Registered Number 2154540

Post Office Limited

Annual Report
& Financial Statements
2017/18

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

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Contents

Strategic Report

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

Chairman's Foreword

The Post Office has continued to make good progress in financial year 2017/18 towards its goal to become a thriving and self-sustaining business, posting a profit for the second consecutive year. A continued focus on reducing costs and simplifying internal processes, combined with strong performance in a number of key areas, including Banking Services, Telecoms, and in the challenging mails market, has again produced a highly creditable set of financial results.

Thanks to the support of our only shareholder, the Government, we are able to direct the entirety of the profit we have begun to achieve on a sustained basis towards re-investment in making further improvements to our network, on which so many people rely, and to bring our products and services up to date. This is a great business, but we can make it better still. The executive team, under Paula Vennells' stewardship, is leading that charge with real energy.

Technology, and the use we make of it within the organisation, across our branches, and for customers' convenience whether at home or on the go, remains a central preoccupation. In the past year, we have made significant progress with a major programme of improvements to our IT infrastructure, across branches and data centres, to better protect service and reduce operational risk. We have also taken significant steps to move the Post Office along a wholescale digital transformation, addressing not just the technology and capability, but also the business culture to support it. The scale of the work in this area in 2017/18, put us in a good position for the year ahead.

Government investment funding for the period to 2021 is an important enabler of the solutions we must find to the challenges which remain, and represents a vote of confidence in the strategic direction of the business. But I am, of course, well aware of the constraints on the public finances and I wholeheartedly support Paula's ambition to continue to grow our top line at pace, so that we can continue to invest in creating a confident, modern and relevant business. It is Government and the Post Office's shared aspiration that Post Office should become entirely self-sustaining after 2021, and we are on track to achieve this.

The Post Office needs to work even harder to win over a new generation of both corporate and retail customers, by better understanding their needs, and the changes in their preferences and behaviours. As people look for ever simpler and more convenient ways to perform day to day tasks like paying their bills, managing their finances, and sending their business and other mails, we are uniquely placed to bridge the digital and physical space through our network of branches. I am excited, in particular, by the opportunity which our Digital Identity business gives us to simplify a huge range of activity, while making the process of proving one's identity and age to Government agencies, banks, and retailers more secure.

To have the opportunity to combine the delivery of an important social purpose, and drive forward an increasingly successful company, is rare. The Post Office matters to people and communities in a way that few, if any, other organisations do and it is a privilege to act as its Chairman at such an important time in its development.

Our people, working in branches across the country, in our supply chain and customer service centres, and those who make the business run effectively behind the scenes, deserve recognition for their hard work in making our ambitions a reality. The sense of excitement about the future of the business is palpable, and they have demonstrated that they can deliver transformation at scale. I thank them wholeheartedly.

I would also like to express my gratitude to our Shareholder (the Secretary of State at the Department for Business, Energy and Industrial Strategy), as well as his Ministers and UK Government Investments (UKGI) as our day to day contact and Shareholder representative for their collaboration and support across the year. My colleagues on the Post Office Board, and the Executive Team led by Paula Vennells, have again provided the leadership, wisdom and sense of purpose that this business needs to become a real force on the high street and on digital platforms in years to come. A special thank you to Virginia Holmes, who leaves the Board after six years' service, and I am delighted to welcome Shirine Khoury-Haq in her place. I also express my thanks to Richard Callard who leaves the Board after four years' service, and I welcome Tom Cooper who replaces Richard as the Board representative from UKGI.

We have set ourselves a challenging but realistic path to evolve and rejuvenate this business to meet the needs of tomorrow's society. Our last two sets of financial results give us confidence that we are making good progress on delivering that ambition.

Tim Parker
Chairman
9 August 2018

Chief Executive Statement

The Post Office is at the heart of UK life. Millions of people and businesses rely on our services. A commercial business powered by a social purpose, the Post Office is there with essential social and economic services – parcels, payments, pensions, banking and cash, for customers and communities wherever they need us.

Over the course of the financial year we have started to see the benefits of a sustained focus on our cost base, as well as the re-structure of our central services and improvements in our information technology infrastructure. For the second year running, Post Office Limited is reporting a strong performance, with a trading profit of £35 million, exceeding the challenging target of £30 million we set ourselves at the beginning of the period and double the profit we made in the prior year. This achievement takes place against a backdrop of continued uncertainty on the high street and I would like to thank all Post Office colleagues for their commitment and determination to deliver it.

Our results are good; they are not yet good enough. We have set ourselves a target of £100m trading profit in three years. We need to be able to invest in the future and respond effectively to the challenges which remain. Managing the risk of delays to and, indeed, accelerating the process of building more reliable IT infrastructure, will require relentless focus and investment at scale: not easy, but within our grasp.

If we are to achieve £100 million target, we will need to prioritise and focus on the following: simplifying and automating running a post office; expanding our network of branches for our customer; building flexible and secure IT systems. The world is increasingly digital and we have important work to do to streamline and digitise the way we do business. Lengthy and overly complex legacy processes slow us down, acting as a drag on profitability.

We have already begun this work, building a digital innovation team, bringing highly skilled developers and programmers in-house, to give us end-to-end control over the design and development of our own applications – responding in real time to customer led improvements. A dedicated Digital Identity Business Unit enables key clients in Government and the wider public sector to meet their identity verification requirements more securely and more efficiently.

Our traditional products and services remain core to our business and drive a large proportion of our revenue. With our partner Royal Mail, we remain market leader in the parcels and letters market, a major achievement in the face of ever-growing competition. While volumes in the letters market continue to reduce year-on-year, we have extended our offering in parcels, returns, and express services, reflecting the changing preferences and habits of our customers.

Through our Network Transformation Programme which is drawing to a close, we have modernised over 7,500 branches across the country, becoming the largest Sunday retailer in the United Kingdom, and adding over 200,000 additional opening hours a week in the process. To bring further convenience to our customers, we are now opening entirely new branches where there is unmet demand for our services, including a 24 hour branch in London’s busy Oxford Street.

We continue to lead the market in Travel Money and to have a close and productive relationship with the Bank of Ireland - a partnership that will need to carry on evolving in step with the needs of our customers and our ambitions in the highly dynamic and changing Financial Services marketplace. Our insurance business is enjoying revenue growth of 12%, by providing our customers with important peace of mind in respect of unpredictable events.

Our telecoms business has performed well, with revenue growing by 13%, despite regulatory challenges and, through our acquisition of New Call, we welcomed 51,000 new broadband subscribers. Our customer-centric approach has seen us offer fibre products delivering faster speeds and more reliable service, alongside innovative in home services installation for more vulnerable customers.

We are well placed to understand that public perceptions of business mean that it is not enough simply to be profitable, we also need to demonstrate our value to communities. In this regard, our banking services are a great example of our social purpose in action. Easy access to cash and basic banking services is vital for both private customers and businesses. As banks continue to close branches, we have an important role to play in addressing some of the challenges of financial inclusion.

Cash withdrawals in our branches grew by approximately 6% over the year but cash deposits, driven largely by small businesses, grew by an impressive 28% in the same period. Our Automatic Teller Machine (ATM) business performed well, supporting over 140 million transactions. The innovation and convenience we are bringing to day to day banking is resonating with our customers: the Post Office, with its effective and efficient supply chain, is rapidly becoming a cash utility for the UK. Through our business banking services, we are rightly proud of the contribution we are making to supporting small businesses, and thereby to the working and resilience of UK local economies.

Our Government Shareholder has expressed its confidence in our strategic priorities by awarding investment funding of £370 million over the three year period ending March 2021. Investment is critical at this point in our journey, enabling us to make further progress in a significant programme of IT infrastructure upgrades, to develop our digital capability, and to contribute to the sustainability of our Community Branches.

As well as normal trading challenges, businesses of all shapes and sizes also face risks, and the Post Office is no exception. Many will be aware of a group litigation being brought by a number of mostly former postmasters, alleging defects in the Horizon system and Post Office’s internal processes. The resolution of these claims is now a matter for the Courts so that these allegations can be objectively assessed.

Every year, I am reminded of the dedication and sheer hard work of our postmasters and colleagues, serving our customers day in, day out. Their contribution to the continued turnaround of the Post Office cannot be overstated. They have witnessed an exceptional level of change, from adapting to new products and services, new ways of working, accommodating the roll out of new branch technology, to supporting our drive to improve customer waiting time, especially at Christmas.

These colleagues continue to reflect the best of our values. Last year showed the Post Office can be counted on, when customers and communities need us most. Within hours we were able to offer practical help to the people affected by the fire at Grenfell Tower, providing those who had lost absolutely everything with emergency access to cash, removing at least one immediate worry for them. We were there for the communities at London Bridge, Manchester, Finsbury Park: as well as providing practical help, we took the time to listen to stories from the local community and people affected, prompting Wendy, one of our colleagues, to open a book of condolence at our Manchester Spring Gardens branch, an initiative then adopted by other branches. Events such as these bring the unique role that Post Offices play into sharp focus.

The turnaround of the Post Office is a demanding and ongoing task - delivered by talented and dedicated colleagues. As a workforce, we are multicultural, diverse, inclusive and all the stronger for it. Our diversity and inclusion agenda has been a significant focus for us over the past year. We aspire to provide a positive work environment. This means that regardless of our differences, we can work without fear of discrimination, harassment or victimisation. Employment decisions – whether related to recruitment, promotions, transfers or terminations – are based on merit and fairness.

We are proud to have been recognised as a Disability Confident Leader this year, to have scooped the prize of Diversity and Inclusion at the Employee Engagement Awards, and to have won a Times Top 50 Employer for Women Award - for the third time. Thanks to the passion of our colleagues, we have thriving networks for LGBTQ+ and BAME colleagues, as well as Women in Leadership. We have taken important steps in all these areas and much remains to be done. In common with many companies, we published our Gender Pay Gap and whilst we performed better than many, with a median pay gap of 13.1%, I am determined that we will make progress to further reduce this figure.

I am grateful to the Post Office Board led by Tim Parker and to my Group Executive colleagues for their inspiration, challenge and support. We will continue to accelerate the pace of change from a position of strength and confidence, ensuring the Post Office matters even more to the customers of tomorrow than it does today.

Paula Vennells
Chief Executive
9 August 2018

Financial and Business Review

Summary results

We delivered our second consecutive year of profit as we continue on the path to commercial sustainability. Trading profit increased by £22 million to £35 million (2017: £13 million).
Our trading turnover grew by £4 million during 2017/18 to £961 million (2017: £957 million). Growth was driven by our Financial Services, Insurance and Telecoms business following the acquisition of the trade and certain assets of New Call Telecom Limited and growth in Banking Services following the signing of the Banking Framework agreement with all the major UK banks in January 2017. Mails trading turnover was flat year on year which is a significant achievement in a competitive market. This was partly offset by the continuing anticipated decline in our Government Services and Payment Services businesses.

As planned, the Network Subsidy Payment (NSP) from Government decreased by £10 million to £70 million (2017: £80 million). Cost reductions of £18 million meant that EBITDA increased by £12 million to £105 million.

We delivered an operating profit from continuing operations of £47 million (2017: £93 million), this is after the depreciation and amortisation charges of £55 million (2017: £nil) which were incurred for the first time in current year and also the reduction in NSP. This result reflects the improvement in the underlying profitability of the business.

Profit and Loss Summary – Trading

	2018 £m	2017 £m	Variance £m	Variance %
Turnover	**961**	957	4	-
Costs	**(960)**	(978)	18	2
Share of profit from joint ventures	**34**	34	-	-
Trading profit	**35**	13	22	169
Add: Network Subsidy Payment	**70**	80	(10)	(13)
Operating profit from continuing operations before depreciation, amortisation, exceptional items, closure of activities and investments (EBITDA)	**105**	93	12	13
Depreciation and amortisation	**(55)**	-	(55)	(100)
Exceptional items	**(3)**	-	(3)	(100)
Operating profit from continuing operations before closure of activities and investments	**47**	93	(46)	(49)

Significant accounting judgements

Going concern

The Group (being the Group of companies headed by Post Office Limited) has net assets of £203 million at 25 March 2018 (2017: £186 million) and headroom on the loan from the Department for Business, Energy and Industrial Strategy (BEIS) of £327 million (2017: £389 million). We have also been profitable at a trading profit level with current year profit of £35 million (2017: £13 million) and shown a profit after tax of £17 million (2017: £243 million).

