

Post Office Limited
Annual Report
& Financial Statements
2016-2017

PRESENTED TO PARLIAMENT PURSUANT TO
SECTION 77 OF THE POSTAL SERVICES ACT 2000

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Strategic Report

The Strategic Report for the Post Office comprises the Chairman's Foreword, Chief Executive Statement and Financial and Business Review.

Chairman's Foreword

The Post Office is a crucial part of the commercial and social infrastructure of the United Kingdom. Through its 11,650 branches and an increasing digital presence, it provides convenient access to essential services - mails, banking, government services, telecoms - for households and small businesses throughout the country.

Around 93% of the population of the UK and 93% of small businesses are located within a mile of their nearest Post Office. These post office branches are typically run by small businesses themselves, and are connected and supported by Post Office Limited's product, cash distribution and IT platforms: enabling their local knowledge and networks, complemented by national standards, consistency and efficiencies of scale. This unique business model also delivers significant social value to communities throughout the UK.

The Post Office, then, serves an important public and social purpose. In that sense, it is indeed unique. But, unique though it may be, it is not shielded from the commercial pressures faced by every business in the UK. Fulfilling its public purpose in the long term depends, critically, on its ability to operate on a sound financial and commercial basis.

This Annual Report demonstrates real progress made towards achieving that goal: a significant financial performance improvement during 2016/17 enabling the Post Office to record a profit for the first time in many years.

Sound financial management has been complemented by tangible improvements for our customers. We have now modernised over 7,000 branches under our transformation programme, providing longer opening hours, better customer environments and a simpler business platform for our postmasters to operate.

In service and product improvements, the signing of the Banking Framework agreement with all the major UK banks in January means that their personal and banking customers can now use their local Post Office to access a range of banking services.

As reports of bank branch closures show no sign of abating, the Post Office recognises that access to the financial system is a vital community service as well as a commercial opportunity. The Post Office is, and will remain, at the heart of communities up and down the country. The Banking Framework is absolutely central to the Post Office's strategy of providing a range of essential and enabling services to all, wherever they live and work.

A great deal of progress has also been made to develop a much leaner, more effective, and less cost-intensive centre to support our branch network. These efforts have seen a 4% reduction in our cost base within underlying trading, and this will remain an important focus for us.

I am pleased that Post Office is therefore delivering a stronger, more efficient business infrastructure together with profitable trading, thereby building real future sustainability, whilst all the time maintaining the size of, and accessibility to, its unique network of post offices.

This progress has, and will continue to require, investment into our business to further improve our offer to customers and, in particular, to update our IT infrastructure and develop our digital capabilities. We are therefore grateful for the continued support of Government which recognises that, while the Post Office has demonstrated that it is firmly on the path towards long term commercial sustainability, there is still some way to go before our turnaround is fully complete.

New investment funding from Government for the period 2018/19 to 2020/21, agreed in principle and subject to the usual EU state aid clearance process, will allow us to cement the progress we have made generally, and permit us to upgrade our information technology capability and resilience in particular.

This year's progress has been achieved in a challenging and fast moving competitive business environment and it has involved, and will continue to require, difficult change for many of our colleagues as we create a business fit for the future. But this is change with a clear purpose in mind: securing the future of a critically important community business.

I would like to thank all my colleagues on the Post Office Board for their advice and guidance throughout the year; to acknowledge the supportive role of UK Government Investments, our shareholder, the Department of Business, Energy and Industrial Strategy, and to recognise the valuable input of our Post Office Advisory Council. I would also like to pay tribute to Paula Vennells, our Chief Executive and her senior executive team, who steered an intelligent and dynamic course throughout the year.

However, the financial performance improvement over 2016/17 and the opportunities it creates for the future sustainability of the Post Office is, at its core, due to the effort and commitment of our postmasters and our colleagues throughout the business.

In branches of all shapes and size, in cash depots, in support units, all across the country – it is they who are the present and the future of the Post Office. I would like to thank them all for their achievements during 2016/17.



Tim Parker

Chairman

2 October 2017

Chief Executive Statement

The Post Office results for 2016/17 show a significant improvement in our financial performance as we move to profitability for the first time in 16 years with EBITDAS of £13 million. Moving into profitability represents an important milestone in the ambition we set for the Post Office when we became an independent business in 2012, and builds on the continued year by year earnings growth we have seen since that time.

At the same time, we have delivered a planned reduction of the Network Subsidy Payment to help protect community post offices, from a peak of £210 million in 2012/13 to £80 million in 2016/17. This will further reduce over the next 2 years to £50 million by 2019/20.

We have improved levels of service for our customers, made our processes and operations simpler for our postmasters and colleagues, and we have reduced our costs.

We have retained our position as the number one retailer of mails products in a fiercely competitive market; we have grown and diversified our financial services, banking, government services and telecoms businesses, and we have increased convenience for customers throughout our retail network.

Our nationwide network has benefited from a prolonged period of stability over recent years, with 11,650 branches open for business at the end of the financial year. It continues to offer UK wide coverage, with 93% of customers living within a mile of a Post Office, and 98% living within 3 miles of a Post Office, including remote locations. Customers have benefitted from our substantial investment in Network Transformation, which has created better retail environments, significantly longer opening hours, and improved access to online and call centre support.

This is great progress and we have so much more opportunity ahead of us. The Banking Framework, recently signed with all the major banks and which opens up banking services for the vast majority of UK bank accounts through every post office, delivers added convenience for our retail and business customers, as well as increased footfall for our postmasters. We will be investing more - and more quickly - in joining our online and offline customer propositions: Drop and Go for letters and parcels, digital Check & Send for passports, in-branch identify verification through Verify, and our popular Travel Money cards with mobile top-up. We have recently introduced access to fibre networks to support our broadband offer. New systems and partners are allowing us to improve products and pricing flexibility for our insurance customers.

These changes are essential because the Post Office needs to be as relevant to the customers of tomorrow as it is to the customers of today. It is no surprise, then, to see this reflected in the priority we are attaching to technology investment at all levels within the Post Office: upgrading point of sale systems for our postmasters so they can serve customers more efficiently and effectively than ever before; building stronger technology capabilities and improving our digital infrastructure to enable us to deliver value added products and services across multiple channels. And we are committed to taking this further still, by embracing technology innovation and actively engaging FinTech and customer experience communities. We are rapidly building a leading-edge tech team to take charge of our next transformation, bringing in-house the core technical skills we need to lead our key partners in putting the Post Office at the forefront of digital customer and client service delivery.

These positive developments are taking place in an external economic context which continues to be volatile and challenging. Mixed economic performance indicators, significant uncertainty over levels of future general economic activity, combined with record low interest rates, have all acted as something of a brake on our clients businesses and, as a result our overall revenue growth.

Meanwhile, the rising cost of doing business continues to challenge both Post Office Limited and postmasters. Increases in inflation, rents and business rates, as well as upward pressure on wages have a particular impact on our postmasters who typically also operate local convenience stores.

In meeting these challenges, we have asked a lot of our people, and taken some extremely difficult decisions. But where we have done so, we have had the long-term future of the Post Office – and crucially its customers – at heart.

To ensure that the business is able to provide the right support for those engaging directly with our customers, we have restructured our central functions, so that we are better able to focus on the needs of our branch customers and our direct digital customers. In making all these changes, we have simplified processes and reduced costs. Many of these changes have taken effect since the year end.

The past year saw the closure of the Defined Benefit Pension scheme to future accrual in order to ensure that our pension arrangements are sustainable over the long term. The number of colleagues directly employed by the Post Office has also substantially reduced by 20% and, although the size of our network has remained stable, a number of postmasters have retired as their branches have moved to nearby locations.

The contribution made by all those who have served their customers and communities on behalf of the Post Office cannot be over-stated: they deserve our heartfelt thanks for their work in building the profitable platform from which the Post Office is now able to develop on a sustainable basis. The journey has at times been difficult, but it has provided the momentum we need for a leaner, more clearly focused Post Office as we trade in 2017/18.

Throughout all of these important changes, meeting the needs of our customers, and extending our positive impact on the communities in which they live and work has remained central. This commitment to all communities is unswerving and central to our future vision. Research by Government during 2016 calculated Post Office's annual social value to its customers, to communities and small businesses at up to £9 billion. That is a significant contribution to the nation's economic and social wellbeing, which together with achieving our first year's profit for some years, is a contribution of which we are proud.

And I am determined we will maintain it. I am not complacent and much remains to be done. But through a continued focus on keeping pace with customers' needs, helping to make their lives simpler, and on making our post offices and our support services as efficient as they can be, we are generating profitable earnings we can reinvest in a successful and sustainable future Post Office.

As we do so, we will remain true to the core values which have guided the Post Office for centuries. Those values mean treating people fairly and with respect, doing the right thing and never taking for granted the trust placed in us. In that light we will work hard to be at the forefront of the Government agenda on gender pay, executive pay reporting and the representation of colleague's views.

I would like to thank the Post Office Chairman, Tim Parker, for his support, challenge and focus. His contribution, and those of my other colleagues on the Post Office Board and on the Group Executive, have been fundamental to the progress we have made. Thanks are also due to our colleagues at UK Government Investments, the Department for Business, Energy and Industrial Strategy, and in particular the Secretary of State, Greg Clark MP, and the Postal Services Minister, Margot James MP. Government commitment to the transformation of the Post Office has been critical to its success.

That progress, and the level of ambition we have for the future, are only possible as a result of the hard work and dedication of the 50,000 plus colleagues who work for, and with, the Post Office across the UK. I am hugely grateful to them: it is their outstanding personal commitment that daily renews the trust in the Post Office and provides such valued service for their communities and customers. Thank you.

A handwritten signature in black ink that reads "Paula Vennells". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Paula Vennells

Chief Executive
2 October 2017

Financial and Business Review

Summary results

Our revenue from continuing operations was largely flat at £957 million (2016: £964 million). As planned, the Network Subsidy Payment (NSP) from Government decreased by £50 million. Cost reductions of £38 million meant that trading operating profit from continuing operations decreased by just £19 million to £93 million.

Stripping out the subsidy to arrive at our critical measure of EBITDAS (operating profit from continuing operations before depreciation, amortisation, closure of activities, capital and investments and Network Subsidy Payment), we moved from a loss of £17 million in 2015/16 to a profit of £13 million in 2016/17. A profitable EBITDAS position is a crucial milestone in our path to commercial sustainability.

We delivered a profit for the financial year of £243 million (2016: loss of £167 million) which reflects the improvement in the underlying profitability of the business and the impairment reversal of £272 million (2016: impairment charge of £136 million).

Significant accounting judgements and change in presentation

Going concern

The group has net assets of £186 million at 26 March 2017 (2016: £137 million).

A funding agreement with Government was announced on 27 November 2013 which provided for NSP, investment funding and an extension of the working capital facility of £950 million with the Department for Business, Energy and Industrial Strategy (BEIS) to 31 March 2018.

In accordance with the funding agreement with Government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £140 million of funding on 3 April 2017 (note 23).

As disclosed in note 23, on 30 March 2017, Post Office and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility extending the working capital facility of £950 million with BEIS to 31 March 2021 and confirming NSP for 2018/19 and 2019/20 of £60 million and £50 million respectively.

On 25 July 2017, the Secretary of State for BEIS confirmed in principle that NSP of £50 million will be made available for 2020/21 and investment funding of up to £210 million will be available as required for the period from April 2018 to March 2021.

The Network Subsidy Payment (NSP) and investment funding will be received in the form of grants and will be non-refundable.

State Aid approval for the NSP and investment funding for 2018/19 to 2020/21 has not yet been received, although we are confident that this and all the conditions of funding will be met. The working capital facility is not classified as state aid and requires no further approval.

After careful consideration of the plans for the coming years, we continue to believe that Post Office will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Impairment reversal

In previous financial years, due to ongoing EBITDAS losses, the carrying value of intangible assets and all property, plant and equipment other than freehold and long leasehold property was impaired to nil.

However, the return to profitability in 2016/17, which the Board expects will continue into the future, coupled with the extension of government funding to March 2021, have led the Board to conclude that the previous indicators of impairment no longer exist. Therefore, the accounting estimate as at 26 March 2017 was changed, resulting in a reversal of impairment losses of £272 million, being the net book value of assets in use but previously impaired. This reversal was recorded as a credit to the income statement in capital and investments as at 26 March 2017. Further details can be found in the notes 1, 4, 8 and 9 of the financial statements on pages 50, 57, 62 and 63 respectively.

Discontinued Operations and restatement of prior year comparatives

During the year we closed the third party cash logistics operation which was losing some £11-12 million per annum before considering capital costs. Net of a provision release in relation to mobile, the loss on discontinued operations in 2016/17, including redundancies, was £47 million.

In preparing the financial statements for the current year, the comparative figures for the year ended 27 March 2016 have been restated. The effect is to reduce 2015/16 revenue by £17 million to £964 million and reduce costs by £24 million to £1,016 million, increasing EBITDAS from a loss of £24 million to a loss of £17 million. Loss on discontinued operations increases to £17 million in the prior year.

Closure of the defined benefit pension scheme and pension buy-in

On 21 March 2017, Post Office executed a Memorandum of Understanding (MoU) with the Trustee of the Post Office Section of the Royal Mail Pension Plan (RMPP). This clarified the Trustee's powers to distribute surplus without Post Office's agreement and Post Office has concluded that as a result of the MoU, Post Office no longer has an unconditional right to refund from the Plan. In light of this, the RMPP pension surplus was derecognised as at 26 March 2017, and the resulting loss of £210 million has been recognised in Other Comprehensive Income. As a result, the pension asset has reduced from £196 million at March 2016 to an asset of £1 million at March 2017.

As disclosed in note 23, on 20 July 2017, the Trustees of the pension scheme entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected by the purchase of two bulk annuities. Under the purchase agreements, the Trustees of the pension plan have bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation and longevity.

The accounting surplus will reduce by the difference between the insurance premium and the value of the insured liabilities. This loss will be recognised in Other Comprehensive Income in 2017/18. As Post Office has no right to a future surplus in the scheme, there will be an equal and opposite adjustment to the asset ceiling through Other Comprehensive Income. As a result, there will be no effect on the net assets position of the Group.

Presentation of the Consolidated Income Statement

In recent years, Post Office has disclosed exceptional items, being impaired capital expenditure and major strategic project spend net of investment funding.

In 2016/17, we have transitioned to an alternative presentation. We are showing four columns in the consolidated income statement in the current year and preceding financial year. These are: revenue trading; closure of activities; capital and investments; and (adding them together) the reported results. This presentation clearly shows the underlying trading of the business and our key measure of EBITDAS, calculated consistently, can be easily extracted from the revenue trading column.

