helps us to identify and address situations when they occur.

Introduction by the Group Executive Policy Owner: General Counsel

As Post Office's General Counsel and the Group Executive Policy Owner and Sponsor, I have overall accountability to the Group Executive and the Board for ensuring that Post Office has appropriate controls in place to meet its Whistleblowing obligations. Post Office's Audit, Risk and Compliance Committee ("ARC") considers Whistleblowing as an agenda item and the Post Office Board is updated on a regular basis.

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Section B. Context

About this Policy

The purpose of this policy is to encourage the reporting of suspected wrongdoing and/or dangerous practices, (see section entitled What is Whistleblowing below), within Post Office, to make it easier for management to address those concerns and therefore avoid serious accidents, fraud, regulatory breaches, financial impropriety and/or reputational damage.

The aims are:

(1) to encourage staff to report matters as soon as possible in the knowledge that their concerns will be taken seriously and investigated, and that confidentiality will be respected,
(2) to provide staff with guidance as to how to raise those concerns, and
(3) to reassure staff that they should be able to raise concerns without fear of reprisals, even if they turn out to be mistaken.

This policy enables Post Office to comply with its Whistleblowing obligations under applicable legislation and to be in line with regulatory requirements. This Policy is effective as at 19th May 2016.

What is Whistleblowing

"Whistleblowing" refers to the act of exposing 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:

- Fraud,
- 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.

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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.

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Section C. Policy details

How to raise a concern

In the first instance, workers should raise concerns with their line manager, or a senior HR manager in Post Office. Alternatively workers can notify the Whistleblowing Officer directly, using the contact details provided in this Policy.

It is recognised that sometimes raising a concern directly with the business may not be possible, for example, if the worker considers that the line managers may be involved in the issue or if they have a concern about confidentiality.

In such instances workers should contact the **"Speak Up"** confidential reporting service which is run by InTouch MCS Ltd, an independent company (see section below entitled Whistleblowing Officer and Speak Up details for more information).

InTouch will treat concerns in complete confidence and the worker does not have to provide contact details. **Post Office treats all concerns raised under this Policy very seriously.**

Whistleblowing Officer and 'Speak Up'

The Whistleblowing Officer for the Post Office Group is Post Office's General Counsel, currently Jane MacLeod who can be contacted by telephone on: GRO or by email on: GRO

The Speak Up service is available on GRO or via a secure on-line web portal http://www.intouchfeedback.com/postoffice.

All reports to the Speak Up line will be acknowledged within five working days and will be passed to the Whistleblowing Officer.

Confidentiality and anonymous reporting

Post Office hopes that workers will feel able to voice Whistleblowing concerns openly under this Policy. However, if a worker wants to raise a concern confidentially, Post Office will make every effort to keep their identity secret. If it is necessary for anyone investigating a concern to know the worker's identity, the investigator will discuss it with that individual.

When reports are made anonymously via Speak Up, there is no requirement to provide contact details. However, not providing details may reduce Post Office's ability to undertake a thorough investigation into the concerns raised.

In all cases the individual's concern will be treated sensitively and in confidence.

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Investigating concerns

All concerns (including those raised via Speak Up) will be passed to the Whistleblowing Officer who will carry out an initial assessment of the issue to determine the scope of any investigation.

The Whistleblowing Officer will decide whether an investigation is appropriate and what form the investigation should take. The type of investigation will depend on the nature of the concern and may be:

- investigated internally (or the Whistleblowing Officer may decide to appoint an external investigator if there are good reasons),
- resolved by agreed action as determined by the Whistleblowing Officer without the need for investigation,
- referred to the police, and
- referred to a regulatory authority.

If an investigation is appropriate, the Whistleblowing Officer will appoint an investigator. The appointed investigator should be an individual at an appropriate level for the matter under investigation and they must not have any conflict of interest with the individuals or issues concerned.

In some cases an investigator or team of investigators may be appointed including staff with relevant experience of investigations or specialist knowledge of the subject matter.

The Whistleblowing Officer may determine that the matter should be investigated under the terms of other more appropriate Post Office Group policies, such as those covering grievance or bullying and harassment matters, in which case the process described in the applicable policy will apply. The Whistleblowing Officer can also decide to take no action if the complaint appears to be without a reasonable basis.

During an investigation under the Whistleblowing Policy, the investigator may wish to contact the worker directly to request additional information. Where the worker's identity is known, this will be done only where the worker has consented to a representative from Post Office speaking to them directly. Where the worker's identity is anonymous, questions or requests for information can be raised anonymously either through the Speak Up service, or via secure voicemail or messaging on the web portal.

Subject to concerns about confidentiality, the worker may be required to attend meetings to provide further information. Workers can bring a colleague or union representative to any meetings under this Policy. The companion must respect the confidentiality of the worker and any subsequent investigation.

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Investigators should consider the principles set out in Post Office's internal Investigations Policy and adhere to those wherever possible when undertaking the investigation.

Outcomes and Reports

The investigator should aim to keep the Whistleblower informed of the progress of the investigation and its likely timescale.

The investigator must write a report containing the findings of the investigation, including conclusions as to the validity of the allegations and recommendations for further action. The report should be submitted to the Whistleblowing Officer.

After the investigation, the investigator will inform the Whistleblower of the outcome of the investigation and what action, if any, has been taken. Sometimes the need for confidentiality may prevent Post Office disclosing specific details of the investigation or any disciplinary action taken as a result. If it is determined that no action will be taken, then the individual concerned should be informed of the reason for this.

The Whistleblowing Officer will determine what further action is required. If Post Office concludes that a Whistleblower has made false allegations maliciously or with a view to personal gain, the Whistleblower will be subject to disciplinary action.

Post Office cannot always guarantee the outcome the Whistleblower is seeking, but will aim to deal with concerns fairly and in an appropriate way. If a worker is unhappy with the way in which their concern has been handled, they should raise it with the Whistleblowing Officer or if that is not appropriate for any reason, the Chairman of the Post Office Board Audit and Risk Committee.

The investigator will share any reports with the Whistleblowing Officer. In all cases a report of the outcomes of any investigation will also be made to the Audit Committee as a means of allowing the committee to monitor the effectiveness of the Policy.

Copies of such reports should be held in accordance with Post Office's document retention policies.

External Disclosures

The aim of this Policy is to provide an internal mechanism for reporting, investigating and remedying any wrongdoing in the workplace. In most cases workers should not find it necessary to alert anyone externally.

However, the law recognises that in some circumstances it may be appropriate for workers to report their concerns to an external body such as a regulator. It will very rarely, if ever, be appropriate to alert the media.

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The independent Whistleblowing charity, Public Concern at Work, have a list of prescribed regulators for reporting certain types of concern. Their contact details are as follows:

Helpline: GRO
E-mail: whistle GRO
Website: www.pcaw.co.uk

Public Concern at Work operates free, confidential advice to people concerned about crime, danger or wrongdoing in the workplace. We strongly encourage you to seek advice from them before reporting a concern to external parties.

Protecting the Whistleblower

It is understandable that Whistleblowers are sometimes worried about possible repercussions. Post Office has a statutory obligation to protect Whistleblowers and will support workers who raise genuine concerns under this Policy, even if they turn out to be mistaken.

Post Office will take all reasonable steps to ensure that Whistleblowers do not suffer any detrimental treatment as a result of raising a concern. Detrimental treatment includes disciplinary action, dismissal, threats or other unfavourable treatment connected with raising a concern.

Workers must not threaten or retaliate against Whistleblowers in any way. If anyone is involved in any such conduct, it will be taken seriously and they will be subject to disciplinary action.

If a worker believes that they have suffered any such treatment, they should inform the Whistleblowing Officer immediately. The Whistleblowing Officer should take steps to address any victimisation, which may include working with the HR team to put appropriate measures in place. If the matter is not addressed the Whistleblower should raise it formally using Post Office's Grievance Procedure.

Training will be provided to managers to make them aware of the rights of Whistleblowers.

Contact us

If you need further information about this Policy or wish to report an issue in relation to this Policy , contact Nisha Marwaha – Employment Lawyer on GRO or by email : G GRO

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Who is responsible for this policy

Post Office's Board of Directors have overall responsibility for ensuring that Post Office has a framework to ensure compliance with legal, regulatory and contractual requirements. The Board is kept abreast of relevant matters relating to the Whistleblowing by reports from its committees including its ARC Committee.

- The General Counsel for Post Office is the Policy Sponsor, accountable to the Post Office Board overall.
- The Principal Employment Lawyer is the Policy Owner responsible for the day to day implementation of and compliance with this Policy. The Employment Lawyer is accountable to the General Counsel.

How we monitor compliance

The Principal Employment Lawyer will ensure that this policy is reviewed and remains effective. Post Office's internal systems and controls ensure that this policy is regularly independently assessed for effectiveness, suitability and adequacy. In addition, Internal Audit will periodically test compliance with this policy.

Review and assessment of compliance with this policy is done on a regular and timely basis. Reports are made to the Risk and Compliance Committee.

The General Counsel provides an annual summary of reports made via the Speak Up line and other known instances of Whistleblowing to (i) the Post Office Board and the Post Office Management Services Board as appropriate, and (ii) the Post Office Board Audit and Risk Committee. In making these reports, the confidentiality of Whistleblowers will be respected.

Any serious concerns reported by Whistleblowing will be escalated by the Whistleblowing Officer to the Chairman of the Post Office Board Audit and Risk Committee.

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Section D. Key Terms and References

Key Terms

Term or Acronym	Description
HR team	Post Office Human Resources team

References

References	Description
Post Office Group ('Post Office')	Post Office Limited and all subsidiaries and entities within the Post Office Group which includes Post Office Management Services (POMS)
Executive Policy Owner	As defined by the Post Office Policy Framework-Roles and responsibilities Matrix document V0.5
Policy Owner	As defined by the Post Office Policy Framework-Roles and responsibilities Matrix document V0.5

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Appendix 5

Post Office

Business Continuity Management Policy

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Document Control Sheet

POLICY SUMMARY			
GE Policy Sponsor	**Policy Owner**	**Policy Implementor**	**Policy Approver(s)**
General Counsel **Jane MacLeod**	Business Continuity Manager **Jonathan Waples**	Business Continuity Manager **Jonathan Waples**	Post Office **RCC and ARC Committees**
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POLICY APPROVAL		
Role/Forum	**Name**	**Date**
Executive Owner and Sponsor	**General Counsel (Jane MacLeod)**	30 March 2016
Executive Committee	**Post Office Risk and Compliance Committee (RCC)**	5 May 2016
Board Committee	**Post Office Audit, Risk and Compliance Committee (ARC)**	19 May 2016

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Internal Only	X	Non-sensitive	
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QUALITY STATEMENT	
Quality Control	Next review date
This document is periodically reviewed and at least once each year starting from the last effective date. This policy has been reviewed against the latest Post Office policy standards.	No later than 19th May 2017

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Section A. Introduction

Chief Executive's Note

Post Office Group ('Post Office') is committed to doing things correctly. Our Business Standards are our code of behaviours that represent the conduct we expect. This policy is directly related to this code ensuring the highest standards of business continuity management are maintained.

This policy sets out what is and is not acceptable but if you have any doubts or questions, these should be referred in the first instance to the policy owner, the Business Continuity Manager, who oversees compliance with this policy. It is essential that you read this policy.

Introduction by the Group Executive Policy Owner: General Counsel

As Post Office's General Counsel and the Group Executive Policy Owner I have overall accountability for business continuity management framework to the Board of Directors. Post Office's Audit, Risk and Compliance Committee considers business continuity as a standing agenda item and the Board is updated on a regular and timely basis.

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Section B. Context

About this Policy

The purpose of this document is to define Post Office's policy with regard to business continuity management that is appropriate to the aims and objectives of Post Office. This includes:

- A framework for:
  - setting business continuity objectives;
  - satisfying appropriate requirements;
  - continual improvement of the Business Continuity Management Programme; and
- A high level statement of our key controls in respect of business continuity.

The Policy is consistent with business continuity "ISO22301", which are the Business Continuity Institute's Good Practice Guidelines.

Policy Scope: It is important to understand which areas of the business currently fall under the protection of the policy, and which do not. The boundaries of the Post Office business continuity framework are detailed within a separate document, "Business Continuity Context, Requirements and Scope", and these documents should be reviewed together when assessing a BC response requirement.

This policy's effective date will be determined by the date on which final approval is given by the appropriate governance forum.

What is Business Continuity?

Post Office adopts the Business Continuity Institute's Good Practice Guidelines definition of business continuity as: *"A holistic management process that identifies potential threats to an organisation, and the impacts to business operation those threats, if realised, might cause, and provides a framework for building organisational resilience with the capability of an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities."*

Risk Appetite

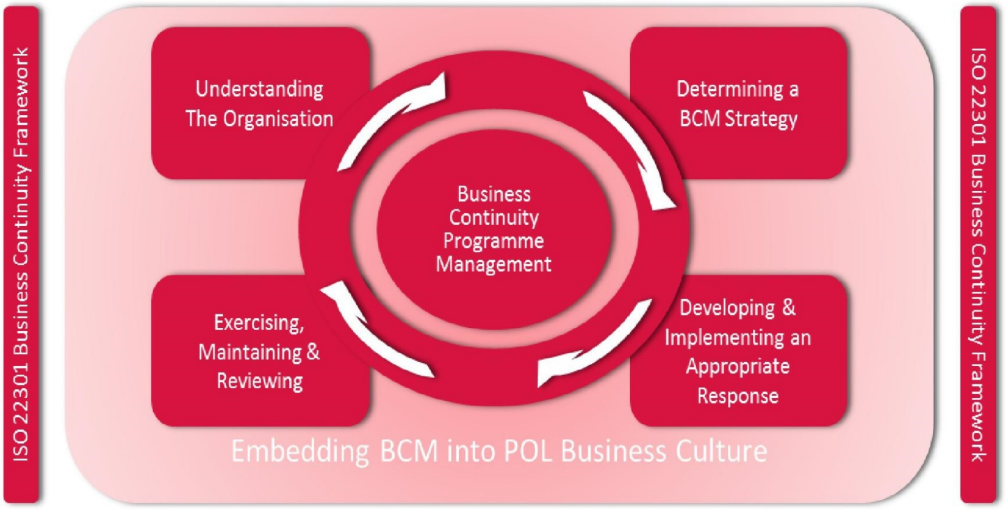
Post Office has an averse appetite for business continuity risk. Post Office recognises that it cannot completely eliminate this risk. However, this policy sets out controls to reduce and/ or mitigate such risks.

How we organise Business Continuity Management

This policy describes Post Office's Business Continuity Management policy and should be read in conjunction with other Post Office resilience, health & safety, and physical security related policies and procedures.

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The BCM Framework



This Business Continuity Management Policy is stored electronically, and is available to all relevant stakeholders within the organisation.

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Who is responsible

Post Office's Board of Directors have overall responsibility for ensuring that Post Office has a framework to ensure compliance with legal, regulatory and contractual requirements. The Board is kept abreast of relevant matters relating to the management of business continuity by reports from its committees including its ARC Committee. The key individuals and their specific responsibilities in relation to this policy are:

- The General Counsel is a member of the Post Office Executive team and is the Group Executive Owner and policy Sponsor, accountable to the Board.
- The Group Business Continuity Manager is the Policy Owner who is responsible for the day to day implementation of and compliance with this policy and is accountable in this regard to the General Counsel.

Who must comply and how

Compliance with this policy is mandatory for all Post Office employees, officers, contractors, casual workers and agency workers. This policy applies wherever in the world Post Office's business is undertaken. All third parties who do business with Post Office, including consultants, suppliers and business and franchise partners, will be asked to agree contractually to this policy or to comply with their own equivalent policy.

It is important that you read, understand and comply with this policy. Your actions, behaviour and conduct to apply the provisions of this policy are your responsibility.

You must adhere to all parts of this policy. You should avoid any activity which may lead to a breach of this policy. We may request your confirmation of agreement to this policy. You must notify your line manager, in the first instance, as soon as possible if you believe or suspect that a breach of this policy has occurred or may occur.

You may request a policy exception or waiver to this policy, but you must follow the Post Office's exceptions and waivers procedures which can be obtained from the business continuity Policy Owner.

If non-compliance is identified the matter must be referred to the General Counsel. Any investigations should be carried out in accordance with Investigations Policy. If the cause is found to be due to wilful disregard or negligence, it will be treated as a disciplinary offence.

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Section C. Policy Details

Information

Post Office recognises the need to ensure that our business operates safely, smoothly and without interruption for the benefit of our colleagues, customers, shareholders and other stakeholders.

To ensure such levels of safe, continuous operation, Post Office has implemented a Business Continuity Framework consistent with "ISO 22301".

The operation of a Business Continuity Framework has many benefits for Post Office, including:

- The safe-guarding of colleagues at times of duress;
- Ensuring the supply of goods and services to our customer; Protection of revenue streams and business profitability;
- Maintenance and enhancement of shareholder / stakeholder value; and
- Compliance with legal and regulatory requirements.

In addition, our Business Continuity Framework is a commitment to the development, maintenance, improvement and socialisation of a Business Continuity Management Programme within and across the organisation.

Our controls and arrangements

1. Baseline and on-going Business Continuity objectives

The baseline objectives for business continuity within Post Office are defined within the "Business Continuity Context, Requirements and Scope" document. These are fundamental steps required which are led by business areas and are not subject to frequent change.

These baseline objectives guide the setting of lower level detail for short-term objectives for business continuity planning arrangements within an annual cycle. They coincide with the organisational budget planning. This ensures that adequate funding is obtained for necessary activities identified in the previous cycle.

These business continuity objectives will be documented in the Business Continuity Management Plan ("BCM Plan"), produced each financial year, which will also identify how objectives will be achieved, over what estimated period, and at what level of estimated cost. Once the annual BCM Plan is approved by the Post Office Risk and Compliance Committee it will be subject to regular management review to ensure that its objectives remain valid.

