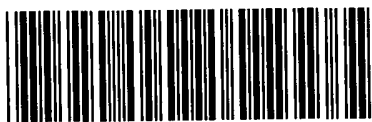




Post Office Limited

Annual Report and
Financial Statements

2015/16



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COMPANIES HOUSE

THURSDAY





An newly rebranded Nymetbei branch, chief executive Paula Vennell and chairman Tim Parker meet West Sussex postmaster Than Thevarajah. The new look branch and SPAR stores open an extra 25 hours a week including Sundays. The father Velluthapillai and his family have run Nymetbei Stores for 15 years.

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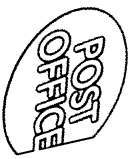
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Post Office



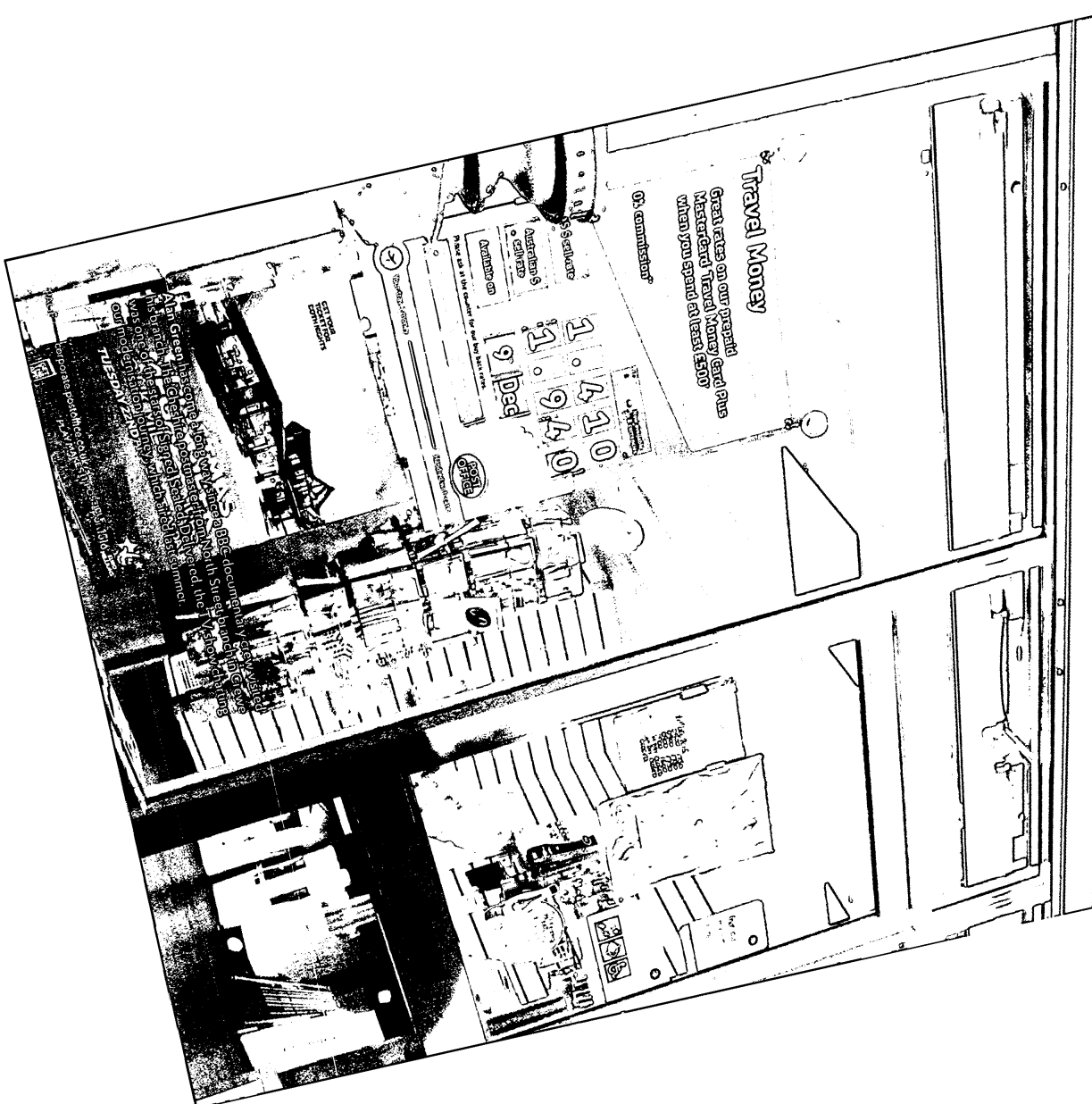
Travel Money

Great rates on our prepaid Mastercard Travel Money Card plus when you spend at least £200

Or, commission

1.410
1.940
1.940

Available on
Available on
Available on



Alan Green has set up his own business, one document at a time. He has been running his business for over 10 years, with a strong focus on providing a high quality service to his customers. He has a passion for his work and a commitment to excellence. He has a proven track record of success and a strong network of contacts. He is a highly motivated and driven individual who is always looking for ways to improve his business and serve his customers better.

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Chairman's foreword



Tim Parker
Chairman

I was delighted to be appointed Chairman of the Post Office in October 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% of the population has a Post Office within a mile of where they live.

This amounts to operating the largest retail network in the United Kingdom with over 11,600 branches dedicated to meeting the needs of a myriad of different communities throughout the country.

I am proud to be part of this long tradition of service to the public. But we are also a commercial business, and in this report we have sought to provide a clear view of how we are performing, and the challenges that lie ahead. For many years the Post Office has relied on a subsidy from the Government and has also received a considerable amount of investment from public sources to modernise the network. As a result of this investment, and thanks to the efforts of postmasters and our staff to improve our business in many areas, the public subsidy has declined steadily and EBITDAS, our key measure of performance before subsidy, has improved from a loss of £57 million last year to a loss of £24 million in 2015/16.* Considering that the EBITDAS three years ago was a loss of £116 million, this demonstrates the substantial progress made in recent years. During 2015/16 the actual Network Subsidy Payment received from the Government reduced from £160 million to £130 million and transformation funds reduced by a further £20 million.

In a time of straitened public finances, we cannot expect to call on the taxpayer

indefinitely, and the time has come for the Post Office to take on the challenge of becoming a fully sustainable profitable business, whilst at the same time maintaining its public service obligations. If we are to be successful over the medium term, we need to be capable of generating sufficient resources internally so that we can invest in business development and growth in the future. The Post Office is a national brand, trusted by consumers across a range of activities: postal services, cash transactions, financial services and telecoms. Whilst we may need a small element of Government funding over the medium term to maintain community branches and to support the cost of change, 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

* Please see the Financial and Business Review on Page 11 for the calculation of EBITDAS.

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 6,000th 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 still fits well into a thriving retail business, creating footfall, and an opportunity to enhance a personal service to customers.

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

As the Chief Executive's statement explains, several of the markets we operate in 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 stood down last year for their contribution to the revitalisation of the Post Office: Alice Perkins, my predecessor, Neil McCausland and Alasdair Marnoch. I am very pleased to welcome two new members of the Board – Carla Stent who is chairing our Audit, Risk and Compliance Committee, and Ken McCall, who as Senior Independent

Director, is chairing our Remuneration Committee. I would also like to acknowledge the supportive role of our shareholder, the Department of Business, Innovation and Skills, in the continuing development of the Post Office. Similarly, I would like to record my appreciation of the work done by our Post Office Advisory Council, 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.



Bryan Hewson
Amble Post Office

Chief Executive's statement



Paula Vennells
Chief Executive

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 overall financial support from Government by £50 million.

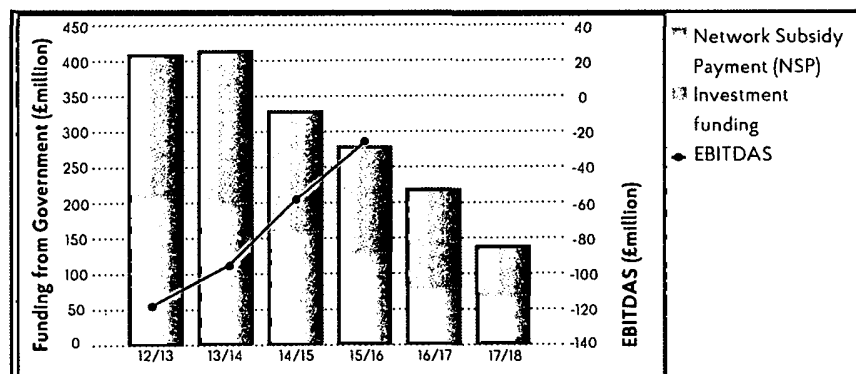
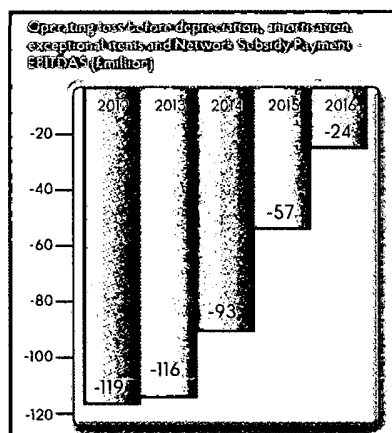
I am pleased we have maintained our commercial turnover, which went from £976 million to £981 million, in the face of very challenging market conditions. We have grown revenue in our Financial Services and Telecoms markets and maintained our Mails market position; our Government Services revenue has 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 (see graph below left).