Key Financial Performance Indicators

| | 2017 £m | 2016 (restated) £m | Change £m |
|---|------------|--------------------------|--------------|
| Turnover | 957 | 964 | (7) |
| Operating profit from continuing operations before closure of activities and capital and investments | 93 | 112 | (19) |
| Operating profit from continuing operations before depreciation, amortisation, closure of activities, capital and investments and Network Subsidy Payment (EBITDAS) Note 22 | 13 | (17) | 30 |
| Profit/(loss) for the financial year | 243 | (167) | 410 |

Profit and Loss

As noted in Presentation of the Consolidated Income Statement on page 14 and as disclosed in note 1 to the financial statements on page 47, we have split the results of the Group between revenue trading, closure of activities and capital and investments. Together these combine to give the results of the Group. In the following sections, we consider each of the columns of our consolidated income statement which combine to give an operating result from continuing operations of £304 million (2016: loss of £157 million).

| | 2017 £m | 2016 £m | Variance £m |
|---|------------|--------------|----------------|
| Operating profit/(loss) from continuing operations:- | | | |
| Revenue trading | 93 | 112 | (19) |
| Closure of activities | 19 | - | 19 |
| Capital and investments | 192 | (269) | 461 |
| Operating profit/(loss) from continuing operations | 304 | (157) | 461 |

Profit and Loss Summary – Revenue Trading

| | 2017 £m | 2016 (restated) £m | Variance £m | Variance % |
|---|--------------|--------------------------|----------------|---------------|
| Turnover | 957 | 964 | (7) | (0.7) |
| Network Subsidy Payment | 80 | 130 | (50) | (38.5) |
| Revenue | 1,037 | 1,094 | (57) | (5.2) |
| People costs | (202) | (213) | 11 | 5.2 |
| Other operating costs | (776) | (803) | 27 | 3.4 |
| Total costs | (978) | (1,016) | 38 | 3.7 |
| Depreciation | - | (1) | 1 | 100.0 |
| Share of profit from joint ventures | 34 | 35 | (1) | (2.9) |
| Operating profit from continuing operations before closure of activities and capital and investments | 93 | 112 | (19) | (17.0) |
| Add: Depreciation | - | 1 | (1) | (100.0) |
| Less: Network Subsidy Payment | (80) | (130) | 50 | 38.5 |
| EBITDAS | 13 | (17) | 30 | 176.5 |

Revenue

The Post Office's total revenue decreased by £57 million (5.2%) to £1,037 million driven by a planned decrease of £50 million in the NSP. The Post Office business is organised into two strategic business units, Retail and Financial Services & Telecoms. The divisions and their performance are detailed on the next pages:

| | 2017 £m | 2016 £m | Variance £m | Variance % |
|--|--------------|--------------|----------------|---------------|
| Retail | | | | |
| Mails | 337 | 334 | 3 | 0.9 |
| Retail & Lottery | 40 | 46 | (6) | (13.0) |
| Government Services | 114 | 128 | (14) | (10.9) |
| Payment Services | 68 | 70 | (2) | (2.9) |
| Financial Services & Telecoms | | | | |
| Financial Services | 248 | 234 | 14 | 6.0 |
| Telecoms | 133 | 130 | 3 | 2.3 |
| Other Income | 17 | 22 | (5) | (22.7) |
| Turnover | 957 | 964 | (7) | (0.7) |
| Network Subsidy Payment | 80 | 130 | (50) | (38.5) |
| Revenue | 1,037 | 1,094 | (57) | (5.2) |

Retail

The Retail business encompasses our position as the United Kingdom's number one mails provider, as well as our government services and payments propositions:

Mails

Mails includes the sale of parcels and other Mails products provided by Royal Mail and Parcelforce. Trading revenue increased in the year by £4 million (1.2%), driven by growth in Home shopping returns and priority services. This was offset by a planned reduction in the fixed fee part of the contract with the Royal Mail Group of £1 million.

Retail & Lottery

Retail turnover, which includes sales of collectibles as well as packaging and stationary, is consistent with prior year. A £6 million reduction in turnover from Lottery was driven by increased competition in the market and a trend towards mobile applications.

Government Services

This comprises services provided under contract to Government departments, including for the Department for Work and Pensions (DWP), the Driver and Vehicle Licensing Agency (DVLA) and the Home Office, including Her Majesty's Passport Office (HMPO) and UK Visas and Immigration (UKVI).

| | 2017 £m | 2016 £m | Variance % |
|----------------------------|------------|------------|---------------|
| DWP | 61 | 75 | (18.7) |
| Home Office | 34 | 34 | 0.0 |
| DVLA | 8 | 10 | (20.0) |
| Other Government Services | 11 | 9 | 22.2 |
| Government Services | 114 | 128 | (10.9) |

Government Services turnover of £114 million decreased by £14 million (2016: £128 million). DWP turnover decreased by £14 million to £61 million due to a decline in the number of active Post Office Card Accounts and lower interest rates. The reduction in DVLA turnover reflects customers increasingly using the online channel for motor vehicle licence payments.

Home Office revenue was maintained at £34 million: small declines in passport revenues were offset by increases in UKVI. Other Government Services turnover has increased by £2 million largely due to identity related services, including Cabinet Office's Verify online identity service where Post Office has maintained its' share in a growing market.

Payment Services

Payment Services includes bill payment and ATM transactions. Revenue has fallen by £2 million to £68 million (2016: £70 million) due to the ongoing shift away from paper based payment methods.

Financial Services & Telecoms

This business offers Post Office products to consumers across our banking, insurance and telecoms businesses:

Financial Services

Our Financial Services products include mortgages, credit cards, insurance, savings, travel and banking. Turnover increased by £14 million to £248 million (2016: £234 million), a 6.0% rise.

Banking has shown strong growth, with an increase in turnover of £10 million driven by the launch of the Banking Framework, securing Post Office's position as the provider of a national infrastructure which meets community banking needs across the United Kingdom.

Insurance turnover has also grown, the £7 million increase driven by a full financial year of insurance intermediation activities undertaken by Post Office Management Services Limited.

Turnover from mortgages and savings declined due to market pressures and the discontinuance of NS&I premium bonds.

Telecoms

Telecoms includes Post Office HomePhone and Broadband services as well as e-top ups and phone cards.

Telecoms turnover of £133 million increased by £3 million. This was driven by a strong performance in our HomePhone and Broadband services with a £4 million (3%) increase in annual revenue to £130 million. E-top ups and phone card revenue fell by £1 million in a generally declining market.

As disclosed in note 23, on 30 March 2017, we acquired the residential broadband and home phone customer base of New Call Telecom Limited. This acquisition further supports our position in the telecoms market. The base and assets were acquired for cash consideration of £2 million. Further consideration of £6 million is contingent on the number of New Call customers that successfully migrate to Post Office systems.

Costs

Total costs decreased by £38 million to £978 million (2016: £1,016 million). People costs of £202 million (2016: £213 million) decreased by £11 million reflecting efficiency savings. Average headcount reduced from 6,667 in 2015/16 to 6,054 in 2016/17 reflecting discontinued supply chain operations and efficiency savings across Directly Managed Branches and the effect of the Network and DMB transformation programmes.

Other operating costs decreased by £27 million to £776 million largely due to a reduction in postmaster remuneration costs resulting from Network Transformation programme, with fixed pay falling by £22 million.

Joint venture

Post Office Limited has a joint venture with the Bank of Ireland with each holding 50% of First Rate Exchange Services Holdings Limited, whose principal activity is the supply of foreign exchange in the UK to the Post Office and others. The share of operating profit from the joint venture was £34 million (£1 million lower than in 2015/16).

Closure of activities

| | 2017 | 2016 (restated) |
|---|-------------|--------------------|
| | £m | £m |
| Discontinuance of external supply chain | (48) | (7) |
| Mobile | 1 | (10) |
| Pension credit | 19 | - |
| Reversal of deferred tax asset | (25) | - |
| Total closure of activities | (53) | (17) |

Closure of activities is made up of the £48 million net loss of the retail cash in transit operation, including provisions for redundancies, which was discontinued on 1 November, less the £1 million provision release from the Mobile operation that was discontinued in 2015/16.

In addition, as a result of the closure of the defined benefit pension plan, we have recognised a £19 million one-off pension gain. This has been included within Closure of activities within the income statement. The closure of the pension scheme also resulted in the reversal of £25 million of tax losses. Prior year results have been restated to show the Retail Cash in Transit net loss as discontinued.

Capital and investment costs

Capital and investment costs are shown below:

| | 2017 | 2016 |
|--|--------------|--------------|
| | £m | £m |
| Investment funding | 140 | 150 |
| Restructuring: | | |
| Business transformation | (6) | (13) |
| Network transformation including Postmasters' compensation | (36) | (177) |
| IT Transformation | (9) | (30) |
| Directly managed branch transformation | (18) | (23) |
| Restructuring – severance | (46) | (29) |
| Restructuring – other | (1) | (11) |
| Total restructuring costs | (116) | (283) |
| Impairment: | | |
| Impairment of intangible assets | (78) | (93) |
| Impairment of property, plant and equipment | (26) | (43) |
| Reversal of impairment on intangible assets | 123 | - |
| Reversal of impairment on property, plant and equipment | 149 | - |
| Total impairment reversal/(charge) | 168 | (136) |
| Total capital investment income/(loss) | 192 | (269) |

Capital and investments include the costs of delivery of major change and the impairment of non-current assets together with the impairment reversal of £272 million as at 26 March 2017.

These are offset by Government grant funding, recognised to match the associated costs. The Government grant funding for 2016/17 of £140 million (2016: £150 million) was received on 1 April 2016 and was fully recognised in the year.

The level of investment grants will continue to reduce as set out in the current funding agreement with the Government.

BEIS has confirmed in principle that funding of up to £210 million will be made available for the period from April 2018 to March 2021. State Aid approval for the NSP and investment funding for 2018/19 to 2020/21 has not yet been received, although we are confident that this and all the conditions of funding will be met.

Cash Flow and Net Debt

Cash and cash equivalents amounted to £680 million (2016: £712 million) at the year end. There was a net cash outflow during the year of £32 million (2016: £109 million). A summary cash flow is shown below.

| | 2017 £m | 2016 £m |
|---|--------------|--------------|
| Net cash outflow from operating activities | (32) | (114) |
| Net cash outflow from investing activities | (82) | (145) |
| Net cash outflow before financing activities | (114) | (259) |
| Finance costs paid | (6) | (5) |
| Payments to finance lease creditors | (8) | - |
| Proceeds of borrowing from BEIS | 96 | 155 |
| Net decrease in cash and cash equivalents | (32) | (109) |

Net debt (excluding cash in the Post Office Network) increased by £141 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.

| | 2017 £m | 2016 £m |
|--|--------------|--------------|
| Net decrease in cash and cash equivalents | (32) | (109) |
| (Deduct)/add in movement in network cash | (13) | 55 |
| Deduct net proceeds of borrowing from BEIS | (96) | (155) |
| Net increase in net debt | (141) | (209) |
| Net debt brought forward at the beginning of the year | (406) | (197) |
| Total net debt carried forward at the end of the year | (547) | (406) |
| Net debt consist of: | | |
| BEIS loan | (561) | (465) |
| Cash (excluding cash in the Post Office Network) | 14 | 59 |
| Total net debt carried forward at the end of the year | (547) | (406) |

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 facility at the end of the year was £389 million and available facility, under the security rules, was £337 million. The maximum drawn down under the facility during the year was £856 million on 6 October 2016. The facility is available at two days' notice and has an end date of 31 March 2021.

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 historical liabilities at this date.

In the year, the balance sheet pension position moved from an asset of £196 million at March 2016 to an asset of £1 million at March 2017. The movement in the surplus is principally the result of the Memorandum of Understanding executed by Post Office with the Trustee of RMPP. This concluded that Post Office no longer had the right to refund from the Plan; in light of this, in accordance with IFRIC 14, the RMPP pension surplus can no longer be recognised on Post Office's balance sheet at 26 March 2017, and the resulting loss has been recognised in Other Comprehensive Income.

Both defined benefit plans closed to new members in March 2008, and RMSEPP closed to future accrual on 31 December 2012. The RMPP closed to future accrual on 31 March 2017. New employees were offered membership of the RMDCP following these dates. 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 pension contributions into RMPP for the reporting period 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:

| | 2017 | 2016 |
|---|-------------|-------------|
| | £m | £m |
| Regular pension contributions | (19) | (20) |
| Funding of the pension deficit – RMSEPP | (1) | (1) |
| Payments relating to redundancy | (3) | (3) |
| Net cash payments | (23) | (24) |

The income statement charge to revenue trading for the year was £4 million (2016: £3 million) in relation to the defined contribution scheme and £21 million (2016: £27 million) in relation to the defined benefit scheme.

A one-off pension gain of £19 million resulting from the closure of the RMPP has been included in the income statement under closure of activities.

The regular future service contributions cash rate for RMPP expressed as a percentage of pensionable pay remained at 17.1% (2016: 17.1%). Following formal consultation with employees in 2016, the Trustee agreed to the closure of the Post Office section of the RMPP to future accrual. Closure for future accrual means that no contributions in respect of normal service accrual will be made after 31 March 2017. In addition, no deficit-clearing payments have been agreed. The regular rate of employee contributions for the RMPP remains unchanged at 6%.

A handwritten signature in black ink that reads "Alisdair Cameron". The signature is written in a cursive, slightly slanted style.

Alisdair Cameron

Chief Finance and Operating Officer
2 October 2017

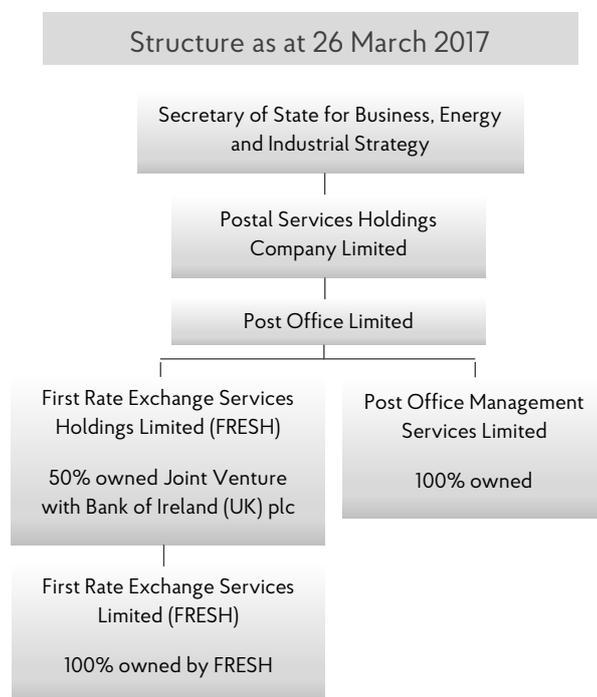
Corporate Governance

Good corporate governance supports the delivery of Post Office's strategy

Legal Ownership and Structure

During the 2016/17 financial year Post Office was a wholly owned subsidiary of Postal Services Holding Company Limited. In addition, the Secretary of State for Business, Energy and Industrial Strategy (BEIS) holds a special share in Post Office and the rights attached to that special share are enshrined within Post Office Articles of Association. In June 2017, Postal Services Holding Company Limited entered voluntary liquidation and the shares in Post Office Limited were distributed to the Secretary of State.