Amendments to objectives will be managed through the standard Post Office change management process.

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2. Satisfying BCMP Requirements

Senior Managers commit to the provision of the appropriate resources to establish and develop the Business Continuity Management Programme ("BCMP").

Systematic performance review of the programme. This is conducted by the Business Continuity Manager on a regular basis, ensuring that quality objectives are being met. Qualitative evaluation is undertaken and any issues identified through the audit programme and management processes. Management review includes departmental and other management meetings.

Business Continuity Management Quality System. The Business Continuity Manager has overall authority and responsibility for this and implements and manages the system carrying out the following:

- The identification, documentation and fulfilment of applicable requirements;
- Assigning authorities and responsibilities for the implementation, management and improvement of the BCMP;
- Integration of business processes with the BCMP;
- Compliance with statutory, regulatory and contractual requirements in the management of assets used to deliver products and services; and
- Reporting to senior management on performance and improvement of the BCMP

Role definition and responsibilities are reviewed by the Business Continuity Manager to ensure that colleagues understand the roles they are required to fulfil, and that they have the appropriate skills and competences to do so. These controls are necessary to ensure the continued BCMP success and to mitigate risk.

Post Office will ensure that colleagues involved with the BCMP are competent on the basis of appropriate education, training, skills and experience. The skills are required to ensure business continuity will be determined and reviewed on a regular basis, together with an assessment of existing skill levels within Post Office. Training needs will be identified and executed via individual's training plans maintained to ensure that competences are in place.

Full details of the business continuity responsibilities associated with each of the required roles, and how they are associated within Post Office are given in a separate document, "Roles, Responsibilities and Authorities".

Use of third parties. Post Office uses third parties, both internal and external, in the delivery of products and services. Where this involves the operation of a business process, or part of such process, that falls within the scope of the BCMP, then this should be identified by the Business Continuity Manager within the annual Business Continuity Management Plan.

Post Office retains governance of the relevant business continuity management processes for third parties by demonstrating:

- Accountability for the process;

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- Control of the definition of, and interface to, the process;
- Performance and compliance monitoring; and
- Control over process improvements.

This will be evidenced by documentation and records, including contracts, meeting minutes and performance reports.

Third party agreement contractual business continuity terms. Specific, high level, requirements for new and existing relationships will be made available to associated third parties by the relevant third party relationship manager. These requirements set out minimum expectations for service continuity provision (as appropriate to the contractual service level terms). For further information see "Supplier Business Continuity Evaluation Process".

3. Approach to Managing Risk & Audit Requirements

The risk management strategy defined under ISO 22301 requires that relevant assets are identified and the following considerations made:

- Threats;
- Vulnerabilities;
- Impact & likelihood before risk treatment;
- Risk treatment (e.g. reduction, removal, transfer);
- Function responsible/ owner; and
- Timescale and review frequency.

Risk management will occur at multiple levels within the BCMP, including but not restricted to:

- Business continuity management planning – risks to the achievement of objectives;
- Business Continuity risk assessment;
- Assessment of the risk of changes under the established business change model; and
- At the project level as part of the management of significant business change.

High level risk assessments will be reviewed annually, or upon significant change to the business environment. More detail on the approach to risk assessment can be found in the document "Risk Assessment Process".

Regular reviews must take place concerning how well business continuity management processes and procedures are being observed. These occur at two levels:

- Structured regular management review of conformity to policies & procedures within Post Office; and
- Internal audit reviews against the ISO 22301 standard by the Post Office Internal Audit Team.

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Certification auditing. Additionally, should certification to ISO 22301 be sought and attained, a third audit level applies:

- External audit against the standard in order to gain and maintain certification to ISO 22301.

Details on the process for internal audits can be found in the document "Procedure for Business Continuity Audits".

4. Continual Service Improvement

The approach to continual improvement of the BCMP is to:

- Consider effectiveness across all business areas and end to end systems, processes within scope;
- Enhance current processes to bring them in to line with best practice (as defined within ISO 22301);
- increase the level of proactivity (and the business perception of proactivity) with regard to the on-going management of business continuity;
- Achieve an enhanced understanding of and relationship with the business units to which the BCMP applies;
- Review relevant metrics on an annual basis to assess their appropriateness, or to make changes to them based on collected historical data and feedback;
- Obtain ideas for improvement via regular review meetings with stakeholders, documenting them in the "Procedure for Continual Improvement"; and
- Review the "Procedure for Continual Improvement" document at regular management meetings in order to prioritise and assess timescales and benefits.

Ideas for improvement may be obtained from any source, including but not restricted to: Customers; Suppliers; Colleagues; Risk Assessments & Audits.

In order to evaluate any proposed improvements to the BCMP, the following criteria would be applied:

- Cost;
- Business benefit;
- Risk;
- Implementation timescale; and
- Resource requirement.

Accepted improvement proposals will be prioritised, and planned according to standard project management principals. Additional information on continual improvement methodology can be found in "Procedure for Continual Improvement".

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Section D. Governance

How we monitor compliance

The Business Continuity Manager will ensure that this policy is implemented, reviewed and remains effective. Post Office's internal systems of business continuity risk control ensure that controls are regularly independently assessed for effectiveness, suitability and adequacy. In addition, Internal Audit will periodically test compliance with this policy.

Review and assessment of compliance with this policy is done on a timely basis and regular gap analysis is undertaken by the Business Continuity Manager and reported to the Risk and Compliance Committee.

Business continuity testing is planned and pre-determined. See further information in the "Business Continuity Exercising and Testing Schedule". Post Office's capability to maintain business operation will be subjected to exercise, and the results of these exercises will also be made available to the Risk and Compliance Committee.

We require third parties who do business with Post Office to have at least equivalent arrangements, systems and controls to this policy, and these should be demonstrable on request.

How to raise a concern

Any Post Office employee who has concerns about a failure to comply with this policy has a duty to:

- discuss the matter fully with their Line Manager; or,
- discuss it directly with their Head of Business Unit; or,
- bring it to Post Office's attention independently of management, via the Speak Up Line (see Section E 'References' for more information).

Contact us and more information

If you need further information about this policy or wish to report an issue in relation to this policy , please contact Jon Waples – Business Continuity Manager on GRO or by email at GRO GRO

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Section E. Key Terms and References

Key Terms

Term or Acronym	Description
Post Office Group ('Post Office')	Post Office Limited and all subsidiaries and entities within the Post Office Group which includes Post Office Management Services (POMS)
Executive Policy Owner	As defined by the Post Office Policy Framework-Roles and responsibilities Matrix document V0.5
Policy Owner	As defined by the Post Office Policy Framework-Roles and responsibilities Matrix document V0.5
ISO 22301	The International Standard for Societal Security (Business Continuity).

References

References	Description
Business Continuity Context, Requirements and Scope	The purpose of this document is to describe the way the business operates, internal and external factors influencing it and to highlight in general terms the potential consequences of a business interruption. This will allow the most appropriate level of measures to be put in place to reduce the level of risk and to ensure that plans are available and tested to manage the impact of any interruptions that do occur.
Roles, Responsibilities and Authorities	The purpose of this document is to set out the organisation structure in terms of job roles, management and numbers of resources in each area and then to define how responsibility for each of the processes within the Business Continuity Management System (BCMS) is allocated within that structure.
Supplier Business Continuity Evaluation Process	This document sets out a process for the evaluation of the business continuity arrangements of our suppliers so that a degree of confidence may be gained that

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	they possess sufficient resilience to support our requirements.
Risk Assessment Process	It is important that Post Office has an effective risk assessment process in place to ensure that potential impacts do not become real, or if they do, that contingencies are in place to deal with them. The starting point for risk assessment is the list of key business activities documented in the most recent business impact analysis.
Procedure for Business Continuity Audits	The purpose of this document is to set out how the Business Continuity Management Quality system will be audited internally.
Continual Improvement Action Log	Management of BCMP improvements can become unwieldy if they are spread across multiple reports, action plans and meeting minutes. The idea of this spreadsheet is to act as a focal point to record, assess and track all such improvement items in a common manner.
Procedure for Continual Improvement	In general Post Office will use the Plan-Do-Check-Act method (the Deming Cycle) for managing improvements as defined in the ISO 22301 standard
Business Continuity Exercising and Testing Schedule	The purpose of this document is to set out a schedule for testing / exercising activities.
Whistleblowing (Speak Up Line)	In case of concerns staff may contact their line manager, a senior member of the HR Team, or if either or both are not available staff can contact Post Office's General Counsel, Jane MacLeod who can be contacted by email on: GRO or by telephone on: GRO Alternatively staff can use the Speak Up service available on GRO or via a secure on-line web portal: http://www.intouchfeedback.com/postoffice

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6b) Business Continuity & Crisis Management Project update

Author: Jonathan Waples Sponsor: Jane McLeod Meeting date: 19th May 2016

Executive Summary

Context

The Business Continuity Project Manager has been tasked to review, revise and develop plans, materials, processes and infrastructure to draw our Business Continuity (BC) & Crisis Management (CM) disciplines in line with best practice guidelines, as defined by the Business Continuity Institute, and measured against ISO22301:2012 Societal Security – Business Continuity Management Systems (BCMS). It is recognised that whilst the organisation is historically successful in reacting to business interruptions and critical incidents, there has been a significant amount of change to the organisations structure, locations, arrangements with third parties and colleagues in recent years. In consequence, the GE would gain more confidence if the approach to BC and CM was formalised, compared to a standard and tested. It is expected that adopting such a formal response will confirm resilience, but also help improve time taken to recover and allow for more cost effective use of resources upon invocation.

The project started in late November with the recruitment of a contractor and is divided into three phases:

- Phase 1: Gap analysis; Business Continuity policy creation; Crisis Management review (develop construct, test, communicate); pilot Business Continuity activity (Business Impact Assessments, followed by confirmation of BCP)
- Phase 2: Expanded BC activity; Business Continuity Management Systems Framework delivery
- Phase 3: Improved BCMS awareness; BCMS integration to BAU.

In addition, the Business Continuity Project Manager assists the business with its ongoing BC and CM support needs.

Questions this paper addresses

1. How have we progressed our plan?
2. How is this bringing us in line with ISO 22301?
3. Per the ARC's request, do we have visibility of our top suppliers' BC capability?
4. Per the ARC's request, can we confirm NED's role in the Crisis Management construct?

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Conclusion

1. The plan has been devised and shared with management and the sponsor; Phase one milestones have delivered a revised and improved Business Continuity policy (presented for ARC approval in section 7a) and Crisis Management processes, including a test, to be followed by lessons learnt, remediations and then formal publication of the confirmed CM processes. Business Impact Assessments for the three priority areas are in progress and will enable review of BC Plans (for these areas). Phase 1 is on plan for completion by end of May and Phase 2 is underway. See Appendix 1 for details.

2. Planned progress was for 45% of achievement at time of reporting to conformity to ISO 22301 at this stage and this has been achieved. The majority of effort in the opening stages of the project related to discovery and gap analysis of current capability against the agreed standard. From this point, activity is focused on achieving alignment to the best practice principles and will therefore deliver significant deliverables and advances in conformity over the coming months.

3. The ARC requested a view on our top suppliers (ten selected) and their Business Continuity capabilities. A reach-out was initiated to request visibility of BC planning, capability & testing regimes. As a new type of request, response at first was slow as suppliers worked through internal approvals. But we have now received significant amounts of information from all but one supplier. The results to date suggest that BC plans are documented and tested; some have in addition confirmed that their plans are audited and certified. Going forward, the BC Manager will repeat this exercise on an annual basis and report to the RCC.

4. Additionally, the ARC enquired about how their engagement in the Crisis Management process might be managed during an invocation. This is described in sections 5.4 and 5.5 of the Major Incident Response Procedure (see appendix 2), which is designed to engage the right stakeholders, at the right time, during any incident. The invocation procedures state that NED involvement would be requested by the Crisis Management Team (all GE members). Typically this would be an incident event with severe operational disruption across multiple business units, expected to be for a prolonged duration, with commensurate reputational damage risk. Contact would be made by the CEO or CFO, with details to NEDs of requested involvement.

Input Sought

The Committee is requested to review this report and highlight any input or suggestions it has on the project's goals or progress.

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Appendix 1

Task / Activity / Product	Completed	In-Flight	Scheduled
Phase One: Gap analysis; policy creation; CM review; BC pilot			**End of May Completion Target**
- Discovery, Policy & Strategy Review/ Framework Development	Prioritisation Review Project Plan: BCM.mpp Draft Business Continuity Requirements Framework BC Policy Review Post Office Limited Business Continuity Policy DRAFT.docx BS ISO 22301:2012 Gap Analysis Draft BC Framework		
- Crisis Management Process	Incident Process Review Crisis Management Team Construct Develop Draft CM Process Documentation Draft Major Incident Response Procedure Draft Post Major Incident Report Template	Activity - BPT Invocation Test Publish Major Incident Response Procedure	
- Schedule and begin Business Impact Assessments	Develop BIA Methodology Documentation Business Impact Analysis Process Documentation Business Impact Analysis Workbook	Supply Chain BIA - Sean Farrow Business Impact Assessment: Supply Chain	Financial Services BIA - Business Impact Assessment: Financial Services IT BIA - Andy Garner Business Impact Assessment: IT
- Schedule and begin Business Continuity Plan Development		Supply Chain Business Continuity Plan - Sean Farrow	Business Continuity Plan: Supply Chain Activity: Business Continuity Rehearsal: Supply Chain - Earliest Possible Date
- On-going BCM Planning for priorities (embedding to BAU)			Property Business Continuity Plan - Kevin Seller Business Continuity Plan: Property Activity: Business Continuity Rehearsal: Property - Earliest Possible Date IT Business Continuity Plan - Andy Garner Business Continuity Plan: IT Activity: Business Continuity Rehearsal: IT - Earliest Possible Date
Phase Two: Expanded BC activity; BCMS Framework delivery			**End of July Completion Target**
- BC Management Programme Structure		Procedure for the Management of Non-Conformity	Continuous Service Improvement Process Business Continuity Programme Auditing Process Business Continuity Programme Audit Plan Business Continuity Exercising & Testing Schedule Business Continuity Test Plan Business Continuity Test Report Procedure for the Control of Documents Procedure for the Control of Records Business Continuity Communication Plan BC Risk Assessment Process BC Risk Assessment Report BC Risk Assessment Workbook BC Risk Treatment Plan
- Critical Process Mapping			Resource Mapping Spreadsheet Critical Process Mapping Spreadsheet
Phase Three: Improve BCMS awareness; BCMS integration to BAU			**End of September Completion Target**
- Integrate BCM to BAU			Business Continuity Awareness Programme
- Deliver prioritised BC Plans			Plan / Schedule / Test Remaining Recovery Plans

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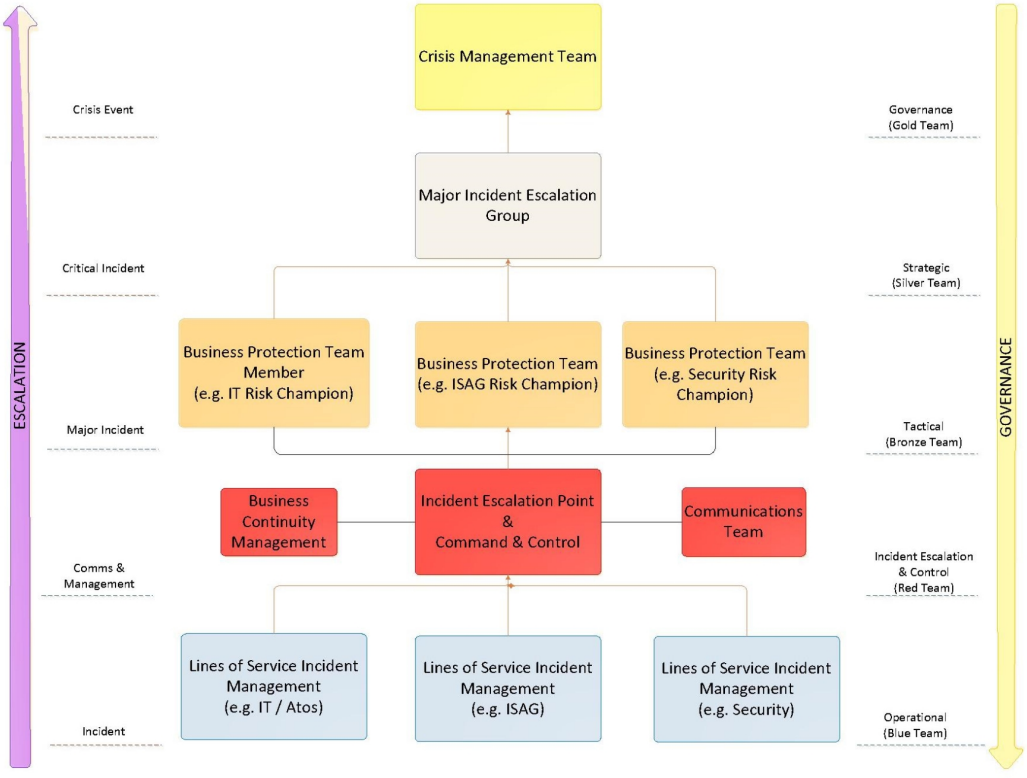
Appendix 2

The following includes extracts from the "Major Incident Response Procedure", detailing the Major Incident Response Teams' construct and each levels roles and responsibilities, including senior stakeholder engagement during a Crisis Management invocation. This has been shared with BTP members and is being tested, with lessons learnt being actioned before formal communication.

Designed on the principle of escalation to the relevant business stakeholders and specialists, the construct aims to swiftly engage appropriate resources in effectively resolving the incident and managing communications. The fulcrum is the Business Protection Team, senior management representation from across all business units, for coordinating tactical response and deciding when to involve more senior stakeholders.