The cash position of Post Office 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 while reducing year on year funding from Government and 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. These are increasingly essential services to local communities as banks and other businesses withdraw.

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 involves:

- 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 United Kingdom, we have passed the milestone of modernising 6,000 branches, adding 190,000 extra opening hours and improving adjacent retail/convenience offers. 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 (UK) plc and incorporating the business into the specialist insurance subsidiary Post Office Management Services Limited. We have made good progress with the United Kingdom banks to establish a set of simplified and consistent transactional services that will be available in Post Offices for their retail and commercial customers. We have commenced the restructuring and simplification of our central support functions and service centres that support our branch network and its service to customers. Also, to achieve the best chance of protecting the pension benefits of members of the Post Office section of the Royal Mail Pension Plan, we consulted and presented a recommendation to Pension Trustees on the closure of our defined benefit pension scheme to future accrual.

Our improving financial results provide confidence in our capabilities for the future. I am grateful to all those who work in Post Offices and those who support them in various centres across the United Kingdom for their huge commitment, their professionalism and their delight in serving customers.

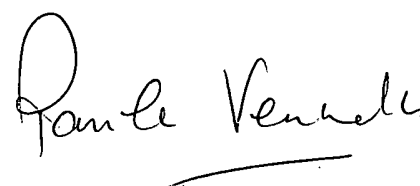
Looking forward, I am in no doubt that the Post Office has a bright future. But at present our reality is that we still make a loss. Some of our product markets are in structural decline - particularly in Government Services where the shift online has reduced turnover by 9.2%. We recognise there is greater uncertainty in the wider economy following the result of the EU referendum in June. 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, with discussions commencing shortly for the period thereafter.

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 a consultation with our people 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 communities and have a bright future serving our customers and delivering our public purpose, ensuring services are available across the country for another generation. This is the way that Post Office, with its absolute and enduring commitment to communities across the United Kingdom, will flourish into the future.





Ashburton Post Office in Devon has welcomed an apprentice to its successful team. Joanna Giles joined owners Stuart and Jackie Rogers at the Devon branch on a full-time apprenticeship.

Financial and Business Review



Alisdair Cameron
Chief Financial Officer

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 and decreases in Government Services and lottery.

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 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 from continuing operations	£105m	£103m	£2m
Operating loss before depreciation, amortisation, exceptional items and Network Subsidy Payment from continuing operations (EBITDAS)	(£24m)	(£57m)	£33m

Profit and Loss Summary

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

Revenue

The Post Office's total revenue decreased by £25 million (2.2%) to £1,111 million due to a planned 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 here:

	2016 £m	2015 £m	Variance £m	Variance %
Mails and Retail	380	388	(8)	(2.1)
Financial Services	304	290	14	4.8
Government Services	128	141	(13)	(9.2)
Telecoms	130	120	10	8.3
Other income	39	37	2	5.4
Turnover	981	976	5	0.5
Network Subsidy Payment	130	160	(30)	(18.8)
Revenue	1,111	1,136	(25)	(2.2)

Mails and Retail

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

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

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

The £2 million reduction in turnover from Lottery services was partly driven by a reduction in Lottery sales due to a decline in the effect of rollovers.

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, an FCA regulated entity, which operates the business alongside its existing travel insurance activities.

	2016 £m	2015 £m	Variance %
Personal Financial Services	152	127	19.7
Bill payment, banking and other Financial Services	152	163	(6.7)
Financial Services	304	290	4.8

Across Financial Services in aggregate, turnover increased by £14 million to £304 million (2015: £290 million), a 4.8% 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 £11 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 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 transactions. Revised agreements with Barclays and HSBC to add business customers were made during the year. 95% of all personal bank accounts in the United Kingdom 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 only provider of a national network which meets community banking needs across the United Kingdom.

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 United Kingdom Visas and Immigration (UKVI).

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

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

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

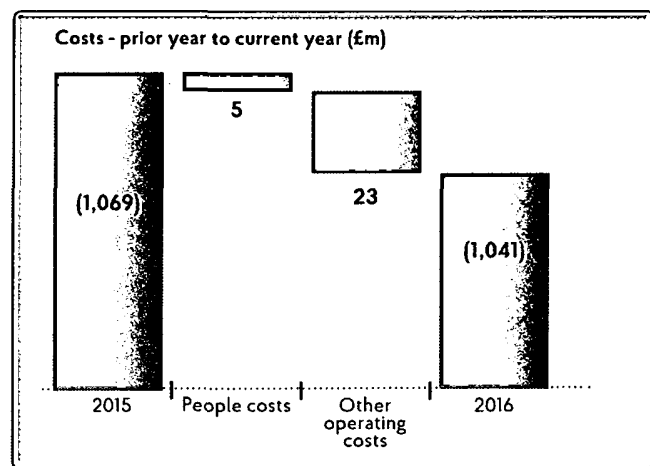
Our approach is characterised by tight management and effective margin control enabling strong performance against market incumbents. Development of this business, however, needs to be managed carefully to maintain these characteristics and in March 2016 Post Office made the decision to withdraw from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

Other income

Other income increased by £2 million to £39 million largely due to a change in the amortisation of an 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 customers.

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 as a result of 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. Variable remuneration has remained flat year on year.

Joint Venture

Post Office Limited has a Joint Venture with the Bank of Ireland (UK) plc, First Rate Exchange Services Holdings Limited, whose principal activity is the supply of foreign exchange in the United Kingdom to the Post Office and others. Both Post Office Limited and Bank of Ireland (UK) plc hold a 50% share. The share of operating profit from the joint venture was £35 million (£1 million lower than in 2014/15), the small decrease 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 (UK) plc 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 sold 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 £15 million of financial services revenue and £6 million of profit before tax to the Group's results.

Exceptional items

Exceptional items are shown below:

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

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

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

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 (2015: £4million).

Restructuring costs

Restructuring costs are shown below:

	2016 £m	2015 restated £m
Network Transformation programme		
-Postmasters' compensation	102	154
-Programme costs	75	73
Crown Transformation programme	23	10
IT Transformation programme	30	17
Business Transformation programme	9	12
Redundancy costs	29	25
Business Transformation payments	4	1
Other exceptional items	11	9
Restructuring costs	283	301

Impairment

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

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

Government grants

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

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

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

Cash flow and net debt

The Post Office Limited 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). A summary cash flow is shown in the table below.

	2016 £m	2015 £m
Net cash outflow from operating activities	(123)	(15)
Taxation recovered	9	11
Net cash outflow from investing activities	(145)	(116)
Net cash outflow before financing activities	(259)	(120)
Finance costs paid	(5)	(6)
Proceeds of borrowing from BIS	155	310
Net (decrease)/increase in cash and cash equivalents	(109)	184

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.

	2016 £m	2015 £m
Net (decrease)/increase in cash and cash equivalents	(109)	184
Add/(deduct) movement in network cash	55	(51)
Deduct net proceeds of borrowing from BIS	(155)	(310)
Net increase in net debt	(209)	(177)
Net debt brought forward at the beginning of the year	(197)	(20)
Total net debt carried forward at the end of the year	(406)	(197)
Net debt consists of:		
BIS loan	(465)	(310)
Cash (excluding cash in the Post Office network)	59	113
Total net debt carried forward at the end of the year	(406)	(197)

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.

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.

Pensions

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

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

Valuations of both the RMPP and RMSEPP schemes are carried out triennially. The RMSEPP valuation at 31 March 2015 has been completed, with the next valuation expected to be performed at 31 March 2018. The next valuation for RMPP is being performed as at 31 March 2015; this valuation has not been completed pending the outcome of the consultation to close the Post Office section of 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, prior to this they were offered membership of the RMDCP.