We have the following funding agreed with BEIS: a working capital facility of £950 million to 31 March 2021; NSP for 2018/19, 2019/20 and 2020/21 of £60 million, £50 million and £50 million respectively; and we also have investment funding of up to £210 million as required for the period from April 2018 to March 2020.

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.

Key Financial Performance Indicators

	2018 £m	2017 £m	Variance £m
Turnover	**961**	957	4
Operating profit from continuing operations before depreciation, amortisation, exceptional items, closure of activities and investments (EBITDA) (note 24)	**105**	93	12
Operating profit from continuing operations before depreciation, amortisation, exceptional items, closure of activities, investments and Network Subsidy Payment (Trading profit) (note 24)	**35**	13	22
Profit for the financial year	**17**	243	(226)

Profit and Loss

As disclosed in note 1 to the financial statements on page 40, we have split the results of the Group between trading, closure of activities and investments. Together these combine to give the results of the Group. This presentation clearly separates the underlying trading of the business from the change activity being undertaken to ensure the future sustainability of the Post Office. In the following sections, we consider each of the columns of our consolidated income statement which combine to give an operating profit from continuing operations of £15 million (2017: £304 million). Once finance income/costs, taxation credit/charge and results from discontinued operations have been factored in the profit for the financial year is £17 million (2017: £243 million). See the consolidated income statement on page 35 for full details.

	2018	2017	Variance
	£m	£m	£m
Operating profit / (loss) from continuing operations			
Trading (excluding depreciation, amortisation and exceptional items)	**105**	93	12
Depreciation and amortisation	**(55)**	-	(55)
Exceptional items	**(3)**	-	(3)
Trading	**47**	93	(46)
Closure of activities	**-**	19	(19)
Investments and reversal of impairment	**(32)**	192	(224)
Operating profit from continuing operations	**15**	304	(289)

Turnover

The Post Office business is organised into two strategic business units, Retail and Financial Services & Telecoms. Turnover from our subsidiary Post Office Management Services Limited is included within the Insurance line below. The divisions and their performance are detailed on the next pages:

		2018 £m	2017* £m	Variance £m	Variance %
Retail					
	Mails	**334**	337	(3)	(1)
	Retail & Lottery	**45**	45	-	-
	Government Services	**99**	114	(15)	(13)
	Payment Services	**57**	66	(9)	(14)
Financial Services & Telecoms					
	Financial Services	**215**	205	10	5
	Telecoms	**147**	130	17	13
Insurance		**48**	43	5	12
Other Income		**16**	17	(1)	(6)
Turnover		**961**	957	4	-

*The grouping of products has altered in 2017/18 with gift voucher turnover moving from Payment Services to Retail & Lottery and mobile E Top Up turnover moving from Telecoms to Payment Services. Turnover from Post Office Management Services Limited has been included within the Insurance line below. The impact of these changes on the reported 2016/17 performance of the divisions is detailed below:

		2017 £m	Insurance £m	E Top Ups £m	Gift vouchers £m	2017 restated £m
Retail						
	Mails	337	-	-	-	337
	Retail & Lottery	40	-	-	5	45
	Government Services	114	-	-	-	114
	Payment Services	68	-	3	(5)	66
Financial Services & Telecoms						
	Financial Services	248	(43)	-	-	205
	Telecoms	133	-	(3)	-	130
Insurance		-	43	-	-	43
Other Income		17	-	-	-	17
Turnover		**957**	**-**	**-**	**-**	**957**

Retail

The Retail business encompasses our position as the United Kingdom's number one mails provider, as well as our Government Services and Payment Services:

Mails

Mails includes the sale of parcels and other mails products provided by Royal Mail and Parcelforce. Underlying trading turnover remained broadly flat (growth of £3 million which is 1% of total mails trading turnover). Growth in parcels and home shopping returns offset the continuing decline in stamps. There were planned reductions in the fixed fee part of the contract with the Royal Mail Group of £3 million and a reduction in other non-trading mails turnover of £3 million.

Retail & Lottery

Turnover is flat year on year. There has been a decline in the Lottery market driven by increased competition and a trend towards online and mobile applications offset by an increase in income from the sale of gift cards.

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).

	2018	2017	Variance	Variance
	£m	£m	£m	%
DWP	**46**	61	(15)	(25)
Home Office	**36**	34	2	6
DVLA	**7**	8	(1)	(13)
Other Government Services	**10**	11	(1)	(9)
Government Services	**99**	**114**	**(15)**	**(13)**

Total Government Services turnover of £99 million decreased by £15 million (2017: £114 million). Within this, DWP turnover decreased by £15 million to £46 million due to a decline in the number of active Post Office card accounts. The £1 million reduction in DVLA turnover reflects customers increasingly using the online channel for motor vehicle licence payments.

Home Office turnover grew £2 million to £36 million (2017: £34 million); small declines in passport turnover were offset by increases in UKVI. Other Government Services turnover has declined by £1 million.

Payment Services

Payment Services includes bill payment and ATM transactions. Turnover has fallen by £9 million to £57 million (2017: £66 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 and telecoms businesses:

Financial Services

Our Financial Services products include mortgages, credit cards, savings, travel and banking. Turnover increased by £10 million to £215 million (2017: £205 million).

Banking has shown continuing strong growth on the back of the launch of the Banking Framework, with an increase in turnover of £20 million. The Post Office continues to support local community banking needs across the UK as High Street banks continue to exit locations throughout the UK.

Turnover from Postal Orders declined by £4 million as this legacy product continues to decline in the marketplace. Foreign exchange turnover declined by £3 million as we saw a reduction in volumes due to currency fluctuations, the impact of increased regulation in foreign remittances and fewer workers sending money home following Brexit.

Telecoms

Telecoms includes Post Office HomePhone and Broadband services.

Telecoms turnover of £147 million increased by £17 million (2017: £130 million). On 30 March 2017 the Post Office acquired the customer base of the residential broadband and home phone provider New Call Telecom Limited. This acquisition contributed £11 million of incremental turnover. Further growth was driven by the continuing strong performance in our HomePhone and Broadband services.

Insurance

Insurance turnover has grown, from £43 million in 2016/17 to £48 million in 2017/18. The £5 million increase was driven mainly by growth in our Life insurance and Travel insurance businesses.

Costs

Total costs decreased by £18 million to £960 million (2017: £978 million).

People costs of £189 million decreased by £13 million (2017: £202 million) reflecting efficiency savings following the restructuring in 2017 and the closure of the Royal Mail Pension Plan (RMPP) to future accrual. The reasons for closure of RMPP are explained in note 17 on page 66.

Average headcount reduced from 6,054 in 2016/17 to 5,066 in 2017/18 reflecting discontinued supply chain operations as well as efficiency savings across the administration teams and Directly Managed Branches (DMB) and the effect of the Network and DMB transformation programmes. Closing headcount for the year was 5,020 (2017: 5,302).

Other operating costs decreased by £5 million to £771 million (2017: £776 million). Reductions in postmaster remuneration costs resulting from changing revenue mix and Network Transformation are partially offset by increased direct costs due to growth in the Telecoms business.

Exceptional costs

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, many of which have been the subject of significant external focus for a number of years. Post Office is robustly defending the claim, believes it lacks merit, but welcomes the opportunity to have these matters resolved through the Court managed Group Litigation Order.

The Court has ordered two trials to be heard in 2018/19 to determine a subset of the preliminary issues in dispute between the parties. The Court has not yet ordered a process for determining any issues of liability or quantum. To date, the Claimants have not asserted the aggregate value of their claims in any of the Particulars of Claim filed in the litigation.

While the Directors recognise that an adverse outcome could be material, they are currently unable to determine whether the outcome of these proceedings would have a material adverse impact on the consolidated position of the Group, and are unlikely to be able to do so until the Court has made further determinations and the Claimants have provided the necessary information about the value of their claims. The Directors continue to keep this under close review

In 2017/18 the costs of £3 million included in operating exceptional items relate to Post Office defending the Post Office Group Litigation. These have been disclosed as operating exceptional items because we expect costs to be more significant in 2018/19 and 2019/20.

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 (2017: £34 million).

Capital and investment costs

Investment costs included in the consolidated income statement are shown below:

	2018	2017
	£m	£m
Investment funding	**70**	**140**
Restructuring:		
Business transformation	**(16)**	(7)
Network programmes	**(63)**	(54)
IT transformation	**(6)**	(9)
Severance	**(17)**	(46)
Total restructuring costs	**(102)**	**(116)**
Impairment:		
Impairment of intangible assets	**-**	(78)
Impairment of property, plant and equipment	**-**	(26)
Reversal of impairment on intangible assets	**-**	123
Reversal of impairment on property, plant and equipment	**-**	149
Total impairment reversal	**-**	**168**
Unwinding of discount on provisions	**(2)**	**-**
Total investment (charge)/income	**(34)**	**192**

Restructuring costs include the costs of delivery of major change. These are offset by Government grant funding, recognised to match the associated costs. Government grant funding for 2017/18 of £70 million (2017: £140 million) was received on 3 April 2017 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 Government.

In addition, we have incurred £151 million (2017: £104 million) of capital spend as disclosed in note 8 and note 9.

BEIS has approved funding of up to £210 million which will be made available for the period from April 2018 to March 2020.

Cash Flow and Net Debt

Cash and cash equivalents amounted to £655 million (2017: £680 million) at the year-end. There was a net cash outflow during the year of £25 million (2017: £32 million).

Net debt (excluding cash in the Post Office network) increased by £64 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.

	2018 **£m**	2017 £m
BEIS loan at the start of the year	**(561)**	(465)
Net cash inflow/(outflow) from operating activities	**20**	(32)
Net cash outflow from investing activities	**(102)**	(82)
Net cash outflow from financing activities	**(5)**	(14)
Decrease in cash and cash equivalents	**25**	32
BEIS loan at the end of the year	**(623)**	(561)
Cash (excluding cash in the Post Office Network)	**12**	14
Total net debt carried forward at the end of the year	**(611)**	**(547)**

Post Office Limited seeks to minimise the amount drawn down on the loan from BEIS 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 £327 million (2017: £389 million). The maximum drawn down under the facility during the year was £749 million on 21 December 2017. 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 limits the purposes for which the facility can be used and, together with borrowing limits contained in the Articles of Association, imposes constraints on the availability of external borrowing.

The Bank of England Note Circulation Scheme

The continued participation in the Note Circulation Scheme ('NCS') assures that Post Office Limited has an adequate supply of notes to meet customer demand across its network and provides a mechanism for enabling Post Office Limited to hold Bank of England owned notes. At the end of the year £238 million (2017: £246 million) of Bank of England owned notes were held. See note 23 on page 76 for further details on the NCS.

Post Office also has an arrangement in Scotland with a commercial banking partner whereby surplus Scottish notes are sold to the partner overnight for repurchase the next day. At the end of the year a total of £17 million (2017: £9 million) was outstanding under this arrangement.

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. 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.

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. The decision to close the RMPP was taken to reduce the risk exposure and to ensure that Post Office had a sustainable pension scheme going forwards.

In the prior year, a Memorandum of Understanding was 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 could no longer be recognised on Post Office's balance sheet at 26 March 2017, and the resulting loss was recognised in Other Comprehensive Income.

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 bought an asset that provides income which matches closely the benefit payments from the pension plan, achieving a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation and longevity.

The accounting surplus has reduced by the difference between the insurance premium and the value of the insured liabilities, creating a 'loss' on buy-in. There is also an ancillary premium as part of the buy-in agreement which transfers to the insurer the risk of incorrect data being used to price the premium. These items have been recognised in Other Comprehensive Income in 2017/18. As Post Office has no right to a future surplus in the scheme, there has been an equal and opposite adjustment to the asset ceiling through Other Comprehensive Income. As a result, there has been no effect on the net assets position of the Group.