Neither Postal Services Holding Company nor BEIS, through UK Government Investments Limited (UKGI), have any day to day involvement in the operations of Post Office or in the management of its branch network and staff. However, UKGI has the right to appoint non-executive directors to the Board. Richard Callard is the current representative of UKGI on the Board.



Corporate Governance Overview 2016/17

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 profitability. We are mindful of the changing landscape of corporate governance reform and regularly review these standards to ensure they remain appropriate 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 adopts these principles both in its decision making and in its responsibility for organisational culture.

Board of Directors

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

There were no changes in membership of the Board during 2016/17. Gender diversity was maintained with 37.5% women.

The Board comprises an independent Non-Executive Chairman, the Group Chief Executive, the Chief Finance and Operating Officer and five Non-Executive Directors (one of whom is designated the Senior Independent Director). Non-Executive Directors are not employees of Post Office but

provide services under the terms of an individual letter or appointment, signed at the commencement of their directorship.

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



Tim Parker, Independent Chairman, Chairman of the Nominations Committee and Member of the Remuneration Committee
Joined the Board 1 October 2015



Tim Franklin, Non-Executive Director and Member of the Audit, Risk and Compliance Committee
Joined the Board 19 September 2012



Ken McCall, Senior Independent Director, Chairman of the Remuneration Committee and Member of the Audit, Risk and Compliance and Nominations Committees
Joined the Board 21 January 2016



Virginia Holmes, Non-Executive Director and Member of the Nominations and Remuneration Committees
Joined the Board 4 April 2012



Paula Vennells, Group Chief Executive
Joined the Board 18 October 2010



Carla Stent, Non-Executive Director and Chairman of the Audit, Risk and Compliance Committee
Joined the Board 21 January 2016



Richard Callard, Non-Executive Director and Member of the Audit, Risk and Compliance Committee
Joined the Board 26 March 2014



Jane MacLeod, Company Secretary
Appointed as Company Secretary 31 August 2017



Alisdair Cameron, Chief Finance and Operating Officer
Joined the Board 28 January 2015

Alwen Lyons served as Company Secretary from her appointment on 4 July 2011 until 30 August 2017.

Biographies of all members of the Board can be found on the Post Office website: corporate.postoffice.co.uk/our-leadership

Board

Role and responsibilities

The Board is accountable to the Secretary of State for BEIS for the performance of Post Office and is required to seek consent for certain matters, as set out in the Articles of Association. The shareholder is briefed regularly on the performance of the business and the progress to deliver the strategy.

The Board is also responsible for oversight of compliance with all legal and regulatory requirements and delivery of the strategy as well as 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 reviews the strategy annually and each year approves the annual budget and business plan required to deliver the strategic objectives for that year; the last approval was in March 2017. The Board regularly reviews reports on performance against that plan and receives 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 Director of Legal, Risk and Governance 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 32 to 34.

Key focus and achievements in 2016/17

During the year to 26 March 2017, the Board oversaw the Post Office's move towards commercial sustainability and profitability. This journey included transition to a new business model with the creation of two business units: Retail; and Financial Services & Telecoms, supported by a single operations team and a leaner set of corporate functions.

The Board monitored the continued delivery of the IT strategy and development in the digital space, enhancing the customer experience and promoting engagement with Post Office into the future. The Board also approved the acquisition of a telecoms business to enhance the Post Office's telecoms offering, providing a better service for customers.

Following a rigorous and meaningful consultation the Board agreed to the closure of the Royal Mail Pension Plan to future accrual with effect from 1 April 2017. This decision was made to minimise the future risk of increasing contributions relating to the Defined Benefit pension scheme. Further information on the closure can be found in the Finance and Business Review on page 21 and in the financial statements in note 17 on pages 73 to 80.

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. Pursuant to this, during the year a new Group Conflict of Interests Policy was adopted which includes clarification of the procedure by which situations giving rise to potential conflicts of interest are identified to the Board and considered for authorisation.

During the period, none of the Directors had a material interest in any contract of significance with Post Office or any of its subsidiaries. At all times during the periods of their appointments in 2016/17, 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.

Non-Executive Directors' Terms of Office as at 26 March 2017

| Non-Executive Director | Date of appointment | Term of office | Unexpired term at 26 March 2017 | Committee memberships |
|---------------------------|---------------------|----------------------|---------------------------------|--|
| Tim Parker | 1 October 2015 | 3 years | 1 year, 6 months, 4 days | Nominations (Chairman) Remuneration |
| Richard Callard | 26 March 2014 | Until removal | N/A | Audit, Risk and Compliance |
| Tim Franklin ¹ | 19 September 2012 | 3 years ² | 2 years, 5 months, 23 days | Audit, Risk and Compliance |
| Virginia Holmes | 4 April 2012 | 3 years | 1 year, 6 days | Nominations Remuneration |
| Ken McCall ³ | 21 January 2016 | 3 years | 1 year, 9 months, 25 days | Remuneration (Chairman) Audit, Risk and Compliance Nominations |
| Carla Stent | 21 January 2016 | 3 years | 1 year, 9 months, 25 days | Audit, Risk and Compliance (Chairman) |

¹ Tim Franklin is also Chairman of the Post Office Advisory Council.

² Tim Franklin began a second three-year term on 19 September 2016 following conclusion of an initial four year term of office.

³ Ken McCall is the Senior Independent Director.

Board Meetings

During 2016/17 the Board met 10 times (including extraordinary meetings held either in person or by telephone). 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 |
|------------------|-------|--------------------------|--|--------------------------|---------------------------|
| Tim Parker | 7/7 | 3/3 | - | 4/4 | 5/5 |
| Richard Callard | 7/7 | 3/3 | 7/7 | - | - |
| Alisdair Cameron | 7/7 | 3/3 | - | - | - |
| Tim Franklin | 7/7 | 2/3 | 6/7 | - | - |
| Virginia Holmes | 7/7 | 3/3 | - | 4/4 | 5/5 |
| Ken McCall | 6/7 | 3/3 | 7/7 | 4/4 | 5/5 |
| Carla Stent | 7/7 | 3/3 | 6/7 | - | - |
| Paula Vennells | 7/7 | 3/3 | - | - | - |

Board Effectiveness Review

During 2016/17 an externally facilitated Board Effectiveness Review was undertaken, with the results reported to the Board in January 2017. The overall results from the review were positive, with some areas identified for further work. The Board agreed to the implementation of the resulting recommendations, which included the Board receiving greater support when making decisions on IT strategy and the Audit, Risk and Compliance Committee having a greater focus on the review of internal audit work.

Committees

To assist in the execution of its corporate governance responsibilities, the Board has established three committees which deal with specific topics requiring independent oversight, specifically: Audit, Risk and Compliance; Nominations; and Remuneration. Each committee is chaired by a Non-Executive Director.

The Board delegates certain authorities to these committees which operate within their own agreed, documented terms of reference. The terms of reference for all committees are reviewed annually in March to confirm that each committee has delivered against them during the preceding year. The reviews in March 2017 raised no issues. If a committee feels that amendments to its terms of reference are required these are submitted to the Board for its approval. The Board last approved amendments to the Audit, Risk and Compliance Committee's terms of reference in September 2015 and to the terms of reference for the Nomination and Remunerations Committees in March 2015.

Terms of Reference for the committees are available on the Post Office website corporate.postoffice.co.uk/our-leadership.

Nominations Committee

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.

Work carried out by the Committee in 2016/17

During the period the Committee reappointed Tim Franklin to the Board as a Non-Executive Director for a further three years. The Committee oversaw both the Board Effectiveness Review and the organisational design for the new business model. It also reviewed the Group Executive succession plan and received updates on senior appointments.

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.

Forward focus for 2017/18

During 2017/18 the Committee will continue to identify potential leaders, keep the Group Executive succession plan under review and look much further ahead to ensure we have the necessary resources to implement our longer term strategies.

Remuneration Committee

Role and Membership

The Committee is chaired by Ken McCall, Senior Independent Director and the other members are Tim Parker, Chairman, and Virginia Holmes.

The Group Chief Executive may attend meetings, at the invitation of the Chairman, to discuss matters relating to the remuneration of the Chief Finance and Operating 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.

Work carried out by the Committee in 2016/17

During the year the Committee reviewed and made recommendations for the 2015/16 payments against incentive plans, together with the targets and measures for 2016/17. The Committee also approved senior level salaries, reviewed the remuneration framework, undertook a pay review of the Group Executive and considered benchmarking data for the salaries of senior employees.

The Committee is permitted to engage external consultants and during the year under review appointed PwC as its new adviser, after consultation with the Chairman of the Audit, Risk and Compliance Committee to ensure no conflict with other work undertaken by PwC. Prior to the appointment of PwC, advice continued to be sought from New Bridge Street Consultants. New Bridge Street Consultants is part of the Aon Consulting Group which, 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.

Forward focus for 2017/18

During 2017/18 the Committee will consider the impact of the Government's gender pay gap reporting regulations and the Government's August 2017 response to the green paper consultation on corporate governance reform. Of particular consideration will be the impacts relating to gender pay, executive pay and greater engagement with employees on wider pay policy.

Audit, Risk and Compliance Committee

Role and Membership

The Committee is chaired by Carla Stent, and the other members are Ken McCall (Senior Independent Director), Richard Callard (Non-Executive Director) and Tim Franklin (Non-Executive Director). The Board considers that the Committee's members have broad commercial knowledge, extensive business leadership experience and that this constitutes an appropriate mix of business and financial experience and expertise.

The Head of Risk and Assurance or the Senior Internal Audit Manager attended all but one of the meetings of the Committee and also met the Committee Chairman, independently and regularly, throughout the year. The external auditor was invited to, and attended, meetings of the Committee.

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 32 to 34.

Work carried out by the Committee in 2016/17

During the year, the Committee reviewed the annual report and financial statements for 2015/16, including consideration of principal and strategic risks, and recommended Board approval. The Committee oversaw the further implementation of the Group-wide Risk Management Framework, including self-assessment of the control framework and an increased consideration of financial services risk to support the development of the financial services strategy. The Committee approved the annual audit plans for the internal and external auditors.

The Committee also reviewed the work carried out by risk management, internal and external audit, further details of which can be found below. It received regular reports on particular risk areas, including financial, branch network and IT controls, business transformation, operational risks, financial conduct, money laundering, cyber & information security (including data protection) and pension risks. The Committee has, together with the Board, also monitored the potential impact on the business of Brexit. These considerations enabled it to complete its year-end annual assessment of the effectiveness of risk management and internal controls, on behalf of the Board.

Forward focus for 2017/18

During 2017/18 the Committee's planned focus will include the continued oversight of the progress in branch network, financial and IT controls, enhancements in general controls aligned to the increased digitisation of the business and in supporting delivery of the strategy for expansion in financial services. The Committee will also continue to ensure that the Post Office complies with current and future legislation, as well as receiving regular updates on developments affecting its products and operations.

Annual Assessment

To complete its annual assessment of the effectiveness of risk management and internal controls, the Committee considers the risk management framework, systems of internal control and preparation of the annual and interim financial statements and reviews of the nature and scope of the external audit.

In consequence, the Board, through the Committee, confirmed that there is a regularly reviewed and continuous process of identifying, evaluating and managing the principal risks and their related controls. The process 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 and conclude that they provide reasonable, but not absolute, assurance, against material misstatement or loss.

Internal Audit

Internal Audit provides the Committee with assurance 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, supplemented by a co-sourcing arrangement for more specialist, one-off expertise and assurance over significant change programmes.

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. Any significant findings or identified risks are closely examined to confirm that appropriate action is being taken. During the year, Internal Audit conducted reviews across a range of business areas including financial services and business transformation.

A self-assessment of compliance with the Internal Audit Charter was conducted at the end of the year and reviewed by the Committee.

External Audit

The external auditors discuss with management the reporting of operational results and the financial condition of the Post Office. They 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.

During the year 20% of the total fees paid to Ernst & Young LLP were for non-audit services, a decrease from the 26% paid in 2015/16.

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. 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.

Risk Management Governance

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

Assurance for the Board is provided by the ARC through review of reports from Management, Risk, Internal Audit, external advisers and External Audit.

Our Risk Management Framework

The risk management framework includes risk governance, risk identification, measurement and management, and risk reporting and set out the 'top-down' and 'bottom-up' approach to risk identification for the Post Office. Material and emerging risks are identified through a process of regular structured dialogue with subject-matter experts across the business.

The approach to risk management is based on the underlying principle of line management accountability for effective implementation of internal controls to manage risk. Details of our Principal Risks are included on pages 33 and 34.

Internal Control Framework

We have an internal control framework in place in relation to our financial reporting processes, which falls under our self-assessment regime. Further work is currently underway to develop a similar framework for our IT controls. Our risk management efforts are also underpinned by our General Control Framework and Executives' Declaration.

The Board has put in place an organisational structure with formally defined lines of responsibility and delegation of authority. Executive Management have established procedures for setting our direction, planning and controlling the operation of our business, and reviewing and monitoring our performance and conduct.

Progress during the year and plans for next year

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

Risk assessment: during 2016/17, we improved the risk management framework, its use in the business areas and oversight by the Risk and Compliance Committee. We also developed incident reporting processes and formalised the risk exceptions process.

Control environment: during 2016/17, we have embedded a Control Self-Assessment across twelve of our key processes, rolling out a reporting tool to monitor the risk and control environment.

Risk assessment: for 2017/18 we aim to improve our understanding of the nature of risks that Post Office faces and continue to improve oversight of the level of risk actually being taken across Post Office and the effectiveness of the mitigating actions.

Control environment: for 2017/18, we are extending our self-assessment regime over the risk and control environment across our key processes more widely e.g. IT.

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

Competitive threat

Post Office faces both opportunities for and threats to income from our competitive market place.

- The Mails and parcels market remains intensely competitive.
- Financial Services is a challenging market with new entrants such as challenger banks and Fintechs. Responding quickly to different strategies, business models, and products is therefore essential to growth.
- There is an increasing emphasis on the ability to quickly implement changing customer expectations through digital channels for new products and improved back office functions.

Crystallisation of these risks could result in not achieving our growth objectives, losing market share and revenues.