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

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

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

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

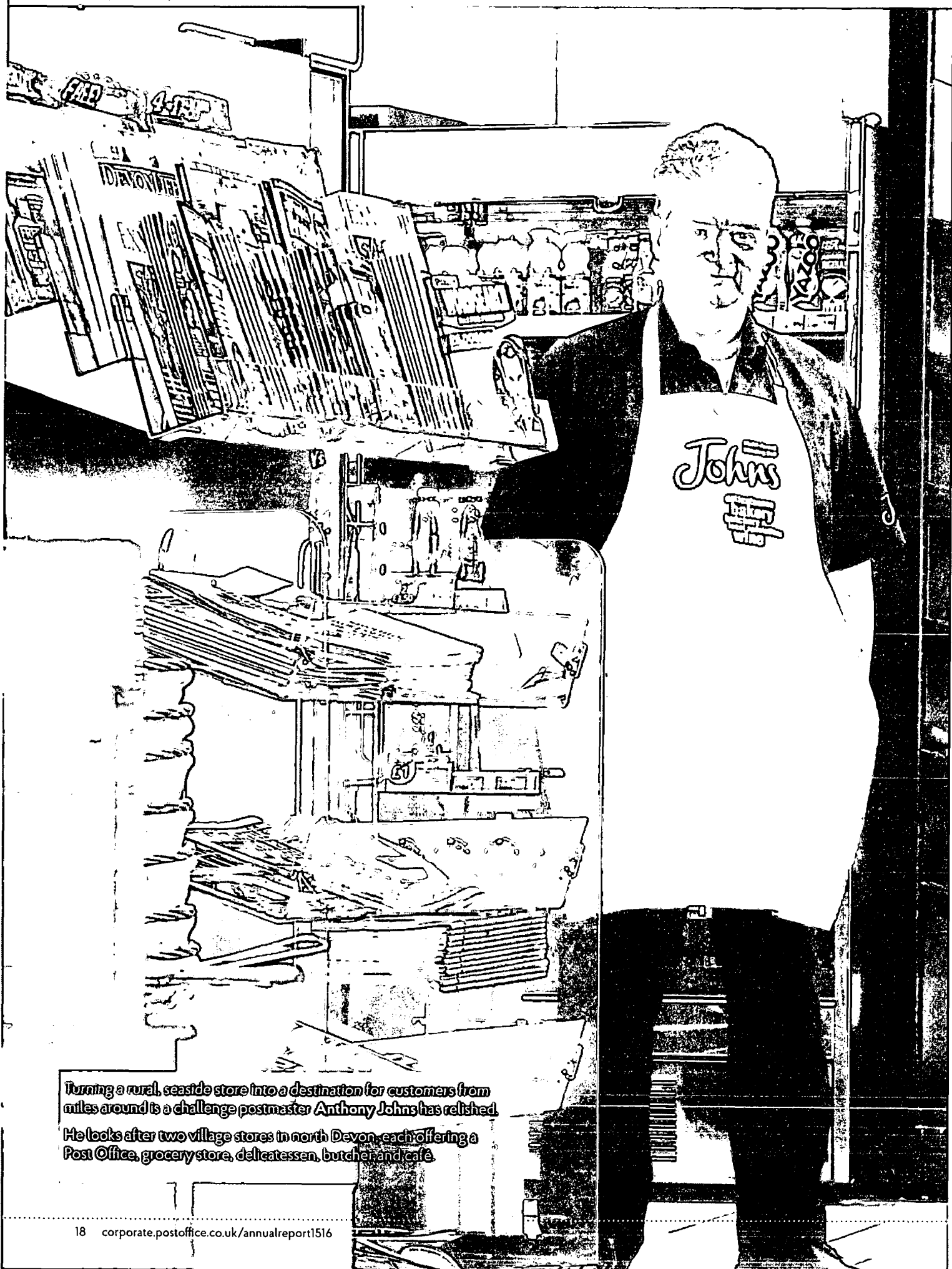
Events after the reporting period

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

A. Cameron



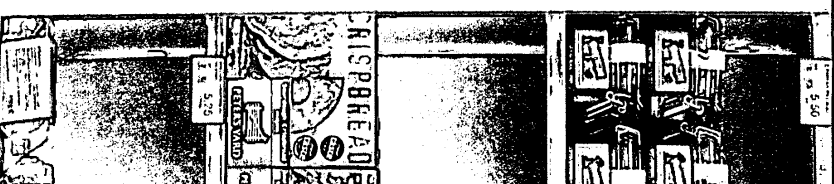
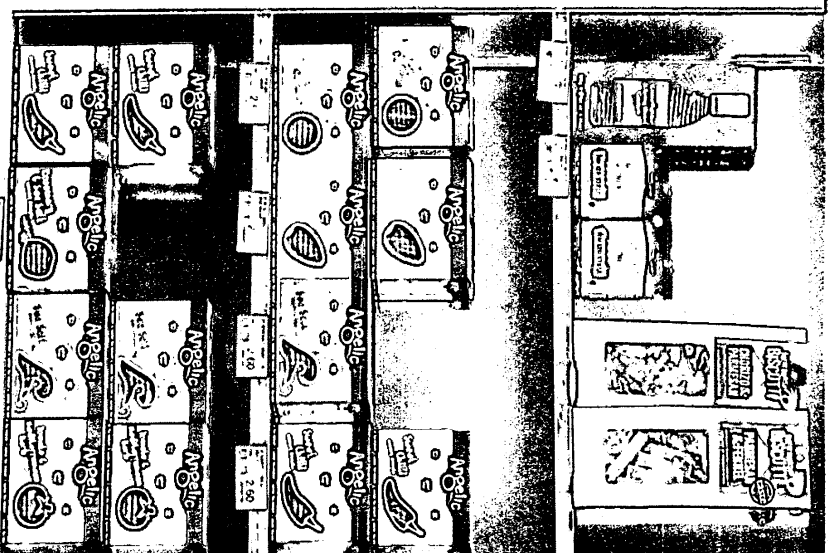
In the thriving Hertfordshire village of Knebworth, postmaster **Mohammad Mohsin Miah** has been driving revenue using tools and techniques he has developed from workshops and training.



Turning a rural, seaside store into a destination for customers from miles around is a challenge postmaster Anthony Johns has relished. He looks after two village stores in north Devon, each offering a Post Office, grocery store, delicatessen, butcher and café.

Governance

2



Corporate governance

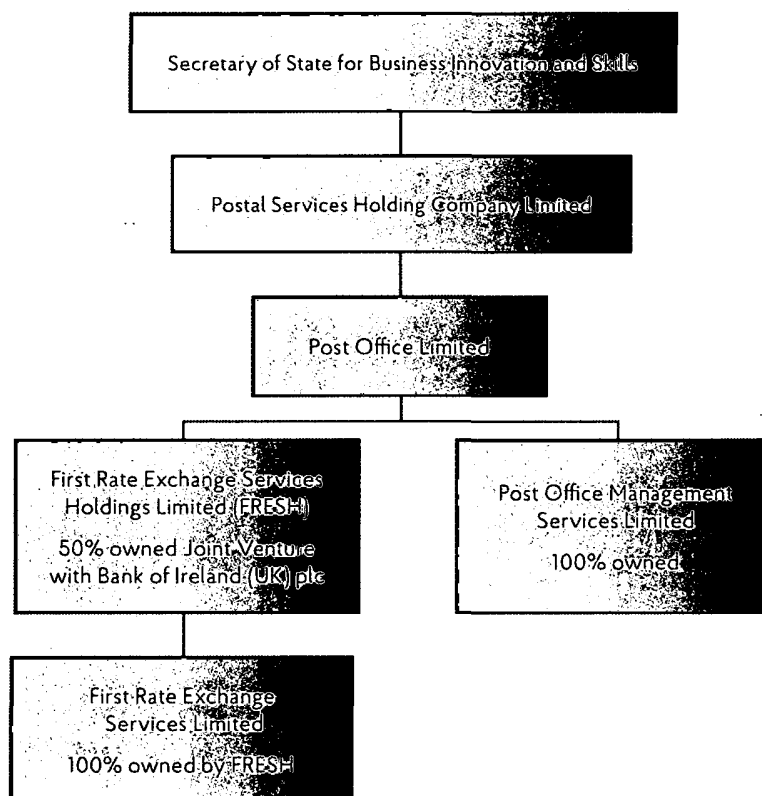
Good corporate governance continues to support Post Office's journey

Legal Ownership Structure

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

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

* On 1 April 2016 UK Government Investments Limited (UKGI) began operation as a government company, wholly owned by HM Treasury, bringing together the functions of the Shareholder Executive (ShEx), previously part of the Department for Business, Innovation and Skills, and UK Financial Investments (UKFI) under a single holding company.



Corporate Governance Overview 2015/16

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

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 (POMS). 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.

Rationalisation of Committee Structure

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

Following dissolution, financial services and pensions risk is now considered by the Audit, Risk and Compliance Committee (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.

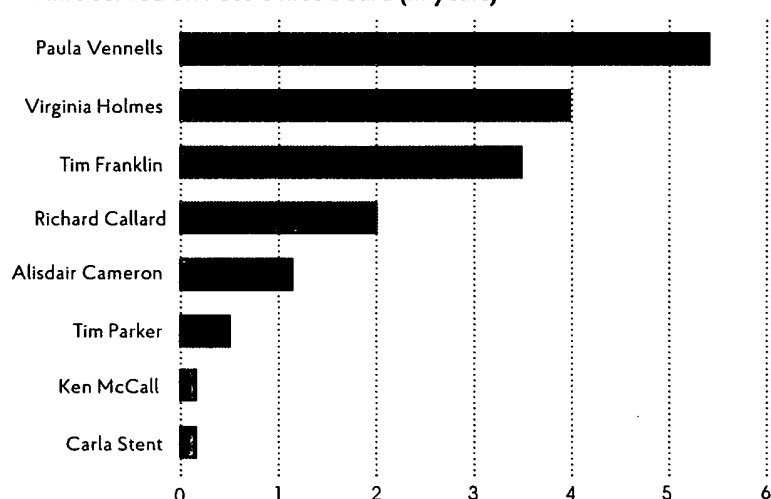
Board of Directors

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

During 2015/16 there was a 50% change in non-executive Board membership but gender diversity was maintained with 37.5% women. This figure is in excess of Lord Davies' recommendation for FTSE Boards of 25% women and significantly ahead of the 19.6% 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.