The deficit payments into RMSEPP were agreed with the pension trustees during the year and payments were made in accordance with the agreements. The net cash payments made are detailed below:

	2018	2017
	£m	£m
Regular pension contributions	**(20)**	(19)
Funding of the pension deficit – RMSEPP	**(1)**	(1)
Payments relating to redundancy	**(5)**	(3)
Net cash payments	**(26)**	**(23)**

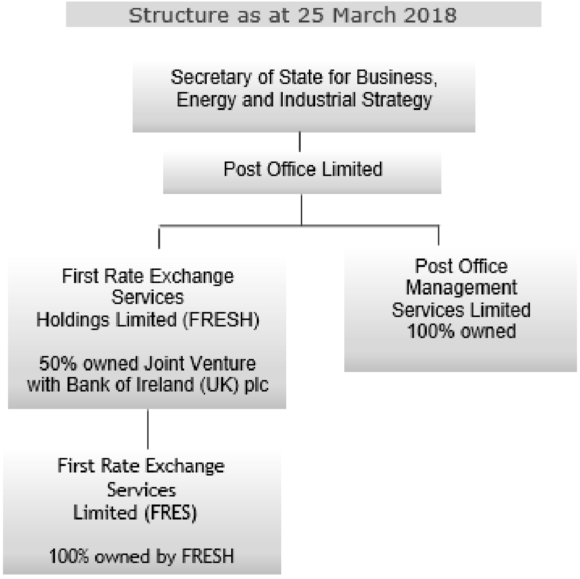
The income statement charge to trading for the year was £17 million (2017: £4 million) in relation to the defined contribution scheme and £nil (2017: £21 million) in relation to the defined benefit scheme.

Alisdair Cameron
Chief Finance and Operating Officer
9 August 2018

Governance

Corporate Governance

Legal Ownership and Structure



The Post Office Limited was a wholly owned subsidiary of Postal Services Holding Company Limited until June 2017 when the Holding Company entered into voluntary liquidation and the shares in Post Office Limited were transferred to the Department for Business, Energy and Industrial Strategy (BEIS).

In addition, BEIS, holds a special share in Post Office Limited and the rights attached to that special share are enshrined within Post Office Limited Articles of Association (http://corporate.postoffice.co.uk/access-information).

BEIS has no day to day involvement in the operations of Post Office Limited or in the management of its branch network and staff. Through UK Government Investments (UKGI), BEIS monitors Post Office Limited's performance, in particular its compliance with minimum network access criteria and provision of specified services.

BEIS has the right to appoint Non-Executive Directors to the Board and typically appoints a UKGI employee for this purpose.

Corporate Governance Overview 2017/18

At Post Office Limited we maintain standards of corporate governance appropriate for our ownership structure, our commitment to social purpose and our strategy to achieve commercial sustainability. We review our corporate governance arrangements to ensure they remain appropriate for our developing business needs and relevant legal and regulatory advances.

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 Limited vision, values and organisational culture.

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

Richard Callard, the Board representative from UKGI, stood down from the Board on 27 March 2018 and was replaced by Tom Cooper, whose appointment was ratified by the Board on 27 March 2018. Virginia Holmes stood down from the Board on 27 March 2018 and was replaced by Shirine

Khoury-Haq following open competition. Gender diversity was maintained during 2017/18 with 37.5% women.

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

Paula Vennells, Group Chief Executive

Joined the Board 18 October 2010

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

Tim Franklin, Non-Executive Director and member of the Audit, Risk and Compliance Committee

Joined the Board 19 September 2012

Shirine Khoury-Haq, Non-Executive Director and member of the Nominations and Remuneration Committee

Joined the Board 24 May 2018

Carla Stent, Non-Executive Director and Chairman of the Audit, Risk and Compliance Committee

Joined the Board 21 January 2016

Tom Cooper, Non-Executive Director, and member of the Audit, Risk and Compliance and Remuneration Committees

Joined the Board 27 March 2018

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

Jane Macleod, Company Secretary

Appointed as Company Secretary 31 August 2017

Non-Executive Directors are usually appointed for an initial term of three years with the scope to renew for a second term, subject to Board approval and the approval of BEIS. Tim Franklin was appointed for an initial period of four years and a second term of three years. As the Board representative of UKGI, Tom Cooper's appointment period is determined by the Secretary of State for BEIS.

Richard Callard joined the Board on 26 March 2014, he was a Non-Executive Director and member of the Audit, Risk and Compliance Committee during the year and stood down on 27 March 2018.

Virginia Holmes joined the Board on 4 April 2012, she was a Non-Executive Director and member of the Nominations and Remuneration Committees during the year and stood down on 27 March 2018.

Biographies of all current members of the Board can be found on the Post Office Limited 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 Limited 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 Limited 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 2018. 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 management presentations.

In setting the risk appetite for Post Office Limited the Board has established a framework to manage and mitigate risk. The Board takes guidance from its Audit, Risk and Compliance Committee, and has 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 and from operations management. Further detailed information on the management of risk within Post Office Limited, together with identification of principal risks, their impacts and mitigation can be found in the management of risk section on pages 23 to 26.

Key focus and achievements in 2017/18

During the year to 25 March 2018, the Board continued to oversee the Post Office Limited's drive to commercial sustainability and profitability.

This included project approvals, monitoring of developments in IT strategy, and services in the digital space. These developments are designed to enhance customer experience and offer services that meet customer needs in a digital age while continuing to serve our social purpose.

Conflicts of Interest and Independence

The Board may, in the furtherance of its duties, seek independent professional advice at the expense of Post Office Limited. During the period, no Director sought independent professional advice. The Articles give the Directors power to authorise conflicts of interest.

During the period, none of the Directors had a material interest in any contract of significance with Post Office Limited or any of its subsidiaries. At all times during the periods of their appointments in 2017/18, the independent Directors met the criteria for independence set by the Board.

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

Board Meetings

During 2017/18 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	9/9	1/1	-	4/4	4/4
Paula Vennells	9/9	1/1	-	-	-
Ken McCall	9/9	0/1	5/5	4/4	4/4
Richard Callard	9/9	1/1	5/5	-	-
Tim Franklin	9/9	1/1	5/5	-	-
Virginia Holmes	8/9	0/1	-	4/4	4/4
Carla Stent	9/9	1/1	5/5	-	-
Alisdair Cameron	9/9	1/1	-	-	-

Board Effectiveness Review

An internally facilitated review was not carried out in 2017/18 as it was decided to defer this until the new Non-Executive Directors were in place.

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. The Audit, Risk and Compliance; Nominations; and Remuneration Committees are each chaired by a Non-Executive Director.

The Board retains overall oversight but delegates responsibilities and authorities to its committees to operate within the terms of reference approved by the Board. The terms of reference for all committees are reviewed annually in March to confirm that each committee has delivered against them during the year. The reviews in March 2018 raised no issues.

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

Nominations Committee

Role and Membership

The Committee is chaired by Tim Parker, Chairman, and the other members during the year were Virginia Holmes, Non-Executive Director, and Ken McCall, Senior Independent Director. Tom Cooper and Shirine Khoury-Haq joined the Committee on 24 May 2018 and Virginia Holmes stood down on 27 March 2018.

Work carried out by the Committee in 2017/18

During the year the Committee considered the skills and experience required by the Board for a new Non-Executive Director and worked with Russell Reynolds (executive search consultants) on the appointment. The Committee approved the appointments of the Chief Executive Officer – Retail, the Chief Executive Officer – Financial Services & Telecoms and the Managing Director – Identity Services. In addition, the Committee agreed changes to the Board of Post Office Management Services Limited (POMS), including appointing Simon Parr as a Director, Tim Franklin as a Non-Executive Director and Andrew Torrance as the Senior Independent Director.

Remuneration Committee

Role and Membership

The Committee is chaired by Ken McCall, Senior Independent Director, and the other members during the year were Tim Parker, Chairman, and Virginia Holmes, Non-Executive Director. Tom Cooper and Shirine Khoury-Haq joined the Committee on 24 May 2018 and Virginia Holmes stood down on 27 March 2018.

The Group Chief Executive may attend meetings, at the invitation of the Committee 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 Chief Executive and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

Work carried out by the Committee in 2017/18

During the year the Committee reviewed and made recommendations to the Board for 2016/17 payments against incentive plans and targets and measures for 2017/18. The Committee approved senior salary pay changes and approved remuneration at appointment for the Chief Executive Officer – Retail and the Chief Executive Officer – Financial Services & Telecoms.

The Committee received updates and advice from the HR and Finance teams and from PwC, its external adviser, on gender pay, market trends and benchmarking information. Reports were received on changes to the senior structure.

Audit, Risk and Compliance Committee

Role and Membership

The Committee is chaired by Carla Stent, Non-Executive Director, and the other members during the year were Ken McCall, Senior Independent Director, Richard Callard, Non-Executive Director and Tim Franklin, Non-Executive Director. Tom Cooper joined the Committee on 27 March 2018 when Richard Callard stood down.

The Board considers that the Committee's members have broad commercial knowledge and 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 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 Limited, together with identification of principal risks, their impacts and mitigation, can be found in the Management of Risk section on pages 23 to 26.

Work carried out by the Committee in 2017/18

During the year, the Committee reviewed the Annual Report and Financial Statements for 2016/17, including consideration of the principal and strategic risks, and recommended Board approval. The Committee approved the annual audit plans for the internal and external auditors and the internal audit charter. The tender for the external auditor was approved. The Committee reviewed the risk management framework for the Company, including its appetite for risk, self-assessment of the control framework and areas of specific risk highlighted by the executive Risk and Compliance Committee. It reviewed and approved relevant policies, such as financial crime and personal data, as part of an annual review cycle.

Management of Risk

Our Approach to Risk

The commercially competitive and highly regulated environment, together with operational complexity, exposes the Post Office to a number of risks. 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 objectives and aim to operate within an acceptable level of risk taking. The Post Office has articulated its risk appetite in relation to the most material risks with a view to managing better the key strategic risks and assessing the risks in relation to new opportunities.

Risk Management Governance

The Board is accountable for risk management and internal controls in the Post Office, reviewing their effectiveness and determining the nature and extent of principal risks. The Board has delegated responsibilities to the Audit, Risk & Compliance Committee (ARC), which provides assurance to the Board through review of reports from Management, Risk, Internal Audit external advisers and External Audit. Responsibility for day to day operations rests with the Group Executive (GE). The Risk and Compliance Committee reviews the effectiveness of the risk management framework and management of principal risks. It is chaired by the General Counsel, membership includes all of the GE and the output is reported to the ARC.

Our Risk Management Framework

In order to deliver its objectives, the Post Office is required to identify, assess and manage a wide range of risks. These are managed through an overarching framework in order to apply consistency and transparency of risk management across the organisation. The framework identifies roles and responsibilities of key parties in the risk management process, the policies for how risks are managed, the tools and processes used and the reporting outputs that are generated.

The approach to risk management is based on the underlying principle of line management accountability for effective implementation of internal controls to manage risk. The Group Executive has identified and manages the principal risks in the organisation, focusing on the aims of the strategic plan. These risks, with their response plans, are reviewed at the Risk and Compliance Committee and the Audit, Risk and Compliance Committee to assure the robustness of risk assessment and management. There is an ongoing process of identifying, evaluating and managing the principal risks faced by Post Office. We also consider the principles that underpin the spirit of the UK Corporate Governance Code and adapt our risk management framework in a proportionate manner.

Our Control Framework

We have an internal control framework in place for both our financial reporting and IT processes, which fall under our self-assessment regime. In addition, we have implemented a suite of Post Office policies which define the minimum control standards we expect to be performed within the applicable business areas. Our risk management efforts are also underpinned by our Executives' Declaration.

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. Our principal risks are regularly re-evaluated and discussed at both a Board and Group Executive level.