GE involvement will be as invoked by the BPT. This could be either on a selective basis at Major Incident Escalation Group level (for a major incident event, such as significant operational disruption across multiple business units) or on a full basis at Crisis Management Team level (for a crisis, such as a similar incident that is more severe and is expected to be for a prolonged duration and has reputational damage risk). An invocation of the Gold Team may instigate the involvement of our major stakeholders, such as the NEDS or ShEx. This would be via contact from the CEO or CFO

5.4 Major Incident Response Teams' Construct



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5.5 Major Incident Response Teams' Responsibilities

GOLD TEAM – Crisis Management Team (CMT)

All GE Members (potentially other major stakeholders – NEDs, Ministers, etc.); Instigated at point of high crisis (escalated Major & Critical Incidents; prolonged severe operational disruption across majority of business units; reputational damage or risk; Ministerial or Judicial scrutiny, etc.)

SILVER TEAM – Major Incident Escalation Group (MIEG)

Selected, appropriate, GE membership supported by senior management teams; instigated in response to major incident event (escalated Major incidents; significant operational disruption across multiple business units; major disruption to individual office/ operational locations; major disruption to IT service(s) provision across all/ majority of network; significant staff abstraction events (snow days, transport strikes etc.). Tactical guidance to BRONZE team, in response to GOLD, as appropriate.

BRONZE TEAM – Business Protection Team (BPT)

Senior management representation from across all business units. Invoked on escalation from any departmentally managed Incident to a Major Incident. Remains in direct control of Operational resources during ALL levels of response above Incident, receiving tactical and strategic guidance from SILVER & GOLD teams respectfully.

RED TEAM – Incident Escalation Point & Command and Control (EIP / C&C)

Permanently assigned resource dedicated to managing incident escalation and communication across the POL network (branch & offices). Single, direct line of communication to Operational Teams. Operates across all levels of Crisis Management Construct from the moment of Incident escalation to the point of closure. Has direct engagement with Business Continuity function and Communications Team, to ensure adherence to CM & BC process and appropriate internal and external comms.

> *Caveat: At this point in time, there is no single capability for this function within POL. Escalation is affected by a call to Atos Service Desk requesting they contact the Business Protection Team and provide a conference call bridge for this group. At that point the central management of incident logging, comms, BC response etc. concludes, and reverts to BPT. This is inefficient, and the recommendation is that this hub activity be brought back in-house, potentially utilising an enhanced, permanent Command & Control Centre.*

BLUE TEAM – Operational Incident Management

Incident Management activities currently controlled within respective business units, either internally or via a third party (e.g. Atos) will need to develop an escalation route into the RED Section in order to engage Major Incident or Crisis Management.

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AUDIT, RISK AND COMPLIANCE COMMITTEE

6c) Assurance Mechanisms: Executives' Declaration

Author: Deana Herley Sponsor: Mike Morley-Fletcher Meeting date: 19 May 2016

Executive Summary

Context

The purpose of this paper is to provide an update on the progress made in enhancing our Assurance Mechanisms. In particular, how we have started the **Executives' Declaration** return, completed by the General Executive (GE).

Questions this paper addresses

1. How have we progressed with trialling the Executives' Declaration?
2. What are the results of the Executives' Declaration?

Conclusion

1. **Executives' Declaration**. Following the last ARC we launched a new exercise, run by Internal Audit, to support GE members in considering (and attesting) if any additional disclosures were required in our Annual Report as part of our year-end procedures. Against a set of key question areas, this involved GE members consulting with their lead teams and making further enquires with relevant Finance, Risk and Legal representatives to identify any additional issues or concerns that have NOT already been recorded as a part of normal management processes. Going forward, GE members will be asked to attest twice annually, at half year and year end in support of our Interims and Finals.
2. **Executives' Declaration exceptions.** Outputs have been collated and reviewed for consistency against Internal Audit reviews. Seventeen exceptions were identified:
   - nine exceptions have already been specifically disclosed
   - eight were considered by the owner, but were determined as being sufficiently addressed by other generic disclosures.

   All items noted have been reviewed for materiality and approach to disclosure collectively agreed by RCC (refer to Appendix 1).

Input Sought

The Committee is asked to review the information provided in appendix 1 and:

- note the items disclosed
- confirm the approach to disclosure as set out in this paper
- consider whether there are any other matters that should be considered.

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Appendix 1 – Exceptions

EXECUTIVES' DECLARATION SUMMARY			
Statement	**Exceptions**	**GE Member**	**Decision**
1) any material **risks** to PO that are not captured in the Group Risk Profile	**None.**	**All**	**N/A**
2) any material **control** failures or breaches, including of the **General Control Framework** and **policies** that I am accountable for	**Postmasters' Compensation re-statement**,	**Alisdair Cameron**	**Disclosed**
	General weakness in consistency and transparency of **financial reporting controls.**	**Alisdair Cameron**	**Disclosed**
	The **General Control Framework** ('GCF') is of recent implementation within Post Office and therefore work to assess the level of controls already in place and whether they are fit for purpose, is still at a preliminary stage.	**Jane MacLeod**	**Disclosed (in Risk note)**
	Further, the **policy suite** to support the GCF is not complete and those policies for which I am responsible have not yet been through governance, nor do we yet have a **self-assessment process** against those controls and policies.	**Jane MacLeod**	**Disclosed (in Risk note)**
3) any material **frauds**, **irregularities or losses** that have come to light, whether carried out by our staff, agents, contractors, suppliers or partners	**None.**	**All**	**N/A**

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4) any complex or subjective **accounting judgements, estimates and revenue transactions**	**Accounting for Gamma**.* **(see below)** Under the agreement with Bank of Ireland, in 2012 POL received one-off, non-refundable income in lieu of providing distribution for Bank of Ireland products, including insurance products. This income (Gamma) is being recognised over the period of the agreement. Following the Project Hawk acquisition, POL no longer has any obligations to Bank of Ireland in respect of insurance and a paper has been submitted to the external auditors by Group Financial Control setting out the rationale for recognising an appropriate portion of the Gamma income IRRELEVANT in 2015/16.	**Alisdair Cameron & Nick Kennett**	**Disclosed**
	Exceptionalisation of the costs of project Hawk in POL and POMS*: A paper setting out the rationale for this has been submitted to the external auditors by Group Financial Control. Total amount treated as exceptional is IRRELEVANT	**Nick Kennett**	**Disclosed**
	Estimation of FRES profit share at year end: The draft financial statements for 2015/16 include income of IRRELEVANT in respect of POL's share of profits of its FRES joint venture. Of this, IRRELEVANT relates to the profit share for March 2016. This amount is consistent with estimates from FRES management but will not be confirmed before POL closes its 2015/16 books.	**Nick Kennett**	**Proposed no disclosure required**
	Estimation of Credit Card profit share: The financial statements for 2015/16 include income of IRRELEVANT in respect of profit share on credit cards under the arrangement with Bank of Ireland. This amount has been confirmed verbally by Bank of Ireland, but the actual amount will not be confirmed before POL closes its 2015/16 books.	**Nick Kennett**	**Proposed no disclosure required**
5) any **provisions or exceptional items** not already recorded	We are just disclosing the need to provide on the **Mobile decision**.	**Alisdair Cameron**	**Disclosed**
6) any **liabilities and contingencies**, including those associated with guarantees	There is a risk that the **RMG Resource Costs and Incentives claim** as a result of delayed IT separation will exceed the estimate. POL received an invoice for IRRELEVANT on 13 November 2015. This was formally disputed with RMG. It is not clear what further amounts they may claim for the period through to end of March 2016, but in conversations RMG have made reference to their claim potentially amounting to approximately IRRELEVANT (and this is	**Jane MacLeod**	**Proposed no disclosure required**

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	similar to the projected costs of this claim identified as approx. IRRELEVANT by Roger Middleton).		
7) any material **legal action** being taken by or against PO	Threat from British Gas in the last couple of days for **unpaid energy bills**.	**Alisdair Cameron**	**Proposed no disclosure required**
	On 13 April 2016 we received a letter from Freeths Solicitors advising that they have **lodged a claim in the High Court on behalf of some 91 claimants**. They have not as yet served the claim on us and accordingly as at the date of this declaration we remain unsighted on the grounds of the claim, who it is brought on behalf of, or the remedy they are seeking.	**Jane MacLeod**	**Disclosed**
	As proceeding against Post Office may be commenced by service on any POL business address (which includes Customer Service Centres and Crown Offices), there is **no guarantee that the relevant documents will be forwarded to the legal team with the consequence that we may not be aware of such proceedings**.	**Jane MacLeod**	**Proposed no disclosure required**
8) any **legislative, regulatory or contractual compliance issues** that have come to light	We are managing **risks around public procurement**, especially the **contract extension with Fujitsu**, which was published in February.	**Alisdair Cameron**	**Proposed no disclosure required**
	Post Office Limited as Appointed Representative for POMS has limited **oversight over the levels of compliance of sales of regulated products in the network**, in particular in **relation to over 50s life insurance and travel insurance**. While complaint levels are low, this does not of itself provide **assurance that sales are compliant**.	**Jane MacLeod**	**Disclosed in principal Risk Note on financial regulatory breaches**
	During 2015-16 I became aware that POL had entered into **network contracts with operators who were at the time, appointed representative of third parties**, giving rise to potential regulatory and contractual breaches.	**Jane MacLeod**	**Proposed no disclosure required**
	I am aware that during 2015/16 there were a number of **branches which operated under expired contracts or without a written contract.**	**Jane MacLeod**	**Proposed no disclosure required**
9) any material **new contracts** entered into, and where I have not followed the **contract process**	**Fujitsu extension, CSC extension**.	**Alisdair Cameron**	**Refer to question 8, first item**

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10) any direct or indirect **personal interest** in any transaction, arrangement or related parties entered into by PO	**None**.	**All**	**N/A**
11) any material events that could **crystallise** before the end of the reporting period above	**Mobile decision**.	**Alisdair Cameron**	**Refer to question 5**
12) any **other information** that could have an impact on period (indicated above) when drawing up our annual report.	I am aware of a review of **POL internal controls** being carried out by KPMG for the CFO and that preliminary findings suggest some potential gaps versus an ideal control environment. However, I am not aware of the conclusions of this work, their implications or their potential materiality in the context of POL group.	**Nick Kennett**	**Refer to question 2**

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Internal Audit Report

Author: Garry Hooton Sponsor: Mike Morley-Fletcher Meeting date: 19 May 16

Executive Summary

Context

The purpose of this paper is to update the Committee on the PO Internal Audit and Business Transformation Assurance activity and key outcomes. This includes details of the work completed since the last Audit, Risk and Compliance Committee (ARC) in March and the closing out of the 2015/16 Internal Audit Plan. We have commenced work on 2016/17 Q1 reviews.

Questions this paper addresses

1. What progress has been made since the March meeting?
2. Is the Internal Audit Plan on track for completion of 2015/16 audit activities?
3. Do we have the resources we need to deliver our plan and actions arising going forwards?
4. Have any significant issues arisen that the committee need to be aware of?

Conclusion

1. During the period seven audits, four Internal Audit and three Business Transformation Assurance (BTA), have been completed, with actions agreed with management. The majority of these have been finalised with GE Sponsors. Five others (three IA and two BTA) are nearing completion. We have been working closely with GE sponsors to remediate overdue audit actions and good progress has been made. The team have also continued to contribute in a business assistance capacity to the Property Compliance Forum. We will cease this in 2016/17. Work on the 2016/17 plan has commenced. Work has continued on the General Controls Framework, Executives' Declaration processes and developing our Controls Self-Assessment capability (see Risk Paper 7). BTA replanning will take place following the upcoming second series of boot camps.
2. The audits remaining for 2015/16 are now either completed, closed or going through final clearance with senior management. The completion of the Agents Remuneration audit has been significantly delayed by the "Agents pay" issue. Work will resume once the business has completed its recovery work. (see **Appendix 1, "Audit Plan Status"**). We are working on a paper that identifies the themes from the audits for presentation to the July RCC and consideration by ARC in the future.

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3. We remain one team member short as we continue to seek appropriate temporary maternity cover for the IT audit manager role. Another team member who has been on long term sick leave has returned to the business, full time as of 2nd May 2016.
4. There are no significant issues that we believe the committee should be made aware of.

Input Sought

The Committee is asked to note and provide directions as necessary.

The Report

Reviews in Progress

5. The following reviews are in progress:

Activity	In Progress
Internal Audit	2015/16 • Data Protection • Common Digital Platform • Agent Remuneration 2016/17 • Identity and Access Management • IT and Operations Governance and IT Risk Management • FS Training and Competence Schemes
BTA	• Communications and Stakeholder Management • Digital Programme Mobilisation • Winning with retailers • Target Operating Model • Separation PIR • Planning Boot Camps

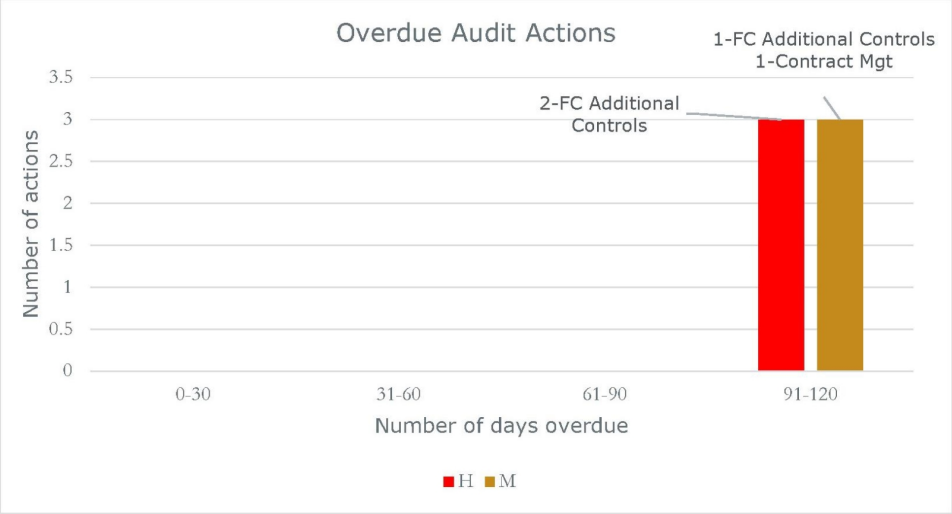
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Completed Reviews

6. Three reviews have been completed and are produced in summarised form at **Appendix 3**.

Updates on Internal Audit Overdue Actions

7. We have developed an Overdue Actions monitoring process to ensure clarity of requirements and responsibilities – this involves providing monthly summaries to GE Sponsors and has already shown benefits in assisting them in the tracking and closure of overdue audit actions.
   Since the March meeting, where 32 overdue actions were reported, significant progress has been made by the business. At the end of April, 28 actions have been completed and validated. 4 remain outstanding, but clear work plans are in place to ensure they are closed in the near future.



Please see separate paper from Jane MacLeod for the detailed remediations.

Business Assistance

8. Internal Audit has continued to work with Legal to assist Property with the implementation of adequate governance and controls to address regulatory compliance requirements. We have also continued to attend the Property Compliance Forum to monitor progress. We are seeking to bring this long term time commitment to an end once we are sure remediation is in place.

9. A formal plan is now in place to address all of the required statutory compliance

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checks / risk assessments for the elements and sites. A workshop between Property, Health and Safety and Network Operating team is planned for 25th May to co-ordinate the monitoring control activities of the different teams improving the delivery of effective compliance.

10. Two residential properties (out of the 8 reported last time) are still not compliant as the visits could not be arranged with the tenants by the Facility and Estate management suppliers. The Property Compliance Board has been assured that the two remaining properties will be visited and serviced by 10th May.

11. Electrical testing programme: 91% of all the premises classified as "not satisfactory" have been visited again and any issues fixed. The remaining sites will be visited by the end of May.

12. The Head of Property has provided an updated noting paper to this meeting, as requested at the March ARC.

Resourcing

13. The team has a headcount of 4 with approximately 150 days of Co Sourced resource from PwC for specialised audit work. During the year we have been without one member of the team for a total of 5 months due to long term sickness. In addition we have been recruiting for temporary maternity cover since February and have yet to secure suitable resource. If this situation continues we will consider alternative options for resourcing some of the audits.

Business Transformation Assurance

14. Since the March meeting the BTA team have completed three reviews, with two more due to finalise shortly. These reviews are generating recommendations for programmes going forward and aim to create more effective and efficient processes within Transformation and across Post Office as a whole. The executive summaries are at **Appendix 3.**

15. In this quarter BTA has started following up on observations from earlier reviews. 32 issues have been closed on time. To date there has been very good engagement with the business and no observations have been remediated late.

16. There have been some underlying changes to the Transformation portfolio, namely the removal of the Financial Services and Commercial projects into a 'non-transformation' change portfolio as well as material changes to some of the individual programmes within Transformation. As such Transformation is running a second series of boot camps in May to revise the integrated transformation

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plan. Once the revised plan is published, BTA will revise the assurance plan for the rest of this year and ensure alignment with the main Transformation plan.