Time served on Post Office Board (in years)



The Board is comprised of an independent Non-Executive Chairman, the Chief Executive, the Chief Financial Officer and five Non-Executive Directors (one of whom is designated the Senior Independent Director). Further information on the Board roles and responsibilities can be found on page 24. Non-Executive Directors are not employees of Post Office but provide services under the terms of an individual letter of 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 page 28. 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**

Chairman of the Nominations Committee and member of the Remuneration Committee

Tim has been CEO of several well-known companies: Kenwood, Clarks, Kwik-Fit, the AA and Samsonite. He has served as a Non-Executive Director on a number of FTSE 100 companies: Legal and General, Alliance Boots and Compass Group, and has been a Board member of the Audit Commission and the South West Regional Development Agency. He has been an Industrial Partner at CVC Capital Partners.

Tim is the Executive Chairman of Samsonite Corporation and Non-Executive Chairman of National Trust.



Ken McCall | Senior Independent Director

Joined the Board **21 January 2016**

Chairman of the Remuneration Committee and member of both the Audit, Risk and Compliance and the Nominations Committees

Ken's position with Europcar is Group Chief Operating Officer and Head of Global Operations. Formerly, he was Chief Executive of DHL Express UK and Ireland, instrumental in achieving a full business turnaround and transformation. Previous positions include Chief Executive of TNT Asia, Middle East, African and Indian sub-continent. Ken has extensive experience in mails, logistics and business transformation.

Ken is a Non-Executive Director of Supergroup plc.



Paula Vennells | Chief Executive

Joined the Board **18 October 2010**

Paula has worked for Post Office Limited since 2007 in a number of senior roles, including Managing Director, becoming Chief Executive on 1 April 2012. Prior to Post Office, Paula spent five years with Whitbread plc, latterly as Group Commercial Director. She began her career with Unilever and L'Oreal and has held directorships in sales and marketing with a number of major retailers, including Dixons Stores Group and Argos.

Paula is a Non-Executive Director of Morrisons plc, a Trustee for the Hymns Ancient and Modern Group and a member of the Future High Street Forum.



Alisdair Cameron | Chief Financial Officer

Joined the Board **28 January 2015**

Alisdair joined Post Office as Chief Financial Officer in January 2015. Prior to this appointment, from 2002 to 2014 he worked in a variety of roles for Centrica plc, a FTSE 100 company, including Director of Audit and Risk, Group Financial Controller, Finance Director of British Gas and Managing Director of British Gas Enterprise. Previously he was a partner with Arthur Anderson and served as a trustee of the e-Learning Foundation.

Alisdair is a Non-Executive Director of Oxford University Hospitals NHS Foundation Trust.



Richard Callard | Non-Executive Director

Joined the Board **26 March 2014**

Member of the Audit, Risk and Compliance Committee

Richard is appointed to the Board as the representative of the Department for Business, Innovation and Skills (BIS). He is an Executive Director at UK Government Investments (UKGI) and has a wealth of public sector and government experience. A Chartered Accountant by background, he joined government from Deloitte corporate finance in 2009, where he had advised the public and private sector on public private partnerships and other infrastructure and project finance deals.

Richard leads the Post Office and Green Investment Bank shareholder teams at UKGI.



Tim Franklin | Non-Executive Director

Joined the Board **19 September 2012**

Member of the Audit, Risk and Compliance Committee and Chairman of the Post Office Advisory Council

Tim's executive career spans both building societies and banking, including roles with Barclays as Director of Customer Programmes and Loyalty and Managing Director of Barclays Savings. In his executive and non-executive roles, which include Link Cash Machines Network and Mutual Plus Limited, Tim has gained considerable in-depth experience in financial services, IT and business transformation.

Tim is currently Interim Chairman and Senior Independent Director at HM Land Registry, where he chairs the Audit Committee.



Virginia Holmes | Non-Executive Director

Joined the Board **4 April 2012**

Member of both the Nominations and the Remuneration Committees

Virginia brings to the Board extensive knowledge of the financial services industry, including both investment management and banking. Her experience in financial services and in business transformation was gained while serving as Chief Executive of AXA Investment Managers UK and in more than a decade with the Barclays Bank Group.

Virginia chairs USS Investment Management Limited and the British Airways pension plans, is on the Boards of Alberta Investment Management Corporation, Standard Life Investment Holdings Limited, Investor Forum CIC and sits on the Zurich UK Life Independent Governance Committee.



Carla Stent | Non-Executive Director

Joined the Board **21 January 2016**

Chairman of the Audit, Risk and Compliance Committee

Carla, a qualified Chartered Accountant, has held a number of senior positions in banking, private equity and in retail industries. She has had direct responsibility for corporate finance and post-merger integration, strategy, business operations, brand development and management and business transformation. Carla has worked at Board level for organisations including Barclays Bank plc and Virgin Group and was a Non-Executive Director of Christian Aid.

Carla is a Non-Executive Director of JPM Morgan Elect plc, Marex Spectron Limited and Power to Change Trust (which she also chairs).



Alwen Lyons | Company Secretary

Appointed as Company Secretary **4 July 2011**

Alwen joined Royal Mail Group in 1984 as a graduate and has worked at senior levels in both Royal Mail Group and Post Office Limited. She is a qualified accountant and in her career spanning more than 30 years with the two organisations she has worked in several areas of the business, including network, finance and marketing. Alwen was appointed Company Secretary in July 2011 after leading the project to separate Post Office Limited from Royal Mail Group.

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 as Chairman of the Audit, Risk and Compliance Committee on 31 July 2015.

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 31 to 36.

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 6,000 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% of the insurance business, through the subsidiary Post Office Management Services Limited, was a significant development contributing to the 19.7% 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% of its Non-Executive Directors. This refreshed Board will focus in 2016/17 on driving the business forward and ensuring that all support services are optimised to deliver the ongoing transformation journey towards a sustainable and thriving network of Post Offices.

Non-Executive Directors' Terms of Office as 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 days	Remuneration (Chairman) Audit, Risk and Compliance Nominations
Carla Stent	21 January 2016	3 years	2 years, 9 months, 25 days	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

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 (attended/eligible to attend) at the Board and its committees is set out in the table below:

Director	Board	Board (extraordinary)	Audit, Risk and Compliance Committee	Nominations Committee	Remuneration Committee
Alice Perkins ¹	2/2	2/2	-	2/2	2/2
Tim Parker ²	4/4	1/1	1/1	3/3	2/2
Richard Callard	7/7	3/3	2/2	-	-
Alisdair Cameron	7/7	3/3	-	-	-
Tim Franklin	7/7	3/3	5/5	-	-
Virginia Holmes	7/7	1/3	-	5/5	4/4
Alasdair Marnoch ³	2/2	1/2	1/1	-	-
Ken McCall ⁴	2/2	0/0	2/2	1/1	1/1
Neil McCausland ⁵	3/3	2/2	2/2	2/2	2/2
Carla Stent ⁶	2/2	0/0	2/2	-	-
Paula Vennells	7/7	3/3	-	-	-

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. Ken McCall was appointed to the Board 21 January 2016
5. Neil McCausland served as interim Chairman from 1 August 2015 until his resignation on 30 September 2015
6. Carla Stent was appointed to the Board 21 January 2016

Conflicts of Interest and Independence

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

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

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

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

Committees

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

Remuneration Committee

Ken McCall

Chairman 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
- Reviewing of the Remuneration Policy for Post Office Management Services Limited

2016/17 Forward Focus

- To consider a long term incentive plan focus on EBITDAS and customers' United Kingdom-wide access to our network
- To consider a short term incentive plan focus on EBITDAS as the business moves towards commercial sustainability.

Statement by the Chairman of the Remuneration Committee

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

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

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.

The executive remuneration strategy and framework within Post Office Limited 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 in note 5 of the Group Financial Statements.

Ken McCall

Role and Membership

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

The Chief Executive may attend meetings, at the invitation of the Committee Chairman, to discuss matters relating to the remuneration of the Chief Financial Officer and members of the Group Executive. However, the Committee is careful to recognise and manage any potential conflicts of interest when receiving views from the Group

Executive and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

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

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

The Committee's 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.

Work carried out by the Committee in 2015/16

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

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

Prior to the acquisition on 30 September 2015 of the business and assets of our joint insurance business from Bank of Ireland (UK) plc (see page 75) the Committee reviewed, and recommended for approval, the

Remuneration Policy for the subsidiary, Post Office Management Services Limited.

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.

Nominations Committee

Tim Parker

Chairman 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.
- Progressing Post Office's consideration of talent management and succession planning at both the executive and non-executive levels.

2016/17 Forward Focus

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

Introduction from the Committee Chairman

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

While the focus in 2015/16 has been on external appointments, going forward the

Committee will focus on ensuring that we continue to build a strong internal talent pipeline to create a sustainable organisation.