- Customer perceptions and competitor behaviour are key inputs to decision making.
- Our strategy focuses on customer requirements, market trends and competitor behaviour, working with partners where appropriate, to offer customer centric propositions, supported by a clear distribution strategy.
- Each product proposition is developed in the context of a customer strategy which describes target market, channel of distribution and competitive attributes.

Dependency on strategic relationships

Post Office has strategic relationships which are key to its product offering and growth, for instance with Royal Mail Group and Bank of Ireland (UK) plc. Misalignment of the strategic direction or focus with the strategic partner could result in products that do not support our growth strategy or meet our customer or market requirements.

This could result in not achieving our growth objectives, losing revenue and market share.

- Close working relationships established with our strategic partners.
- 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.

OPERATIONAL AND FINANCIAL RISKS

Unattractive network proposition

There is a risk that the Post Office may not be able to retain, or attract sufficient new, retail partners because of the complexity of our network proposition and relative value to the retail partner particularly compared to other categories.

As well as loss of revenue, this could result in shrinkage to our network and breach our public purpose commitment.

- New branch model being developed to provide retailers with an attractive proposition relative to other categories.
- New branch model also ensures that we use modern technology to drive simplicity of operations, efficiency and cost reduction for the retailer, as well as a better customer experience. We are also reviewing, and where possible simplifying, products and processes to improve the sales experience and process for both retailer and customer.
- Branch model continually reviewed and updated to respond to ongoing competitive threat and market conditions.

Business interruption and cyber threat

Post Office is dependent on the continued availability of its information systems and associated infrastructure. These could be threatened, either due to internal issues, external events or cyber-attack.

This could result in disruption of service leading to negative customer experience, breach of contractual obligations and brand damage.

- Business continuity plans updated through review, testing and enhancements.
- New contracts have provisions covering the security, resilience and availability of our IT systems and infrastructure.
- Information Security policies in place.
- Penetration testing schedule to assess and improve the security of our systems.

IT and change complexity

Our programme of IT change may not be delivered in full due to the level of complexity of replacing legacy IT and simultaneously implementing new IT.

This could significantly impact Post Office strategic objectives and execution and implementation of Post Office business strategy.

- Infrastructure programme underway to mitigate.
- Integrated Master Plan to manage and monitor progress across the portfolio including dependencies.
- Appropriate governance arrangement over migration process.
- Focused resource on control arrangements embedded within the programme.
- Early identification and engagement of stakeholders to ensure appropriate planning.

Industrial Action

There are a number of commercial processes supplied by and to Royal Mail Group (RMG). The risk of industrial action affecting such a key partner could lead to material disruption to Post Office.

This could result in loss of service to customers, Postmasters, and business partners.

- We are developing contingency plans to mitigate, to the extent possible, the impact of any industrial action affecting Royal Mail.

LEGAL & REGULATORY RISKS

Regulatory breach

The Post Office operates under an extensive regulatory environment, covering areas such as financial and postal services, telecoms, procurement, competition law and data security. This environment continues to evolve, particularly in the financial services arena, and we need to ensure that the changing requirements continue to be identified and met.

This could result in regulatory censure, fines, litigation or curtailment of trading, which could impact income and/or damage our reputation with customers and suppliers.

- New regulatory obligations monitored by relevant business owners, with support from Legal, Risk & Governance.
- 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.

Group Executive

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

Membership

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

| | |
|------------------|---|
| Alisdair Cameron | Chief Finance and Operating Officer |
| Kevin Gilliland | CEO - Retail |
| Rob Houghton | Chief Information Officer (joined the Group Executive from 1 January 2017) |
| Martin Kirke | Group People Director (from 7 November 2016) |
| Nick Kennett | CEO - Financial Services and Telecoms |
| Alwen Lyons | Company Secretary (until 30 August 2017) |
| Jane MacLeod | General Counsel, Director of Legal, Risk and Governance and, from 31 August 2017, Company Secretary |
| Mark Davies | Group Communications, Brand and Corporate Affairs Director (joined the Group Executive from 1 April 2017) |
| Martin Edwards | Group Strategy Director (joined the Group Executive from 1 April 2017) |

Other members of the Group Executive during 2016/17 were:

| | |
|---------------|--|
| Martin George | Commercial Director (left the Post Office on 31 December 2016) |
| Neil Hayward | Group People Director (left the Post Office on 4 November 2016) |
| David Hussey | Business Transformation Director (left the Post Office on 31 January 2017) |

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 Group Chief Executive and Chief Finance and Operating Officer are both members of the Board and the Group Executive. That membership together with the role of the Company Secretary who also attends the Board and is a member of the Group Executive, strengthen the links 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 26 March 2017.

Expected future developments

Expected future developments are detailed in the Chief Executive statement.

Results and dividends

The profit after taxation for the year was £243 million (2016: loss £167 million). The Directors do not recommend the payment of a dividend (2016: £nil dividend).

Political contributions

No political contributions were made in the year (2016: £nil).

Research and development

There was no research and development expenditure during the year (2016: £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 | K S McCall | T C Parker |
| C R Stent | P A Vennells | |

No director has a beneficial interest in the share capital of Post Office. The emoluments of Directors are set out in the note 5 to the financial statements on pages 58 to 60.

People

People are the driving force behind the business, either in branch or in supporting roles within our offices. It is key that everyone associated with Post Office – employees and postmasters – is engaged, involved and equipped to meet our shared objectives.

We are committed to ensuring that everyone's voices are heard and to that end we conduct regular employee surveys. Engagement is vital and in recognition of this a network of engagement champions represents the voices of colleagues from each part of the business. Our various communication channels ensure that everyone is kept informed on matters which impact them and the wider business.

We are committed to ensuring the health, safety and wellbeing of employees and work hard to promote a safe working environment and a positive wellbeing culture. A range of services is provided to help all employees stay mentally and physically healthy.

Our Learning Academy provides high quality learning for all employees and postmasters and aims to ensure that everyone is supported to reach their full potential. There is a commitment to continuing to invest in developing the best talent to support our business, including graduate recruitment and active participation in the apprenticeship programme, available for new and existing colleagues.

Post Office promotes diversity and inclusion and celebrates the diversity of its workforce and communities served. There are active networking groups such as the Women in Leadership Programme, to support and nurture female talent, and Post Office Prism, which supports and celebrates Post Office's LGBT+ community.

Disabled employees

The Post Office has been recognised as a disability confident leader and has a Disability Confidence networking group called 'Be You'. This group provides support and advice and helps the business to do the best it can for employees with disabilities. Employees who become disabled while employed receive full support through the provision of training and special equipment to facilitate continued employment where practicable.

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 £140 million of funding on 3 April 2017.

On 30 March 2017 the Group acquired the residential broadband and home phone customer base, along with certain other assets, of New Call Telecom Limited, for cash consideration of £2 million and contingent consideration currently estimated to be £6 million. The provisional fair value of the net assets acquired is £6 million. The acquisition will be accounted for under IFRS 3 Business Combinations.

On 12 June 2017, Post Office's parent company, Postal Services Holding Company Limited, was placed into liquidation. It is expected that the process will be complete and the company will be dissolved by the end of March 2018.

On 20 July 2017, the Trustees of the pension scheme entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected by the purchase of two bulk annuities. Under the purchase agreements, the Trustees of the pension plan have bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation and longevity.

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 70 to 72.

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.

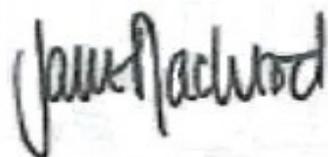
Auditor

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

By Order of the Board

Jane MacLeod

Secretary, Post Office Limited (Company Number 2154540)
Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ
2 October 2017



Directors' responsibilities statement

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

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

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

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

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

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

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

The Directors confirm that to the best of their knowledge:

- The Group consolidated Financial Statements, prepared in accordance with IFRSs 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 Limited

We have audited the consolidated Financial Statements of Post Office Limited for the 52 week period ended 26 March 2017 which comprise the Group Consolidated Income Statement, the Group Consolidated Statement of Comprehensive Income, the Group Consolidated Statement of Cash Flows, the Group Consolidated Balance Sheet, the Group Consolidated Statements of Changes in Equity, the related notes 1 to 24, the Parent Company Statement of Comprehensive Income, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 38, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 26 March 2017 and of the Group's profit for the 52 week period then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 “Reduced Disclosure Framework”; and
- the Group and Parent Company Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

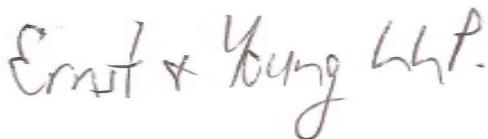
- based on the work undertaken in the course of the audit
 - ▶ the information given in the Strategic Report and the Directors’ Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
 - ▶ the Strategic Report and the Directors’ Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Peter Mclver (Senior statutory auditor)

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

London

2 October 2017

Consolidated income statement

for the 52 weeks ended 26 March 2017 and 27 March 2016

| | Notes | 2017 £m | | | 2016 (restated) £m | | | | |
|--|--------|-----------------|-----------------------|------------------------|--------------------|-----------------|-----------------------|------------------------|--------------|
| | | Revenue trading | Closure of activities | Capital and investment | Total | Revenue trading | Closure of activities | Capital and investment | Total |
| Continuing operations: | | | | | | | | | |
| Turnover | | 957 | - | - | 957 | 964 | - | - | 964 |
| Network Subsidy Payment | | 80 | - | - | 80 | 130 | - | - | 130 |
| Revenue | | 1,037 | - | - | 1,037 | 1,094 | - | - | 1,094 |
| Costs | 2,4,17 | (978) | 19 | (116) | (1,075) | (1,016) | - | (283) | (1,299) |
| Investment funding | 4 | - | - | 140 | 140 | - | - | 150 | 150 |
| Impairment | 4 | - | - | 168 | 168 | - | - | (136) | (136) |
| Depreciation | | - | - | - | - | (1) | - | - | (1) |
| Share of post-tax profit from joint venture | 10 | 34 | - | - | 34 | 35 | - | - | 35 |
| Operating profit / (loss) from continuing operations | | 93 | 19 | 192 | 304 | 112 | - | (269) | (157) |
| Finance costs | 6 | (6) | - | - | (6) | (5) | - | - | (5) |
| Pensions net financing income | 17 | 8 | - | - | 8 | 8 | - | - | 8 |
| Profit / (loss) before taxation from continuing operations | | 95 | 19 | 192 | 306 | 115 | - | (269) | (154) |
| Taxation credit / (charge) | 7 | 9 | (25) | - | (16) | 4 | - | - | 4 |
| Profit / (loss) for the financial year from continuing operations | | 104 | (6) | 192 | 290 | 119 | - | (269) | (150) |
| Discontinued operations: | | | | | | | | | |
| Loss for the financial year after tax from discontinued operations | 20 | - | (47) | - | (47) | - | (17) | - | (17) |
| Profit / (loss) for the financial year | | 104 | (53) | 192 | 243 | 119 | (17) | (269) | (167) |
| EBITDAS | 22 | 13 | | | | (17) | | | |

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

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

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

EBITDAS is one of the Group's key financial measures and is calculated by taking operating profit from continuing operations before depreciation, amortisation, closure of activities, capital and investments and Network Subsidy Payment. For the year ended 26 March 2017 EBITDAS was £13 million (2016 restated: EBITDAS loss of £17 million), further detail is given in note 22.

Consolidated statement of comprehensive income

for the 52 weeks ended 26 March 2017 and 27 March 2016

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

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

Consolidated statement of cash flows

for the 52 weeks ended 26 March 2017 and 27 March 2016

| | | 2017 | 2016 (restated) |
|--|-----------|--------------|--------------------|
| | Notes | £m | £m |
| Cash flows from operating activities | | | |
| Operating profit from revenue trading from continuing operations | | 93 | 112 |
| Operating loss from discontinued operations | 20 | (47) | (17) |
| Total profit before capital and investment | | 46 | 95 |
| Adjustment for: | | | |
| Share of profit from joint venture | 10 | (34) | (35) |
| Pension operating costs | 2 | 24 | 30 |
| Working capital movements: | | (6) | (81) |
| Decrease/(increase) in trade and other receivables | | 81 | (16) |
| Decrease in trade and other payables | | (95) | (59) |
| Increase in inventories | | (1) | - |
| Increase in provisions for discontinued operations | 20 | 5 | 3 |
| Increase/(decrease) in revenue trading provisions | | 4 | (9) |
| Pension operating costs paid | | (23) | (23) |
| Cash payments in respect of capital and investment items: | | (48) | (109) |
| Investment funding | | 140 | 150 |
| Restructuring costs | | (188) | (253) |
| Other | | - | (6) |
| Income Tax recovered | | 9 | 9 |
| Net cash outflow from operating activities | | (32) | (114) |
| Cash flows from investing activities | | | |
| Dividends received from joint ventures | 10 | 35 | 35 |
| Acquisition of insurance business | | - | (44) |
| Purchase of tangible and intangible non-current assets | | (117) | (136) |
| Net cash outflow from investing activities | | (82) | (145) |
| Net cash outflow before financing activities | | (114) | (259) |
| Cash flows from financing activities | | | |
| Finance costs paid | | (6) | (5) |
| Payments to finance lease creditors | | (8) | - |
| Proceeds of borrowings from BEIS | 14 | 96 | 155 |
| Net cash inflow from financing activities | | 82 | 150 |
| Net decrease in cash and cash equivalents | | (32) | (109) |
| Cash and cash equivalents at the beginning of the year | 12 | 712 | 821 |
| Cash and cash equivalents at the end of the year | 12 | 680 | 712 |

Consolidated balance sheet

at 26 March 2017 and 27 March 2016

| | Notes | 2017 £m | 2016 £m |
|---|-------|----------------|------------|
| Non-current assets | | | |
| Intangible assets | 8 | 167 | 44 |
| Property, plant and equipment | 9 | 158 | 9 |
| Investments in joint venture | 10 | 66 | 67 |
| Retirement benefit surplus | 17 | 1 | 196 |
| Trade and other receivables | 11 | 13 | 12 |
| Total non-current assets | | 405 | 328 |
| Current assets | | | |
| Inventories | | 7 | 6 |
| Trade and other receivables | 11 | 329 | 411 |
| Cash and cash equivalents | 12 | 680 | 712 |
| Total current assets | | 1,016 | 1,129 |
| Total assets | | 1,421 | 1,457 |
| Current liabilities | | | |
| Trade and other payables | 13 | (563) | (655) |
| Financial liabilities - interest bearing loans and borrowings | 14 | (561) | (465) |
| - obligations under finance leases | | - | (8) |
| Provisions | 15 | (58) | (151) |
| Total current liabilities | | (1,182) | (1,279) |
| Non-current liabilities | | | |
| Other payables | 13 | (22) | (25) |
| Provisions | 15 | (31) | (16) |
| Total non-current liabilities | | (53) | (41) |
| Net assets | | 186 | 137 |
| Equity | | | |
| Share capital | 18 | - | - |
| Share premium | 18 | 465 | 465 |
| Retained earnings | | (281) | (330) |
| Other reserves | 18 | 2 | 2 |
| Total equity | | 186 | 137 |

The financial statements on pages 42 to 85 were approved by the Board of Directors on 2 October 2017 and signed on its behalf by:



P A Vennells
Chief Executive



A Cameron
Chief Finance and Operating Officer

Consolidated statement of changes in equity

for the 52 weeks ended 26 March 2017 and 27 March 2016

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

| | Notes | Share premium £m | Retained earnings £m | Other reserves £m | Total equity £m |
|--|-------|---------------------|-------------------------|----------------------|--------------------|
| At 29 March 2015 (restated) | | 465 | (159) | 2 | 308 |
| Loss for the year | | - | (167) | - | (167) |
| Re-measurements on defined benefit surplus | 17 | - | (9) | - | (9) |
| Income tax effect | 7 | - | 5 | - | 5 |
| At 27 March 2016 | | 465 | (330) | 2 | 137 |

Notes to the financial statements

1. Accounting Policies

Financial year

The financial year ends on the last Sunday in March and for this reason these financial statements are made up for the 52 weeks ended 26 March 2017 (2016: 52 weeks ended 27 March 2016).