17. A full summary is included at **Appendix 2,** ("BTA Progress to plan") with report summaries at **Appendix 4.**

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Appendix 1 2015/16 Audit Plan Status – May 2016 Page 6 of 18

Activity				Actions			Reporting		
Audit	GE	Status	Report Rating	High	Medium	Low	RCC	ARC	Comments
Completed Reviews									
Contract Management	Al	Issued		4	11	1	Sep 15	Sep 15	Closed out
Financial Crime	Jane	Issued		18	20	2	Sep 15	Sep 15	Closed out
FS Conduct Risk	Nick	Issued		13	-	-	Oct 15	Nov 15	Closed out
Drop and Go	Martin	Issued		2	3	-	Oct 15	Nov 15	Closed out
Wave	Martin	Issued		1	13	8	Oct 15	Nov 15	Closed out
Fujitsu Exit	Al	Issued		-	2	5	Jan 16	Jan 16	Subsequently superseded by the re-engagement of Fujitsu on the Front Office Project
Critical Metric Management	Al	Issued		3	1	1	May 16	May 16	Closed out
SISD Delivery	Al	Issued		7	2	-	May 16	May 16	At GE Close out
Social Media	Martin	Issued		-	5	-	May 16	May 16	Closed out
Treasury Operational Risk	Al	Issued		6	8	-	May 16	May 16	Closed out
POMS Governance Follow up	Nick	Issued		N/A	N/A	N/A	May 16	May 16	POMS ExCo Clearance

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Appendix 1 2015/16 Audit Plan Status – May 2016 Page 7 of 18

Activity				Reporting		
Audit	GE Owner	Timing	Status	Due RCC	Due ARC	Comments
Reviews in progress						
Towers Delivery	Al	On-going (with BTA input)				
Workforce Planning	Neil	Q3	Not Done	-	-	Not resourced due to long term sickness
Data Protection	Al	Q4	Fieldwork	July 16	Sept 16	In progress (Co Source)
Common Digital Platform	Martin	Q4	Fieldwork	July 16	Sept 16	In clearance
Agent Remuneration	Kevin G	Q4	Fieldwork	July 16	Sept 16	Delayed, expected to resume soon

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Appendix 2 BTA Plan Status – May 2016 Page 8 of 18

Activity				Actions			Reporting		
Assurance	Timing	Status	Report Rating	High	Medium	Low	Due to RCC	Due to ARC	Comments
Completed Reviews									
EUC Review	Q3	Final Report	N/A	-	-	-	Oct 15	Nov 15	Requested by TESG.
Portfolio Management Design Review	Q3	Final Report	N/A	-	-	11	Jan 16	Jan 16	Jointly resourced by IA / BTA.
Planning boot camps	Q3	Highlight Report	N/A	N/A	N/A	N/A	-	-	Highlight report to management only to inform planning review
From the end of Q3 onwards all reports will be rated – consistent with BAU Audit reporting									
Design of New Benefits Framework	Q3/4	Final Report	Adverse	3	4	1	Mar 16	Mar 16	Final Report Issued
Separation	Q3/4	Final Report	Adverse	6	1	-	Mar 16	Mar 16	At GE Clearance
Cross Towers Governance Structure and Programme Assurance Authority	Q3/4	Draft Highlight Report	Unrated as highlight report	N/A	N/A	N/A	May 16	May 16	Final Highlight Report Issued
End to end financial management of Transformation	Q4	Final Report	Average	1	8	**5**	May 16	May 16	Final Report Issued
Portfolio management OE #1	Q4	Final Report	Satisfactory	-	1	**2**	May 16	May 16	Final Report Issued

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Activity			Reporting		
Assurance	Timing	Status	Due to RCC	Due to ARC	Comments
Reviews in progress / planned (All reports below this line will be rated against agreed criteria)					
Digital Programme Mobilisation	Q4	Draft Report	July 16	Sept 16	Draft report issued to management
Communications & Stakeholder management	Q4	Draft Report	July 16	Sept 16	Report with management for comment
Winning with Retailers PIR	Q4	Fieldwork	July 16	Sept 16	Fieldwork in progress
Target Operating Model	Q4	Fieldwork	July 16	Sept 16	Fieldwork in progress
POCA	-	Cancelled	-	-	No longer part of Transformation
Separation PIR	Q1	Fieldwork	July 16	Sept 16	Fieldwork in progress

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Social Media Review **Completed March 2016 – GE Sponsor Martin George Appendix 3**

1. Executive summary

Within Post Office, social media started to be used in 2010/2011 primarily by the marketing, corporate communications and human resources departments. Twitter, Facebook and LinkedIn, are the social media channels most used for responding to customer feedback, for product campaigns, for recruitment and for corporate communications.

The review revealed that **currently within PO social media is used effectively on a day to day functional level** according to the definition in the image below:

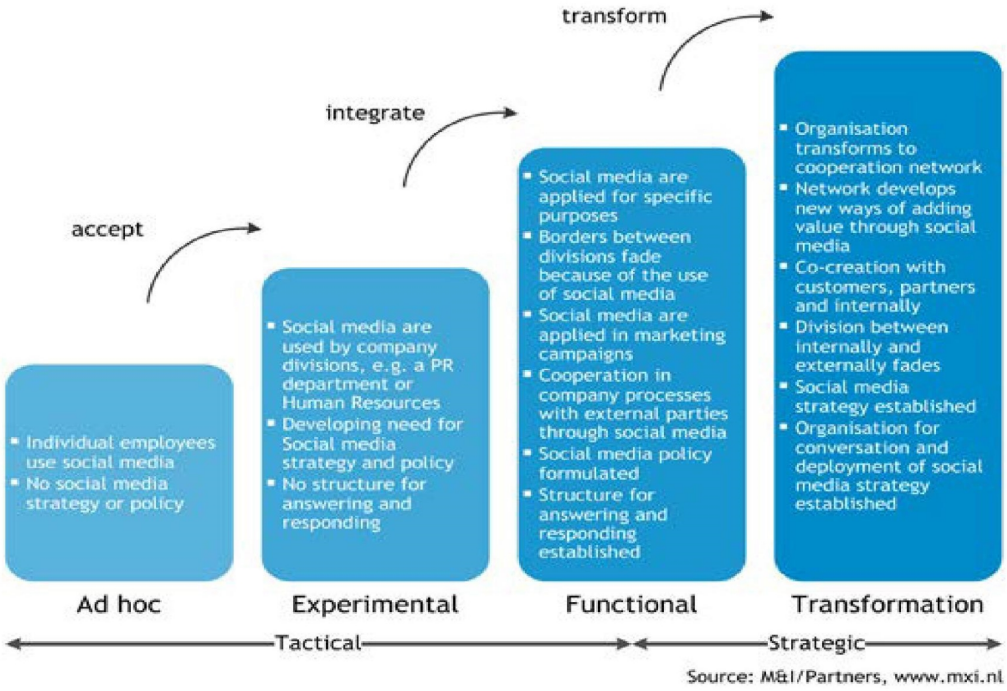


Figure1 – Social media maturity scale (source: *http://www.socialmediamodels.net/social-media-adoption-models-category/social-media-maturity-model/*)

The following social media aspects have been deployed and give an indication of its maturity level.

- ✓ The Chief Marketing Officer (part of the commercial organisation) is responsible for PO presence on social media channels related to customer feedback and products campaigns, and the Corporate Communication Director is responsible for the PO news and information the organisation wants to share with its customers.
- ✓ A dedicated social media manager role (and a newly other support role) exists within the marketing organisational structure,
- ✓ A dedicated social media budget has been allocated by marketing to fund business wide technology and tools, agency support and training.
- ✓ Social media guidelines for postmasters have been defined and issued to postmasters at the end of November 2015.
- ✓ Customers' feedback on social media is monitored and responded to by an established social media team within the customer service team.
- ✓ The marketing social media team works in collaboration with Corporate Comms, other PO divisions and external social media agencies when required.

Although Post Office has a presence on social media and has proved to use social media channels successfully in a number of different situations, it is our belief that there is greater scope to use social media in a more transformational and proactive way.

As social media channels are becoming increasingly important to communication for organisations and customers the competitive advantage is mainly driven by customer satisfaction, it is important for our

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Social Media Review
PO Internal Audit

organisation to take social media usage to the next level of maturity and further explore its opportunities to enhance brand awareness and leverage the digital channels more to achieve business objectives.

To use social media in a transformational way for the business consideration shall be given to the following aspects:

1. Defining an **overall social media vision, purpose and strategy** which details the way social media channels will be used by different business areas to support companywide business objectives. This could assist with the identification of new opportunities to add value to the business through using social media channels (please see recommendation no1 in the detailed report).
2. Formally identify **social media risks and requests for compliance** with legislation on social media and share those with all social media users to raise awareness and ensure the organisation is not exposed unnecessarily on social media channels (please see recommendation no2 in the detailed report).
3. Defining **employee social media guidelines** will help raising awareness on social media opportunities and risks (please see recommendation no3 in the detailed report).
4. Ensure there is **oversight of all social media accounts** opened on behalf of the organisation by the different business areas and the way those accounts are used is in line with the overall defined social media vision/purpose and strategy (please see recommendation no3 in the detailed report).
5. Ensure **social media communication** and **response to customers' feedback** is considered **in the crisis management** process and the relevant stakeholders are clearly identified and informed of their responsibilities in case business incidents need social media response (please see recommendation no4 in the detailed report).
6. Ensure **social media skills and resources** are suitable to allow exploring more the potential and opportunities of the social media channels in achieving business objectives (please see recommendation no5 in the detailed report).

The overall audit rating is ***medium risk level.***

Overall audit rating	**Medium**

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2. Overall management response

The report proves that social media is positively used by marketing, insights, corporate communications, and customer services, and that there are controls in place, with an opportunity to add additional controls around crisis management, for example.

The report makes additional recommendations, one of which includes the creation of a holistic business wide social media strategy. The Management team (Marketing & Communications) believe it would be sensible to instead produce a shared social media vision and objectives, with key deliverables. This would be delivered by cross-business representatives working together, from HR, Communications, Marketing, etc. The key question will be the priority/importance of this work. As it stands, we have a compliant and effective social media programme with the relevant controls in place. Anything above and beyond this, whilst expected to be value adding for Post Office, will take time and resource to deliver and potentially additional cost. For this reason, its prioritisation must be considered alongside other business priorities for the year ahead.

Alongside the recommended vision work, we believe existing social media cross-business vision and objectives (created in early 2014 - attached/appendix) need to be refreshed in light of our new business priorities, with new cross business representatives identified – as those previous colleagues whom were previously engaged have now left the business.

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Treasury Operational Risk Review | Completed April 2016 - GE Sponsor Al Cameron | Appendix 3

Background

The POL Treasury team is based in Chesterfield and currently reports directly into the Head of Corporate Finance who is based in London (but visits Chesterfield weekly). The Treasury operation is relatively straight forward and responsibilities include:

- Short term liquidity management and investment of surplus cash balances (holdings < £90m invested with Barclays or RBS; holdings > £90m invested in money markets);
- Enterprise-wide cash forecasting process (based on data received from various areas of business, largely from Supply Chain);
- Fulfilment of Bank of England Notes Circulation Scheme reporting obligations (including managing relationship with RBS);
- Management of borrowing requirements (daily borrowing from BIS £950m working capital facility);
- Bank relationship management;
- Execution of corporate disbursements and administration of payments systems;
- Forward hedging of foreign exchange exposures (current Policy is to hedge 80% of exposure on a monthly basis).

Internal Audit have performed an operational risk review of PO's Treasury function to identify those specific operational risks that a change in Treasury personnel might pose and to consider whether there are any potential mitigating controls.

The audit was completed under the PO's existing co-source arrangement with PwC and the team consisted of both PO Internal Audit and PwC Treasury personnel.

The review focused on understanding risks in processes and the treasury team dynamic, rather than detailed testing of each control in place.

Overall assessment

In the context of the PO's Treasury activities, which are relatively straight forward, operational risk arises because of a particular dependency on the knowledge and experience of certain key individuals, and a lack of automation and straight through processing. Additionally the team would benefit from a wider awareness and visibility of the risks to be managed and greater oversight – as they are currently operationally focused and lack the wider understanding to be able to question some of the more complex treasury areas (e.g. FX Hedging).

A higher level of operational risk currently exists, as only **the Head of Corporate Finance (who is scheduled to leave the organisation in September this year)** currently provides oversight of the team. Outside of this role, there is limited understanding, visibility and awareness of Treasury and its operations by other senior management. **Post September this work will be undertaken by the Group Financial Controller**. Appendix 2 provides an interim plan for this risk.

Some re-organisation of the team is required with clear definition of roles and responsibilities and authority limits. Greater business oversight is needed, this can be achieved with better use of KPI's and more formal use of the Treasury Committee. Employing a Manager to report onto the Head of Corporate Finance will also reduce the key person dependency risk and provide greater oversight and challenge of current Treasury operations.

The TMS system 'Integrity' has been implemented for managing cash forecasting and cash position, money market dealing and reporting. The system could also be used to capture FX dealing and automate corporate payments and journals into SAP. This increased automation would enhance segregation of duties and add to more efficient processes with increased formal control over treasury activities.

Key findings

Treasury Policy and Procedures

- The Treasury Policy is a comprehensive document which sets out POL's treasury risks and how they should be managed. However the policy should be updated for current FX and interest rate environment and include Treasury KPIs.
- A Treasury Committee has not met in the last 6-9 months.
- Monthly Treasury Report has not been produced for the last 6-9 months.
- FX hedging is only completed on a monthly basis, for a period out of one month (covering 80% of exposure). Not all currencies are hedged.

Treasury organisation

- The Head of Corporate Finance has significant background knowledge of the treasury team and operations but is scheduled to leave the organisation in September 2016. Limited understanding, visibility and awareness of Treasury and its operations by other senior management.
- The Treasury team have suitable knowledge and experience to carry out daily activities, however they would benefit from a wider awareness of Treasury and the risks to be managed.
- The Treasury administrative staff responsible for settlements report directly to the NCS Liquidity Manager and the Cash Manager and do not provide the challenge and escalation required of a Back Office function.
- Due to the small size of the team there is a lack of segregation of duties. One person completes the entire FX hedging process, including dealing, confirmation and has full access to the TMS. This highlights the need for compensating controls.
- FX hedging process is manual (done in Excel) and segmented between two teams. Treasury has no real time visibility of actual FX exposure on a weekly basis. All deals are made with First Rate Exchange Service (FRES) and Barclays, with no competing quotes obtained.

Treasury Management System

- Integrity is not used to record FX deals – this is required for journal entries to interface from Integrity to SAP automatically.
- No formalised or documented strategy for full implementation and future use/maintenance of the system.
- User profiles are incorrectly set-up e.g. System Administrator does not require further approval to set up new static data.
- Two users have full access to the system, despite it being a live system. [Since been changed post audit].
- No formal review of the user profiles or any system generated audit logs.

Banking Systems

- There is no formal control in place to ensure people are removed from electronic banking systems on leaving the PO.
- Two individuals have access to input and authorise payments (although required a third person to make an actual payment). Not removed from authorisation panels in timely manner.

Banking Mandates

- Backup documentation not provided when updates to bank mandates are sought.

Business Continuity

- No specific disaster recovery or business continuity plan in place for Treasury.

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CRITICAL METRIC – SCORECARD Completed January 2016 GE Sponsor Martin George Appendix 3

Background

Management use a number of critical metrics for decision making (these are reliant on financial and non-financial data sources). In March 2015 the General Executive (GE) requested that the Head of Finance (PG) perform a high level review of the current management information landscape. The review indicated a low level of maturity in the management and use of commercial and finance data. A more in-depth assessment was requested by the GE over whether reliance can be placed on reporting, given the current data landscape. To do this Internal Audit with PWC co-source resource met with PO Finance Directors to establish critical (or key) metrics to understand and assess the critical metrics relied on for decision making as they perceive it, and ascertaining whether or not any gaps currently exist. As a result of those meetings the review focused on the following PO scorecard metrics scope:

- ***Customer Effort***
- ***Crown Profit***
- ***Network Transformation Branches Transformed in Year***
- ***Number of Branches; and***
- ***Headcount***

Our Assessment

Sample testing of scorecard metrics confirmed that figures reported for the months tested were accurate with an isolated exception which has been subsequently corrected. However, PO currently measures scorecard metrics against a criterion self-set by business units, rather than robust and formalised with processes fully signed up to GE downwards.

The framework below shows what we consider to be the key elements scorecard metric management. We have also highlighted **immediate challenges** and **future opportunities** for consideration by the business.



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CRITICAL METRIC – SCORECARD Completed January 2016 GE Sponsor Martin George Appendix 3

Management have reviewed scorecard metric management for 2016/17 against the findings in the table below (and suggested Framework) in terms of:

- **strengthening arrangements where gaps or weaknesses in control exist; or**
- **managing the limitations to assurance over accuracy of reporting due to known weaknesses.**

Definition	• The **responsibility for coordination and oversight** of the scorecard is not formally documented (**High**). • An **absence of common standards** exists over processes for measurement of scorecard metrics by owners (**High**).
Criteria	• **Definitions**, **source location**, **processes for calculation and reporting** are not formally documented (**High**). • There is **no enterprise level guidance or guiding principles** agreed and documented (**Medium**).
Measurement	• Reliance is placed on **self-validation by business units** to ensure accuracy and completeness of reporting. (**Low**). • **No random independent spot checks** are currently performed on reporting back to source (**Low**).
Reporting	• There are **limitations to reporting** that are known to management including: ➢ **Systems have not been designed and built to generate statistics**, but rather to automate the work of PO staff. The significant change and redesign of how staff at PO work has also contributed to the **challenges in extracting and converting data from source for reporting purposes**. ➢ Key systems do not currently have the capacity to generate all data needed for statistical reporting and this has resulted in **workaround methods being applied** and remains necessary at present. • **Reviews of scorecard metric reporting are not consistently performed** within each business unit (**Medium**).

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Portfolio Management Operational Effectiveness

Completed March 2016 – GE Sponsors David Hussey/Jane MacLeod

Appendix 4

Background

The purpose of this report is to provide a summary of BTA's follow-up on the Portfolio Governance, Management and Change Methodology review dated 05 October 2015, which identified 11 issues. This review has focused on following up on issues that management has assessed as remediated and testing the operational effectiveness of elements that were previously assessed as designed effectively. Specifically this review has assessed the operational effectiveness of the following elements;

1. Leadership;
2. Organisational structure;
3. Governance structure;
4. Scope and change management; and
5. Design effectiveness of the operational transition management.

Elements of portfolio management identified by management as still under remediation have not been assessed as part of this review. BTA intends to review these elements in future portfolio management reviews. This report contains observations on an exceptions only basis, including those that have been self-identified by management.