Tim Parker

Role and Membership

The Committee is chaired by Tim Parker, Chairman and the other members are Virginia Holmes and Ken McCall, the Senior Independent Director. During 2015/16 Tim Parker and Ken McCall joined the Committee, replacing Alice Perkins and Neil McCausland who stood down from the Board. The Committee operates in accordance with its Terms of Reference, which were last approved by the Board in March 2015 and reviewed in November 2015.

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

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

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

Audit, Risk and Compliance Committee

Carla Stent

Chairman of the Audit, Risk and Compliance Committee since 20 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 Control 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

- To further progress towards full implementation of the Group-wide Risk Management Framework including consideration of additional forms of self assessment for management.
- An 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 the 2015/16 financial year, 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 Control Frameworks. Reviewing Group-wide risk oversight has seen 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

Role and Membership

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

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

The Board considers that the Committee's members have broad commercial knowledge and extensive business leadership experience and that this constitutes a broad and suitable mix of business and financial experience and expertise. The Committee operates in accordance with its Terms of Reference, which were last reviewed by the Committee and approved by the Board in September 2015.

Further detailed information on the management of risk within Post Office, together with identification of principal risks, their impacts and mitigation, can be found in the management of risk section on pages 31 to 36.

The Committee's key responsibilities are to:

- assist the Board fulfill its fiduciary responsibilities by: contributing an independent view on the accounting, financial control and financial reporting practices of Post Office; ensuring accurate and informative corporate reporting and disclosures; and providing oversight of the Post Office risk management systems;
- provide governance of the auditing services and 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;
- review the provision of any non-audit services provided by 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.

Work carried out by the Committee in 2015/16

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

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

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

In addition, when management identified that its compensation provision for postmasters under its Network Transformation programme was materially understated in its Interim Report as at September 2014 and in the March 2015 Annual Report, the Committee investigated the matter further. The Committee sought evidence and assurance at varied levels in the business, including from the recently appointed Chief Financial Officer, that Post Office Limited was taking action to resolve the error and address the underlying causes which led to it. The error has been disclosed and detailed on page 49.

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

Internal Audit

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

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

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

Business Area	Audits conducted
Mainstream	Treasury Operational Risk, Social Media, Contract Management, Financial Crime, Common Digital Platform, 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.

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 be supplemented with feedback from auditees and Committee members on Internal Audit's effectiveness.

External Audit

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

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

During the year 19% of the total fees paid to Ernst & Young LLP were for non-audit services, a 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 restatement of postmasters' compensation referred to on page 49, the Board considers the risk management, internal control systems and processes are appropriate for Post Office activities; acknowledging that they are designed to manage rather than eliminate the risk of failure to achieve Post Office strategic objectives, protect our reputation and comply with regulatory standards. They provide reasonable, but not absolute assurance, against material misstatement or loss.

Management of risk

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 Post Office 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 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 and Compliance Committee.

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, the head of risk, 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 Audit, Risk and Compliance Committee.

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 pages 33 to 36.

Our control framework

Our risk management efforts are underpinned by our General 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 the 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 of actual financial performance with budget by operating divisions, with consideration by the Board of year end forecasts*
- *an organisational structure with lines of responsibility and appropriate segregation of duties*
- *change management approach, resources and governance are used to manage significant projects*
- *formally defined delegations of authority, including capital investment limits and a treasury policy*
- *appointment of employees of the necessary calibre to fulfil their allocated responsibilities, with formal personal development and appraisal procedures*
- *senior management remuneration designed to align personal and business objectives, as well as to discourage dishonest, illegal or unethical acts*
- *a framework of operating, financial and IT policies*
- *a whistleblowing procedure for colleagues to raise concerns in confidence and if required, anonymously; a complaints procedure is available to customers and third parties.*

Progress during the year and plans for next year

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

Risk assessment: during 2015/16, there has been more regular use of the risk management framework in business areas and by the Risk and Compliance Committee, 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 information which allows us to embed our risk appetite further

Control environment: during 2015/16, we have reviewed the appropriateness of our General 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 General Control Framework and our key policies

Our principal risks and mitigations

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

Potential risks	Consequences	Key Mitigations
STRATEGIC RISKS		
<p>Competitive threat</p> <p>Post Office faces both opportunities for and threats to income from our competitive market place.</p> <ul style="list-style-type: none"> • 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. 	<p>Crystallisation of these risks could result in not achieving our growth objectives, losing market share and revenues.</p>	<ul style="list-style-type: none"> • 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 competitive attributes.
<p>Dependency on strategic relationships</p> <p>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.</p>	<p>This could result in not achieving our growth objectives, losing revenue and market share.</p>	<ul style="list-style-type: none"> • 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.

Potential risks	Consequences	Key Mitigations
TRANSFORMATION RISKS		
<p>Benefits from business transformation not realised</p> <p>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.</p>	<p>This could result in not achieving our growth objectives, loss of revenue and cost savings, reduced customer satisfaction and damage to reputation with stakeholders.</p>	<ul style="list-style-type: none"> • 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.
<p>IT transformation not delivered in full</p> <p>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.</p>	<p>This could result in systems and infrastructure that are not fit for purpose, may add costs and lead to business interruption</p>	<ul style="list-style-type: none"> • 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.
<p>Industrial action</p> <p>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.</p>	<p>This could result in business disruption leading to loss of revenue, reduced customer satisfaction and brand damage.</p>	<ul style="list-style-type: none"> • Well defined agreements with relevant unions. • Comprehensive engagement programme in place with staff, unions and postmasters 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.

Potential risks	Consequences	Key Mitigations
OPERATIONAL RISKS		
Lack of appropriate capability <p>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.</p>	<p>This could result in not achieving our strategic objectives and loss of staff engagement.</p>	<ul style="list-style-type: none"> • 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.
Decline in customer experience <p>If we are unable to deliver an attractive customer experience, via our products, service and channels, we risk losing the support of our customers.</p>	<p>This could result in reduced customer satisfaction and brand reputation, with consequential loss of market share and revenues.</p>	<ul style="list-style-type: none"> • 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.
Unattractive network proposition <p>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.</p>	<p>As well as loss of revenue, this could result in shrinkage to our network and breach our public purpose commitment.</p>	<ul style="list-style-type: none"> • Development of models to provide retailers with an attractive proposition relative to other categories. • New branch model also ensures that we use modern technology to drive simplicity of operations, efficiency and cost reduction for the retailer, as well as a better customer experience. • Branch model continually reviewed and updated to respond to ongoing competitive threat and market conditions.
Business interruption and cyber threat <p>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</p>	<p>This could result in disruption of service leading to negative customer experience, breach of contractual obligations and brand damage.</p>	<ul style="list-style-type: none"> • 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
Dependency on third parties <p>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.</p>	<p>This could lead to business interruption and additional costs through failure to meet contractual obligations</p>	<ul style="list-style-type: none"> • 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.

Potential risks	Consequences	Key Mitigations
FINANCIAL RISKS		
Stakeholder funding <p>The cost of delivering the public purpose of the Post Office and meeting the expectations of stakeholders may exceed current forecasts.</p>	<p>This could result in not achieving our growth objectives, failing to meet our public purpose commitment and damaging our reputation with stakeholders.</p>	<ul style="list-style-type: none"> 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.
Financial reporting and controls failure <p>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.</p>	<p>This could result in loss of revenue, increased costs, financial misstatement and damage to reputation with stakeholders.</p>	<ul style="list-style-type: none"> 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 Documented financial controls, with additional assurance to be provided from a Control Self-Assessment process.
Pension cost increases <p>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.</p>	<p>This could result in material increases in required contributions, adversely affecting our ability to achieve commercial sustainability.</p>	<ul style="list-style-type: none"> 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		
Financial regulatory breach <p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> 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.

The Group Executive

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
Group 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.

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 the Chief Executive's statement.

Results and dividends

The loss after taxation for the year was £167 million (2015: loss £141 million). 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 on pages 55 to 56.

People

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

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

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

As part of our commitment to drive better service for customers we continue to focus on improving the quality of our leadership, ensuring we have the right skills for today and tomorrow, and achieving greater involvement from employees, postmasters and their representative bodies.

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

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

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 £220 million of funding on 1 April 2016.

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 1 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 16 of the annual report on pages 64 to 66.

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

25 July 2016



3 Financial Statements

Vivian Clay is part of our team at our Darley Street branch who are preparing to move to a new branch hosted in WHSmith as part of the ongoing plans to build a sustainable Crown network

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 United Kingdom 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.

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 related notes 1 to 25, 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 21. 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 40, 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 (United Kingdom 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 and Parent Company'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.

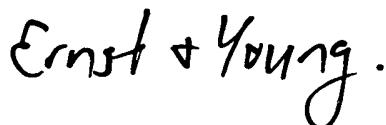
Matters on which we are required to report by exception

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.

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.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

Peter McIver | Senior statutory auditor

for and on behalf of Ernst & Young LLP,
Statutory Auditor
London

25 July 2016

Consolidated income statement

for the 52 weeks ended 27 March 2016 and 29 March 2015

	Notes	2016 £m	2015 (Restated)
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)
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)

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.