Basis of preparation

The Group financial statements on pages 42 to 85 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention.

The Company is incorporated and domiciled in the United Kingdom. The Group consolidated financial statements are presented in sterling and all values are rounded to the nearest £million except where otherwise indicated.

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

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

Capital and investment includes investment funding from the Government, impairment of capital expenditure and reversal of previous impairment, and transformational spend.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertaking as at 26 March 2017. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases. A set of financial statements has been prepared for Post Office Management Services Limited (subsidiary) for the 52 weeks ended 26 March 2017. The year end date is in line with the Company. The subsidiary uses consistent accounting policies where appropriate and its results have been consolidated into the group financial statements. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions are eliminated in full.

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

The following standards and interpretations, which have been issued by the IASB and are relevant for the Group, become effective after the current year end and have not been early adopted by the Group.

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was first issued in November 2009 and has since been amended several times. A complete version of the standard was issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers the classification, measurement and de-recognition of financial assets and financial liabilities, together with a new hedge accounting model and a new expected credit loss model for calculating impairment. The new standard becomes effective for annual periods beginning on or after 1 January 2018. The Group expects to complete its analysis of the expected impact towards the end of 2017.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from contracts with customers in May 2014. The new standard provides a single, five-step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when control of goods or services are transferred to the customer. It replaces all existing revenue recognition guidance under current IFRS and becomes effective for annual periods beginning on or after 1 January 2018. The Group expects to complete its analysis of the expected impacts on revenue recognition and disclosure requirements towards the end of 2017. A summary of the types of revenue recognised by the Group is summarised in note 1.

Amendments to IFRS 16 Leases

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

IAS 7 Disclosure Initiative – Amendments to IAS 7

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

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

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

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Fundamental accounting concept – going concern

The group has net assets of £186 million at 26 March 2017 (2016: £137 million).

A funding agreement with Government was announced on 27 November 2013 which provided for:

- Funding of £280 million for 2015/16
- Funding of £220 million for 2016/17
- Funding of £140 million for 2017/18
- Extension of the existing working capital facility with the Department for Business, Energy & Industrial Strategy (BEIS) with a limit of £950 million from 30 March 2015 up to 31 March 2018.

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

On 30 March 2017, Post Office and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility confirming that the following funding package will be made available to Post Office from April 2018:

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

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

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

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

State aid approval for the NSP and investment funding for 2018/19 to 2020/21 has not yet been received, although we are confident that this and all the conditions of funding will be met. The working capital facility is not classified as state aid and requires no further approval.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Prior year restatements

In preparing the financial statements for the current year, the comparative figures for the year ended 27 March 2016 have been restated. The Retail Cash in Transit operation has been discontinued during the current year and has been presented as part of discontinued operations. The comparatives in the income statement have been restated and allocated to discontinued operations. The restatement affects revenue and costs.

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

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

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

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

The presentational format of the income statement has been changed in the current year to a columnar format presenting the results of the Group in total and split between Revenue trading, Closure of activities, and Capital and investment. The definition of these headings is defined within a memorandum to the consolidated income statement and within the basis of preparation section on page 47. The prior year results have also been presented in the columnar format which is different to the format they were presented in the last set of financial statements.

Critical accounting estimates and judgements in applying accounting policies

The Group makes certain estimates and assumptions regarding the future. Estimates and assumptions are continually evaluated based on historical experience and other factors. In the future, actual experience may differ from these estimates and assumptions.

In addition the Group has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. The most significant areas where judgements and estimates are made are discussed below:

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Group are determined using methods relying on actuarial estimates and assumptions.

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

The values of these adjustments are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary. Details of the key assumptions are set out in note 17.

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

Provisions

The Group has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. Postmasters' compensation provisions are recognised when either Postmasters agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for Postmasters' compensation at the year end date represents management's best estimate of the future obligation. Provisions are detailed in note 15. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

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

Impairment of non-current assets

The Group assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Group has made a profit from continuing operations and this is expected to be sustainable. In addition, the Group has secured a Network Subsidy Payment to March 2021, and continued investment funding over that period from Government. State aid approval for the NSP and investment funding for 2018/19 to 2020/21 has not yet been received, although we are confident that this and all the conditions of funding will be met. In these circumstances the Group no longer considers there to be indicators of impairment, and there has been a change in accounting estimate to reflect this. An impairment test was performed at the year end to support this; details of this, including the underlying judgements and assumptions applied, are described in note 9.

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

Each asset category is described below:

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

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and in previous periods due to ongoing operational losses (excluding Network Subsidy Payment) they have been impaired to zero on acquisition. In the current year the impairment loss was reversed at the year end, and depreciation will be recognised going forwards on a straight-line basis over the following useful lives:

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

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

Freehold property, long leasehold property and land:

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

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

The remaining useful lives of freehold buildings are reviewed periodically and adjusted where applicable on a prospective basis. Where freehold property and long leasehold includes the fit-out of those properties, then the fit-out is depreciated over its useful economic life in line with fixtures and fittings. As a result, there has been an impairment reversal in the current year (note 9).

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. In previous periods these assets were impaired to zero for the reasons noted above. In the current year the impairment loss was reversed at the year end, and amortisation will be recognised going forwards on a straight-line basis over the following useful life:

| | |
|----------|--------------|
| Software | 3 to 6 years |
|----------|--------------|

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

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

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

Goodwill

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

After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

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

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

Non-current assets within subsidiaries

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

Discontinued operations

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

Revenue

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

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

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

Capital and investment expenditure

Capital and investment items are items of income and expenditure arising from the operations of the business which, due to the nature of the events giving rise to them, require separate presentation on the face of the income statement to allow a better understanding of financial performance in the year and in comparison to prior years. Items classified within here will be material either because of size or nature and relate to the transformation of the business rather than ordinary trading. This separate reporting of capital and investment expenditure helps to provide a better picture of the Group's underlying performance. Capital and investment expenditure comprises investment funding, restructuring and transformation costs, and impairment of capital expenditure.

Leases

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Group, are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease

payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

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

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

Investments in joint ventures

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

Inventories

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

Taxation

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

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

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

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

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

Pensions and other post-retirement benefits

Membership of occupational pension schemes is open to most permanent UK employees of the Group. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme.

The pension assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term.

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

Full actuarial funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed. When the calculation at the balance sheet date results in net assets

to the Group, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling). As noted above, the RMPP Plan has been closed and no future refunds will be made to the Group. Therefore in accordance with IFRIC 14 the pension asset has been derecognised.

For defined benefit schemes, the amounts charged to operating profit, as part of staff costs, are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The net difference between the interest costs and the expected return on plan assets is recognised as net pensions interest in the income statement. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income. In the current year there are one-off impacts on the income statement and statement of comprehensive income as a result of the closure of the RMPP Plan; these have been described within note 17.

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

Foreign currencies

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

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

Trade receivables

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

Borrowing costs

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

Investment funding

Investment funding is from the Government and includes the Network Subsidy Payment and Government grant.

The Network Subsidy Payment is recognised as revenue to match the related costs of making available the network of public Post Offices that the Secretary of State for Business, Energy and Industrial Strategy considers appropriate. The Government grant is shown separately in the income statement within the capital and investment column to match the transformational spend to which it relates.

Provisions

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

Financial instruments

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

Financial assets

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

Financial liabilities – interest-bearing loans and borrowings

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

Financial liabilities - obligations under finance leases

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

Fair value measurement of financial instruments

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

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

Derecognition of financial instruments

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and on hand, including cash in the Post Office network and short-term deposits (cash equivalents) with an original maturity date of three months or less. Cash equivalents are classified as loans and receivable financial instruments.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

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

2. Staff costs and numbers

Employment and related costs were as follows:

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

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

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

Period end and average employee numbers were as follows:

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

Total employee numbers can be categorised as follows:

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

3. Operating profit from continuing operations before capital and investment

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

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

4. Capital and investment

| | 2017 £m | 2016 £m |
|--|------------|--------------|
| Investment funding | 140 | 150 |
| Restructuring: | | |
| Business transformation | (6) | (13) |
| Network transformation including Postmasters' compensation | (36) | (177) |
| Directly managed branch transformation | (18) | (23) |
| IT transformation | (9) | (30) |
| Restructuring – severance | (46) | (29) |
| - other | (1) | (11) |
| Total restructuring costs | (116) | (283) |
| Impairment: | | |
| Impairment of intangible assets (note 8) | (78) | (93) |
| Impairment of property, plant and equipment (note 9) | (26) | (43) |
| Reversal of impairment on intangible assets (note 8) | 123 | - |
| Reversal of impairment on property, plant and equipment (note 9) | 149 | - |
| Total impairment reversal / (charge) | 168 | (136) |
| Total capital and investment income / (loss) | 192 | (269) |

Investment funding: Investment funding is from the Government and includes the Network Subsidy Payment and Government grant.

Restructuring: Restructuring costs are transformational spend incurred in order to implement the major transformation programmes, primarily the Directly Managed Branch and Network programmes. Network transformation includes the costs of Postmasters' compensation of £10 million (2016: £102 million) which are

payments made to Postmasters as a result of the ongoing programme. Postmasters' compensation costs in 2017 were £10 million but these were offset by a release in the provision of £34 million (credit to the income statement); this is due to a change in the accounting estimate as the programme nears completion and the expected number of branches to convert decreases.

Impairment and reversal of impairment: See note 8 and 9 for details.

5. Directors' emoluments

The Directors received the following emoluments:

| | 2017 | 2016 |
|---|--------------|-------|
| | £000 | £000 |
| Emoluments, excluding pension contributions and LTIP* | 1,231 | 1,194 |
| Contributions to pension schemes | 4 | 4 |
| Amounts receivable under Long-Term Incentive Plans | 229 | 144 |

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

Directors accruing pension entitlements during the period under:

| | 2017 | 2016 |
|------------------------------|---------------|--------|
| | Number | Number |
| Defined benefit schemes | - | - |
| Defined contribution schemes | 1 | 1 |

The highest paid Director received the following emoluments:

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

Remuneration for each Director for the financial year 2016/17

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

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

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

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

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

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

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

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

Note 8: Richard Callard is an employee of UK Government Investments Limited.

Note 9: The benefits figure for Alisdair Cameron includes £4,200 company contributions to a Defined Contribution pension.

Remuneration Policy Summary

The table below describes the STIP and LTIP available for the Executive Directors.

The remuneration framework for the Executive Directors requires consent from the Special Shareholder each year.

Short-Term Incentive Plan (STIP)

The STIP drives and rewards performance over the single financial year against key financial and operational targets taken from the business scorecard. Metrics and targets are determined and set each year according to business priorities.

80% of the STIP plan is determined by business targets, with the remaining 20% linked to the achievement of personal performance objectives.

The target opportunities for the Chief Executive and Chief Finance and Operating Officer are 48% and 40% with a maximum for stretch performance of 80% and 66.66% respectively.

Long-Term Incentive Plan (LTIP)

The LTIP is designed to reward and retain key executives and senior managers on the achievement of strategic longer term targets linked to the development and growth of a sustainable business.

The specific performance targets are determined for each LTIP cycle with reference to the three-year plan which is agreed with the Special Shareholder.

The target opportunities for the Chief Executive and Chief Finance and Operating Officer are 70% and 50%, with stretch performance of 98% and 70% respectively.

Differences in remuneration policy for the Executive Directors and employees generally

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

Claw-back provision

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

6. Net finance costs

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

7. Taxation

(a) Taxation gains recognised in the year

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

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

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

(b) Factors affecting current tax charge on profit / (loss) on ordinary activities

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

| | 2017 £m | 2016 (restated) £m |
|--|------------|--------------------------|
| Profit / (loss) on ordinary activities before tax from continuing operations | 306 | (154) |
| Loss on ordinary activities before tax from discontinued operations | (47) | (17) |
| Accounting profit / (loss) before taxation | 259 | (171) |
| Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%) | 52 | (34) |
| Net (increase)/decrease in tax charge as a result of de-recognition/ (recognition) of deferred tax assets | (74) | 8 |
| Net increase in tax charge resulting from de-recognition of the pension surplus | 25 | - |
| Expenditure disallowable for tax | - | 1 |
| Profits from disposals eligible for relief | (1) | - |
| Effect of unutilised losses carried forward | 21 | 28 |
| Joint venture profit after tax included in Group pre-tax profit | (7) | (7) |
| Total current tax (see above) | 16 | (4) |

(c) Deferred tax

Deferred tax assets relate to the following:

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

(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £181 million (2016: £166 million), comprising £54 million (2016: £78 million) relating mainly to fixed asset timing differences, £6 million (2016: £1 million) relating to timing differences on provisions and £121 million (2016: £87 million) relating to tax losses that are available to offset against future taxable profits. The Group has rolled over capital gains of £2 million (2016: £2 million); no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

The main rate of corporation tax will reduce to 19% with effect from 1 April 2017, and to 17% with effect from 1 April 2020. Following these changes, deferred tax balances were reduced to 17%. The impact of this change on deferred tax balances is included in these financial statements.