Overall assessment

Since BTA's last review management has designed and implemented a number of improvements into how the Transformation Portfolio is governed and controlled. One of the key aspects implemented by management since the last review is the 'One Best Way' framework. This is a standard change framework which includes approval gateways enabling management to control POL's financial and risk exposure (see Figure 1). In support of this implementation the Change Director for Business Transformation has introduced training on the framework as well as compliance monitoring of project documentation for both completeness and quality.

Key findings

- By strategically prioritizing programmes within the portfolio, return on investment can be maximised, and resources can be appropriately allocated to the programmes that best align with the business strategy.
- Through discussions with management it was determined that no formal prioritisation process is yet in place within Transformation. A broad categorisation separates programmes by Regulatory, In-Flight and New, though this does not directly translate to a prioritisation.
- It is recognised that programmes are steered at the project level through the One Best Way (OBW) change process. One Best Way includes control gate ways which enable individual projects to be evaluated and tailored / cancelled if appropriate. Due to the implementation of OBW the original finding has been partially remediated.
- The two main documents relating to organisational chart for the individuals managing and controlling Transformation did not fully define individual roles and responsibilities and neither document was accessible outside of the immediate central transformation team.
- In response to findings made In the Portfolio Governance, Management and Change Methodology review dated 05 October 2015, the One Best Way Methodology has been improved; notably in creating approval gates where a complete set of documentation is required to pass through each gate.
- Of the documentation templates sampled, three specific elements were found to be not fully developed:

  1. Business Case – There was no specific reference to Transformation's 3 year plan;

  2. Business Case – There was a lack of detail of both financial and non-financial benefits; and

  3. Solution Design – There was no specific section referencing the solution.

- Without comprehensive documentation there is potential that projects do not pass through stage gates, effecting overall programme delivery.

Audit Opinion

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End to End Portfolio Financial Management | Completed March 2016 – GE Sponsors David Hussey/Jane MacLeod | Appendix 4

Background

The objective of this review was to identify any significant weaknesses in the financial management of the transformation portfolio. The review considered all stages of the financial management cycle, from the request for approval to commit funds through to the reporting of expenditure. Although the focus of the review was on the overall portfolio, to identify any weaknesses in the financial management process, the review investigated a range of specific projects/programmes within the portfolio and tested whether they adhered to the financial management principles established.

The end-to-end financial management review undertook an assessment of the portfolio's:

- Financial governance;
- Budgeting and forecasting;
- Quantification of financial benefits; and
- Internal financial reporting.

Overall assessment

In total there were fourteen findings; one major, eight moderate and five minor.

The six gate approvals process that all business cases must pass through is now well documented and mandated by transformation management. It is robust and is consistent with examples of good practice seen elsewhere. Attention is required to ensure it is followed by all projects that are applying for funding.

Good progress has been made by the Transformation team and, with robust challenge in place, the standard of business cases is generally much improved.

Key findings

- TFCG require all business cases to have an independent finance review prior to being submitted for approval. None of the five business cases reviewed had been subjected to this. One of the business cases was reviewed by someone outside of the project team, but they could not be deemed to be independent.
- The terms of reference for TFCG includes the responsibility to undertake a run rate analysis. Whilst the monthly finance MI reports provide details of the actual costs incurred, the forecast and the approved budget, no run rate analysis is undertaken
- The monthly finance reports which are submitted to ESG and TFCG are based on actual financial data extracted from SAP and merged with offline data sourced from manual MS Excel spreadsheets. Incorporating manual data with the system data is inefficient and prone to user error. The offline data consists of the theme, specific portfolio, approved budgets and forecasts. There was no evidence of any user instructions on how to update the manual spreadsheets or cell protection in place to prevent inadvertent input to calculation and output cells.
- Four of the five business cases reviewed did not include any consideration of inflation in the financial values.
- The terms of reference include TFCG's responsibility for tracking and managing actual costs to forecast. Whilst the monthly finance MI reports do this at an overall portfolio, specific portfolio and theme level, this is not undertaken at project level.
- No evidence was found of formal internal training on business case writing. This has led to style and detail inconsistencies and issues with the general quality of business cases submitted.

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Cross Tower Governance and PAA

Completed March 2016 – GE Sponsors David Hussey/Jane MacLeod

Appendix 4

Background

In June 2015, Post Office deployed a revised IT governance structure to clarify the respective roles and responsibilities of POL and Atos, where POL is accountable for the overall Technology Transformation Programme and Atos, as the Service Integration (SI) supplier, is responsible for providing oversight of the activities performed by third parties delivering IT tower services.

Prior to our review commencing, management had self-identified issues with the current cross tower governance model and how it was not suitable to address the changes in and challenges of the Transformation Programme at this time. In recognition of a new model has been under development, it was agreed that the review would be undertaken in two parts:

1. High-level review of the effectiveness of the current structures; and then
2. Review of newly proposed model in the context of our understanding of the issues with the current structures to help assure that the issues identified will be addressed.

Overall assessment

As management has already identified, the current governance structure is not operating effectively. Based on our review, we understand the underlying reasons for this include:

- Lack of clear accountabilities and roles at each level of governance that is aligned to the needs of both the technology transformation and business transformation programmes.
- Conflict in Atos' role and insufficient segregation of duties for assuring SISD and cross tower implementation activities.
- Uncoordinated and incomplete management of all contractual obligations – including of SISD role and across towers.

Key findings

- A key part of the role of the PAA is to provide POL IT management with assurance of the SISD and cross-tower tower implementation and management activities. There is therefore a clear conflict with Atos' current involvement in PAA.
- Several POL members of the Programme Assurance Authority (PAA) are also responsible for delivery activities within and/or across towers. The reason given for the lack of segregation by IT management was that there are insufficient POL resources with the required skillset to fully segregate the delivery and assurance roles.
- We understand through our meetings that there have been and continue to be issues with the management of POL obligations between the different towers, exacerbated by obligations being placed on POL by tower suppliers that are in conflict between towers. One cited example is a substantial claim from Computacenter due to the delays with standing up the EUC tower. Atos have stated that it is not their responsibility to manage POL obligations and management of such issues is not clear in the current governance structures.
- We observed in reports provided to us a material number of milestones that had been reported as 'green' one week and 'red' the following week (bypassing 'amber') as part of IT transformation programme reporting to TESG. Whilst we understand that Trinity had an impact, there remains evidence that risks to key milestones are not always being managed sufficiently and/or their dependencies are not fully understood by individual programmes. This issue had been recognised and we understand that the Business Transformation Planning Manager is working with IT management to understand and improve the situation
- The Cross Tower Delivery Integration Group (CTDIG) had not been operating effectively, evidenced by poor attendance from the POL Programme Managers due, we understand based on feedback from POL Programme Managers, to the meeting tending to focus in large parts on Atos responsibility related discussions. We understand that the meeting has now been restructured so that POL Programme Managers only attend part of the meeting. However, having reviewed the Terms of Reference for this meeting it is difficult to see how part of the meeting would be dealing with issues that should not involve POL.

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POST OFFICE
BOARD AUDIT RISK & COMPLIANCE COMMITTEE

COVER SHEET ONLY

Outstanding Audit Actions

Author & Sponsor: Jane Macleod

Meeting date: 19 May 2016

Executive Summary

Context

There are 4 overdue Audit actions arising from the Financial Crime and Contracts Management Audits. This paper summarises progress against these.

Questions this paper addresses

1. What are the outstanding actions?
2. What is the plan to address these?

Conclusion

Contract Management

1. In October 2015 all Business Areas were requested to provide information about the material contracts which they managed and in particular they were requested to :
   - Confirm in writing by 31 December 2015 that they had mapped all obligations and had a documented process to demonstrate:
     - obligations on Post Office
     - obligations on Supplier/Client
     - frequency of obligations, and
     - processes by which performance of obligations are monitored
   - Advise what MI is produced to demonstrate performance (both quantitative and qualitative) of obligations.

   This process identified over 50 contracts as 'material' (being a value/cost of > £5m per annum or otherwise critical to operations).
2. While these obligations have been identified at a high level, there is not yet a comprehensive documented process. Work is ongoing in relation to a number of major contracts however the resource requirements for this work is significant and is currently not available to support this analysis across all areas.
3. Accordingly we are reviewing what is realistic with a view to taking a risk based approach to these contracts. In light of the ongoing changes across Post Office during 2016, we will revert to the ARC in September with a revised update, however at this point it will not be possible to fix a hard date by which all material contracts will have been reviewed.

Financial Crime

4. The audit made a number of recommendations as set out in the table in the Appendix. The actions to address these have been incorporated into the policy

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development work referred to elsewhere in the ARC papers. The policies were drafted by end March however questions raised by the Risk & Compliance Committee during the governance approval cycle have further delayed implementation of the policies.

5. It is now expected that the policies will be reviewed and approved during July and that the implementation plan will be addressed as part of the approval process.

Input Sought

The Committee is asked to note the plans to address these actions.

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APPENDIX

Recommendation	Status
Financial Crime Strategy / Policy should be developed and implemented. This should: • have a GE owner to promote Board commitment. • Board approval • cover prevention, detection, deterrence and response. • roles and responsibilities clearly described. Relevant financial crime documents should be communicated. Effectiveness should be measured. This should be reported to ARC on an agreed basis	As described elsewhere in the ARC papers, policies which include these requirements have been prepared and submitted to the RCC for consideration. Work is underway to scope the requirements for implementation and the policy will be re-submitted to RCC for approval in July and thereafter ARC approval will be sought. Following approval of each policy, communication and training will be provided as part of the implementation proposal. Each policy will be reviewed regularly in accordance with an agreed cycle and as part of that process the policy owner will be required to assess and report on the effectiveness of the controls.
Delegation of roles and responsibilities to deter, detect and respond to fraud across PO. This should cover as a minimum • Develop framework of anti-fraud policies and procedures across the business. • Raising awareness of fraud risks and developing mechanisms to maximise the opportunities for fraud risk reporting. • responding to Speak Up and other concerns raised with management. • investigation of suspicions and other irregularities. • Providing advice and recommendations to managers across PO on appropriate controls to help prevent and detect fraud. • Monitoring anti-fraud activity across PO. • Communicating of outcomes as appropriate. Division of responsibilities should be defined and communicated.	The General Counsel is the GE member with accountability for management of the risk and associated controls in relation to fraud and is addressed in the policies referred to above. The implementation plan will include training. The whistleblowing policy is separately on the agenda for approval by the ARC. Each policy contains provisions regarding the reporting and investigation of suspicions. The ARC will receive annual reports on Financial Crime and its management.

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Recommendation	Status
Relevant training should be provided to executive management and the Board.	The implementation plan will include training proposals.
Consideration should be given to the inclusion of honesty and integrity as defined behaviours within the Behaviour Framework.	This will be addressed as part of the next scheduled review of the Code of Business Conduct.
Financial crime awareness training (including Speak Up Policy) should be covered during induction for new staff in all business areas. Consideration should be given for regular financial crime training for all staff being mandated by the Board.	Training will be included in the implementation plan for the policies – including as part of induction training. The suite of annual training to be provided to staff and agents is being reviewed to ensure awareness of wider financial crime issues.

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AML & CTF Update paper

Author: John Scott Sponsor: Jane MacLeod Meeting date: 19 May 2016

Executive Summary

Context

This paper updates the Board Audit, Risk & Compliance Committee on management of both the HMRC's Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) audit, and progress as regards the recommendations set out on the Promontory Report.

Questions this paper addresses

- What is the current position on the HMRC Audit?
- What is the current position on progress with the Promontory Report recommendations?

Conclusion

1. A steering group has been convened to oversee the assessment and implementation of the Promontory recommendations, and to manage the HMRC compliance audit activity. The Steering Group includes representatives from key impacted areas such as Network (inc. Supply Chain), People & Engagement, and Financial Services. External financial crime legal specialists have also been engaged.

HMRC Audit

2. POL continues to work closely with HMRC through the current 'Discovery' phase of the Audit. Following requests for information from HMRC, we have provided a significant amount of information covering areas such as Branch Registration, FRES Data and Sub-Postmaster On-boarding processes.
3. HMRC has also requested transactional information on the regulated services provided by POL and documents such as the current Bureau workbook have been supplied. In addition, HMRC's lead representative, Lee Simpson has been hosted in Model Office at Finsbury Dials to observe operational processes and procedures for these transactions.
4. We have now agreed with HMRC the correct categorisation of branches for registration and based on that agreement are now on track to lodge and pay the correct registration fees which are due on 1 June 2016. There remains a risk that we have under-registered in previous years, and we are currently assessing that risk based on the agreed categorisation.
5. In relation to branch audits, HMRC had indicated that they proposed to conduct hosted visits at two Crown Offices and at one WH Smith branch, and a visit to

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one branch of each of the next three largest agents. The purposes of these visits was to be as an 'educational tool' to help formulate the scope of the assessment required for the main audit. As at the date of writing, 4 such visits had been undertaken to multiple agency branches – WH Smith in Swiss Cottage, Tesco in Brent Park, Martin McColl's Ltd in Finchley and Co-operative Group Ltd in Fulham.

6. Based on the list of agreed branch registrations referred to above HMRC will indicate the number of branches that they wish to visit for the audit. While HMRC had previously indicated that they would visit approximately 150 branches, they are now considering if that number of visits will be required. We will have the opportunity to comment on the proposed list of branches to be visited and agreed communications will be issued to each branch at least a week prior to the visit.

7. As the HMRC's approach to the audit emerges and the links to Promontory Report's recommendations are established, we will develop the engagement plan for external stakeholders including Treasury, BIS, FCA and Bank of Ireland.

HMRC Concerns

8. At a recent meeting between Post Office executives and HMRC (Ian Spence (Deputy Director of AML Regulatory Supervision) and Ann Quigley (Head of Compliance MSB, Regulatory Supervision)) HMRC briefed Post Office on the results of an industry audit (which did not include Post Office), focusing on how regulated companies manage their AML risks in the context of an agency relationship. HMRC identified numerous deficiencies in the way in which companies manage these AML risks.

9. HMRC audited 24 of the top 30 MSB networks which included visiting 1450 branches. Overall, they were "shocked" at the lack of effective management of AML issues arising in the context of the agency relationship. Key areas of concern across the industry included:

- Poor processes for onboarding and training of agents and lack of ongoing due diligence post appointment. There was also a failure to manage conflicts of interest in the recruitment of agents, and lack of documentation / records evidencing the training of agents;
- Lack of ongoing monitoring of the business relationship including of compliance with contractual requirements;
- Poor record keeping by agents of transactions, missing transactions and evidence of system failures resulting in information not being recorded;
- branches not registered correctly, branches registered from residential addresses, 'nesting' where there is a cluster of MSBs but not customers, out of hours transactions, and speed of consecutive transactions;
- concern over communication where agents' first language was not English and customers would speak other languages;
- Password sharing, remote access of terminals and transaction splitting not being appropriately monitored by principals;
- general lack of understanding of the SAR process, and
- evidence that relationships were terminated when HMRC requested audits.

10. HMRC's briefing will be a useful guide as to what risks need to be managed by Post Office given its large branch network. It should be noted at the outset that although Post Office was not involved in the industry review, HMRC suggested

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that given the breadth of its network, it is likely that some of the deficiencies will apply to the Post Office. We will assess which of the above issues may be of concern for Post Office and include these in the scope of the risk assessment discussed below. The Steering Committee will review the output of that assessment and review the steps needed to remedy any areas of concern. This will include the review of agent vetting processes and ongoing oversight of agents.

AML training

11. AML compliance training was rolled out to all staff during March and was released to the Network in the week commencing 25th April. Agents are able to access the training via Horizon On-line and the mandatory test though Horizon itself. A communications framework is in place to promote this regulatory training and we are monitoring completion levels.

Promontory Report Recommendations

12. Recruitment is underway for additional roles required to implement the recommendations arising from the Promontory Repot and as at the date of writing, we are hopeful that successful candidates will be able to start in early June. The priority is now to undertake the risk assessment, the terms of reference for which are currently being prepared to take into account the Promontory recommendations. The Risk Assessment is itself a key recommendation and the output of that work will inform our approach to many of the other recommendations.

13. Many of the recommendations made in the Promontory Report relate to improvements in current processes and procedures such as implementing a product risk assessment tool, transitioning to electronic suspicion reports and increasing training and awareness, and the viability of these will be assessed during the project.

14. A breakdown of the areas of focus within the Promontory Report is provided below. Further detail of these recommendations and progress against them will be monitored and reported.