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		(16)	(34)
(Decrease)/Increase in trade and other payables		(59)	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 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

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	411	397
Cash and cash equivalents	12	712	821
Total current assets		1,129	1,224
Total assets		1,457	1,516
Current liabilities			
Trade and other payables	13	(655)	(718)
Financial liabilities – interest bearing loans and borrowings	14	(465)	(310)
– obligations under finance leases	20	(8)	-
Provisions	15	(151)	(144)
Total current liabilities		(1,279)	(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 43 to 76 were approved by the Board of Directors on 25 July 2016 and signed on its behalf by:



P A Vennells | Chief Executive



A Cameron | Chief Financial Officer

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 of defined benefit surpluses	17	-	54	-	54
Income tax effect	7	-	(9)	-	(9)
At 29 March 2015 (restated)		465	(159)	2	308

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 43 to 76 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 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:

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 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 benefiting 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 Directors consider that it is appropriate that these Financial Statements have been prepared on a going concern basis.

Prior year restatements

In preparing the Financial Statements for the current year, the comparative figures for the year ended 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 50. 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)
Loss for the year	(54)	(87)	(141)

Notes to the Financial Statements

Critical accounting estimates and judgements in applying accounting policies

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

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Group are determined using methods relying on actuarial estimates and assumptions. 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 postmasters' agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for postmasters' compensation at the year end date represents management's best estimate of the future obligation. Provisions are detailed in note 15. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

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

Impairment of non-current assets

The Group assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use. Due to on-going operational losses (excluding the Network Subsidy Payment) the carrying value of some assets are impaired to zero on acquisition. Each asset category is described below:

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

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and due to on-going operational losses (excluding Network Subsidy payment) they are impaired to zero on acquisition. If they were not impaired they would be depreciated on a straight-line basis over the following useful lives:

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

Freehold property, long leasehold property and land:

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

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

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

Intangible assets with a finite useful life:

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

Software	1 to 6 years
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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 principal activities in providing a whole range of services through its physical and digital channels. Turnover from Financial Services and some Retail services comprises the commission received. Turnover relating to line rental for telecoms services is recognised evenly over the period to which the charges relate and revenue from calls is recognised at the time the call is made. Turnover from all other transactions is recognised when the transaction is completed. All turnover is derived wholly from within the United Kingdom.

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

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

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 Group'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.

Notes to the Financial Statements

Pensions and other post-retirement benefits

Membership of occupational pension schemes is open to most permanent United Kingdom 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 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 probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate.

Financial instruments

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

Financial assets

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

Financial liabilities – interest-bearing loans and borrowings

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

Financial liabilities – obligations under finance leases

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

Fair value measurement of financial instruments

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

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

Derecognition of financial instruments

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

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

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

Notes to the Financial Statements

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/(gains)	-	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, Network and IT programmes which are discussed further in the Financial Review on page 15. 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 50 for details.

5. Directors' emoluments

The Directors received the following emoluments:

	2016 £000	2015 £000
Emoluments, excluding pension contributions and LTIP*	1,194	1,234
Contributions to pension schemes	4	-
Amounts receivable under Long-Term Incentive Plans	144	157

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

Directors accruing pension entitlements during the period under:

	2016 Number	2015 Number
Defined benefit schemes	-	-
Defined contribution schemes	1	-

The highest paid director received the following emoluments:

	2016 £000	2015 £000
Emoluments and LTIP, excluding pension contributions but including cash supplements received in lieu of pensions	620	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	-
Neil McCausland (note 4)	£50,000	£25,000	-	-	-	-	£25,000	£50,000
Tim Parker (note 5)	£75,000	£37,500	-	-	-	-	£37,500	-
Alice Perkins (note 6)	£100,000	£33,333	-	-	-	-	£33,333	£100,000
Carla Stent (note 7)	£45,000	£8,833	-	-	-	-	£8,833	-
Richard Callard (note 8)	-	-	-	-	-	-	-	-

Notes to the Financial Statements

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
Executive Directors								
Paula Vennells	£250,000	£250,000	£9,900	£62,500	£153,852	£143,500	£619,752	£521,987
Alisdair Cameron (note 9)	£240,000	£240,000	£13,919	£56,189	£125,146 +£75,000	-	£510,254	£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. Tim donates the after tax value of his Board fees to charity.

Note 6: 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. Alisdair's benefits figure of £13,919 includes £4,019 company contributions to a Defined Contribution pension.

Remuneration Policy Summary

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

Short-Term Incentive Plan (STIP)	<p>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.</p> <p>80% of the STIP plan is determined by business targets, with the remaining 20% linked to the achievement of personal performance objectives.</p> <p>The target opportunities for the Chief Executive and Chief Financial Officer are 48% and 40%, with a maximum for stretch performance of 80% and 66.66% respectively.</p>
Long-Term Incentive Plan (LTIP)	<p>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.</p> <p>The specific performance targets are determined for each LTIP cycle with reference to the three-year plan which is agreed with the Special Shareholder.</p> <p>The target opportunities for the Chief Executive and Chief Financial Officer are 70% and 50%, respectively, with stretch performance of 98% and 70% respectively.</p>

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 relevant 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 United Kingdom of 20% (2015: 21%). The differences are explained below:

	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 United Kingdom of 20% (2015: 21%)	(34)	(35)
Net decrease in tax charge resulting from 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)

Notes to the Financial Statements

(c) Deferred tax

Deferred tax assets relate to the following:

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

(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £166 million (2015: £141 million), comprising £78 million (2015: £74 million) relating mainly to fixed asset timing differences, £1 million (2015: £1 million) relating to timing differences on provisions and £87 million (2015: £66 million) relating to tax losses that are available to offset against future taxable profits. The Group has rolled over capital gains of £2 million (2015: £3 million); no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. 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. In accordance with the draft Finance Act 2016 this rate will reduce further to 17% once substantially enacted.

8. Intangible assets

	Software		Goodwill		Total	
Cost	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
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.

9. Property, plant and equipment

Land and Buildings

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

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

* Reclassifications have been done in the year between freehold, long leasehold, short leasehold and fixtures and equipment in relation to 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

Notes to the Financial Statements

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, 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 2015	67	67

	2016 Joint venture £m	2015 Joint venture £m
Share of assets and liabilities:		
Current assets	187	173
Non-current assets	6	6
Share of gross assets	193	179
Current liabilities	(126)	(112)
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	95	101
Prepayments and accrued income	73	106
Client receivables	229	162
Other receivables	14	28
Total	411	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 £18 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 £8 million (2015: £3 million) has been provided for. Trade receivables of £23 million (2015: £21 million) were past due but not impaired. The aging analysis of the trade receivables are as follows:

	2016 £m	2015 £m
Not yet overdue	72	80
Past due not more than one month	12	8
Past due more than one month and not more than two months	3	3
Past due more than two months	8	10
Total	95	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 behalf of insurance third parties and are held in trust and cannot be called upon should the Company become insolvent.

Notes to the Financial Statements

13. Trade and other payables

	2016 £m	2015 £m
Current:		
Trade payables	51	30
Accruals	163	160
Deferred income	39	29
Social security	8	9
Client payables	375	454
Capital payables	16	25
Other payables	3	11
Total	655	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

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 50 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.

Notes to the Financial Statements

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 £m	Non current £m	Total £m	Current £m	Non Current £m	Total £m
Financial assets						
Trade and other receivables	396	-	396	378	-	378
Cash and cash equivalents	712	-	712	821	-	821
Financial liabilities						
Trade and other payables	(608)	(4)	(612)	(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.

	Strengthening/ (weakening) in US dollar rate %	Effect on profit before tax £m	Effect on equity £m	Strengthening/ (weakening) in euro rate %	Effect on profit before tax £m	Effect on equity £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 (2015: £840 million). The facility expires in 2018.

The tables on the next page analyse 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.

Notes to the Financial Statements

	12 Months	1-2 Years	2-5 Years	> 5 Years	Total
At 27 March 2016	£m	£m	£m	£m	£m
Financial assets					
Trade and other receivables	396	-	-	-	396
Cash and cash equivalents	712	-	-	-	712
Financial liabilities					
Trade and other payables	(608)	(4)	-	-	(612)
Interest bearing loan	(465)	-	-	-	(465)
Finance leases obligations	(8)	-	-	-	(8)
Total financial assets/(liabilities)	27	(4)	-	-	23

	12 Months	1-2 Years	2-5 Years	> 5 Years	Total
At 29 March 2015	£m	£m	£m	£m	£m
Financial assets					
Trade and other receivables	378	-	-	-	378
Cash and cash equivalents	821	-	-	-	821
Financial liabilities					
Trade and other payables	(680)	(2)	-	-	(682)
Bank overdraft	-	-	-	-	-
Interest bearing loan	(310)	-	-	-	(310)
Finance leases obligations	-	-	-	-	-
Total financial assets/(liabilities)	209	(2)	-	-	207

17. Pensions

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

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

The Group participates in pension schemes as detailed below.