8. Intangible assets

| | Software | | Goodwill | | Total | |
|--|------------|------------|------------|------------|------------|------------|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| Cost | | | | | | |
| At 27 March 2016, 29 March 2015 | 389 | 297 | 44 | - | 433 | 297 |
| Reclassifications | (53) | - | - | - | (53) | - |
| Additions | 78 | 93 | - | 44 | 78 | 137 |
| Disposals | (91) | (1) | - | - | (91) | (1) |
| At 26 March 2017, 27 March 2016 | 323 | 389 | 44 | 44 | 367 | 433 |
| Amortisation and impairment | | | | | | |
| At 27 March 2016, 29 March 2015 | 389 | 297 | - | - | 389 | 297 |
| Reclassifications | (53) | - | - | - | (53) | - |
| Impairment (note 4) | 78 | 93 | - | - | 78 | 93 |
| Impairment reversal (note 4) | (123) | - | - | - | (123) | - |
| Disposals | (91) | (1) | - | - | (91) | (1) |
| At 26 March 2017, 27 March 2016 | 200 | 389 | - | - | 200 | 389 |
| Net book value | | | | | | |
| At 26 March 2017, 27 March 2016 | 123 | - | 44 | 44 | 167 | 44 |

Goodwill relates to the acquisition from Bank of Ireland of the business and assets of the joint insurance business. The goodwill sits within Post Office Management Services Limited. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Management determined that no impairment was necessary for the current year (2016: £nil).

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

9. Property, plant and equipment

| | Land and Buildings | | | Motor vehicles | Plant and machinery | Fixtures and equipment | Total |
|------------------------------------|--------------------|----------------|-----------------|----------------|---------------------|------------------------|------------|
| | Freehold | Long leasehold | Short leasehold | | | | |
| | £m | £m | £m | £m | £m | £m | £m |
| Cost | | | | | | | |
| At 29 March 2015 | 83 | 55 | 115 | 40 | 1 | 783 | 1,077 |
| Reclassification | (6) | 3 | (22) | - | - | 25 | - |
| Additions | 1 | - | - | 4 | - | 38 | 43 |
| Disposals | (1) | - | (3) | (1) | - | (3) | (8) |
| At 27 March 2016 | 77 | 58 | 90 | 43 | 1 | 843 | 1,112 |
| Reclassification | (12) | 8 | - | - | - | 57 | 53 |
| Additions | 1 | - | - | - | - | 25 | 26 |
| Disposals | (21) | (25) | (67) | (17) | - | (130) | (260) |
| At 26 March 2017 | 45 | 41 | 23 | 26 | 1 | 795 | 931 |
| Depreciation and impairment | | | | | | | |
| At 29 March 2015 | 74 | 54 | 115 | 40 | 1 | 783 | 1,067 |
| Reclassification | (6) | 3 | (22) | - | - | 25 | - |
| Impairment (see note 5) | 2 | - | - | 4 | - | 38 | 44 |
| Disposals | (1) | - | (3) | (1) | - | (3) | (8) |
| At 27 March 2016 | 69 | 57 | 90 | 43 | 1 | 843 | 1,103 |
| Reclassification | (12) | 8 | - | - | - | 57 | 53 |
| Impairment (notes 3 and 4) | 1 | - | - | - | - | 25 | 26 |
| Impairment reversal (note 4) | (5) | (26) | - | - | - | (118) | (149) |
| Disposals | (21) | (25) | (67) | (17) | - | (130) | (260) |
| At 26 March 2017 | 32 | 14 | 23 | 26 | 1 | 677 | 773 |
| Net book value | | | | | | | |
| At 26 March 2017 | 13 | 27 | - | - | - | 118 | 158 |
| At 27 March 2016 | 8 | 1 | - | - | - | - | 9 |

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

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Group has made a profit from continuing operations and the Board expects this will continue into the future. In addition, the Group has secured Network Subsidy Payments to

March 2021, and continued investment funding over that period from Government of up to £210 million which was agreed in principle. State aid approval for the NSP and investment funding for 2018/19 to 2020/21 has not yet been received, although we are confident that this and all the conditions of funding will be met.

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

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

Post Office has determined that it has two CGUs: Post Office Limited and Post Office Management Services Limited. The recoverable amount for Post Office Limited was £488 million and for Post Office Management Services limited was £128 million.

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

The value in use calculations assume that the Network Subsidy Payment will continue to be received in perpetuity, if required.

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

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

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

10. Investments in joint ventures

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

Joint ventures

During 2016/17 and 2015/16, the Group's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

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

| | 2017 Joint venture £m | 2016 Joint venture £m |
|---|-----------------------------|-----------------------------|
| Share of assets and liabilities: | | |
| Receivables | 202 | 170 |
| Cash and cash equivalents | 20 | 17 |
| Non-current assets | 7 | 6 |
| Share of gross assets | 229 | 193 |
| Current liabilities | (163) | (126) |
| Share of net assets | 66 | 67 |
| Share of revenue and profit: | | |
| Revenue | 82 | 79 |
| Profit after tax | 34 | 35 |

11. Trade and other receivables

| | 2017 £m | 2016 £m |
|--------------------------------|------------|------------|
| Current: | | |
| Trade receivables | 71 | 95 |
| Prepayments and accrued income | 99 | 73 |
| Client receivables | 144 | 229 |
| Other receivables | 15 | 14 |
| Total | 329 | 411 |
| Non-current: Prepayments | 13 | 12 |

The Group receives and disburses cash on behalf of Government agencies and other clients to customers through its branch network. Amounts owed from/to Government agencies and other clients are disclosed separately as client receivables (as above) and client payables (see note 13).

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

| | 2017 £m | 2016 £m |
|---|------------|------------|
| Not yet overdue | 58 | 72 |
| Past due not more than one month | 4 | 12 |
| Past due more than one month and not more than two months | 3 | 3 |
| Past due more than two months | 6 | 8 |
| Total | 70 | 95 |

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

12. Cash and cash equivalents

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

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

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

13. Trade and other payables

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

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

14. Financial liabilities – interest bearing loan and borrowings

| | 2017 £m | 2016 £m |
|---|------------|------------|
| Department for Business, Energy and Industrial Strategy | 561 | 465 |

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year end (2016: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2018. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £389 million (2016: £485 million). The average interest rate on the drawn down loans is 0.8% (2016: 1.0%).

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

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

15. Provisions

| | Network Transformation £m | Onerous Leases £m | Severance £m | Other £m | Total £m |
|---|------------------------------|----------------------|-----------------|-------------|-------------|
| At 27 March 2016 | 134 | 19 | 3 | 11 | 167 |
| Charged to capital and investment | 10 | 20 | 50 | 3 | 83 |
| Charged to revenue trading | - | - | - | 5 | 5 |
| Charged for discontinued operation | - | - | - | 44 | 44 |
| Utilisation | (68) | (7) | (43) | (38) | (156) |
| Unused amounts in the year – capital and investment | (34) | (11) | (1) | (7) | (53) |
| Unused amounts in the year – revenue trading | - | - | - | (1) | (1) |
| At 26 March 2017 | 42 | 21 | 9 | 17 | 89 |

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

The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page 50 for further details of this provision. The reduction in the provision from prior year reflects a change in the accounting estimate as the programme nears completion and the expected number of branches to convert decreases.

Other provisions of £17 million (2016: £11 million) include £9 million of smaller provisions including £1 million for personal injury claims and £1 million which sits within the subsidiary Post Office Management Services Limited and relates to the repayment of commission received in the event of the cancellation of insurance policies. It also includes £8 million (2016: £3 million) in relation to the discontinued operation as disclosed in note 20.

16. Financial assets and liabilities

a. Financial assets and liabilities by category

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

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

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

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.

All of the Group's financial assets and liabilities are considered to be Level 2 in the fair value hierarchy. The nature of the inputs used in determining the values of the financial assets and liabilities are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The Group has no Level 1 and Level 3 financial instruments and there have been no transfers between the levels of fair value hierarchy during the period.

b. Financial risk management objectives and policies

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

Interest rate risk

The Group is exposed to changes in interest rate on floating rate debt, cash deposits and current account balances. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been an £8 million favourable impact on the Group's equity and income statement. A 50 basis point decrease would have resulted in a £2 million adverse impact on the Group's equity and income statement.

Foreign currency risk

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

The currencies which these transactions are primarily denominated are the US dollar and Euro. The Group's foreign currency risk management objective is to minimise the impact on the Income Statement of fluctuations in the exchange rates. The Group hedges its foreign currency risk principally through external forward foreign currency contracts to cover near-term future revenues with a number of providers including First Rate Exchange Services Holdings Limited.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar and Euro exchange rates, assuming they are unhedged and with all other variables held constant, on profit/(loss) before tax and equity.

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial credit risk arises from cash balances (including bank deposits and cash and cash equivalents) held by the Group and business credit risk arises from exposures to customers. Business risk includes commission receivable and client related settlements for amounts paid out of the Post Office network on their behalf.

The Group aims to minimise its financial credit risk through the application of risk management policies approved by the Board. Counterparties are limited to major banks and financial institutions. The policy restricts the exposure to any one counterparty by setting appropriate credit limits. The maximum exposure to credit risk is limited to the carrying value of each class of asset summarised in note 11.

Business credit risk is monitored centrally. The level of bad debt provision is less than 2% (2016: less than 2%) of turnover.

Capital management

The Group's objectives when managing capital (defined as the net of borrowings and amounts due under finance leases and cash and cash equivalents excluding cash in the Post Office Network) are to safeguard its ability to continue as a going concern and to maintain an optimal capital structure in order to support the business and maximise stakeholder value. In managing the Group's capital levels the Board and the Group Executive regularly monitor the level of debt in the Group, the working capital requirements and the forecast cash flows. The Board and Group Executive plan accordingly following this review process in order to meet the Group's capital management objectives.

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include short term bank deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The Group has adequate cash reserves to meet operating requirements in the next 12 months.

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

The tables below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest, where applicable.

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

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

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

17. Pensions

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

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

Post Office participates in pension schemes as detailed below.

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

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

Defined Contribution

The charge in the income statement for the defined contribution scheme and the Group contributions to this scheme were £4 million (2016: £3 million) during the year. New employees joining the Group are able to pay contributions to POPP after they have worked for the Group for a year.

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

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate Trust administered funds. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans. The latest full actuarial funding valuation of the RMPP was carried out as of 31 March 2015 using the projected unit method. For RMPP, this valuation was concluded at £62.7 million surplus (1 April 2012 valuation: £135 million surplus) on a Technical Provisions basis. Valuations are carried out triennially and the next one for the RMPP is due to be carried out as at 31 March 2018. RMPP includes sections A, B and C each with different terms and conditions:

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to Section A members who chose to receive Section B benefits;
- Section C is for members (or beneficiaries of members) who joined after 1 April 1987 and before 1 April 2008.

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

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

The changes encompassed are:

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

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

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

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

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

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

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

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

a) Major long-term assumptions

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

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

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

The ultimate cost of the RMPP plan to the Group will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets, for example bonds and swaps, which mitigate the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes benefits retaining a link to pensionable pay in RMPP. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this can be expected to be partially offset by an increase in the value of any corporate bond holdings and, potentially, the LDI assets.

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

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were largely transferred to the Royal Mail Statutory Pension Scheme. These liabilities are substantially no longer an obligation of the Group and consequently the transfer resulted in a significant removal of pension risk from the Group.

The following table shows the potential impact on the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP of changes in key assumptions:

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

The sensitivity analysis has been prepared using projected benefit cash flows 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 cash flows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

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

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

Average expected life expectancy from age 60:

| | 2017 | 2016 |
|--|-----------------|----------|
| For a current 60 year old male RMPP member | 28 years | 27 years |
| For a current 60 year old female RMPP member | 30 years | 30 years |
| For a current 40 year old male RMPP member | 30 years | 29 years |
| For a current 40 year old female RMPP member | 32 years | 32 years |

b) Plans' assets

The assets in the plans for the Group were:

| | Market value 2017 £m | Market value 2016 £m |
|---|-------------------------|-------------------------|
| Sectionalised RMPP | | |
| Corporate bonds* | 394 | 233 |
| Property | 13 | 11 |
| Private Equity | 7 | 10 |
| Cash and cash equivalents | 68 | 41 |
| Bond/fixed interest funds | 25 | 41 |
| Other loan/debt funds | 17 | 28 |
| Alternative asset funds | 8 | 43 |
| Fair value of RMPP assets | 532 | 407 |
| Present value of RMPP liabilities | (322) | (184) |
| Surplus in plan before asset ceiling adjustment | 210 | 223 |
| Less effect of asset ceiling | (210) | (29) |
| Surplus in plan after asset ceiling adjustment | - | 194 |

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

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

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

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

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

c) Movement in plans' assets and liabilities

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

| Assets | Sectionalised RMPP 2017 £m | Sectionalised RMPP 2016 £m |
|--|---|----------------------------------|
| Assets in sectionalised RMPP at beginning of period | 407 | 379 |
| Contributions paid | 17 | 19 |
| Employee contributions paid | 5 | 6 |
| Finance income | 15 | 14 |
| Actuarial gains/(losses) | 92 | (8) |
| Benefits paid to members | (4) | (3) |
| Assets in sectionalised RMPP at end of period | 532 | 407 |
| Assets | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
| Share of assets in RMSEPP at beginning of period | 30 | 31 |
| Contributions paid | 1 | 1 |
| Finance income | 1 | 1 |
| Actuarial gains/(losses) | 1 | (2) |
| Benefits paid to members | (1) | (1) |
| Share of assets in RMSEPP at end of period | 32 | 30 |

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

| Liabilities | Sectionalised RMPP 2017 £m | Sectionalised RMPP 2016 £m |
|---|---|----------------------------------|
| Liabilities in sectionalised RMPP at beginning of period | (184) | (150) |
| Current service cost | (23) | (27) |
| Curtailement costs* | 2 | (1) |
| Finance cost | (7) | (6) |
| Employee contributions | (5) | (6) |
| Experience adjustments on liabilities | 6 | 3 |
| Financial assumption changes | (129) | - |
| Demographic assumption changes | (5) | - |
| Benefits paid | 4 | 3 |
| Effect of closure of RMPP* | 19 | - |
| Liabilities in sectionalised RMPP at end of period | (322) | (184) |
| Liabilities | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
| Share of liabilities in RMSEPP plans at beginning of period | (27) | (26) |
| Finance cost | (1) | (1) |
| Experience adjustments on liabilities | 7 | (1) |
| Financial assumption changes | (11) | - |
| Benefits paid | 1 | 1 |
| Share of liabilities in RMSEPP at end of period | (31) | (27) |

*The gain on curtailment of £2 million (2016: £nil) is due to redundancies in the year. It is equal to a cost of £3 million in respect of enhanced retirement benefits granted to certain members, offset by a saving of £5 million due to RPI-linked in-service revaluation being replaced by CPI-linked deferred pension revaluation. The effect of the closure of RMPP of £19 million (2016: £nil) is a past service adjustment as a result of the closure of the Plan and is a one-off adjustment. Both of these adjustments have been allocated between revenue trading (net credit of £2 million relating to adjustments linked to current year service) and closure of activities (net credit of £19 million relating to adjustments linked to prior years' service).

d) Recognised charges

An analysis of the separate components of the amounts recognised in the performance statements of the Group is as follows:

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

| | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
|---|-------------------------------|-------------------------------|
| Analysis of amounts recognised in the income statement | | |
| Analysis of amounts charged to net pensions interest: | | |
| Interest on plan liabilities | 1 | 1 |
| Interest income on plan assets | (1) | (1) |
| Net pensions credit to financing | - | - |
| Net charge to the income statement before deduction for tax | - | - |
| Analysis of amounts recognised in the statement of comprehensive income | | |
| Actual return on plan assets | 2 | (1) |
| Less: expected interest income on plan assets | (1) | (1) |
| Less: taxation on surplus recoverable through plan refunds | - | 1 |
| Actuarial gains/(losses) on assets (all experience adjustments) | 1 | (1) |
| Actuarial gains arising from changes in demographic assumptions | 7 | - |
| Actuarial losses arising from changes in financial assumptions | (11) | (1) |
| Actuarial losses on liabilities | (4) | (1) |
| Total actuarial losses recognised in the statement of comprehensive income | (3) | (2) |

18. Equity

Called up share capital:

| | 2017 £ | 2016 £ |
|------------------------------------|---------------|-----------|
| Authorised | | |
| Ordinary shares of £1 each | 51,000 | 51,000 |
| Total | 51,000 | 51,000 |
| Allotted and issued and fully paid | | |
| Ordinary shares of £1 each | 50,003 | 50,003 |
| Total | 50,003 | 50,003 |

Other reserves:

Other reserves of £2 million (2016: £2 million) relate to First Rate Exchange Services Holdings Limited, the joint venture entity.