Principal Risk	Potential Consequences	Key Mitigations
STRATEGIC RISKS		
Dependency on Strategic Relationships Post Office has a number of strategic relationships which are key to delivering its growth and strategic ambitions. Misalignment in direction or interests with any of these key partners, might result in products and services that do not support our growth strategy or meet evolving customer and market requirements.	Not achieving our strategic ambitions, losing revenue and market share.	• We have established close working relationships with our strategic partners underpinned by formal governance and reporting mechanisms. These ensure commercial objectives are aligned and relationship deliver to expectation. • Regular interaction with strategic partners to improve joint operating efficiency, product offering and service to drive growth and profitability for all parties. This includes regular engagement at Chief Executive Officer / Managing Director level. • We review the relationships with our strategic partners on a regular basis, to ensure long term alignment, with our customer and business outcomes.
Retail Proposition Post Office are committed to maintaining a Retail network of at least 11,500 branches. Critical to this objective is offering an attractive proposition for our retail partners and to continue to operate Post Offices in communities who need us. Post Office continues to review and develop our proposition for our retail partners, to enable us to continue to successfully deliver our social purpose, address the impact of high street costs and increasing pressure from online shopping.	Inability to meet our network commitment, and consequent adverse impact on delivery of our social purpose and consequential financial impacts.	• We are developing new models, leveraging technology through areas such as self-service, to provide retailers with a broader range of options for providing Post Office services. This is intended to drive simplicity of operations, efficiency and cost reduction, as well as promoting a better customer experience. • We are continuing to simplify our products and processes to improve the experience for both retailers and customers.

OPERATIONAL AND FINANCIAL RISKS		
Technology, Business Interruption and Cyber As the digitalisation of our business continues to grow, Post Office is dependent on the continued effectiveness, availability, integrity and security of its information systems and associated infrastructure. Post Office, in common with other businesses, is continuing to track the threat “universe” and is aware of increasing risk from cyber-attackers seeking to undermine businesses, government and utilities.	Direct impact on our network availability and reliability resulting in adverse customer service and financial performance and/or reputation.	• We are continuing to mitigate this risk by migrating some of our aging legacy systems to new infrastructure and this will continue through 2018. • We regularly evaluate the adequacy of our IT infrastructure and related controls. • We have an IT disaster recovery policy, with strong governance in place to identify emerging risks. • We are currently reviewing existing contracts and ensuring new contracts include fit for purpose provisions covering the security, resilience and availability of our IT systems and infrastructure. • We have policies in place for cyber and information security and acceptable use. • We monitor and provide assurance against the minimum controls defined in these policies. • The implementation of the Security Operations Centre will enable our IT Security Team to assess and manage vulnerabilities, identify and mitigate the risk of cyber-attacks.
External Environment Current uncertainties in the external political, economic and social environment due to the impact of political activities, wider economic climate, digital disruption, and societal change which may have an adverse impact on the: • spending patterns of our customers; • proposition and service expectations; • customer base; • financial resilience of our postmasters or suppliers; and • business model.	Adverse impact on the delivery of our business model and strategic ambitions.	• Regular horizon scanning to identify external events and assess their potential impact on our business. • Strategy is developed considering customer requirements, market trends and competitor behaviour. • Regular monitoring of legal and regulatory developments. • We continue to invest in the development of our digital capability.

LEGAL & REGULATORY RISKS		
Evolving Regulatory Environment Post Office operates under an extensive and evolving regulatory environment, including areas such as financial services, transactional services, postal services, telecoms, procurement, competition law, and data security. This environment continues to evolve, particularly in the financial services (e.g. HMRC's requirements around Anti Money Laundering controls) and telecoms space, which increases the risk of non-compliance, and could impact our financial performance.	Fines, penalties, litigation and a resulting adverse impact on financial performance and/or reputation.	• Open dialogue with key regulators to understand and clarify expectations. • Regulatory horizon scanning to anticipate future requirements and planning with each business area to undertake appropriate solutions. • On-going training is provided to staff and retail partners on legal and regulatory matters. • Regulatory obligations are supported by policies which define minimum controls that must be operated to mitigate risks. • Internal and external programmes are in place to provide assurance on regulatory compliance. • A GDPR programme is in place and actions are underway to confirm effective compliance. This includes a review of key third parties who hold and process sensitive customer or colleague data.

Directors' Report

The Directors present the Group Annual Report and Financial Statements for the year ended 25 March 2018.

Expected future developments

Expected future developments are detailed in the Chief Executive's statement on page 5.

Results and dividends

The profit after taxation for the year was £17 million (2017: £243 million). The Directors do not recommend the payment of a dividend (2017: £nil).

Political contributions

No political contributions were made in the year (2017: £nil).

Research and development

We will be submitting our first research and development claim during 2018/19 in respect of 2016/17 and 2017/18.

Directors and their interests

The following served as Directors during the year:

T C Parker	P A Vennells
K S McCall	T A Franklin
V A Holmes	C R Stent
R J Callard	A C J Cameron

No Director has a beneficial interest in the share capital of Post Office Limited. The emoluments of Directors are set out in note 5 to the financial statements on pages 50 to 51.

People

People are critical to our success, whether in branch or in our offices. To attract and retain the people we need we:

- Conduct regular employee surveys and use the feedback to make improvements.
- Provide information regularly on company performance, policies and organisational developments through our intranet, briefing sessions and company wide emails.
- Have a network of engagement champions representing the voices of colleagues from each part of the business.
- Are committed to providing a safe working environment that promotes the health, safety and wellbeing of employees. A range of services is provided to help all employees stay mentally and physically healthy.
- Operate our Learning Academy to provide high quality learning for all employees and postmasters, aiming to ensure that everyone is supported into reaching their full potential.

- 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.
- Promote diversity and inclusion and celebrate the diversity of the workforce and communities we serve. We have a number of active employee network groups such as: Women in Leadership, to support and nurture female talent; Prism, which supports and celebrates our LGBT+ community; BAME (supporting Black, Asian and Minority Ethnic colleagues) and Return to Work (supporting colleagues returning to work after maternity, other parental leave and long term absences).
- We proactively communicate that we are a Disability Confident Leader and actively try to attract talented people to Post Office from diverse backgrounds. We do this through our corporate careers page, recruitment agencies and other attraction channels such as Vercida who are the world's leading diversity and inclusion employer brand platform.
- We ask all applicants to inform us of any reasonable adjustments we can make to ensure they are not disadvantaged due to a particular disability during the selection process.
- All Hiring Managers are required to complete Effective Interviewing and Unconscious Bias Training to ensure a consistent, fair and unbiased selection process takes place.
- We do not tolerate any form of bullying, harassment, victimisation or discrimination whether written, verbal, visual or physical. We are committed to taking the necessary action to ensure that they do not occur, or where they do occur that they are dealt with quickly and eliminated, by following a consistent, fair and robust Bullying and Harassment Policy and Procedure. All managers are required to complete Dignity at Work training from June 2018 to ensure they understand their responsibilities and that they demonstrate the correct behaviours and treat everyone with dignity and respect at all time.

Disabled employees

As noted above, the Post Office Limited has been recognised as a Disability Confident Leader. We have 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. We also make necessary adjustments for colleagues who are disabled or become disabled during the course of their employment to allow them to carry out their role and fulfil their potential, including any specific training needs.

Gender pay gap

Under Government legislation, all businesses in the England, Wales and Scotland with more than 250 employees must disclose their gender pay gap by April 2018. Gender pay is not the same as equal pay. Equal pay is about ensuring men and women are paid the same for work of equal value, as set out in the Equality Act 2010. At Post Office we support equal pay through a robust job evaluation process that is free from gender bias. The gender pay gap relates to the difference between the gross hourly pay of all men and the gross hourly pay of all women across the organisation. The difference between gender pay and equal pay is important to understand as you can have a gender pay gap without having equal pay issues.

The overall gender pay gap at Post Office as at 5 April 2017 was 13.1% on a median basis (17.5% using mean pay). Our gender pay gap is influenced by the demographic profile of our organisation (the representation of men and women within roles across an organisation). Out of a population of just over 5,000 people at that date, just over one third of our business was made up of women in our frontline customer-facing roles. While women are well represented across much of the business, the fact remains that the lower paid roles within the organisation are mostly filled by women and is a major reason for our gender pay gap.

At Post Office we are committed to having more women holding senior roles across our organisation – our ambition is to close this gap over time and fill 50% of senior manager roles with women. At 5 April 2017 that figure was 39%.

We have been recognised as a Times Top 50 Employer for Women for the third time but we recognise we need to do more. We will continue to develop our working culture to ensure that flexible working opportunities are open to all. We will also continue to reduce – and ultimately remove – any unconscious bias which can lead to unconscious discrimination in recruitment and promotion. We believe these action plans over the long term will help close our gender pay gap. For our full gender pay report please see http://corporate.postoffice.co.uk/gender-pay-gap-report.

Post balance sheet events

In accordance with the funding agreement with Government Post Office Limited received a Network Subsidy Payment of £20 million and investment funding of £35 million on 17 April 2018.

Going concern

After analysis of the financial resources available and cash flow projections for Post Office Limited, 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 on page 40.

Financial instrument risk

The exposure of the Group to market risk, credit risk and liquidity risk has been disclosed in note 16 to the financial statements on pages 63 to 65.

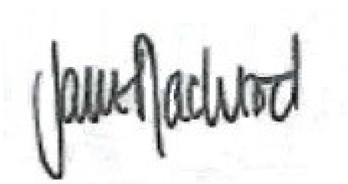
Audit information

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 external audit service for year ending 31 March 2019 has now been put on tender and a decision on the appointment of a new auditor is expected to be made during August 2018.

By Order of the Board



Jane MacLeod

Secretary, Post Office Limited (Company Number 2154540)
Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ
9 August 2018

Financial Statements

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.

- 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 financial statements of Post Office Limited ('the parent company') and its subsidiaries (the 'group') for the 52 week period ended 25 March 2018 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 Statement of Changes in Equity and the related notes 1 to 26, including a summary of significant accounting policies, the Company Statement of Comprehensive Income, the Company Balance Sheet, Company Statement of Changes in Equity and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. 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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 25 March 2018 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 in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP.

Peter McIver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
9 August 2018

Consolidated Income Statement

for the 52 weeks ended 25 March 2018 and 26 March 2017

		2018 £m			2017 £m			
	Notes	Trading	Investments	Total	Trading	Closure of activities	Investments	Total
Continuing operations:								
Turnover		**961**	**-**	**961**	957	-	-	957
Network Subsidy Payment		**70**	**-**	**70**	80	-	-	80
Revenue		**1,031**	**-**	**1,031**	1,037	-	-	1,037
Costs	2,4	**(960)**	**(102)**	**(1,062)**	(978)	19	(116)	(1,075)
Investment funding	4	**-**	**70**	**70**	-	-	140	140
Impairment	4	**-**	**-**	**-**	-	-	168	168
Depreciation and amortisation	8,9	**(55)**	**-**	**(55)**	-	-	-	-
Share of post-tax profit from joint venture	10	**34**	**-**	**34**	34	-	-	34
Operating profit / (loss) before exceptional items		**50**	**(32)**	**18**	93	19	192	304
Operating exceptional items	19	**(3)**	**-**	**(3)**	-	-	-	-
Operating profit / (loss) from continuing operations		**47**	**(32)**	**15**	93	19	192	304
Finance costs	6	**(5)**	**(2)**	**(7)**	(6)	-	-	(6)
Pensions net financing income	17	**-**	**-**	**-**	8	-	-	8
Profit / (loss) before taxation from continuing operations		**42**	**(34)**	**8**	95	19	192	306
Taxation credit / (charge)	7	**9**	**-**	**9**	9	(25)	-	(16)
Profit / (loss) for the financial year from continuing operations		**51**	**(34)**	**17**	104	(6)	192	290
Discontinued operations:								
Loss for the financial year after tax from discontinued operations	20	**-**	**-**	**-**	-	(47)	-	(47)
Profit / (loss) for the financial year		**51**	**(34)**	**17**	104	(53)	192	243
Trading profit	24	**35**			13			

Trading represents the underlying trading of the business excluding investment funding, restructuring and transformation costs. In the prior year, closure of activities and impairment of capital expenditure were also excluded.