Name	Eligibility	Type
Royal Mail Pension Plan (RMPP)	United Kingdom employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	United Kingdom senior executives	Defined benefit
Post Office Pension Plan*	United Kingdom employees	Defined contribution

*From 1 April 2015 the Post Office Pension plan replaced the Royal Mail Defined Contribution Plan.

Defined Contribution

The charge in the income statement for the defined contribution schemes and the Group contributions to this scheme was £3 million (2015: £3 million) during the year. New recruits joining from 31 March 2008 are able to begin paying contributions to the Post Office Pension 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. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans. The latest full actuarial funding valuation of RMPP was carried out as at 1 April 2012 using the projected unit method. For RMPP, this valuation was concluded at £135 million surplus. Valuations are carried out triennially and the next one for RMPP is being performed as at 31 March 2015. The 2015 valuation has not yet been completed pending the outcome of the consultation to close the Post Office section of the RMPP to future accrual. The latest full actuarial funding valuation of RMSEPP was carried out as at 31 March 2015 using the projected unit method. For 100% of the RMSEPP plan, the valuation was concluded at £17 million surplus. The next valuation for RMSEPP is expected to be performed as at 31 March 2018. RMPP includes sections A, B and C each with different terms and conditions:

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to 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 have taken effect since 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.
- 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 for the RMPP of £17 million (2015: £19 million) was made by the Group during the year in respect of regular future service contributions. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1% (2015: 17.1%), effective from April 2010. This rate is not expected to change materially during 2016/17. In February 2016, Post Office went out to formal consultation with active members (and their representatives) of the Post Office section of the RMPP with a proposal to close the plan to future accrual with effect from 1 September 2016. The consultation closed at the end of May 2016 and the Post Office has presented a recommendation to the Pension Trustee to close the plan to future accrual from the end of March 2017. The proposed closure requires consent of the Trustee of the RMPP. If it is agreed to close the Post Office section of the RMPP, this could affect the contributions to be paid in 2016/17.

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

A current liability of £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 Post Office section of the RMPP is 26 years, and for the RMSEPP fund is 21 years. Over the next financial reporting period to 26 March 2017, under the assumption that the Post Office section of the RMPP remains open, it is expected that employer contributions to the plans will be £17 million.

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

Notes to the Financial Statements

a) Major long-term assumptions

The size of the RMPP pension surplus, which is large in the context of the Group and its finances, is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on the surplus and overall income statement charge. The major long-term assumptions in relation to both RMPP and RMSEPP were:

	At 27 March 2016 % pa	At 29 March 2015 % pa
Rate of increase in salaries	2.8	2.8
Rate of pension increases – RMPP sections A/B	1.8	1.9
Rate of pension increases – RMPP section C	2.8	2.8
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	1.8	1.9
Rate of pension increases – RMSEPP all other members	2.8	2.8
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	1.8	1.9
Rate of increase for deferred pensions	1.8	1.9
Discount rate	3.5	3.5
Inflation assumption (RPI) – RMPP & RMSEPP	2.9	3.0
Inflation assumption (CPI) – RMPP & RMSEPP	1.8	1.9

The ultimate cost of the RMPP and RMSEPP plans 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 (net of the link to increases above RPI inflation in final pensionable salary) accrued in the Royal Mail Pension Plan to 31 March 2012 were transferred to the Royal Mail Statutory Pension Scheme. Therefore pre 31 March 2012 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 date of 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 Post Office section of the RMPP are based on the self-administered pension scheme (SAPS) 'series 12' 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
United Kingdom 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 United Kingdom Government Bonds. £215 million to a LDI(liability driven investment) containing United Kingdom Government Bonds, and £3 million to an infrastructure debt holding which is EUR denominated and fixed interest.

Notes to the Financial Statements

Share of RMSEPP	Market value 2016 £m	Market value 2015 £m
United Kingdom equities	1	1
Overseas equities	10	11
Government bonds	15	16
Alternative asset funds	2	-
Property	2	2
Other assets	-	1
Fair value of share in plan assets for RMSEPP	30	31
Present value of share in plan liabilities for RMSEPP	(27)	(26)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	3	5
Less effect of asset ceiling	(1)	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	2	3

A retirement benefit surplus of £196 million on the accounting assumptions 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 not recoverable through a reduction in the future service requirement.

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 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.

Notes to the Financial Statements

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 exceptional 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 gains/(losses) on liabilities	3	(24)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	(7)	53

	Share of RMSEPP 2016 £m	Share of RMSEPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged/(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 comprehensive 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 issued in return for £313 million cash paid by the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Innovations and Skills Reform. A share premium of £151,999,998 resulted from this subscription.

Notes to the Financial Statements

19. Commitments

Capital commitments contracted for but not provided in the Financial Statements amount to £51 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.

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

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

20. Finance lease liabilities

	2016		2015	
	Minimum payments	Present value of minimum lease payments	Minimum payments	Present value of minimum lease payments
	£m	£m	£m	£m
Within one year	8	8	-	-
Between one and five years	-	-	-	-
Total minimum lease payments	8	8	-	-
Less amounts representing finance charges	-	-	-	-
Present value of minimum lease payments			-	-
Of which:				
Current	8	8	-	-
Non-current	-	-	-	-

The aggregate finance charges allocated for the period in respect of finance leases was £nil (2015: £211,078). The fair value of finance lease liabilities is not materially different from the carrying value. The Group has finance lease contracts for equipment.

21. Business combinations

On 30 September 2015, the Group acquired the remaining 50% of its former insurance joint undertaking from the Bank of Ireland. The consideration of £43,900,000 was settled in cash.

The fair values of the identifiable assets and liabilities of the business as at the date of acquisition were:

	Fair value £m
Cash	1
Provision	(1)
Net Assets	-
Goodwill arising on acquisition	44
Consideration	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 cost 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 £15 million of revenue and £6 million 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, the costs are included in the £10 million expenses noted above.

Notes to the Financial Statements

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	7

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

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

Separately:

- the Group has certain loan facilities with Government (note 14);
- the Group has received 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	3,453	3,380
Post-employment benefits	20	68
Other long-term benefits	311	307
Total	3,784	3,755

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.

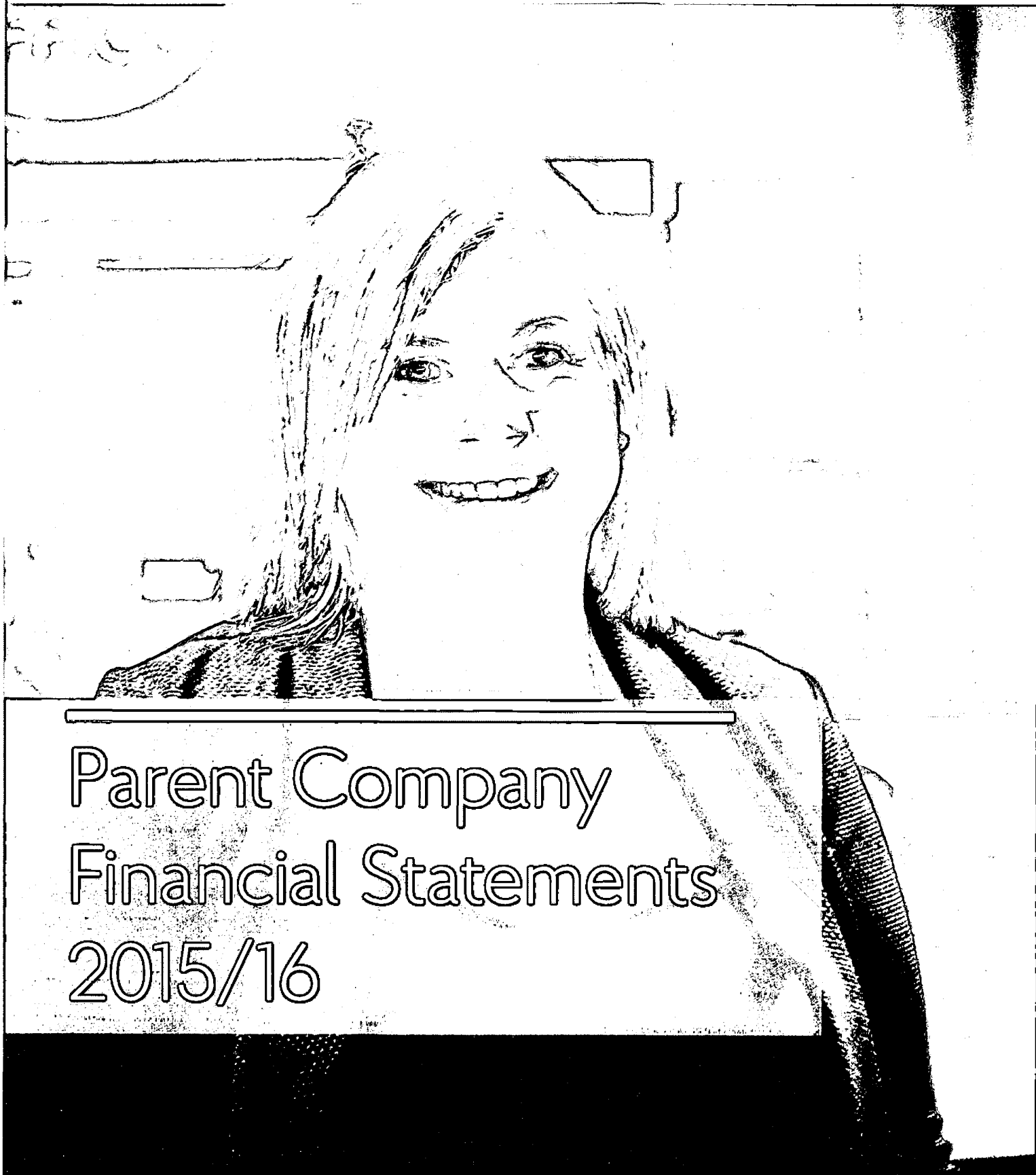
25. Immediate and ultimate parent company

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.