Share premium:

On 7 August 2007 1,000 ordinary shares of £1 each were issued in return for £313 million cash paid by the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £151,999,998 resulted from this subscription.

19. Commitments and Contingent Liabilities

Capital commitments contracted for but not provided in the financial statements amount to £57 million (2016: £51 million).

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

| | Land and buildings | |
|----------------------------|--------------------|-----------|
| | 2017 | 2016 |
| | £m | £m |
| Within one year | 12 | 14 |
| Between one and five years | 34 | 35 |
| Beyond five years | 28 | 29 |
| Total | 74 | 78 |

Contingent liabilities: As a large, nationwide retailer operating in dynamic and competitive markets, we may be subject to regulatory investigations and may face damage to our reputation and legal claims.

From time to time, we may be named as a defendant in legal claims or be required to respond to regulatory actions in connection with our activities. This may include claims for substantial or indeterminate amounts of damages from customers, employees, consultants and contractors, or may result in penalties, fines, or other results adverse to us. Like any large company, we may also be subject to the risk of potential employee or agent misconduct, including non-compliance with policies and improper use or disclosure of our assets or confidential information.

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

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

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

20. Discontinued Operations

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

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

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

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

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

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

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

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

21. Related party disclosures

Joint venture

The following company is a joint venture of the Group:

| Company | Country of incorporation | % Holding | Principal activities |
|---|--------------------------|-----------|----------------------|
| First Rate Exchange Services Holdings Limited | United Kingdom | 50 | Bureau de Change |

All shareholdings are equity shares.

Related party transactions

During the year the Group entered into transactions with the following related parties. The transactions were in the ordinary course of business. The transactions entered into and the balances outstanding at the financial year end were as follows:

| | Sales/recharges to related party | | Purchases/recharges from related party | | Amounts owed from related party including outstanding loans | | Amounts owed to related party including outstanding loans | |
|---|----------------------------------|------------|--|------------|---|------------|---|------------|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| First Rate Exchange Services Holdings Limited | 32 | 26 | 121 | 122 | 9 | 10 | 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 investment funding from the Government of £140 million, all of which was recognised through the income statement; and
- the Group has received the Network Subsidy Payment from Government (note 1).

22. Alternative performance measures

An alternative performance measure is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

EBITDAS is one of the Group's key financial measures and is calculated by taking operating profit from continuing operations before depreciation, amortisation, closure of activities, capital and investments and Network Subsidy Payment. The table below summarises the calculation of EBITDAS.

| | 2017 £m | 2016 (restated) £m |
|--|------------|--------------------------|
| Operating profit / (loss) from continuing operations | 304 | (157) |
| <i>Adjusted for:</i> | | |
| Depreciation and amortisation | - | 1 |
| Capital and investment | (192) | 269 |
| Closure of activities | (19) | - |
| Network Subsidy Payment | (80) | (130) |
| EBITDAS | 13 | (17) |

23. Post balance sheet events

On 20 July 2017, Post Office Limited and Trustees of the Royal Mail Pension Plan (POL fund) ("Trustees") entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected by the purchase of two bulk annuities. Under the purchase agreements, the Trustees of the pension plan have effectively bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation.

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

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

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

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

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

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

In accordance with the funding agreement with Government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £140 million of funding on 3 April 2017.

On 30 March 2017, Post Office and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility extending the working capital facility of £950 million with BEIS to 31 March 2021 and confirming NSP for 2018/19 and 2019/20 of £60 million and £50 million respectively.

On 25 July 2017, the Secretary of State for BEIS confirmed in principle that NSP of £50m will be made available for 2020/21 and investment funding of up to £210 million will be available as required for the period from April 2018 to March 2021.

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

State aid approval for the NSP and investment funding for 2018/19 to 2020/21 has not yet been received, although we are confident that this and all the conditions of funding will be met. The working capital facility is not classified as state aid and requires no further approval.

24. Immediate and ultimate parent company

At 26 March 2017, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company. The largest group to consolidate the results of the company is Postal Services Holding Company Limited, a company registered in the United Kingdom. Postal Services Holding Company Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

Post Office Limited

Parent Company

Financial Statements

2016-2017

Company statement of comprehensive income

at 26 March 2017

| | Notes | 2017 £m | 2016 (Restated) £m |
|--|-------|------------|--------------------------|
| Profit / (loss) for the financial year from continuing operations | | 284 | (150) |
| Loss for the financial year from discontinued operations | | (47) | (17) |
| Profit / (loss) for the financial year | | 237 | (167) |
| Other comprehensive income not to be reclassified to profit or loss in future periods | | | |
| Re-measurements on defined benefit surplus | 11 | (249) | (9) |
| Withholding tax effect | | 30 | - |
| Income tax effect | | 25 | 5 |
| Total comprehensive income / (loss) for the year | | 43 | (171) |

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

Company balance sheet

at 26 March 2017

| | Notes | 2017 £m | 2016 (Restated) £m |
|---|-------|----------------|--------------------------|
| Non-current assets | | | |
| Intangible assets | 2 | 115 | - |
| Property, plant and equipment | 3 | 158 | 9 |
| Investment in subsidiaries | 4 | 50 | 50 |
| Investments in joint venture | 5 | 66 | 67 |
| Retirement benefit surplus | 11 | 1 | 196 |
| Trade and other receivables | 6 | 13 | 12 |
| Total non-current assets | | 403 | 334 |
| Current assets | | | |
| Inventories | | 7 | 6 |
| Trade and other receivables | 6 | 327 | 413 |
| Cash and cash equivalents | 7 | 667 | 698 |
| Total current assets | | 1,001 | 1,117 |
| Total assets | | 1,404 | 1,451 |
| Current liabilities | | | |
| Trade and other payables | 8 | (553) | (650) |
| Financial liabilities - interest bearing loans and borrowings | 9 | (561) | (465) |
| - obligations under finance leases | | - | (8) |
| Provisions | 10 | (57) | (150) |
| Total current liabilities | | (1,171) | (1,273) |
| Non-current liabilities | | | |
| Other payables | 8 | (22) | (25) |
| Provisions | 10 | (31) | (16) |
| Total non-current liabilities | | (53) | (41) |
| Net assets | | 180 | 137 |
| Equity | | | |
| Share capital | 12 | - | - |
| Share premium | 12 | 465 | 465 |
| Retained earnings | | (285) | (328) |
| Total equity | | 180 | 137 |

The financial statements on pages 86 to 111 were approved by the Board of Directors on 2 October 2017 and signed on its behalf by:



P A Vennells
Chief Executive



A Cameron
Chief Finance and Operating Officer

Company statement of changes in equity

at 26 March 2017

| | Notes | Share premium £m | Retained earnings £m | Total equity £m |
|--|-------|---------------------|-------------------------|--------------------|
| At 27 March 2016 (restated) | | 465 | (328) | 137 |
| Profit for the year | | - | 237 | 237 |
| Re-measurements on defined benefit surplus | 11 | - | (249) | (249) |
| Withholding tax effect | | | 30 | 30 |
| Income tax effect | | - | 25 | 25 |
| At 26 March 2017 | | 465 | (285) | 180 |

| | Notes | Share premium £m | Retained earnings £m | Total equity £m |
|--|-------|---------------------|-------------------------|--------------------|
| At 29 March 2015 (restated) | | 465 | (157) | 308 |
| Loss for the year | | - | (167) | (167) |
| Re-measurements on defined benefit surplus | 11 | - | (9) | (9) |
| Income tax effect | | - | 5 | 5 |
| At 27 March 2016 | | 465 | (328) | 137 |

Notes to the financial statements

1. Accounting Policies

The accounting policies which follow set out those which apply in preparing the financial statements for the year ended 26 March 2017.

Financial year

The financial year ends on the last Sunday in March and accordingly, these financial statements are made up to the 52 weeks ended 26 March 2017 (2016: 52 weeks ended 27 March 2016).

Authorisation of financial statements

The parent company financial statements of Post Office Limited (the 'Company') for the year ended 26 March 2017 were authorised for issue by the Board of Directors on 2 October 2017 and the balance sheet was signed on the Board's behalf by P A Vennells and A Cameron. Post Office Limited is a limited company incorporated and domiciled in England and Wales.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). These financial statements are prepared under the historical cost convention.

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own income statement. The result dealt with in the accounts of the Company amounted to £237 million profit (2016: £167 million loss).

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

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

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures
- (b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- (c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - i. paragraph 73(e) of IAS 16 Property, Plant and Equipment
 - ii. paragraph 118(e) of IAS 38 Intangible Assets
- (d) the requirements of paragraphs 10(d), 10(f), 39(c), 40.A and 134-136 of IAS 1 'Presentation of Financial Statements'
- (e) the requirements of IAS 7 Statement of Cash Flows
- (f) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- (g) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'
- (h) the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Fundamental accounting concept – going concern

The Company had net assets of £180 million at 26 March 2017 (2016: £137 million).

A funding agreement with Government was announced on 27 November 2013 which provided for:

- Funding of £280 million for 2015/16
- Funding of £220 million for 2016/17
- Funding of £140 million for 2017/18
- Extension of the existing working capital facility with the Department for Business, Energy and Industrial Strategy (BEIS) with a limit of £950 million from 30 March 2015 up to 31 March 2018.

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

On 30 March 2017, Post Office and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility confirming that the following funding package will be made available to Post Office from April 2018:

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

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

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

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

State aid approval for the NSP and investment funding for 2018/19 to 2020/21 has not yet been received, although we are confident that this and all the conditions of funding will be met. The working capital facility is not classified as state aid and requires no further approval.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office Limited will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Prior year restatements

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

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

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

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

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

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

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

Critical accounting estimates and judgements in applying accounting policies

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

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Company are determined using methods relying on actuarial estimates and assumptions.

The Post Office section of the RMPP closed to future accrual on 31 March 2017. A Memorandum of Understanding was executed on 21 March 2017 which removed the unconditional right to refund from the Plan. As a result of these events there has been a one-off credit to the income statement, and the surplus has been written off through other comprehensive income. This is described in further detail within note 11. The values of these adjustments are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Company exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary. Details of the key assumptions are set out in note 11.

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

Provisions

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

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

Impairment of non-current assets

The Company assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Company has made a profit from continuing operations and this is expected to be sustainable. In addition, the Company has secured a Network Subsidy Payment to March 2021, and continued investment funding over that period from Government. State aid approval for the NSP and investment funding for 2018/19 to 2020/21 has not yet been received, although we are confident that this and all the conditions of funding will be met. In these circumstances the Company no longer considers there to be indicators of impairment, and there has been a change in accounting estimate to reflect this. The change in accounting estimate has been made as at the year end date as this is the point at which there was sufficient evidence of a value in use.

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

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

Each asset category is described below:

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

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and in previous periods due to ongoing operational losses (excluding Network Subsidy Payment) they have been impaired to zero on acquisition. In the current year the impairment loss was reversed at the year end, and depreciation will be recognised going forwards on a straight-line basis over the following useful lives:

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

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

Freehold property, long leasehold property and land:

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

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

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

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. In previous periods these assets were impaired to zero for the reasons noted above. In the current year the impairment loss was reversed at the year end, and amortisation will be recognised going forwards on a straight-line basis over the following useful life:

| | |
|----------|--------------|
| Software | 3 to 6 years |
|----------|--------------|

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

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

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

Discontinued operations

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

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 venture

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

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

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

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

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

The impact on each line item of the primary financial statements is shown within the Prior year restatements section on page 91.

Inventories

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

Taxation

The charge for current income tax is based on the results for the year as adjusted for items which are not taxed or are disallowed. It is calculated using tax rates in legislation that has been enacted or substantively enacted by the balance sheet date. Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

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

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

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

Pensions and other post-retirement benefits

Membership of occupational pension schemes is open to most permanent UK employees of the Company. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme. The RMPP defined benefit Plan was closed to future accrual on 31 March 2017.

The pension assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The RMPP Plan was closed on 31 March

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

Full actuarial funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed. When the calculation at the balance sheet date results in net assets to the Company, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling). The RMPP defined benefit plan has been closed and no future refunds will be made to the Company.

For defined benefit schemes, the amounts charged to operating profit, as part of staff costs, are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The net difference between the interest costs and the expected return on plan assets is recognised as net pensions interest in the income statement. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income. In the current year there are one-off impacts on the income statement and statement of comprehensive income as a result of the closure of the RMPP Plan; these have been described in further detail within note 17 to the Group accounts.

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

Foreign currencies

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

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

Trade receivables

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

Borrowing costs

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

Government grants

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

Provisions

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

Financial instruments

Financial assets

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

Financial liabilities – interest-bearing loans and borrowings

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

Financial liabilities - obligations under finance leases

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

Fair value measurement of financial instruments

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

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

Derecognition of financial instruments

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less.