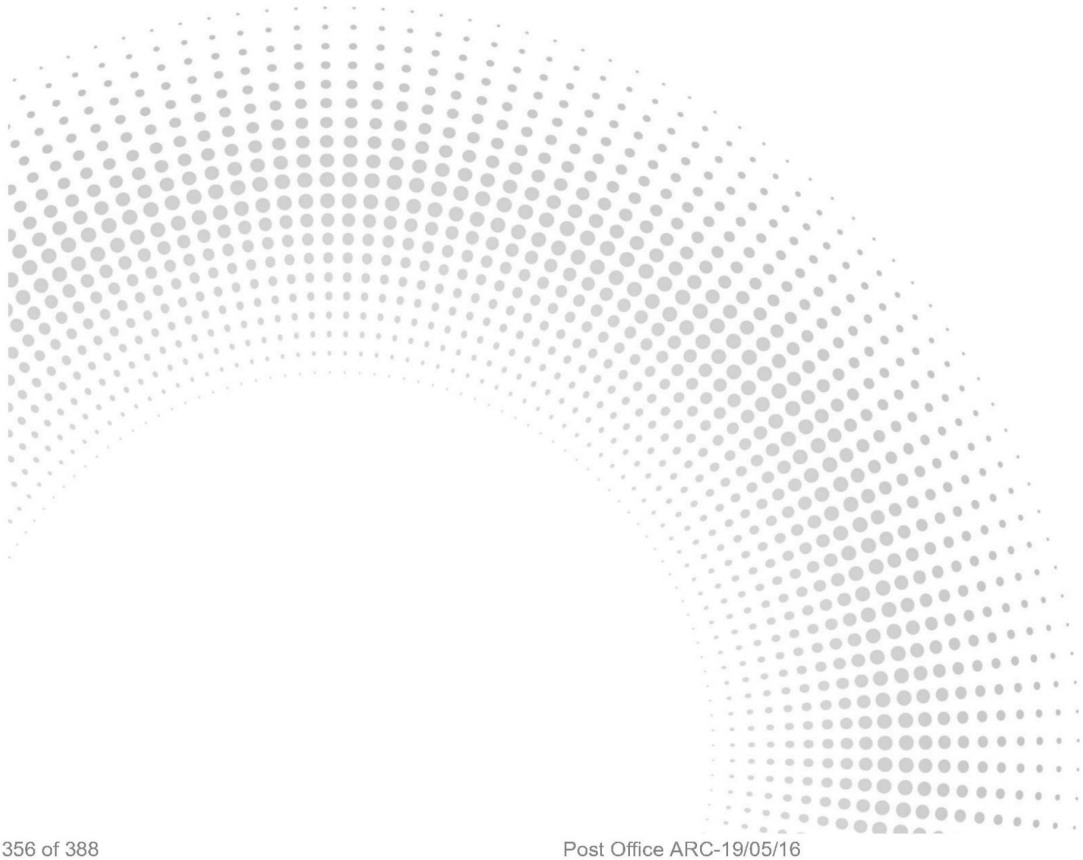
	Priority		
Area	**Level 1**	**Level 2**	**Totals**
Governance and Culture	2	1	3
Risk Assessment	7	4	11
Policies & Procedures	7	7	14
Monitoring Arrangements	3	1	4
Operation of relevant systems and processes	0	4	4
Training, Awareness and Testing	4	2	6
Suspicion Reporting	4	2	6
MSB	5	2	7
Resourcing	3	1	4
	35	**24**	**59**

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Post Office Limited

Audit Quality Enhancements paper

Year ended 27 March 2016



Building a better working world

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9.1. Audit Quality Enhancements

The contents of this paper are subject to the terms and conditions of our appointment as set out in our engagement letter dated 22 January 2016.

This paper is made solely to the Audit Committee, Board of Directors and Management of Post Office Limited in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit Committee, Board of Directors and Management of Post Office Limited those matters we are required to state to them in this paper and for no other purpose.

To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, Board of Directors and Management of Post Office Limited for this paper 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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INVESTOR IN PEOPLE

19 April 2016

Private and confidential

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

Dear Members of the Audit and Risk Committee,

Audit Quality Enhancements paper

Following your request at the Audit and Risk Committee meeting on 17 March 2016, we have completed this summary document of our Audit Quality Enhancements for our audit of the year ended 27 March 2016.

This document should be read in conjunction with our Audit plan as described in our Planning Audit Report (Appendix A Nature of Substantive Audit Procedures) delivered to the Audit and Risk Committee dated 17 March 2016.

Please note, we acknowledge the improvements that Post Office Limited are making to it's internal controls, processes and systems and our Audit Quality Enhancements attached recognise that fact and we will continue to work with you as further improvements are embedded. We will also be issuing a detailed Management Letter following the audit regarding recommendations we identify during the course of our procedures.

This report is intended solely for the information and use of the Audit Committee, Board of Directors and Management, and is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

Peter McIver

Engagement Partner

For and behalf of Ernst & Young LLP

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Audit Quality Enhancements paper

In August 2015 Management of Post Office Limited ("POL") identified that the Provision for Postmasters' Compensation had not been fully recognised in the financial statements for the half year ended 28 September 2014 and for the year ended 29 March 2015. Management informed us about the identified under-provision before our review procedures of the half year ended 27 September 2015. The total amount of restatement recognised was £87 million and £67 million for the year ended 29 March 2015 and the half year ended 28 September 2014 respectively.

This under-provision was not identified by Management of the Company and was undetected by us as part of our audit procedures designed and executed for the year ended 29 March 2015.

In order to mitigate this issue and any other potential issues going forward we took the following plan of actions and revised our audit approach as described below:

1. New Senior Audit Team

For the purposes of the audit of the year ended 27 March 2016 we introduced a new Audit Partner – Peter McIver and a new Senior Manager – Elena Belyaeva.

Both of them have long standing experience in EY. Peter McIver has 31 years experience in Australia and the UK and has been working as an Audit Partner for 20 years on clients like Wesfarmers (ASX 20), CSR (ASX 20) and since arriving in the UK FTSE 100 Company, Persimmon plc. He has experience in organisations that are complex and are undergoing transition changes, such as ERG Limited (global business), Ticor Limited, Griffin Group Limited and government organisations like Gold Corporation, Department of Commerce and Trade and Royal Perth Hospital.

Elena Belyaeva spent 5 years in EY Moscow and has been in EY London for 5 years. Elena has vast experience working on largest government owned transportation monopoly and FTSE 250 international group. She was involved in audit of largest Russian government owned transportation monopoly (Russian Railways) during the period 2005-2011. During this period Russian Railways went through transformation program, which covered all the branches across the country.

2. Audit Quality Support Reviewer

In addition to our current Engagement Quality Reviewer, we have also introduced an Audit Quality Support Reviewer, who is an independent reviewer, to give us an additional set of eyes challenging our testing, scope, procedures, judgments and documentation, so as to provide extra audit scepticism.

3. Reduced materiality

We revised our performance materiality from 75% of planning materiality to 50%. Performance materiality for the year ended 27 March 2016 is £5.4m as compared to £8.5m used for the audit of the year ended 29 March 2015. This was also communicated to you in our Audit and Risk Committee ('ARC') Planning Report dated 17 March 2016.

Reduced performance materiality resulted in larger samples of transactions we are testing as part of our audit procedures described in Appendix 1"Nature of Substantive Audit Procedures" to our Audit Planning Report delivered to the Audit and Risk Committee dated 17 March 2016.

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We summarised below examples of impact of lower performance materiality on our audit strategy:

1) Additional Balance Sheet and Income Statement accounts were added in our scope, which were identified as not significant for the purposes of the audit of the year ended 29 March 2015, being below our performance materiality;
2) We are using lower thresholds for testing the Balance Sheet accounts and Income Statement accounts;
3) Due to lower thresholds we are testing increased number of key items and sample items;
4) We are investigating the changes in Balance Sheet and Income Statement accounts for lower amounts and performing more detailed analysis.

4. Completeness of Postmasters' Compensation provision - New Significant Risk introduced for FY16 audit

For the purposes of our audit for the year ended 27 March 2016 we added a new significant risk in relation to completeness of Postmasters' Compensation provision. Our rationale and planned audit procedures were explained in detail in our Planning Audit Report delivered to the Audit and Risk Committee which was discussed on 17 March 2016. We also summarised them below.

We have performed the following audit procedures:

- We have discussed with Management the progress they have made since interim in their plans for implementing a formal policy of procedures and controls for the Postmasters' Compensation provision process. We have assessed the new controls and checked those implemented by Management to address the risks around completeness of the provision and we have carried out additional testing where appropriate;
- An independent reconciliation of the total branches as well as an analysis of their data and status as at 27 March 2016. We have compared this to Management's results and used this to identify anomalies and challenge the provision analysis provided by Management. At the date of writing this paper, this analysis is in progress;
- To ensure that every branch in the Post Office Network is classified correctly we independently categorised each branch into their categories at 27 March 2016, based on their individual attributes and we have challenged POL's assessment by comparing results. At the date of writing this paper, this analysis is in progress;
- To check the validity and accuracy of POL's records we undertook sample based testing on the Conditional Resignation Pack ('CRP') contracts and checked the dates for correct cut off and authorisation. We also traced the contracted amounts of these CRPs per POL's records to the payment listing and bank statements, showing the amounts settled post year end. At the date of writing this paper, this analysis is in progress;
- We will perform an unrecorded liabilities test by reviewing all cash payments made to Postmasters in the period subsequent to the year end (up until the date of signing the Financial Statements). We will independently sample selected payments and vouch to bank statements. We will also check that provision is accrued in correct period;
- To further gain assurance on the completeness of the provision as at year end, we are performing a reasonableness test on each category of the Postmaster's Compensation provision by comparing costs incurred to date against budgeted costs and estimated costs to complete for the various programmes. This involves understanding of the number of open projects and how the estimated costs to complete are computed.

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5. Revised Audit Approach

As part of our planning audit procedures we have performed a detailed review of our audit work program and revised our planned audit procedures as follows:

a) Use of management information as part of the audit procedures:

As part of our audit procedures for FY16 we have had various meetings with key personnel outside of Finance team to obtain corroborative evidence and compare to information received as part of our testing and follow up on any inconsistencies. We plan to have update these discussions as part of subsequent events procedures.

b) Detailed transactions testing:

We have performed further transaction testing for Income Statement accounts in addition to the detailed analytical review procedures and test of controls. For example, we have tested:

- Revenue – Our transaction testing of revenue gave us a coverage of 93% of total revenue amount by value for FY16. This came from the 19 largest clients – we are testing all revenue transactions in the year relating to these 19 clients. For FY16 audit we changed our methodology to select transactions for testing compared to last year. During the last year audit we selected individual revenue lines as opposed to customers balances and our value coverage was 88%. This change was also driven by changes in EY Audit Methodology to address the focus on revenue balances testing;
- Exceptional items – 92 sample items were selected for testing. By performing detailed tests we gained value coverage of 66% of the total amount of exceptional items by value recorded during FY16. We are focusing on completeness of exceptional items as well as correctness of classification in Financial Statements. We summarised below the techniques/approaches we have used to select our samples for testing for each type of exceptional expenses:
  - Agents Compensation - we have used EY Microstart – a statistical tool which determines a sample for testing based on performance materiality and level of risk associated with Financial Statements account;
  - POL Severance costs – EY Microstart as above;
  - Non-redundancy Network & Crown Transformation, IT Transformation, Separation costs – we have selected a sample of 60 transactions; and
  - Business Transformation Costs – we have covered 100% of the balance by our testing.
- Detailed Income Statement transactions testing was introduced during FY16 audit following the changes in EY Audit Methodology, as noted above.

c) Managements' estimates and elements of unpredictability

We have also focused our attention on auditing Management's Estimates. We are in process of performing the following procedures as part of our audit of Management's estimates:

i) Further application of professional scepticism – we have obtained audit evidence to support Management representations and are reviewing any existing contra evidence for Management's estimates. We have obtained a sufficient understanding of the particular methods/models and assumptions used by Management to develop their accounting estimates. We are testing the integrity of the data that is applied to those methods/models and assumptions, and considering all available meaningful information related to those estimates – both corroborative and contrary.

ii) We have had discussions with Management to understand the process for identifying accounting estimates and assess the inherent risk for each accounting estimate.

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iii) We have obtained a detailed understanding of the estimation of Significant Class of Transactions ('SCOT')* affecting the significant accounting estimate, including:

- The method and where applicable the model, used in making the estimate;
- Whether there was/should have been a change from prior year method for making the accounting estimate and the reasons behind it;
- Whether Management used a specialist;
- The assumptions underlying the accounting estimate, including understanding the relevant factors underlying the assumptions (e.g. financial and operating plans, accounting policies selected, historical trends);
- How data on which the accounting estimate is based is generated;
- How the estimation SCOT is initiated, recorded, processed, reported and incorrect information is corrected;
- The policies and procedures that apply to the estimation SCOT;
- The effect of IT on the estimation SCOT;
- Relevant controls over the estimation process; and
- Whether Management has assessed the effect of estimation uncertainty, and if so, how.

Based on our analysis we classified the estimates identified by the level of risk, including lower, higher and significant risk estimates. Our audit procedures for each type of estimate identified are in progress.

iv) We have also added the elements of unpredictability. We selected transactions for testing using random techniques, rather than transactions above certain set thresholds.

iv) We also planned to perform retrospective review of accounting estimates, via checking the precision of Management's prior estimates and assumptions made for certain areas as at 29 March 2015. At the date of writing this paper, this analysis is in progress.

c) Subsequent Events Review audit procedures

For the purposes of year ended 27 March 2016 in order to mitigate any issues we are taking following further actions:

- We have hold meetings with other key personnel outside the Finance team on current business operations results and their risks areas to identify any subsequent events.
- We will ensure that the subsequent event period covered by our audit procedures is up to the final date of sign-off:

We will perform our subsequent events review audit procedures in two stages:

Stage 1 – we will perform detailed subsequent events procedures as at date of the Audit and Risk Committee meeting on 19 May 2016;

Stage 2 – we will update our subsequent events review procedures as at the date of the Financial Statements sign-off.

** We identified the following Significant classes of transactions as part of our audit:*

- *Business combinations accounting and goodwill impairment (valuation) – Project Hawk – Higher Risk Estimate;*
- *Postmasters' compensation provision (completeness) – Significant Risk Estimate;*
- *Disposal of mobile operation – Higher Risk Estimate;*
- *Release of accrued revenue (£5m) – Project Gamma – Lower Risk Estimate.*

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During stage 2 our update on subsequent events will cover a detailed subsequent events review for significant Management's estimates (including business combination accounts and goodwill impairment, disposal of mobile operation and postmasters' compensation provision). We plan to perform a detailed review of the events and transactions occurred during the period from 19 May 2016 to the date of sign-off and request Management's representations on subsequent events. In addition we will have discussions with key personnel outside of Finance team to update our understanding of assumptions used for significant Management's estimates and to check whether any events occurred post 19 May 2016 which may have impact on assumptions applied.

- Coordination of EY subsequent events procedures with Management's process for identification of subsequent events and review of the supporting documents for any subsequent events identified;
- Use of lower thresholds for selecting a sample of transactions for subsequent events considerations testing and hindsight analysis.

6. Detailed Overview of the Audit Procedures performed in respect to each of the Balance Sheet accounts and Income Statement

At the planning stage, we have performed a detailed overview of the audit procedures designed at planning stage. We are continually reviewing the audit procedures performed and the respective results during the course of our audit on a continuing basis. This allows us to enhance our audit process in the following aspects:

- Timely adjustment of the audit procedures for any unusual transactions identified as part of our audit procedures to ensure that those are covered by appropriate audit tests;
- Select the most efficient and appropriate audit tests for significant classes of transactions, including significant accounts and estimates; and
- Look back analysis based on the final draft financial statements to check whether the audit tests performed cover all the risks identified and represent the robust evidence over the amounts recorded in the financial statements.

7. Extended use of EY analytic modules

We are using EY analytic modules to identify transactions which are unusual or not in line with our expectations. We are checking manual journal entries separately. We have included revenue journal entries batches for our testing using EY analytics module. We are checking relevant supporting documentation and Management analysis for the journal entries selected for testing. We have used analytics module to do analysis around payroll and unrecorded payments. At the date of writing this paper, this analysis is in progress.

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Horizon Scanning Report

Author: Jane MacLeod
Meeting date: 19 April 2016

Executive Summary

Context

As part of its remit, the Board Audit Risk & Compliance Committee should consider legal, regulatory and other external developments on behalf of the Board in order to ensure that impacts on Post Office (including its customers, staff, suppliers and stakeholders) are understood and being appropriately managed. This report highlights current developments of relevance to Post Office and the work that is being done to monitor these.

Questions this paper addresses

1. What are the material legal, regulatory and other external risks the Post Office executive and Board should currently be aware of?
2. What work is being undertaken to assess, monitor and mitigate these risks?
3. Who is accountable for this work and how will it be reported through Post Office governance structures?

Conclusion

1. There are a number of material developments which either will or could impact Post Office and details of these are set out in this summary.
2. In each case work is being undertaken to monitor and assess the risks arising from these developments. The Corporate Services team is working with the different stakeholders to progress this assessment.
3. Governance structures and reporting lines will be developed to ensure there is appropriate representation from across Post Office in formulating responses to, and mitigation plans for, these developments.

Input Sought

The ARC is asked to note these developments.

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The Report

Trade Union Act

1. The Act, which received Royal Assent on 4 May 2016, reforms various aspects of the law on industrial action and trade union obligations and activities. The Act will be brought into force by statutory instrument in due course; no commencement date has been set as yet.

2. The changes have been made to ensure strikes can only go ahead as a result of a clear and positive democratic mandate from union members. Importantly, the Trade Union Act will ensure industrial action only ever goes ahead when there has been a ballot turnout of at least 50%.

3. Key provisions are:

   - requirement for at least 50% turnout in votes for industrial action
   - in certain public services, including in the health, education, transport, border security and fire sectors, an additional threshold of 40% of support to take industrial action from all eligible members must be met for action to be legal
   - setting a 6 month time limit (which can be increased to 9 months if the union and employer agree) for industrial action so that mandates are always recent
   - requiring a clearer description of the trade dispute and the planned industrial action on the ballot paper, so that all union members are clear what they are voting for
   - creating a transparent process for trade union subscriptions that allows new members to make an active choice of paying into political funds
   - ensuring that payroll deductions for trade union subscriptions are only administered where the cost is not funded by the public

4. The broad effect of these changes for organisations such as our own will be to increase the predictability around, and notice of, impending strike action. Legal will work together with the IR Team to ensure these changes and their implications are understood by relevant team members.

Ofcom Review

5. On 16 June 2015, Ofcom announced a wide ranging review of the regulation of Royal Mail. The scope of the review is to ensure that the regulatory framework within with Royal Mail operates remains appropriate to secure the efficient and financially sustainable provision of the universal postal service (USO) against the backdrop of changes in the competitive profile of the market.

6. In July 2015, Ofcom published a Discussion Paper providing further detail on the context and purpose of the review and asked stakeholders to consider and provide answers to a number of preliminary questions on the appropriateness of its scope. Ofcom intends to complete the review during the course of 2016, with any recommendations for changes to the regulatory framework to be implemented by the end of the year.