The number of MoneyGram transactions completed in Post Office branches has more than doubled in the last three years.

We recently completed our 20 millionth MoneyGram transaction at our Stratford branch in east London managed by Strizdur Rahman.





Parent Company Financial Statements 2015/16

Kirsty Groves, the branch manager at The Parade branch in Chelmsford is one of the thousands of colleagues who have received positive customer service comments via our Voice of Customer feedback.

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.

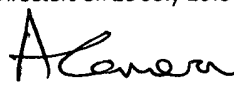
Company balance sheet

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	413	399
Cash and cash equivalents	7	698	817
Total current assets		1,117	1,222
Total assets		1,385	1,448
Current liabilities			
Trade and other payables	8	(650)	(716)
Financial liabilities—interest bearing loans and borrowings	9	(465)	(310)
- obligations under finance leases	14	(8)	-
Provisions	10	(150)	(144)
Total current liabilities		(1,273)	(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 79 to 98 were approved by the Board of Directors on 25 July 2016 and signed on its behalf by:


P A Vennells
 Chief Executive


A Cameron
 Chief Financial Officer

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

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 25 July 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). These Financial Statements are prepared under the historical cost convention.

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own income statement. The result dealt with in the accounts of the company amounted to £167 million loss (2015 (restated): £147 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:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 'Presentation of Financial Statements'
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'
- 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 49) 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.

	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)
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 postmasters agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for postmasters' compensation at the year end date represents management's best estimate of the future obligation. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

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

Impairment of non-current assets

The Company assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use. Due to on-going operational losses (excluding the Network Subsidy Payment) the carrying value of some assets are impaired to zero on acquisition. Each asset category is described below:

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

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and due to on-going operational losses (excluding Network Subsidy payment) they are impaired to zero on acquisition. If they were not impaired they would be depreciated on a straight-line basis over the following useful lives:

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

Freehold property, long leasehold property and land

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

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

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

Intangible assets with a finite useful life

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

Software	1 to 6 years
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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.

Notes to the Financial Statements

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.

Inventories

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

Taxation

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

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

- initial recognition of goodwill
- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.
- taxable temporary differences associated with investments in subsidiaries interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

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

Current and deferred tax is recognised in the income 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 United Kingdom employees of the Company. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme.

The pension assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed. When the calculation at the balance sheet date results in net assets to the Company, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling).

For defined benefit schemes, the amounts charged to operating profit, as part of staff costs, are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The net difference between the interest costs and the expected return on plan assets is recognised as net pensions interest in the income statement. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income.

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

Foreign currencies

The functional and presentational currency of the Company is sterling (£).

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction (or at the contracted rate if the transaction is covered by a forward foreign currency contract). Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date (or the appropriate forward contract rate). All differences are taken to the income statement.

Trade receivables

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

Borrowing costs

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

Government grants

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

Provisions

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

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).

Directors' emoluments

The emoluments paid to Directors are disclosed in the Group Financial Statements (note 5).

Notes to the Financial Statements

2. Intangible assets

Cost	2016 £m	2015 £m
At 30 March 2015, 31 March 2014	297	243
Reclassifications	-	(3)
Additions	91	57
Disposals	(1)	-
At 27 March 2016, 29 March 2015	387	297
Amortisation and impairment		
At 30 March 2015, 31 March 2014	297	243
Reclassifications	-	(3)
Impairment	91	57
Disposals	(1)	-
At 27 March 2016, 29 March 2015	387	297
Net book value		
At 27 March 2016, 29 March 2015	-	-

The above intangible assets relate to software.

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 30 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 30 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.

* 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.

Notes to the Financial Statements

4. Investment in subsidiaries

The carrying value of £50,000,100 relates solely to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company. It relates to 50,000,000 shares with a nominal value of £1 and 1 share with a nominal value of £100. The registered address of Post Office Management Services Limited is Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

5. Investments in joint ventures

	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	95	101
Amounts owed by group undertakings	6	2
Prepayments and accrued income	68	106
Client receivables	229	162
Other receivables	15	28
Total	413	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

8. Trade and other payables

	2016 £m	2015 £m
Current:		
Trade payables	51	29
Accruals	159	159
Deferred income	39	29
Social security	8	9
Client payables	375	454
Capital payables	16	25
Other payables	2	11
Total	650	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.

Notes to the Financial Statements

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 83 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 £3 million in relation to the discontinued operation as disclosed in note 19.

11. Pensions

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

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

The Company participates in pension schemes as detailed below

Name	Eligibility	Type
Royal Mail Pension Plan (RMPP)	United Kingdom employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	United Kingdom senior executives	Defined benefit
Post Office Pension Plan	United Kingdom 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 Post Office Pension 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. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans. The latest full actuarial funding valuation of RMPP was carried out as at 1 April 2012 using the projected unit method. For RMPP, this valuation was concluded at £135 million surplus. Valuations are carried out triennially and the next one for RMPP is being performed as at 31 March 2015. The 2015 valuation has not yet been completed pending the outcome of the consultation to close the Post Office section of the RMPP to future accrual. The latest full actuarial funding valuation of RMSEPP was carried out as at 31 March 2015 using the projected unit method. For 100% of the RMSEPP plan, the valuation was concluded at £17 million surplus. The next valuation for RMSEPP is expected to be performed as at 31 March 2018. RMPP includes sections A, B and C each with different terms and conditions:

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to 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 have taken effect since 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.
- 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 for the RMPP of £17 million (2015: £19 million) was made by the Company during the year in respect of regular future service contributions. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1% (2015: 17.1%), effective from April 2010. This rate is not expected to change materially during 2016/17. In February 2016, Post Office went out to formal consultation with active members (and their representatives) of the Post Office section of the RMPP with a proposal to close the plan to future accrual with effect from 1 September 2016. The consultation closed at the end of May 2016 and the Post Office is now reflecting on the consultation feedback. No decision on the outcome of the consultation has yet been made. The proposed closure will require consent of the Trustee of the RMPP. If it is agreed to close the Post Office section of the RMPP, this could affect the contributions to be paid in 2016/17.

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

A current liability of £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 Post Office section of the RMPP is 26 years, and for the RMSEPP fund is 21 years. Over the next financial reporting period to 26 March 2017, under the assumption that the Post Office section of the RMPP remains open, it is expected that employer contributions to the plans will be £17 million.

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

a) Major long-term assumptions

The size of the RMPP pension surplus, which is large in the context of the Company and its finances, is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on the surplus and overall income statement charge. The major long-term assumptions in relation to both RMPP and RMSEPP were:

Notes to the Financial Statements

	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 and RMSEPP plans 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 (net of the link to increases above RPI inflation in final pensionable salary) accrued in the Royal Mail Pension Plan to 31 March 2012 were transferred to the Royal Mail Statutory Pension Scheme. Therefore pre 31 March 2012 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)

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 Post Office section of the RMPP are based on the self-administered pension scheme (SAPS) 'Series 12' 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 United Kingdom Government Bonds. £215 million to an LDI (liability driven investment) containing United Kingdom Government Bonds and £3 million to an infrastructure debt holding which is EUR denominated and fixed interest.

Notes to the Financial Statements

Share of RMSEPP	Market value 2016 £m	Market value 2015 £m
UK equities	1	1
Overseas equities	10	11
Government bonds	15	16
Alternative asset funds	2	-
Property	2	2
Other assets	-	1
Fair value of share in plan assets for RMSEPP	30	31
Present value of share in plan liabilities for RMSEPP	(27)	(26)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	3	5
Less effect of asset ceiling	(1)	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	2	3

A retirement benefit surplus of £196 million on the accounting assumptions 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 not recoverable through a reduction in the future service requirement.

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 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.

Notes to the Financial Statements

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 exceptional 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 gains/(losses) on liabilities	3	(24)
Total actuarial (losses)/gains recognised in the statement of comprehensive income	(7)	53

	Share of RMSEPP 2016 £m	Share of RMSEPP 2015 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged/(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 comprehensive 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 issued in return for £313 million cash paid by the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, 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 £51 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).

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.

Corporate information

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Registered Office is 20 Finsbury Street, London, EC2Y 9AQ.
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