In the prior year, closure of activities comprised the £48 million net loss of the Retail Cash in Transit operation which was discontinued during 2016/17, less the £1 million provision release from the Mobile operation that was discontinued in 2015/16 (note 20), plus the £19 million one-off pension gain resulting from the closure of the defined benefit plan. The reversal of £25 million tax losses asset was also allocated to closure of activities as this is related to the closure of the defined benefit plan (note 7).

Investments (note 4) comprises investment funding and transformational spend. In the prior year investments also included a net impairment charge of £168 million, being impairment of capital expenditure of £104 million as well as a reversal of previous impairments of £272 million.

Trading profit is one of the Group's key financial measures and is calculated by taking operating profit from continuing operations before depreciation, amortisation, operating exceptional items, closure of activities, investments and Network Subsidy Payment. For the year ended 25 March 2018 trading profit was £35 million (2017: £13 million), further detail is given in note 24.

Consolidated Statement of Comprehensive Income

for the 52 weeks ended 25 March 2018 and 26 March 2017

	Notes	**2018** **£m**	2017 £m
Profit for the financial year from continuing operations		**17**	290
Loss for the financial year from discontinued operations	20	**-**	(47)
Profit for the financial year		**17**	243
Other comprehensive income not to be reclassified to profit or loss in future periods			
Re-measurements on defined benefit surpluses	17	**2**	(249)
Withholding tax effect		**-**	30
Asset ceiling effect		**(2)**	-
Income tax effect	7	**-**	25
Total comprehensive income for the year		**17**	49

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 25 March 2018 and 26 March 2017

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Operating profit from trading from continuing operations		**47**	93
Operating loss from discontinued operations	20	**-**	(47)
Total profit before investments		**47**	46
Adjustment for:			
Share of profit from joint venture	10	**(34)**	(34)
Depreciation and amortisation	8,9	**55**	-
Pension operating costs	17	**17**	24
Working capital movements:		**(2)**	(6)
Decrease in trade and other receivables		**5**	81
Increase/(decrease) in trade and other payables		**(3)**	(95)
Increase in inventories		**(2)**	(1)
(Decrease)/increase in provisions for discontinued operations		**(2)**	5
(Decrease)/increase in trading provisions		**-**	4
Pension costs paid		**(26)**	(23)
Cash payments in respect of investments items:		**(46)**	(48)
Investment funding		**70**	140
Restructuring costs		**(116)**	(188)
Surrender of tax losses to joint venture		**9**	9
Net cash inflow / (outflow) from operating activities		**20**	(32)
Cash flows from investing activities			
Dividends received from joint ventures	10	**34**	35
Acquisition of telecoms business	21	**(6)**	-
Proceeds from the sale of property, plant and equipment		**5**	-
Purchase of tangible and intangible non-current assets		**(135)**	(117)
Net cash outflow from investing activities		**(102)**	(82)
Net cash outflow before financing activities		**(82)**	(114)
Cash flows from financing activities			
Finance costs paid		**(5)**	(6)
Payments to finance lease creditors		**-**	(8)
Proceeds of borrowings from BEIS	14	**62**	96
Net cash inflow from financing activities		**57**	82
Net decrease in cash and cash equivalents		**(25)**	(32)
Cash and cash equivalents at the beginning of the year	12	**680**	712
Cash and cash equivalents at the end of the year	12	**655**	680

Consolidated Balance Sheet

at 25 March 2018 and 26 March 2017

	Notes	**2018 £m**	2017 £m
Non-current assets			
Intangible assets	8	**264**	167
Property, plant and equipment	9	**148**	158
Investments in joint venture	10	**66**	66
Retirement benefit surplus	17	**3**	1
Trade and other receivables	11	**12**	13
Total non-current assets		**493**	405
Current assets			
Inventories		**9**	7
Trade and other receivables	11	**324**	329
Cash and cash equivalents	12	**655**	680
Total current assets		**988**	1,016
Total assets		**1,481**	1,421
Current liabilities			
Trade and other payables	13	**(571)**	(563)
Financial liabilities - interest bearing loans and borrowings	14	**(623)**	(561)
Provisions	15	**(36)**	(58)
Total current liabilities		**(1,230)**	(1,182)
Non-current liabilities			
Other payables	13	**(18)**	(22)
Provisions	15	**(30)**	(31)
Total non-current liabilities		**(48)**	(53)
Net assets		**203**	186
Equity			
Share capital	18	**-**	-
Share premium	18	**465**	465
Retained earnings		**(264)**	(281)
Other reserves	18	**2**	2
Total equity		**203**	186

The financial statements on pages 35 to 78 were approved by the Board of Directors on 9 August 2018 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 25 March 2018 and 26 March 2017

	Notes	Share Premium £m	Retained earnings £m	Other reserves £m	**Total equity £m**
At 26 March 2017		**465**	**(281)**	**2**	**186**
Profit for the year		**-**	**17**	**-**	**17**
Re-measurements on defined benefit surplus	17	**-**	**2**	**-**	**2**
Asset ceiling effect	17	**-**	**(2)**	**-**	**(2)**
At 25 March 2018		**465**	**(264)**	**2**	**203**

	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	17	-	30	-	30
Income tax effect	7	-	25	-	25
At 26 March 2017		465	(281)	2	186

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 25 March 2018 (2017: 52 weeks ended 26 March 2017).

Basis of preparation

The Group financial statements on pages 35 to 78 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 was changed in the prior year to a columnar format presenting the results of the Group in total and split between trading, closure of activities, and investments. The change was considered appropriate because of the discontinued operation and the closure of the defined benefit plan, which were significant items that required separate presentation. Separate disclosure of investments items in the income statement also more clearly highlights the underlying performance of the Group.

Trading represents the underlying trading of the business excluding the closure of activities, investment funding, restructuring and transformation costs and, in the prior year, impairment of capital expenditure. In the prior year, closure of activities comprised the net loss of the Retail Cash in Transit operation which was discontinued, including all revenue and costs which related directly to the operation, as well as the one-off pension gain resulting from the closure of the defined benefit plan.

Investments comprises investment funding from Government and transformational spend. In the prior year investments included impairment of capital expenditure as well as a reversal of previous impairments.

In order to more accurately reflect the activities of the Group during the current year, the revenue trading column has been renamed to trading and the capital and investment column has been renamed to investments.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertaking as at 25 March 2018. 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, registered address: Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ) for the 52 weeks ended 25 March 2018. 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 impact of adoption of amendments to IAS 7 Statement of Cash Flows, relating to changes in liabilities resulting from financing activities, is reflected in the consolidated statement of cash flows on page 37. Cash flows from financing activities arise from the BEIS loan (see note 14). As the BEIS loan matures 1 day after the year-end (2017: 1 day), the fair value of borrowings approximates their carrying value.

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 been endorsed by the EU.

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 became effective for annual periods beginning on or after 1 January 2018. The Group has completed its analysis of the expected impact of the changes, in preparation for the financial year 2018/19. There are no transactions in the 2017/18 Annual Report and Accounts which will be affected by the change in accounting standard. In 2018/19 it is expected that Post Office will hedge some transactions and these will be accounted for under IFRS 9.

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 became effective for annual periods beginning on or after 1 January 2018. The Group has completed its analysis of the expected impact of the changes, in preparation for the financial year 2018/19. The change in accounting standard is not expected to have a material impact on revenue recognition at Post Office. A summary of the types of revenue recognised by the Group is summarised on pages 11 to 13.

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.

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 £203 million at 25 March 2018 (2017: £186 million). At 25 March 2018 £327 million of the Group's working capital facility was undrawn (2017: £389 million). The Group has also been profitable at a trading profit level with current year profit of £35 million (2017: £13 million) and has shown a profit after tax of £17 million (2017: £243 million).

The following funding is agreed with BEIS: a working capital facility of £950 million to 31 March 2021; Network Subsidy Payment for 2018/19, 2019/20 and 2020/21 of £60 million, £50 million and £50 million respectively; and we also have investment funding of up to £210 million as required for the period from April 2018 to March 2020.

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.

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 was a one-off credit to the income statement in the prior year, and the surplus was written off through other comprehensive income.

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

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

Provisions

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

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

Impairment of non-current assets

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

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses had been recognised and the carrying value of some assets had been impaired to zero on acquisition. In the prior year the Group made a profit from continuing operations and this was expected to be sustainable. In addition, the Group secured a Network Subsidy Payment to

March 2021, and continued investment funding over that period from Government. In these circumstances the Group no longer considered there to be indicators of impairment. There was a change in accounting estimate to reflect this, which resulted in a reversal of impairment losses, and the carrying value of assets increased. The reversal of the impairment loss was recognised in the income statement in the prior year and the change in accounting estimate has been applied going forwards, 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 are depreciated on a straight-line basis over the following useful lives:

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

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value. 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.

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. They are amortised on a straight-line basis over the following useful lives:

	Range of asset lives
Software	3 – 6 years
Customer relationships	5 years

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.
- Significant negative micro- or macro-economic trends.

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

Non-current assets within subsidiaries

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

Discontinued operations

The Group treated the closure of its Retail Cash in Transit operation as a discontinued operation in the prior year. 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 principal activities in providing a whole range of services through its physical and digital channels. Turnover from Financial Services and some Retail services comprises the commission received. Turnover relating to line rental for telecoms services is recognised evenly over the period to which the charges relate and revenue from calls is recognised at the time the call is made. Turnover from all other transactions is recognised when the transaction is completed. All turnover is derived wholly from within the United Kingdom.

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 is required by our contract with the Secretary of State for BEIS.

Investments expenditure

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

Leases

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.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

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 amount charged or credited as 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:

- On the initial recognition of goodwill.

- On 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.

- On the 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.

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 prior 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.

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 prior year there were one-off impacts on the income statement and statement of comprehensive income as a result of the closure of the RMPP Plan.

On 20 July 2017, the Trustees of the RMPP entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected by the purchase of two bulk annuities. Following this pension buy-in, the following items are recognised in other comprehensive income: the reduction in the accounting surplus by the difference between the insurance premium and the value of the insured liabilities; and the ancillary premium which transfers to the insurer the risk of incorrect data being used to price the premium. As the Group has no right to a future surplus in the scheme, an equal and opposite adjustment to the asset ceiling is recognised in other comprehensive income. As a result, there is no effect on the net assets position of the Group.

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 investments 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.

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:

People costs within trading:	2018 £m	2017 £m
Wages and salaries	**154**	157
Social security costs	**18**	21
Pension costs (note 17)	**17**	24
Total people costs within trading	**189**	202
Other operating costs within trading	**771**	776
Total trading costs	**960**	978

In the prior year people costs within closure of activities included a credit of £19 million relating to a one-off past service adjustment in respect of the closure of the defined benefit plan.

People costs within investments 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	
	2018	2017	**2018**	2017
Total employees	**5,020**	5,302	**5,066**	6,054

Total employee numbers can be categorised as follows:

	2018	2017
Administration	**1,205**	1,275
Directly managed branches (DMB)	**2,707**	2,807
Supply Chain	**848**	833
Network programmes	**213**	387
Post Office Insurance	**47**	-
Total	**5,020**	5,302

The basis of allocating staff between categories has been updated in the current year. While the overall impact is not significant enough to restate, the comparisons between years are not exact.

3. Operating profit from continuing operations before investments

The following expenditure is included within operating profit from continuing operations before investments:

	2018 £m	2017 £m
Postmasters' fees	**371**	388
Depreciation and amortisation (notes 8 and 9)	**55**	-
Cost of inventories recognised as an expense	**4**	4
Operating lease charges – Land and buildings	**12**	14
Operating lease charges – Motor vehicles	**1**	2
Fees payable to the Group's auditor for audit and other services:	**£000**	£000
- parent Company and Group audit	**773**	524
- audit of subsidiary	**82**	60
- audit related assurance services	**105**	38
- other assurance services	**110**	106

4. Investments

	2018 £m	2017 £m
Investment funding	**70**	140
Restructuring:		
Business transformation	**(16)**	(7)
Network programmes	**(63)**	(54)
IT transformation	**(6)**	(9)
Severance	**(17)**	(46)
Total restructuring costs	**(102)**	(116)
Impairment:		
Impairment of intangible assets (note 8)	**-**	(78)
Impairment of property, plant and equipment (note 9)	**-**	(26)
Reversal of impairment on intangible assets (note 8)	**-**	123
Reversal of impairment on property, plant and equipment (note 9)	**-**	149
Total net impairment reversal	**-**	168
Unwinding of discounts on provisions	**(2)**	-
Total investments (charge) / income	**(34)**	192

Investment funding: Investment funding is the grant from Government.