Auditor's remuneration

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

Director's emoluments

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

2. Intangible assets

| | 2017 | 2016 |
|---------------------------------|--------------|------|
| Cost | £m | £m |
| At 27 March 2016, 29 March 2015 | 387 | 297 |
| Reclassifications | (53) | - |
| Additions | 71 | 91 |
| Disposals | (91) | (1) |
| | 314 | 387 |
| At 26 March 2017, 27 March 2016 | | |
| Impairment | | |
| At 27 March 2016, 29 March 2015 | 387 | 297 |
| Reclassifications | (53) | - |
| Impairment | 71 | 91 |
| Impairment reversal in the year | (115) | - |
| Disposals | (91) | (1) |
| | 199 | 387 |
| At 26 March 2017, 27 March 2016 | | |
| Net book value | | |
| | 115 | - |
| At 26 March 2017, 27 March 2016 | | |

The above intangible assets relate to software.

3. Property, plant and equipment

| | Land and Buildings | | | Motor vehicles £m | Plant and machinery £m | Fixtures and equipment £m | Total £m |
|------------------------------------|--------------------|----------------------|-----------------------|----------------------|---------------------------|------------------------------|-------------|
| | Freehold £m | Long leasehold £m | Short leasehold £m | | | | |
| Cost | | | | | | | |
| At 29 March 2015 | 83 | 55 | 115 | 40 | 1 | 783 | 1,077 |
| Reclassification | (6) | 3 | (22) | - | - | 25 | - |
| Additions | 1 | - | - | 4 | - | 38 | 43 |
| Disposals | (1) | - | (3) | (1) | - | (3) | (8) |
| At 27 March 2016 | 77 | 58 | 90 | 43 | 1 | 843 | 1,112 |
| Reclassification | (12) | 8 | - | - | - | 57 | 53 |
| Additions | 1 | - | - | - | - | 25 | 26 |
| Disposals | (21) | (25) | (67) | (17) | - | (130) | (260) |
| At 26 March 2017 | 45 | 41 | 23 | 26 | 1 | 795 | 931 |
| Depreciation and impairment | | | | | | | |
| At 29 March 2015 | 74 | 54 | 115 | 40 | 1 | 783 | 1,067 |
| Reclassification | (6) | 3 | (22) | - | - | 25 | - |
| Impairment (see note 5) | 2 | - | - | 4 | - | 38 | 44 |
| Disposals | (1) | - | (3) | (1) | - | (3) | (8) |
| At 27 March 2016 | 69 | 57 | 90 | 43 | 1 | 843 | 1,103 |
| Reclassification | (12) | 8 | - | - | - | 57 | 53 |
| Impairment | 1 | - | - | - | - | 25 | 26 |
| Impairment reversal | (5) | (26) | - | - | - | (118) | (149) |
| Disposals | (21) | (25) | (67) | (17) | - | (130) | (260) |
| At 26 March 2017 | 32 | 14 | 23 | 26 | 1 | 677 | 773 |
| Net book value | | | | | | | |
| At 26 March 2017 | 13 | 27 | - | - | - | 118 | 158 |
| At 27 March 2016 | 8 | 1 | - | - | - | - | 9 |

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

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Company has made a profit from continuing operations and this is expected to be sustainable. In addition, the Company has secured Network Subsidy Payments to March 2021, and continued investment funding over that period from Government of up to £210 million. State aid approval for the NSP and investment funding for 2018/19 to 2020/21 has not yet been received, although we are confident that this and all the conditions of

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

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

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

The recoverable amount for Post Office Limited was £488m.

The value in use calculations assume that the Network Subsidy Payment will continue to be received in perpetuity, if required.

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

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

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

4. Investment in subsidiaries

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

5. Investments in joint ventures

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

During 2016/17 and 2015/16, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited with a carrying value of £66 million (2016 restated: £67 million), whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

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

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

6. Trade and other receivables

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

7. Cash and cash equivalents

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

8. Trade and other payables

| | 2017 £m | 2016 £m |
|------------------|------------|------------|
| Current: | | |
| Trade payables | 48 | 51 |
| Accruals | 155 | 159 |
| Deferred income | 33 | 39 |
| Social security | 10 | 8 |
| Client payables | 296 | 375 |
| Capital payables | 11 | 16 |
| Other payables | - | 2 |
| Total | 553 | 650 |
| Non-current: | | |
| Other payables | 22 | 25 |

9. Financial liabilities – interest bearing loans and borrowings

| | 2017 £m | 2016 £m |
|---|------------|------------|
| Department for Business, Energy and Industrial Strategy | 561 | 465 |

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year end (2016: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2018. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £389 million (2016: £485 million). The average interest rate on the drawn down loans is 1.0% (2016: 1.0%).

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

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

10. Provisions

| | Network Transformation £m | Onerous Leases £m | Severance £m | Other £m | Total £m |
|---|---------------------------------|-------------------------|-----------------|-------------|-------------|
| At 27 March 2016 | 134 | 19 | 3 | 10 | 166 |
| Charged to capital and investment | 10 | 20 | 50 | 1 | 81 |
| Charged to revenue trading | - | - | - | 5 | 5 |
| Charged for discontinued operation | - | - | - | 44 | 44 |
| Utilisation | (68) | (7) | (43) | (36) | (154) |
| Unused amounts in the year – capital and investment | (34) | (11) | (1) | (7) | (53) |
| Unused amounts in the year – revenue trading | - | - | - | (1) | (1) |
| At 26 March 2017 | 42 | 21 | 9 | 16 | 88 |

| | Network Transformation £m | Onerous Leases £m | Severance £m | Other £m | Total £m |
|-------------------------|---------------------------------|-------------------------|-----------------|-------------|-------------|
| Disclosed as: | | | | | |
| At 26 March 2017 | | | | | |
| Current | 28 | 7 | 9 | 13 | 57 |
| Non – current | 14 | 14 | - | 3 | 31 |
| | 42 | 21 | 9 | 16 | 88 |
| At 27 March 2016 | | | | | |
| Current | 132 | 6 | 3 | 9 | 150 |
| Non-current | 2 | 13 | - | 1 | 16 |
| | 134 | 19 | 3 | 10 | 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 95 for further details of this provision. The reduction in the provision from prior year reflects a change in the accounting estimate as the programme nears completion and the expected number of branches to convert decreases.

Other provisions of £16 million (2016: £10 million) include £8 million of smaller provisions and £8 million (2016: £3 million) in relation to the discontinued operation as disclosed in note 20 of the Group financial statements.

11. Pensions

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

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

Post Office participates in pension schemes as detailed below.

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

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

Defined Contribution

The charge in the income statement for the defined contribution scheme and the Company contributions to this scheme were £4 million (2016: £3 million) during the year. New employees joining the Company are able to pay contributions to POPP after they have worked for the Company for a year.

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

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate Trust administered funds. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans. The latest full actuarial funding valuation of the RMPP was carried out as of 31 March 2015 using the projected unit method. For RMPP, this valuation was concluded at £62.7 million surplus (1 April 2012 valuation: £135 million surplus) on a Technical Provisions basis. Valuations are carried out triennially and the next one for the RMPP is due to be carried out as at 31 March 2018. RMPP includes sections A, B and C each with different terms and conditions:

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to Section A members who chose to receive Section B benefits;
- Section C is for members (or beneficiaries of members) who joined after 1 April 1987 and before 1 April 2008.

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

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

The changes encompassed are:

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

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

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

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

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

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

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

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

a) Major long-term assumptions

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

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

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

The ultimate cost of the RMPP plan to the Company will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets, for example bonds and swaps, which mitigate the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes benefits retaining a link to pensionable pay in RMPP. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this can be expected to be partially offset by an increase in the value of any corporate bond holdings and, potentially, the LDI assets.

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

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were largely transferred to the Royal Mail Statutory Pension Scheme. These liabilities are substantially no longer an obligation of the Company and consequently the transfer resulted in a significant removal of pension risk from the Company.

The following table shows the potential impact on the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP of changes in key assumptions:

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

The sensitivity analysis has been prepared using projected benefit cash flows 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 cash flows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

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

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

Average expected life expectancy from age 60:

| | 2017 | 2016 |
|--|----------|----------|
| For a current 60 year old male RMPP member | 28 years | 27 years |
| For a current 60 year old female RMPP member | 30 years | 30 years |
| For a current 40 year old male RMPP member | 30 years | 29 years |
| For a current 40 year old female RMPP member | 32 years | 32 years |

b) Plans' assets

The assets in the plans for the Company were:

| | Market value 2017 £m | Market value 2016 £m |
|---|----------------------|----------------------|
| Sectionalised RMPP | | |
| Corporate bonds* | 394 | 233 |
| Property | 13 | 11 |
| Private Equity | 7 | 10 |
| Cash and cash equivalents | 68 | 41 |
| Bond/fixed interest funds | 25 | 41 |
| Other loan/debt funds | 17 | 28 |
| Alternative asset funds | 8 | 43 |
| Fair value of RMPP assets | 532 | 407 |
| Present value of RMPP liabilities | (322) | (184) |
| Surplus in plan before asset ceiling adjustment | 210 | 223 |
| Less effect of asset ceiling | (210) | (29) |
| Surplus in plan after asset ceiling adjustment | - | 194 |

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

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

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

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

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

c) Movement in plans' assets and liabilities

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

| Assets | Sectionalised RMPP 2017 £m | Sectionalised RMPP 2016 £m |
|--|---|----------------------------------|
| Assets in sectionalised RMPP at beginning of period | 407 | 379 |
| Contributions paid | 17 | 19 |
| Employee contributions paid | 5 | 6 |
| Finance income | 15 | 14 |
| Actuarial gains/(losses) | 92 | (8) |
| Benefits paid to members | (4) | (3) |
| Assets in sectionalised RMPP at end of period | 532 | 407 |
| Assets | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
| Share of assets in RMSEPP at beginning of period | 30 | 31 |
| Contributions paid | 1 | 1 |
| Finance income | 1 | 1 |
| Actuarial gains/(losses) | 1 | (2) |
| Benefits paid to members | (1) | (1) |
| Share of assets in RMSEPP at end of period | 32 | 30 |

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

| Liabilities | Sectionalised RMPP 2017 £m | Sectionalised RMPP 2016 £m |
|---|---|----------------------------------|
| Liabilities in sectionalised RMPP at beginning of period | (184) | (150) |
| Current service cost | (23) | (27) |
| Curtailment costs* | 2 | (1) |
| Finance cost | (7) | (6) |
| Employee contributions | (5) | (6) |
| Experience adjustments on liabilities | 6 | 3 |
| Financial assumption changes | (129) | - |
| Demographic assumption changes | (5) | - |
| Benefits paid | 4 | 3 |
| Effect of closure of RMPP* | 19 | - |
| Liabilities in sectionalised RMPP at end of period | (322) | (184) |
| Liabilities | Share of RMSEPP 2017 £m | Share RMSEPP 2016 £m |
| Share of liabilities in RMSEPP plans at beginning of period | (27) | (26) |
| Finance cost | (1) | (1) |
| Experience adjustments on liabilities | 7 | (1) |
| Financial assumption changes | (11) | - |
| Benefits paid | 1 | 1 |
| Share of liabilities in RMSEPP at end of period | (31) | (27) |

*The gain on curtailment of £2 million is due to redundancies in the year. It is equal to a cost of £3 million in respect of enhanced retirement benefits granted to certain members, offset by a saving of £5 million due to RPI-linked in-service revaluation being replaced by CPI-linked deferred pension revaluation. The effect of the closure of RMPP of £19 million is a past service adjustment as a result of the closure of the Plan and is a one-off adjustment.

Both of these adjustments have been allocated between revenue trading (net credit of £2 million relating to adjustments linked to current year service) and closure of activities (net credit of £19 million relating to adjustments linked to prior years' service).

d) Recognised charges

An analysis of the separate components of the amounts recognised in the performance statements of the Company is as follows:

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

| | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
|---|----------------------------|----------------------------|
| Analysis of amounts recognised in the income statement | | |
| Analysis of amounts charged to net pensions interest: | | |
| Interest on plan liabilities | 1 | 1 |
| Interest income on plan assets | (1) | (1) |
| Net pensions credit to financing | - | - |
| Net charge to the income statement before deduction for tax | - | - |
| Analysis of amounts recognised in the statement of comprehensive income | | |
| Actual return on plan assets | 2 | (1) |
| Less: expected interest income on plan assets | (1) | (1) |
| Less: taxation on surplus recoverable through plan refunds | - | 1 |
| Actuarial gains/(losses) on assets (all experience adjustments) | 1 | (1) |
| Actuarial gains arising from changes in demographic assumptions | 7 | - |
| Actuarial losses arising from changes in financial assumptions | (11) | (1) |
| Actuarial losses on liabilities | (4) | (1) |
| Total actuarial losses recognised in the statement of comprehensive income | (3) | (2) |

12. Equity

Called up share capital:

| | 2017 £ | 2016 £ |
|----------------------------|---------------|---------------|
| Authorised | | |
| Ordinary shares of £1 each | 51,000 | 51,000 |
| Total | 51,000 | 51,000 |
| Allotted and issued | | |
| Ordinary shares of £1 each | 50,003 | 50,003 |
| Total | 50,003 | 50,003 |

Share premium:

On 7 August 2007 1,000 ordinary shares of £1 each were issued in return for £313 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £151,999,998 resulted from this subscription.

13. Commitments and Contingent Liabilities

Capital commitments contracted for but not provided in the financial statements amount to £57 million (2016: £51 million).

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

14. Related party disclosures

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

15. Capital and investment expenditure

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

16. Taxation

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

17. Discontinued operations

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

18. Post balance sheet events

On 20 July 2017, Post Office Limited and Trustees of the Royal Mail Pension Plan (POL fund) ("Trustees") entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected by the purchase of two bulk annuities. Under the purchase agreements, the Trustees of the pension plan have effectively bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation.

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

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

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

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

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

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

In accordance with the funding agreement with Government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £140 million of funding on 3 April 2017.

On 30 March 2017, Post Office and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility extending the working capital facility of £950 million with BEIS to 31 March 2021 and confirming NSP for 2018/19 and 2019/20 of £60 million and £50 million respectively.

On 25 July 2017, the Secretary of State for BEIS confirmed in principle that NSP of £50 million will be made available for 2020/21 and investment funding of up to £210 million will be available as required for the period from April 2018 to March 2021.

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

State aid approval for the NSP and investment funding for 2018/19 to 2020/21 has not yet been received, although we are confident that this and all the conditions of funding will be met. The working capital facility is not classified as state aid and requires no further approval.

19. Immediate and ultimate parent company

At 26 March 2017, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company. The largest group to consolidate the results of the Company is Postal Services Holding Company Limited, a company registered in the United Kingdom. Postal Services Holding Company Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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