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7. Self-evidently, any changes to the regulatory framework for Royal Mail has the potential to impact on our own obligations, particularly under the Mails Distribution Agreement, thorough which POL effectively provides services to Royal Mail which, in part, enable it to discharge the USO.

8. Accordingly, in its response to the Discussion Paper, POL put down a marker of its interest in the work of the review and POL representatives from the Mails and Public Affairs teams also met with Ofcom last autumn to establish an open dialogue. Discussions have also taken place with colleagues in the Regulatory Affairs Team at Royal Mail, in order to develop a shared appreciation of the likely direction of travel and to ensure that POL is kept abreast of developments.

9. No update or progress report has been forthcoming from Ofcom since the publication of the Discussion Paper, but we anticipate that it will come forward with its emerging thinking in the near future if it is to keep to its intended timetable. Any material developments will be reported to the RCC as they occur.

Enterprise Act

10. The Enterprise Act received Royal Assent on 4 May 2016. It retains those provisions of the Enterprise Bill designed to cap termination/redundancy payments to certain public sector employees to £95,000, which were highlighted at the ARC's last meeting.

11. Government has decided to undertake a further consultation on the range of public sector organisations to which this cap will apply, the results of which will be reflected in Regulations to be introduced in October 2016. This provides the business with a further window, and a vehicle, through which to seek to have both POL and POMS exempted from these provisions. These efforts will be led by HR, supported by Legal and Communications/Corporate Affairs as appropriate.

General Data Protection Regulation (GDPR)

12. The EU's wide ranging reforms to the Regulatory Framework for Data Protection across the EU, detailed at the ARC's previous meeting, have now been formally published in the Official Journal. This provides a date of entry into force of 25 May 2018, setting the hard deadline by which POL must be compliant.

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Appendix

STATUS OF PREVIOUSLY REPORTED DEVELOPMENTS

Issue	Brief Description	Update
Money Laundering	Implementation of the recommendations in the Promontory Report HMRC compliance audit	Please refer to separate paper in this pack.
Brexit	Assessing impact on Post Office should the result of the referendum be to leave the EU	We continue to monitor the developments with a view to assessing the possible impact of an 'exit' vote.
GDPR	New and more onerous EU Data Protection Regulation	Work is about to start on scoping the likely impact of the Regulations and the Directive on PO ahead of commencing activity to implement necessary changes.
Networks and Information Security Directive	New EU Directive to support GDPR	
Senior Managers' Regime	Statutory accountability of senior management in FCA and PRA regulated firms	No developments at this stage.
Mails – International Data Capture	Information collection requirements to support mails related dangerous goods requirements	No developments at this stage.

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Property Compliance Update

Author: Steve Norris Sponsor: Thomas Moran Meeting date: 19 May 2016

Executive Summary

Context

This paper addresses the request made by the Audit & Risk Committee (ARC) on the 17th of March to receive an update on Property Compliance Governance.

Questions this paper addresses:

1. What improvements have been made to property compliance governance?
2. What progress has been made to address the other property compliance issues raised in the March audit report?
3. What remains to be done?

Conclusion

1. The Property team, assisted by the Post Office Legal and Risk and Audit teams and Property experts from BNP Paribas, has completed the assessment of the key risks and the prioritisation of any remedial projects.

The Property team has assessed its operating model and specific monitoring controls over Property regulatory including environmental and H&S risks have been clearly assigned within the Property Team and service suppliers. Engagement and co-ordination processes have been established with stakeholders across the business.

2. There has been significant progress towards achieving full property regulatory compliance since the last update. Work to remedy identified high risk items has been completed and plans have been developed and included in our 2016/17 budget for dealing with identified medium risk remedial works.

3. Further work is needed to improve the culture of prioritising the identification and reduction of property and health and safety risks at operational sites, including the prevention of fire hazards. This will be achieved by closer working between the Property (Steve Norris), Health and Safety (Martin Hopcroft) and Network Operational (Steve Blampied) teams and branch manager training by the H&S Team which will be completed by June 2016.

Input Sought

The Audit & Risk Committee is asked to note this report and endorse the approach to further mitigating and managing Property compliance set out in the paper. This paper has already been reviewed and approved by the Risk & Compliance Committee.

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The Report

What improvements have been made to property compliance governance?

1. The Property team is implementing improvements against five pillars of good governance processes:

(1) Leadership, accountability and culture

a. The desired risk appetite has been discussed with all property and facilities management suppliers (the H&S team is aware of the business risk appetite).
b. The scope and responsibilities for service suppliers and Facilities Managers have been reviewed and H&S responsibilities have been clearly assigned to them.
c. Representatives from the Network and Health & Safety teams now attend the monthly Property Compliance Forum which provide oversight of all the key property-related H&S risks and incidents.

(2) Structure, processes and performance oversight

a. We have re-prioritised the role of Facilities Managers to focus on identifying and minimising the higher risks within the property estate and the suppliers' operations. "Duty holders" and "Responsible Persons" roles have now assigned to POL staff, with Tom Moran now the Duty Holder having taken on the role of General Manager, Network, on 9th May 2016.
b. Training for the Post Office property team, Duty Holders and Responsible Persons on key statutory compliance areas is ongoing and will be completed by the end of June.
c. Facilities Management suppliers' competency has been self-assured against best standard.
d. Relevant policies and handbook have been reviewed and will be signed off shortly.

(3) Risk Monitoring

a. Assessment of the key risks and the prioritisation of any remedial projects have been completed.
b. The development of the compliance controls framework, which defines the ongoing compliance controls across the property estate for all the key stakeholders, is nearly complete, pending update on Person in Control ("PiCs") and Facilities Managers' new responsibilities.

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c. Facilities management contractors' polices, compliance regimes have been checked and approved by the Post Office Property team.
d. Relevant policies and handbook have been reviewed and will be signed off shortly.

(4) Engagement with stakeholders

a. Integration and co-ordination between the Property and H&S teams has improved and we are now attending each other's planning meetings and reporting jointly to the Health & Safety Sub-Committee.
b. Compliance communication and planning with facility management suppliers has improved with visibility of their performance via attendance to the Property Compliance Forum and formal monthly supplier operational meetings.

(5) Management of information

a. Regular incidents/near miss reports are being produced by facility/estate management suppliers and discussed at the Property Compliance Forum.
b. Board/Committee papers: a joint monthly report including H&S and Property is now being issued to the Group Executive team on property compliance issues monthly.

What progress has been made to address the other property compliance issues raised in the March audit report and what remains to be done?

1. Regulatory risk progress

There has been significant progress towards achieving full property regulatory compliance including reducing the risk of breaches of health and safety and environmental law since the last update.

2. Property regulatory compliance risk assessments

Risk assessments have now nearly all been completed by our suppliers (see Appendix 1). There has been some slippage owing to practical difficulties encountered by our suppliers e.g. difficulties gaining access and reliable information. Work to remedy identified high risk items has been completed and plans have been developed and included in our 2016/17 budget for dealing with identified medium risk remedial requirements; mainly electrics, asbestos, building fabric and legionella.

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3. Electrical testing

Electrical testing is now 91% complete. There has been a 1 month slippage due to access issues, but these assessments will be 100% complete in May.

4. Residential risk assessments

Residential risk assessments for fire and fixed wire testing are ongoing due to be completed by the end of May and lower risk water risk assessments (which are not a statutory responsibility) by the end of May. Remedial works such as fitting smoke alarms and carbon monoxide should all have be fitted by mid-May. External fabric of residential properties has been assessed. Internal inspections have only highlighted damp issues at one property. Gas inspections are also complete.

5. Environmental law

There has been significant focus on waste management across the POL estate to avoid fixed penalties and other enforcement being taken against POL. Regulation concerning the management of waste is restrictive and easy to breach. POL is reliant upon Servest and our PiCs to ensure compliance. Servest have retrained and communicated with their staff the need for strict compliance and POL has sent communications to PICs followed up by phone calls to ensure their responsibilities are understood. This is an area of ongoing concern as breaches are still occurring. We have an action plan in place now with Servest to address this. While the most usual enforcement is by small fixed penalty fines of £50-£100 we have faced prosecution for abandonment of waste outside our own premises (successfully defended) where the fine could have been within a range of £7K to £25K.

POL's annual Carbon Reduction Submission was completed and submitted to the Environment Agency in September last year for the year 2014/15. The Environment agency additionally carried out an audit on the previous year's submission in 2013/14 which was also found to be satisfactory.

6. Fire risk and housekeeping

The most significant area to improve is in housekeeping to manage fire risk. This was reported by CBRE to the Property Compliance Forum as a finding from their risk assessments, currently carried out over 93% of the estate.

We are taking immediate action to mitigate the high risk of fire identified at some Crown sites. The GM of the Crown network is issuing Comms to all Crown Branch managers (who are the PiCs) emphasising the importance of acting on the recommendations of

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the recent site assessments. This will be followed this month by an on-site visit to every Crown branch by a CBRE engineer.

In addition, all PiCs have been mandated to undertake PiC training by the end of June. This is important as Many PiCs are Managers who have relocated, are new in post or are simply overdue a refresh of their original training. The outline for training is outlined in Appendix 3.

We are engaging with Network Operations to propose the implementation of:

a) Peer to peer compliance review in accordance to industry best practices or an equivalent alternative process. This will be actioned in May.
b) Regular reviews and appraisal of PiCs Property compliance performance by their line managers.
c) Clear audit trail of compliance actions identified and resolved.
d) Improve communications processes between Property, Network Operations and H&S teams.

7. Leadership, accountability and culture

Work is ongoing to ensure that the culture of health and safety across the business is aligned to the 'risk averse' appetite for the areas where opportunities to improve have been noted. The plan in summary is as follows:

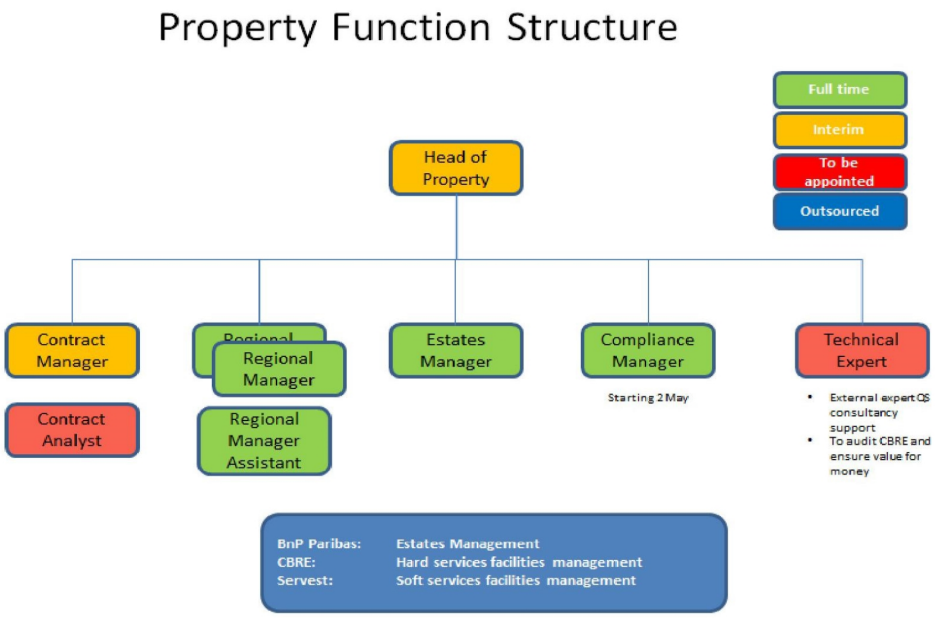
- Compliance programmes addressing the risk assessments as set out in Appendix 1 will be completed in the financial year 2016/17. The Compliance Forum, chaired by Steven Norris, is the entity which will manage completion of this programme of work. The delivery of compliance works will be undertaken by CBRE.
- Site by site risk assessments will be produced by CBRE, which manages the high risk areas and enhanced with insights from Servest and the H&S team. This has been live, and being reviewed by the Compliance Forum, since April 2016. This risk based view is now being used to prioritise site visit audits by POL's Facilities Managers to ensure high risk areas are continually identified and addressed either through the PiCs, CBRE, BNP the H&S teams or Servest. This will be an ongoing process in perpetuity and key risks will be escalated up to the RCC and Post Office GE through monthly reporting from the Compliance Forum.

The role and responsibilities of the PiCs and training needs are being reviewed by the H&S and property teams at present. The Network Operations Team has been engaged and they will attend the Compliance Forum to ensure that PiCs responsibilities get implemented and monitoring mechanisms of their activities are established by June.

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8. Structure, processes and performance oversight

The future stability of the Property and Health and Safety teams must be assured in order to enable the implementation of the new operating model and ensure that appropriate property regulatory compliance including health and safety matters are properly addressed and monitored going forward. The structure of the Property Team is shown below:



(Note: the above structure exclude: Crown Transformation and NT and Equipment teams. These teams have a different reporting line)

There are additional statutory roles of Duty Holders and Competent persons required under environmental law, health and safety law and other statutory compliance, for each of the 14 areas of compliance. These roles have all been defined and individuals appointed within the Post Office. The table at Appendix 2 explains these roles and the appointee. In addition the role of Competent Person is fulfilled by our suppliers, Servest and CBRE and their competency has been recently checked.

The business should be aware that in the event of enforcement, the relevant authority may look to enforce against Group Executive Members and Directors.

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The compliance controls activities for PiCs and H&S teams are to be finalised and integrated with the activities of the Property Team and a final meeting to implement this is planned on 25th May.

There is ongoing work to improve the management of risks across the estate and risk reporting. Particular focus will be given to shared premises and third party occupied properties where obligation may be shared especially between Royal Mail Group (RMG) and POL. A programme of work covering these risks is being prepared by CBRE which will then need to be for action to by RMG.

9. Risk Monitoring

The compliance control framework has been developed which has addressed critical areas. Other priority areas are now being addressed. Amended policies will be signed off and implemented.

The Property Compliance Forum recommended that once the new operating model and compliance governance framework has reached business as usual, an operating benchmark exercise is carried out to ensure that structure and processes in place are designed and operating as expected for an organisation of this size and complexity. We anticipate this to be around August.

10. ARC and RCC support

Continued support is required from the ARC and RCC to ensure all involved give these objectives the high priority they demand and that behaviours are fostered and appropriate decision are taken to fully support these objectives.

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Appendix 1

Status of compliance risk assessments

Planned Maintenance	% inspected	Risk	Completion date	Next steps
Fire Risk Assessments	93%	M-H	End May	13 sites remaining. Cultural improvements still needed at sites
Asbestos	100%	M	30 April	All high risk items access controlled while containment is completed.
Radon	100%	L	Complete	No risk areas identified nor unlikely to be in phase 2 assessments
TM44	100%	L	Complete	Highly inefficient boilers, coolers and lighting systems being replaced in 2016
Lift Insurance Inspections	100%	L	Complete	Minor defects remedials actioned to Lift service contractor
PAT Testing	100%	L	Complete	Minor issues. All have been addressed
Fixed Wire	91%	M	End May	All high risk areas addressed. Medium risks will be addressed in 16/17
Pressure	100%	L	Compete	No issues
Energy Certificates	100%	L	Complete	Minimal issues. Reports now being received
Legionella	91%	M	End May	43 remaining, these are being planned to be completed within May
Building fabric	100%	M	Complete	Mainly security and access risks which will be addressed in 16/17

Note: This table explains the recovery of the backlog of overdue risk assessments over the last 6 months. Going forwards risk assessments will be undertake on a rolling programme as they become due.

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Appendix 2

Duty holder and Responsible Persons roles and appointed person

STATUTORY RESPONSIBILITIES					
TOPIC	**LEGISLATION**	**Main Regulatory Bodies**	**PROPOSED RESPONSIBLE PERSON**	**JOB TITLE**	**DUTY HOLDER NAME**
Electricity	Electricity at Work 1989 (Regulation 3)	Health and Safety Executive Local Authority	**Steve Norris**	Interim Head of Property	Tom Moran (General Manager, Network)
1.Legionella Management	The Control of Legionella Bacteria in Water Systems (AcoP L8) & The Notification of Cooling Towers and Evaporative Condensers Regulations (1992)	Environmental Agency	**Kevin Harris**	Facility Manager	Tom Moran (General Manager, Network)
2. Waste	Environmental Protection Act 1990, Section 34.	Environmental Agency	**Cheryl Hurd**	Facility Manager	Tom Moran (General Manager, Network)
Asbestos	The Control of Asbestos Regulations 2012, Regulation 4	Health and Safety Executive Local Authority	**Andy Masson**	Equipment, Facilities and Deployment Manager, Service Delivery	Tom Moran (General Manager, Network)
3. Health & Safety	The Health and Safety at Work Act 1974, Section 4 COSHH regulation Environmental Liability Directive	Health and Safety Executive Local Authority Natural England (i.e. Environmental Liability	**Martin Hopcroft**	National Safety, Environment & Wellbeing Manager	Martin Hopcroft
Pressure Systems	Pressure Systems Regulations 2000	Health and Safety Executive	**Steve Norris**	Interim Head of Property	Tom Moran (General Manager, Network)
Lifts & Lifting Equipment	Lifting Operations and Lifting Equipment Regulations 2008	Health and Safety Executive Local Authority	**Kevin Parkin**	North Network Change Manager, Property	Tom Moran (General Manager, Network)
Fire	Regulatory Reform (Fire Safety Order) 2005 & Part 3 of the Fire (Scotland) Act 2005, supported by the Fire Safety (Scotland) Regulations 2006.	Health and Safety Executiv	**Simon Eldridge**	National Safety, Environment & Wellbeing Manager	Tom Moran (General Manager, Network)
Natural Gas Systems	Gas Safety (Installation and Use) Regulations 1998	Health and Safety Executiv	**Steve Norris**	Interim Head of Property	Tom Moran (General Manager, Network)
Construction/Projects	Construction (Design & Management) Regulations 2015	Environmental Agency Health and Safety Local Authority	**Andy Mason**	Equipment, Facilities and Deployment Manager, Service Delivery	Tom Moran (General Manager, Network)
Ionising Radiation	Ionising Radiation Regulations 1999	??	**Steve Norris**	Interim Head of Property	Tom Moran (General Manager, Network)
Carbon	Carbon Reduction Commitment	??	**Kevin Harris**	Interim Head of Property	Tom Moran (General Manager, Network)
Environmental & Sustainability		Environmental Agency Health and Safety	**Kevin Harris**	Facility Manager	Tom Moran (General Manager, Network)
F-Gas		Health and Safety	**Steve Norris**	Interim Head of Property	Tom Moran (General Manager, Network)

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Appendix 3

PiC training approach

Context - There was a requirement to refresh the content of the online Person in Charge training product and make available to all PiCs across the Post Office Estate. Although this was recognised by the Health & Safety Team, this was also a recommendation through the Property Compliance Risk Review.