Restructuring: Restructuring costs are transformational spend incurred in order to implement the major transformation programmes, primarily the Network programmes.

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

Unwinding of discounts on provisions: finance costs incurred in order to unwind the discount on onerous lease provisions.

5. Directors' emoluments

The Directors received the following emoluments:

	2018 £000	2017 £000
Emoluments, excluding pension contributions and LTIP*	**1,225**	1,231
Contributions to pension schemes	**7**	4
Amounts receivable under Long-Term Incentive Plans	**328**	229

*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:	2018 Number	2017 Number
Defined benefit schemes	**-**	-
Defined contribution schemes	**1**	1

The highest paid Director received the following emoluments:

	2018 £000	2017 £000
Emoluments and LTIP, excluding pension contributions but including cash supplements received in lieu of pensions	**718**	672
Company contributions to pension schemes	**-**	-

Remuneration for each Director for the financial year 2017/18

Name	Annualised salary/fees 2017/18 (note 1)	Actual salary/fees 2017/18	Benefits 2017/18	Cash in lieu of pension 2017/18	STIP 2017/18	LTIP 2017/18	Total 2017/18	Total 2016/17
Non-Executive Directors								
Tim Franklin	40,000	40,000	-	-	-	-	40,000	40,000
Virginia Holmes	35,700	35,500	-	-	-	-	35,500	35,000
Ken McCall	50,000	50,000	-	-	-	-	50,000	50,000
Tim Parker (note 2)	75,000	75,000	-	-	-	-	75,000	75,000
Carla Stent	45,000	45,000	-	-	-	-	45,000	45,000
Richard Callard (note 3)	-	-	-	-	-	-	-	-
Executive Directors								
Paula Vennells	255,000	253,800	9,900	63,800	196,400	194,400	718,300	671,600
Alisdair Cameron (note 4)	244,800	243,600	16,400	54,700	147,900	133,300	595,900	547,740

Note 1: The annualised fees are shown as at 25 March 2018 or at the date of leaving.

Note 2: Tim Parker donates the after tax value of his Board fees to charity. From 1 April 2018, Tim's time commitment has been reduced and there has been a corresponding reduction in his annual fee to £19,600.

Note 3: Richard Callard is an employee of UK Government Investments Limited.

Note 4: The benefits figure for Alisdair Cameron includes £6,500 company contributions to a Defined Contribution pension.

The Executive and Non-Executive Directors of the Post Office Limited Board at 25 March 2018 are the key management personnel of the Group.

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 (BEIS) 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 (BEIS). 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

	2018 £m	2017 £m
Trading:		
Interest payable on loans	**(5)**	(4)
Finance charges	**-**	(2)
Total – trading	**(5)**	(6)
Investments:		
Unwinding of discounts on provisions	**(2)**	-
Total – investments	**(2)**	-
Total – net finance costs	**(7)**	(6)

7. Taxation

(a) Taxation recognised in the year

Current and deferred income tax is charged or credited to the income statement as follows:

	2018 £m	2017 £m
Current income tax:		
Corporation tax credit for year	**(8)**	(9)
Deferred income tax:		
Deferred tax income relating to the utilisation of losses brought forward	**(1)**	-
Deferred tax charge relating to the reversal of temporary differences	**-**	24
Effect of change in tax rate	**-**	1
Taxation (credit) / charge	**(9)**	16

The current income tax credit recognised in the income statement is £8 million (2017: £9 million) and relates to the surrender of tax losses to the joint venture. The deferred income tax credit recognised in the income statement is £1 million (2017: £nil) and arises as a consequence of the acquisition of intangible assets as part of a business combination. It corresponds to the deferred tax liability recognised in the business combination. In the prior year, £25 million of deferred income tax, including the impact of a change in the rate, was charged to the income statement. This arose from the de-recognition of the deferred income tax asset in respect of actuarial movements in the retirement benefit surplus on closure of the defined benefit pension plan and was recognised within closure of activities. An equal and opposite deferred income tax credit was recognised in other comprehensive income relating to the surplus.

In the current year no deferred income tax has been recognised in other comprehensive income.

No current or deferred tax income tax was recognised directly in equity in the current or prior year.

(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 19% (2017: 20%). The differences are explained below:

	2018 £m	2017 £m
Profit before taxation from continuing operations	**8**	306
Loss for the financial year before taxation from discontinued operations	**-**	(47)
Accounting profit before taxation	**8**	259
Accounting profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%)	**1**	52
Effect of unutilised losses carried forward	**29**	21
Decrease in tax charge as a result of change in unrecognised deferred tax assets	**(24)**	(65)
Surrender of tax losses to joint venture	**(8)**	(9)
Profits from disposals eligible for relief	**-**	(1)
Increase in tax charge resulting from de-recognition of pension surplus	**-**	25
Tax effect of share of results of joint venture	**(7)**	(7)
Taxation (credit) / charge	**(9)**	16

(c) Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Temporary differences on pensions	**-**	-	**-**	(25)
Acquired intangible assets	**(1)**	-	**1**	-
Tax losses	**1**	-	**-**	-
Deferred tax asset / (liability)	**-**	-	**-**	-
Deferred tax income / (expense)	**-**	-	**1**	(25)

In the current year a deferred tax liability of £1 million has been recognised on the acquisition of intangible assets as part of a business combination, with a corresponding deferred tax asset of £1 million recognised for the value losses up to the same liability.

The Group has significant tax losses that are available indefinitely for offsetting against future taxable profits. As at the balance sheet date no deferred tax asset has been recognised in relation to these tax losses.

(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £190 million (2017: £181 million), comprising £143 million (2017: £121 million) relating to tax losses that are available to offset against future taxable profits, £46 million (2017: £54 million) relating to fixed asset timing differences and £1 million (2017: £6 million) relating to temporary differences on provisions. The Group has rolled over capital gains of £2 million (2017: £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 in the UK will remain at 19% for the year starting 1 April 2018 and reduce to 17% with effect from 1 April 2020. Following these changes, deferred tax balances were reduced to 17% in the prior year.

The Finance (No.2) Act 2017 was substantively enacted on 16 November 2017. This includes a restriction on the utilisation of brought forward tax losses and corporate interest in certain circumstances effective from 1 April 2017.

8. Intangible assets

	Software £m	Goodwill £m	Customer relationships £m	Total £m
Cost				
At 28 March 2016	389	44	-	433
Reclassification	(53)	-	-	(53)
Additions	78	-	-	78
Disposals	(91)	-	-	(91)
At 27 March 2017	323	44	-	367
Reclassification	(2)	-	-	(2)
Additions	125	1	6	132
At 25 March 2018	**446**	**45**	**6**	**497**
Amortisation and impairment				
At 28 March 2016	389	-	-	389
Reclassification	(53)	-	-	(53)
Impairment (note 4)	78	-	-	78
Impairment reversal (note 4)	(123)	-	-	(123)
Disposals	(91)	-	-	(91)
At 27 March 2017	200	-	-	200
Reclassification	6	-	-	6
Amortisation	27	-	-	27
At 25 March 2018	**233**	**-**	**-**	**233**
Net book value				
At 25 March 2018	**213**	**45**	**6**	**264**
At 26 March 2017	123	44	-	167

Additions to software relate to IT transformation projects undertaken during the current year.

Additions to goodwill and customer relationships relate to the New Call business combination disclosed within note 21. The addition to goodwill specifically relates to the recognition of a deferred tax liability (see note 7) on intangible assets acquired as part of the New Call business combination. The remaining goodwill of £44 million sits within Post Office Management Services Limited and relates to the acquisition from Bank of Ireland of the business and assets of the joint insurance business. 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 (2017: £nil).

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

9. Property, plant and equipment

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 28 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 27 March 2017	45	41	23	26	1	795	931
Reclassification	1	1	1	-	-	(1)	2
Additions	-	-	-	1	-	18	19
Disposals	(6)	(3)	(2)	(2)	-	(7)	(20)
At 25 March 2018	**40**	**39**	**22**	**25**	**1**	**805**	**932**
Depreciation and impairment							
At 28 March 2016	69	57	90	43	1	843	1,103
Reclassification	(12)	8	-	-	-	57	53
Impairment (note 4)	1	-	-	-	-	25	26
Impairment reversal (note 4)	(5)	(26)	-	-	-	(118)	(149)
Disposals	(21)	(25)	(67)	(17)	-	(130)	(260)
At 27 March 2017	32	14	23	26	1	677	773
Reclassification	-	-	-	-	-	(6)	(6)
Depreciation	1	2	-	-	-	25	28
Disposals	(4)	-	(2)	(2)	-	(3)	(11)
At 25 March 2018	**29**	**16**	**21**	**24**	**1**	**693**	**784**
Net book value							
At 25 March 2018	**11**	**23**	**1**	**1**	**-**	**112**	**148**
At 26 March 2017	13	27	-	-	-	118	158

Depreciation rates are disclosed on page 43 within the accounting policies note. No depreciation is provided on freehold land, which represents £2 million (2017: £3 million) of the total cost of properties.

During the current and prior year, a review of property, plant and equipment and intangible assets took place and resulted in reclassifications between categories.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses had been recognised and the carrying value of some assets had been impaired to zero on acquisition. In the prior year the Group made a profit from continuing operations and this was expected to be sustainable. In addition, the Group secured a Network Subsidy Payment to March 2021, and continued investment funding to March 2020 from Government. In these circumstances the Group no longer considered there to be indicators of impairment. There was a change in accounting estimate to reflect this, which resulted in a reversal of impairment losses, and the carrying value of assets increased. The reversal of the impairment loss was recognised in the income statement in the prior year and the change in accounting estimate has been applied going forwards, subject to a continuous review of trading and funding.

An impairment test was performed during the year. Intangible assets and property, plant 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 £604 million and for Post Office Management Services limited was £105 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 9% (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 property, plant and equipment and intangible assets. 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.

10. Investments in joint ventures

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

Joint ventures

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

The principal activity of First Rate Exchange Services Holdings Limited is the supply of foreign currency in the UK, which is seen as complementing the Group's operations and contributing to achieving the Group's overall strategy. The principal risks of the Group are disclosed on pages 24 to 26.

The financial year-end date of First Rate Exchange Services Holdings Limited is 31 March. For the purposes of applying the equity method of accounting, the financial statements of First Rate Exchange Services Holdings Limited for the year ended 31 March 2018 have been used; this is considered appropriate given the proximity of this year-end date to the Group's own year-end date of 25 March 2018.

	2018 Joint venture £m	2017 Joint venture £m
Share of net assets		
Total net investment at 26 March 2017, 27 March 2016	**66**	67
Share of post-tax pre dividend profit	**34**	34
Dividend	**(34)**	(35)
Total net investment at 25 March 2018, 26 March 2017	**66**	66

Share of assets and liabilities:	**2018 Joint venture £m**	2017 Joint venture £m
Receivables	**220**	202
Cash and cash equivalents	**14**	20
Non-current assets	**8**	7
Share of gross assets	**242**	229
Current liabilities	**(176)**	(163)
Share of net assets	**66**	66
Share of revenue and profit:		
Revenue	**84**	82
Profit after tax	**34**	34

11. Trade and other receivables

	2018 **£m**	2017 £m
Current:		
Trade receivables	**81**	71
Prepayments and accrued income	**95**	99
Client receivables	**132**	144
Other receivables	**16**	15
Total	**324**	329
Non-current:		
Trade and other receivables	**12**	13

Non-current trade and other receivables relate to prepayments and accrued income.