Reason - Many PiCs are Managers who have relocated, are new in post or are simply overdue a refresh of their original training. Due to IT issues, it has been difficult to update the previous version of the PiC Training and therefore a new product has been created and is currently being tested by our external provider and H&S Business Partners.

Topics – The PiC training covers the general PiC duties and areas of responsibility including Health & Safety Duties, undertaking risk assessments, hazard surveys, ensuring Site Log Books are maintained, keeping H&S training records, fire risk assessments and training, evacuation plans, testing fire alarms and emergency lighting, knowledge of RIDDOR and control of contractors including signing in logs.

Assurance – The H&S Business Partners will have access to Certificates of Compliance with dates that PiC training has been completed and these will be supported by a central view of certification of PiC training module completion via the Training team. There is a requirement for PiC Training to be refreshed every 3 years.

Inspections – These are undertaken by Trade Union rep Inspections (2 per year) and H&S BP Audits at high risk sites. Facilities Managers will also be auditing high risk sites and undertaking property audits. At all inspections and audits the question will be asked whether the PiC training has been undertaken and certificate in date.

Timescales – The new product has been returned to the H&S Team for final review and it is expected that the PiC Training will be launched across POL be the end of May 2016. Local Risk Assessments will be completed in May / June 2016 at all sites and the Certificates of Compliance collated and checked in June 2016.

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POLARC 16(3rd)
POL ARC 16/21 – 16/32

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE held at 10.30am on 19th May 2016 at 20 Finsbury Street, London EC2Y 9AQ

Present:

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

In Attendance:

Paula Vennells	Chief Executive, (CEO) (Minute 16/21 to 16/30)
Alisdair Cameron	Chief Financial Officer (CFO) (Minute 16/21 to 16/30)
Jane MacLeod	General Counsel (GC) (Minute 16/21 to Minute 16/30)
Nick Kennett	Financial Services Director, & CEO POMS (NK) (Minute 16/21 to 16/30)
Alwen Lyons	Company Secretary (CoSec)
David Carter	Financial Controller (DC) (Minutes 16/21 to 16/26)
Paul Hemsley	Financial Controller Designate (PH) (Minute 16/21 to Minute 16/30)
Mike Morley-Fletcher	Head of Risk and Assurance, Corporate Services, (MMF) (Minute 16/21 to 16/30)
Garry Hooton	Audit Manager (GH) (Minute 16/21 to 16/30)
Peter McIver	Ernst & Young (EY) (PM)
Mounia Mukina	EY (MM)
Elena Belyaeva	EY (EB)
Amanda Bowe	Post Office Management Services Limited (POMS) Non-Executive Director and Chair of ARC (AB) (Minute 16/22 only) by conference call

Apologies:

Carla Stent	Non-Executive Director (Committee Chairman)

POLARC 16/21 INTRODUCTION

(a) A quorum being present, Tim Franklin opened the meeting, and conveyed the apologies of Carla Stent, ARC Chairman, for her absence. The members of the meeting appointed Tim Franklin as the meeting Chairman.

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

POLARC 16/22 REPORT FROM POMS ARC

(a) The Chair welcomed AB who joined the meeting by phone.

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(b) AB gave a verbal report from the meeting of the POMS Audit, Risk and Compliance Committee which had taken place on 10 May 2016.

(c) The POMS ARC had received a report and presentation from Kevin Gilliland, POL Network & Sales Director, and Jonathan Hill, POL Head of Financial Services Risk, on the oversight of Post Office as Appointed Representative of POMS. From this the POMS ARC had taken comfort that POL was taking steps to address various issues of concern. **The Chairman asked for the report to be circulated to the POL ARC.** The POMS ARC had asked for an action plan to show how POL would mitigate the risks.

ACTION: General Counsel

(d) AB reported that the POMS ARC and Board had discussed the Annual Report and Accounts and the treatment of £2m of goodwill on the balance sheet. This had now been resolved and agreed with the EY.

ACTION: Company Secretary

(e) **The Committee noted the report, and it was agreed that a meeting of the POMS & POL ARCs should be arranged in September.**

(f) The Committee noted the minutes of the meeting of the POMS Audit, Risk and Compliance Committee which had taken place on 15 March 2016.

(g) The telephone call ended.

POLARC 16/23 HORIZON OUTAGE

(a) The CEO updated the meeting on the Horizon outage which had occurred on the morning of the 9th May. Since the problem, which led to an outage of up to 90 minutes in some branches, the system had been stabilised and there had been no further issues. A full root cause analysis had still to be completed by Fujitsu (FJ) but the CEO assured the ARC that she had been personally receiving reports every 4 hours on the performance of the system.

(b) The CFO explained that over the last few weeks the servers had been subjected to several checks which had all been completed successfully. However, a switch from the secondary to primary server, although successful throughout the weekend, had failed on Monday morning with the higher volumes.

(c) The CFO reported that a formal contract escalation had been put in place with FJ, and that he would not be comfortable until it was clear why the outage had happened, and therefore no further changes would happen until the cause was understood.

(d) The ARC asked what the risk of another failure was. The CFO explained that the system appeared to be stable and that no

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further resilience check would be carried out until a full root cause analysis identified the problem.

(e) The ARC asked if any customers or subpostmasters would have been affected. The CFO explained the recovery instructions which were generated in the case of a systems failure. The helpline had also been informed and had not seen any increase in discrepancies.

ACTION: Garry Hooton

(f) **The ARC asked internal audit to check the incident and recovery process to ensure it had worked correctly.**

ACTION: CFO

(g) **The CFO was asked to update the Board and come back to the ARC in September with a report on the root cause analysis of the incident.**

POLARC 16/24 MINUTES OF THE MEETING HELD ON 17 MARCH 2016, STATUS REPORT AND MATTERS ARISING

(a) The minutes of the meeting held on 17 March were approved as presented and the Chair of the Committee was authorised to sign them as a true record.

(b) The Committee noted the actions list dated 12th May 2016, it was agreed that action POLARC 16/03 (q) would report in September.

POLARC 16/25 ANNUAL REPORT AND ACCOUNTS (ARA)

(a) The CFO introduced the draft 2015/16 Annual Report and Accounts (ARA) explaining that they were presented to the Committee for review and comment.

(b) The CFO explained that both EY and the Post Office had completed most of their audit work with 80% of the reconciliation completed, and no material issues had emerged to date.

(c) The Financial statements would be presented to the Board on the 24th May, with the proposal of delegating authority to the ARC to sign off the final ARA. **An ARC conference call to be organised for the end of June.**

ACTION: Company Secretary

(d) The CFO explained that since the decision was taken not to include a statement of compliance with the spirit of the UK Code of Corporate Governance EY had clarified which parts of the report could be shorted or removed. In the draft ARA presented to the meeting the segmental reporting note had been removed; the directors remuneration reporting had been reduced, although with more disclosure in the notes to the accounts; but the risk sections had remained.

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(e) The ARC discussed the Directors' Remuneration Report and whether there was a desire to include more detail than the minimum required. It was agreed that reducing the disclosure would be difficult to explain and might appear less transparent than in the past. The ARC were comfortable with the current draft and would recommend this disclosure to the Board.

(f) The CFO explained that the usual accounting policy adopted by the business to impair capital items in the year of expenditure, had been changed for the POMs goodwill, leaving £44m on the balance sheet as the value was not dependent on POL trading.

(g) The ARC discussed the contingent liabilities and the proposal to disclose the notification of the claim filed in the High Court, regarding Sparrow. The ARC agreed that a disclosure should be made and EY supported this position.

(h) The ARC asked EY what scope they had found for management to override systems. EY recognised that where manual controls were in place there was room for tighter controls, especially around taking leavers off the systems and ensuring users rights were updated if roles changed. They stressed that these were usual points which had been raised in previous years but that they had no ultimate concerns over the accounts.

(i) The ARC asked EY their view on the robustness of the revenue reconciliations. EY explained the work being undertaken by KPMG to check that revenue was correct and accurate for the major contracts. EY had no concerns of management manipulation on the accounts systems and were satisfied that the systems were producing information correctly for the accounts. They stressed that there was still room for improvement by automating systems and reducing the reliance on manual inputs and spreadsheets.

ACTION: CFO

(j) **It was agreed that the CEO, CFO, Chairman of the ARC and EY would have a final session to review the accounts**

(k) The ARC discussed the disclosure of proposed supply chain redundancies and it was agreed that these changes should not be included as they are subject to a 90 day consultation period.

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ACTION: ALL/CFO (l) **The ARC were asked to raise any outstanding points with the CFO, who would raise them at the Board if they remained unresolved.**

POLARC 16/26 **ANNUAL REPORT AND ACCOUNTS DISCLOSURES**

(a) MMF introduced the approach to the Corporate Governance compliance disclosures and the risk and control disclosures to be included in the ARA. MMF acknowledged that there was still work to be done but believed that the introduction of the control framework along with the work on risk mitigation had made things clearer.

(b) The ARC agreed the 'Managing our risks' section of the ARA.

(c) The ARC agreed the 'Principle Risks' section of the ARA.

ACTION: MMF (d) **The ARC asked that the 'Board's Annual Assessment of risk management and internal control systems' acknowledge the remedial work done, at the request of the ARC, following the subpostmasters' compensation provision error.**

ACTION: Company Secretary (e) **The ARC also asked the Report of the ARC to be amended to include the challenge of both EY & the Business after the subpostmasters' compensation error.**

POLARC 16/27 **RISK AND CONTROL UPDATE**

(a) MMF introduced the Risk and Control Report. The ARC queried the delay in the risk framework project plan and asked why developing the route map to corporate governance compliance had been rescheduled from May to September.

(b) MMF explained that priority had been given to the Internal Control Framework and Executives' Declarations as these were of more immediate concern.

(c) Policy Framework. MMF explained the key Policy Framework containing 16 key Corporate Services (CS) policies, with additional 7 key policies from other parts of the Business. Of the 16 CS policies all were in place except the Conflicts of Interest policy. The ARC asked MMF to ensure that all policies included specific dates for approval, and a rolling calendar for presentation to the ARC and the Board.

ACTION: MMF (d) **The ARC asked that Physical Security be reported to the ARC, and Treasury Risk Management be recommended by the ARC for Board approval.**

(e) Whistleblowing policy. The ARC asked that the policy be amended to include the act of exposing 'potential' wrongdoing. The list of examples to be extended to include, money laundering and terrorism.

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(f) Taking into account the input from the ARC the policy was approved.

ACTION: Company Secretary

(g) **The Chairman asked that an arcchairman GRO email address be set up and quoted in the whistleblowing policy.**

(h) Business Continuity Management Policy. The ARC asked how the processes highlighted in the policy should have been used during the recent Horizon outage.

ACTION: General Counsel

(i) **GC explained that the framework had been invoked however there were lessons to be learned from the process. A further BCP test would be carried out in due course and this test would be included in the Horizon report to the ARC in September.**

ACTION: General Counsel

(j) **The ARC asked for further detail of the business continuity capabilities of the top suppliers, by materiality and complexity.**

(k) Taking into account the input from the ARC the policy was approved.

(l) Executive Declaration. The ARC noted the paper and supported the approach to disclosure.

POLARC 16/28 INTERNAL AUDIT

(a) GH introduced the internal audit report, and was pleased to report a significant reduction in overdue actions. Reports on the Social Media Review; Treasury Operational Risk Review; and Critical Metric Scorecard were presented to the ARC.

ACTION: GH

(b) **Business Transformation Portfolio Management including the overall assurance plan would be presented at the September ARC**.

(c) Treasury Operational Risk Review. The ARC highlighted the findings in the treasury function. The CFO acknowledged the lack of segmentation of duties and assured the ARC that although no issues had arisen he recognised that the situation was unacceptable. He reported that an offer of employment had been made to a new treasurer. The ARC asked the CFO to ensure the continuity was maintained as the new financial controller took over accountability.

ACTION:CFO

(d) **CFO was asked to provide a report on the actions put in place to mitigate the risks highlighted in the Treasury report.**

(e) Taking all of the discussion points into consideration, the Committee noted the report.

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(f) Outstanding Audit Actions. GC introduced the report on outstanding audit actions focussing on contract management. The ARC were concerned by the delay in dealing with the contract management issues.

(g) GC explained that the contract management framework had been put in place in 2015 to identify all significant contracts and how they were managed. All new contracts were now controlled centrally and the next phase was to establish a data base for all contracts to ensure their obligations, both on Post Office and its suppliers are identified and managed effectively. GC acknowledged that the work was taking longer than she would have liked but explained that the resource had been prioritised onto the Trinity project, but was now available to undertake this work.

ACTION: GC

(h) **The ARC asked GC to write to the members to explain what would be presented at the September ARC.**

(i) The ARC asked EY whether the external audit had focussed on major contracts and contract management. EY explained that the audit had reconciled the ledgers back to the terms in the major client contracts, but that no specific work had been undertaken on contract management. EY could include contract management in the audit plan for 2016/17; this would test a small number of major contracts.

ACTION:EY

(j) **EY were asked to pull out examples of where contracts were examined during the audit**

(k) The Committee noted the report on outstanding audit actions.

POLARC 16/29 **AML & CTF AUDIT ACTIVITY**

(a) GC introduced the AML & CTF update and reported the continued work with HMRC to manage the AML & CTF audit. HMRC have undertaken 5-6 escorted branch visits as an education exercise to understand how the business manages AML & CTF. HMRC and the business are continuing to work closely together. HMRC is expected to advise shortly how they wish to conduct the branch audit and the number of branches to be inspected.

ACTION: GC

(b) **GC explained the work underway to implement the recommendations of the Promontory Report. Any material findings to be reported to the September ARC.**

(c) The GC advised that the Prime Minister had recently indicated that legislation would be introduced that was similar to the Bribery Act, which would impose a duty on organisations to "prevent" financial crime. Additionally it was expected that the introduction of the 4th Money Laundering Directive would, as a minimum, lower the levels at which identification for transactions would be required. Both these initiatives were expected to be

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more onerous for the business to comply with and the impact would be monitored once details were available.

POLARC 16/30 NOTING PAPERS

(a) **Audit Quality Enhancements**
The Committee noted the paper.

(b) **Horizon Scanning**
The Committee noted the developments outlined in the paper.

(c) **Property Compliance Update**
The Chairman welcomed TM and SN to the meeting.

(d) The Committee noted the update and endorsed the approach to further mitigating and managing property compliance.

(e) The Executive left the meeting, leaving the ARC members, EY and the Company Secretary.

POLARC 16/31 PRIVATE MEETING WITH THE EXTERNAL AUDITORS

(a) Minutes of the discussion are shown in a separate appendix.

POLARC 16/32 CLOSE

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

....
Chair **Date**

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APPENDIX TO THE ARC MINUTES

PRIVATE MEETING WITH THE EXTERNAL AUDITORS

POLARC 16/31 **PRIVATE MEETING WITH THE EXTERNAL AUDITORS**

(a) EY reported that overall the audit had run relatively smoothly, and that the team had worked well with management. It had been beneficial to have a new set of eyes. PM had had a meeting with Carla Stent, Chair of the ARC and Paula Vennells the CEO.

ACTION:EY (b) **There were still concerns over manual processes and use of spreadsheet. The ARC asked EY for a list of the systems which need automating, prioritised depending on the risk.**

(c) The relationship with the CFO had improved and was becoming more open. The CFO had explained IRIS and the pension changes to EY and agreed with all the EY adjustments. The only contentious issue had been the treatment of POMS goodwill, and EY thought that the finance team could have been more proactive with their explanation.

(d) The ARC recognised the importance of having a robust EBITDAS outturn in 2016/17 and the need for robust challenge of the assumptions regarding exceptional items.

(e) EY assured the ARC that there had been no evidence of manipulation of the EBITDAS and that the only discussion had been around the decision to treat mobile as a discontinuous item, which EY were comfortable to support.

(f) EY acknowledged that there were always challenges regarding exceptional items in every audit, not just at Post Office. The ARC stressed that it was very important to have clarity and rigour of exceptional items in 2016/17.

ACTION: CS/KM/TF (g) **Chair of Audit, Chair of RemCo and Tim Franklin to discuss the format of an attestation from EY on the exceptional items affecting the EBITDAS number of 2016/17, to give comfort for the incentive payments. TOR of reference for the work to be agreed and then shared with EY and the CFO for inclusion in the external audit TOR.**

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Post Office Ltd
Post Office ARC
19 May 2016

Location:

1.19 Wakefield , Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ, United Kingdom

ATTENDANCE LIST

ATTENDEES	SIGNATURE
Tim, Franklin	
Callard, Richard	
McCall, Ken	

Also in attendance

Alwen, Lyons	
Cameron, Alisdair	
MacLeod, Jane	
Nick, Kennett	
Paula, Vennells	

Apologies for absence

Stent, Carla

Additional access

CoSec	
Parker, Tim	
Wechsler, Tom	