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 25 March 2018 trade receivables of £19 million (2017: £14 million) were impaired and fully provided for. During the year £5 million (2017: £13 million) of the provision has been utilised and an additional £10 million (2017: £9 million) has been provided for. Trade receivables of £10 million (2017: £13 million) were past due but not impaired. The ageing analysis of the trade receivables are as follows:

	2018 **£m**	2017 £m
Not yet overdue	**71**	58
Past due not more than one month	**6**	4
Past due more than one month and not more than two months	**3**	3
Past due more than two months	**1**	6
Total	**81**	71

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

12. Cash and cash equivalents

	2018 £m	2017 £m
Cash in the Post Office Limited network	**643**	666
Short-term bank deposits	**9**	12
Fiduciary cash balances held on behalf of insurance third parties	**3**	2
Total cash and cash equivalents	**655**	680

Cash in the Post Office Limited network represents the note and coin in circulation in branches and cash centres.

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

	2018 £m	2017 £m
Current:		
Trade payables	**45**	51
Accruals	**160**	161
Deferred income	**32**	33
Social security	**8**	10
Client payables	**306**	296
Capital payables	**20**	11
Other payables	**-**	1
Total	**571**	563
Non-current:		
Other payables	**18**	22

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

14. Financial liabilities – interest bearing loan and borrowings

	2018 £m	2017 £m
Department for Business, Energy and Industrial Strategy	**623**	561

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year-end (2017: 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 2021. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £327 million (2017: £389 million). The average interest rate on the drawn down loans is 0.8% (2017: 0.8%).

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 Programmes £m	Onerous Leases £m	Severance £m	Other £m	Total £m
At 26 March 2017	42	21	9	17	89
Charged to investments	8	24	20	2	54
Charged to trading	-	-	1	6	7
Transfers between categories	-	-	2	(2)	-
Utilisation	(30)	(7)	(22)	(8)	(67)
Provisions released in the year – investments	(2)	(6)	(3)	(3)	(14)
Provisions released in the year – trading	-	-	-	(3)	(3)
At 25 March 2018	**18**	**32**	**7**	**9**	**66**

	Network Programmes £m	Onerous Leases £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 25 March 2018					
Current	**11**	**11**	**7**	**7**	**36**
Non–current	**7**	**21**	-	**2**	**30**
	18	**32**	**7**	**9**	**66**
At 26 March 2017					
Current	28	7	9	14	58
Non-current	14	14	-	3	31
	42	21	9	17	89

The Network Programmes provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page 42 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 £9 million includes £7 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. The provision also includes vacant lease provisions of £2 million in relation to the Retail Cash in Transit operation that was discontinued in the prior year 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 25 March 2018 and 26 March 2017 is shown below:

	2018			2017		
	Current £m	**Non current £m**	**Total £m**	Current £m	Non current £m	Total £m
Financial assets						
Trade and other receivables	**306**	**-**	**306**	320	-	320
Cash and cash equivalents	**655**	**-**	**655**	680	-	680
Financial liabilities						
Trade and other payables	**(531)**	**(4)**	**(535)**	(520)	(4)	(524)
BEIS loan	**(623)**	**-**	**(623)**	(561)	-	(561)
Total financial assets/ (liabilities)	**(193)**	**(4)**	**(197)**	(81)	(4)	(85)

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, current account balances, and commission income. 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 in 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 % Increase / (decrease)	Effect on profit before tax £m Increase / (decrease)	Effect on equity £m Increase / (decrease)	Strengthening / (weakening) in euro rate % Increase / (decrease)	Effect on profit before tax £m Increase / (decrease)	Effect on equity £m Increase / (decrease)
2018	**10**	**1**	**1**	**10**	**3**	**3**
	(10)	**(1)**	**(1)**	**(10)**	**(3)**	**(3)**
2017	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% (2017: less than 2%) of turnover.

Capital management

The Group's objectives when managing capital (defined as the net of borrowings 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 25 March 2018 the Group has unused facility of £327 million (2017: £389 million). The working capital facility expires in 2021.

In addition to the security interest provided to BEIS in connection with the £950 million Working Capital Facility (note 14), Post Office Limited has also created a first floating charge over its assets as security for the payment and discharge of certain liabilities arising in the normal course of its client-related activity. The chargee under these arrangements is restricted in its ability to take an acceleration action in relation to its debt. As at the balance sheet date the outstanding liabilities amounted to £100 million (2017: £111 million).

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

At 25 March 2018	**12 Months £m**	**1-2 Years £m**	**Total £m**
Financial assets			
Trade and other receivables	**306**	**-**	**306**
Cash and cash equivalents	**655**	**-**	**655**
Financial liabilities			
Trade and other payables	**(531)**	**(4)**	**(535)**
Interest bearing loan	**(623)**	**-**	**(623)**
Total financial assets / (liabilities)	**(193)**	**(4)**	**(197)**

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

Prepayments, social security and deferred income have been excluded from the table above. There were no financial assets or liabilities in the current or prior year that were due to mature after two 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 Executives Pension Plan (RMSEPP). Royal Mail Group Ltd is the principal employer of RMSEPP and Post Office Limited 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 Executives Pension Plan (RMSEPP)	UK senior executives	Defined benefit
Post Office Pension Plan (POPP)	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 was £17 million (2017: £4 million) and the Group contributions to this scheme were £20 million (2017: £5 million) during the year.

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 £63 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 being carried out as at 31 March 2018 but the results were not available at the date of the accounts being prepared. 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 being carried out as at 31 March 2018 but the results are not yet available.

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.
- Liabilities accrued in the RMPP to 31 March 2012 were largely transferred to the Royal Mail Statutory Pension Scheme. The pre-31 March 2012 liabilities are substantially no longer an obligation of Post Office and the transfer therefore resulted in a significant removal of pension risk for Post Office.
- 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.
- The Post Office section of the RMPP closed to future accrual on 31 March 2017 and so no further defined benefits have accrued 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).

Closure to future accrual means that no contributions in respect of normal service accrual are required after 31 March 2017. However there have been redundancy payments totalling £5 million (2017: £3 million) made to the RMPP during 2017/18, which were paid in order to fund enhanced benefits for the members concerned. The disclosures show a £4 million charge in the Profit and Loss in respect of those redundancies, which is the estimated cost of the enhancements under IAS19 assumptions.

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.

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.

In July 2017 the Trustee of the RMPP invested in two bulk annuity policies with Rothesay Life. Those policies provide an income to the Post Office section of the RMPP that matches the vast majority of the required benefit payments; as shown in the following disclosures, the estimated value of those policies (on the IAS 19 assumptions as at 31 March 2018) is £272 million, compared to the RMPP defined benefit obligation of £298 million. The £26 million difference in these figures is due to a £20 million reserve for future administration expenses (which are not matched by the annuity policies), plus £6 million in respect of small differences between the insured benefits and the actual benefit obligation. The estimated value of the bulk annuity policies with Rothesay Life (£272 million) on the 31 March 2018 IAS19 assumptions compares to premium payments made to Rothesay Life totalling £453 million. The difference between these values (broadly £180 million) represents the majority of the £201 million actuarial loss on RMPP assets that is shown in the below disclosures.

A bulk annuity policy (with Scottish Widows) is also held by the Trustee of the RMSEPP; as shown in the following disclosures, the estimated value of that policy (on the IAS 19 assumptions as at 31 March 2018) is £12 million, compared to the RMSEPP defined benefit obligation of £27 million.

Therefore, as at 31 March 2018, 87% of the aggregate defined benefit obligation (i.e. £284 million out of the £325 million) is matched by bulk annuities that provide income matching the required benefit payments. As such, the majority of the investment and longevity risk associated with Post Office's obligations in respect of the defined benefit plans has been removed (noting that the bulk annuity policies are subject to protection from insurance regulations, including access to the Financial Services Compensation Scheme, in the event of insurer insolvency). Nevertheless, to the extent that 13% of the defined benefit obligation is not matched by bulk annuities, some risk remains in respect of that 13%, in particular the risk that members with uninsured benefits live for longer than expected, the risk that inflation is higher than expected, leading to higher than expected increases to the uninsured benefits, the risk that the assets in excess of the bulk annuity polices generate poor investment returns, and the risk that administration expenses are higher than anticipated. However, these risks are expected to be mitigated by the surplus assets shown in the disclosures (before allowing for the fact that the RMPP surplus is not recognised on Post Office's balance sheet due to the Memorandum of Understanding described above).

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. However, the majority of any change in the defined benefit obligation due to changes in assumptions, will be matched by a corresponding change in the value in the bulk annuity policies (described above).

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

	At 25 March 2018 % pa	At 26 March 2017 % pa
Increases to benefits that retain a link to pensionable pay	**3.3**	3.4
Rate of pension increases – RMPP sections A/B	**2.2**	2.3
Rate of pension increases – RMPP section C	**3.3**	3.4
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**2.2**	2.3
Rate of pension increases – RMSEPP all other members	**3.3**	3.4
Rate of increase for deferred pensions	**2.2**	2.3
Discount rate	**2.5**	2.3
Inflation assumption (RPI) – RMPP & RMSEPP	**3.3**	3.4
Inflation assumption (CPI) – RMPP & RMSEPP	**2.2**	2.3

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. As noted above, the bulk annuities held by the arrangements provide an income that matches the vast majority of the RMPP benefit payments, and a significant proportion of the RMSEPP benefit payments. Therefore the following changes in the defined benefit obligation would be largely offset by a corresponding change in the asset values.

	2018 £m	2017 £m
Changes in RPI and CPI inflation of +0.1% pa	**(8)**	(9)
Changes in discount rate of +0.1% pa	**8**	9
Changes in CPI assumptions of +0.1% pa	**(3)**	(4)
An additional one year life expectancy	**(9)**	(10)

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	**2018**	2017
Males	**100% x S2PMA**	100% x S2PMA
Female members	**100% x S2PFA**	100% x S2PFA
Female dependants	**100% x S2DFA**	100% x S2DFA
Future improvements	**CMI 2016 Core Projections with a 1.5% pa long-term trend**	CMI 2015 Core Projections with a 1.5% pa long-term trend

Average expected life expectancy from age 60:	**2018**	2017
For a current 60 year old male RMPP member	**27 years**	28 years
For a current 60 year old female RMPP member	**29 years**	30 years
For a current 40 year old male RMPP member	**29 years**	30 years
For a current 40 year old female RMPP member	**31 years**	32 years

b) Plans' assets

The assets in the plans for the Group were:

Sectionalised RMPP	**Market value 2018 £m**	Market value 2017 £m
Corporate bonds	**16**	394
Property	**-**	13
Private Equity	**6**	7
Cash and cash equivalents	**28**	68
Bond/fixed interest funds	**1**	25
Other loan/debt funds	**10**	17
Alternative asset funds	**5**	8
Bulk annuity policies*	**272**	-
Fair value of RMPP assets	**338**	532
Present value of RMPP liabilities	**(298)**	(322)
Surplus in plan before asset ceiling adjustment	**40**	210
Less effect of asset ceiling	**(40)**	(210)
Surplus in plan after asset ceiling adjustment	**-**	-

* As described above, the Post Office section of the RMPP holds two bulk annuity policies with Rothesay Life PLC. The value ascribed to the policies has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

Share of RMSEPP	**Market value 2018 £m**	Market value 2017 £m
UK equities	**-**	1
Overseas equities	**8**	12
Government bonds	**17**	2
Cash and cash equivalents	**1**	-
Alternative asset funds	**(8)**	2
Property	**2**	2
Bulk annuity policy*	**12**	13
Fair value of share in plan assets for RMSEPP	**32**	32
Present value of share in plan liabilities for RMSEPP	**(27)**	(31)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**5**	1
Less effect of asset ceiling	**(2)**	-
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**3**	1

*As described above, 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 £3 million is disclosed on the balance sheet, representing the surplus in the RMSEPP 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 2018 £m**	Sectionalised RMPP 2017 £m
Assets in sectionalised RMPP at beginning of period	**532**	407
Contributions paid	**5**	17
Employee contributions paid	**-**	5
Finance income	**7**	15
Actuarial (losses)/gains	**(201)**	92
Benefits paid to members	**(5)**	(4)
Assets in sectionalised RMPP at end of period	**338**	532

Assets	**Share of RMSEPP 2018 £m**	Share of RMSEPP 2017 £m
Share of assets in RMSEPP at beginning of period	**32**	30
Contributions paid	**1**	1
Finance income	**1**	1
Actuarial (losses)/gains	**(1)**	1
Benefits paid to members	**(1)**	(1)
Share of assets in RMSEPP at end of period	**32**	32

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

Liabilities	**Sectionalised RMPP 2018 £m**	Sectionalised RMPP 2017 £m
Liabilities in sectionalised RMPP at beginning of period	**(322)**	(184)
Current service cost	**-**	(23)
Past service cost	**(4)**	-
Curtailment costs	**-**	2
Finance cost	**(7)**	(7)
Employee contributions	**-**	(5)
Experience adjustments on liabilities	**(2)**	6
Financial assumption changes	**23**	(129)
Demographic assumption changes	**9**	(5)
Benefits paid	**5**	4
Effect of closure of RMPP	**-**	19
Liabilities in sectionalised RMPP at end of period	**(298)**	(322)

Liabilities	**Share of RMSEPP 2018 £m**	Share of RMSEPP 2017 £m
Share of liabilities in RMSEPP plans at beginning of period	**(31)**	(27)
Finance cost	**(1)**	(1)
Experience adjustments on liabilities	**-**	7
Financial assumption changes	**3**	(11)
Demographic assumption changes	**1**	-
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(27)**	(31)

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 2018 £m	Sectionalised RMPP 2017 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit from trading:		
Current service cost	**-**	23
Loss due to curtailments	**-**	2
Effect of the closure of the RMPP	**-**	(4)
Total charge to trading	**-**	21
Analysis of amounts charged to closure of activities:		
Loss/(gain) due to curtailments	**4**	(4)
Effect of the closure of the RMPP	**-**	(15)
Total charge to operating profit	**4**	2
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**7**	7
Interest income on plan assets	**(7)**	(15)
Net pensions credit to financing	**-**	(8)
Net charge / (credit) to the income statement	**4**	(6)
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on plan assets	**(194)**	107
Less: expected interest income on plan assets	**(7)**	(15)
Less: taxation on surplus recoverable through plan refunds	**-**	-
Actuarial (losses)/gains on assets (all experience adjustments)	**(201)**	92
Actuarial gains arising from changes in demographic assumptions	**9**	6
Actuarial gains/(losses) arising from changes in financial assumptions	**23**	(129)
Actuarial losses arising from experience adjustment	**(2)**	(5)
Actuarial gains/(losses) on liabilities	**30**	(128)
Effect of the asset ceiling	**170**	(210)
Total actuarial losses recognised in the statement of comprehensive income	**(1)**	(246)

	Share of RMSEPP 2018 £m	Share of RMSEPP 2017 £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
Less: expected interest income on plan assets	**(1)**	(1)
Less: taxation on surplus recoverable through plan refunds	**-**	-
Actuarial gains/(losses) on assets (all experience adjustments)	**(1)**	1
Actuarial gains arising from changes in demographic assumptions	**1**	7
Actuarial gains/(losses) arising from changes in financial assumptions	**3**	(11)
Actuarial gains/(losses) on liabilities	**4**	(4)
Total actuarial gains/(losses) recognised in the statement of comprehensive income before effect of asset ceiling	**3**	(3)
Effect of the asset ceiling	**(2)**	-
Total actuarial gains/(losses) recognised in the statement of comprehensive income after effect of asset ceiling	**1**	(3)

18. Equity

Called up share capital:

	2018 £	2017 £
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 (2017: £2 million) relate to First Rate Exchange Services Holdings Limited, the joint venture entity.

Share premium:

On 7 August 2007 one ordinary share of £1 was 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 £20 million (2017: £57 million).

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

	Land and buildings		Motor vehicles	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Within one year	**13**	12	**1**	1
Between one and five years	**34**	34	**-**	1
Beyond five years	**33**	28	**-**	-
Total	**80**	74	**1**	2

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 postmaster 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, many of which have been the subject of significant external focus for a number of years. Post Office is robustly defending the claim, believes it lacks merit, but welcomes the opportunity to have these matters resolved through the Court managed Group Litigation Order.

The Court has ordered two trials to be heard in 2018-19 to determine a subset of the preliminary issues in dispute between the parties. The Court has not yet ordered a process for determining any issues of liability or quantum. To date, the Claimants have not asserted the aggregate value of their claims in any of the Particulars of Claim filed in the litigation.

While the Directors recognise that an adverse outcome could be material, they are currently unable to determine whether the outcome of these proceedings would have a material adverse impact on the consolidated position of the Group, and are unlikely to be able to do so until the Court has made further determinations and the Claimants have provided the necessary information about the value of their claims. The Directors continue to keep this under close review.

In 2017/18 the costs of £3 million included in operating exceptional items relate to Post Office defending the Post Office Group Litigation. These have been disclosed as operating exceptional items because we expect costs to be more significant in 2018/19 and 2019/20.

20. Discontinued operations

In August 2016 the Group discontinued its Retail Cash in Transit operation. A loss of £48 million was recognised in the income statement in the prior year in relation to this discontinued operation. A provision release of £1 million was also recognised in the income statement in the prior year in relation to the Mobile operation that was discontinued in 2015/16.

Provisions of £2 million are recognised on the balance sheet in respect of the Retail Cash in Transit discontinued operation and relate to vacant leasehold properties. The provisions of the Group are set out in note 15 on page 62.

21. Business combination

On 30 March 2017 the Group acquired the residential broadband and home phone business of New Call Telecom Limited, for cash consideration of £2 million. Further consideration of £4 million was contingent on the number of New Call customers at the close of business on 31 July 2017. The acquisition helped to grow the Telecoms business and has been accounted for under IFRS 3 Business Combinations.

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

	2018
	£m
Intangible assets – customer relationships	**6**
Net assets acquired	**6**
Deferred tax liability on acquired intangible assets	**(1)**
Goodwill	**1**
Consideration	**6**

The only major class of assets acquired are the intangible assets associated with the residential and home phone customer base acquired from New Call Telecom Limited.

The goodwill arising from the acquisition represents the opportunity to grow the New Call customer base by utilising the Post Office branch network. The goodwill arising on acquisition is not deductible for income tax purposes. Goodwill has been reviewed for impairment at acquisition and during the year and on both occasions the amount is considered to represent fair value. There are no indicators of impairment.

Associated acquisition expenses were immaterial and have been charged to the income statement.

From the date of acquisition to 25 March 2018, the New Call business has contributed £11 million of revenue and £2 million to profit before tax.

22. 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	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
First Rate Exchange Services Holdings Limited	**34**	32	**118**	121	**8**	9	**4**	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 (page 61).
- The Group has received investment funding from Government of £70 million, all of which was recognised through the income statement.
- The Group has received the Network Subsidy Payment from Government (page 46).

Key management personnel comprises the Executive and Non-Executive Directors of the Post Office Limited Board at 25 March 2018. The remuneration of the key management personnel of the Post Office Group is disclosed in note 5 on pages 50 and 51.

23. Membership of the Bank of England's Note Circulation Scheme

Post Office Limited is a member of the Bank of England (the 'Bank') Note Circulation Scheme (the 'NCS') which governs the custody of Bank of England notes that are not in issue. The NCS promotes efficiency in the distribution and processing of notes by allowing approved commercial organisations, engaged in the wholesale distribution and processing of cash, such as the Post Office, to hold notes owned by the Bank.

The continued participation in the NCS ensures that Post Office Limited has an adequate supply of notes to meet customer demand across its network.

The NCS mechanisms that enable Post Office Limited to hold Bank of England owned notes comprise of two elements:

Bond Facility Cash (the 'Bond') – this is cash that is permanently owned by the Bank and is stored in secure vaults at our cash centres, physically separate from other cash. Post Office Limited buys cash from and sells cash to the Bond.

Note Recirculation Facility Cash (the 'NRF') – this is cash that is held securely, either in our NCS cash centres or in the branch network and that is sold to the Bank at the end of each day with a commitment from Post Office Limited to buy it back the next morning. In order to sell notes in this way to the Bank, Post Office Limited must ensure that Gilts are lodged each night as collateral. Our ability to sell notes to the Bank under the NRF is constrained by:

a) The amount of eligible notes available for sale.
b) The collateral available.
c) An annual limit imposed by the Bank dependent upon the volume of notes sorted and issued from our cash centres.

In order to support its participation in the NCS, Post Office Limited has bank facilities of up to £400 million in place (the 'Facilities'), comprising:

a) An overnight collateral facility.
b) An intra-day overdraft facility.

The Facilities may be cancelled by the lender with 60 days' notice.

At the end of the year £238 million (2017: £246 million) were held in this way.

24. 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.

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

	2018 £m	2017 £m
Operating profit from continuing operations	**15**	304
Adjusted for:		
Depreciation and amortisation	**55**	-
Operating exceptional items	**3**	-
Investments	**32**	(192)
Closure of activities	**-**	(19)
Trading profit before Network Subsidy Payment	**105**	93
Network Subsidy Payment	**(70)**	(80)
Trading profit	**35**	13

25. Post balance sheet events

In accordance with the Funding Agreement with Government signed on 30 March 2017, Post Office Limited received a Network Subsidy Payment of £20 million on 17 April 2018. The Network Subsidy Payment is received on a quarterly basis and a total of £60 million will be received from Government in 2018/19.

Post Office Limited also received investment funding from Government of £35 million on 17 April 2018. This receipt was in accordance with the Government announcement on 20 December 2017 that investment funding of up to £210 million for the period April 2018 to March 2020 will be made available to Post Office Limited.

26. Immediate and ultimate parent company

The Post Office Limited was a wholly owned subsidiary of Postal Services Holding Company Limited until it entered voluntary liquidation in June 2017 and the shares in Post Office Limited were transferred to the Secretary of State for BEIS.

BEIS holds a special share in Post Office Limited and the rights attached to that special share are enshrined within Post Office Limited Articles of Association. BEIS, through UK Government Investments Limited (UKGI), has no day to day involvement in the operations of Post Office Limited or in the management of its branch network and staff. As such, at 25 March 2018, the Directors regarded Post Office Limited as the immediate and ultimate parent company.

The largest group to consolidate the results of the Company is Post Office Limited, a company registered in the United Kingdom. Post Office Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

Post Office Limited

Parent Company

Financial Statements

2017/18

Company statement of comprehensive income

at 25 March 2018

	Notes	**2018 £m**	2017 £m
Profit for the financial year from continuing operations		**15**	284
Loss for the financial year from discontinued operations		**-**	(47)
Profit for the financial year		**15**	237
Other comprehensive income not to be reclassified to profit or loss in future periods			
Re-measurements on defined benefit surplus	11	**2**	(249)
Withholding tax effect		**-**	30
Asset ceiling effect		**(2)**	-
Income tax effect		**-**	25
Total comprehensive income for the year		**15**	43

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

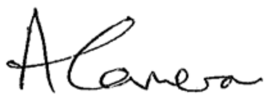
Company balance sheet

at 25 March 2018

	Notes	**2018 £m**	2017 £m
Non-current assets			
Intangible assets	2	**211**	115
Property, plant and equipment	3	**148**	158
Investment in subsidiaries	4	**50**	50
Investments in joint venture	5	**66**	66
Retirement benefit surplus	11	**3**	1
Trade and other receivables	6	**12**	13
Total non-current assets		**490**	403
Current assets			
Inventories		**9**	7
Trade and other receivables	6	**323**	327
Cash and cash equivalents	7	**644**	667
Total current assets		**976**	1,001
Total assets		**1,466**	1,404
Current liabilities			
Trade and other payables	8	**(565)**	(553)
Financial liabilities - interest bearing loans and borrowings	9	**(623)**	(561)
Provisions	10	**(35)**	(57)
Total current liabilities		**(1,223)**	(1,171)
Non-current liabilities			
Other payables	8	**(18)**	(22)
Provisions	10	**(30)**	(31)
Total non-current liabilities		**(48)**	(53)
Net assets		**195**	180
Equity			
Share capital	12	**-**	-
Share premium	12	**465**	465
Retained earnings		**(270)**	(285)
Total equity		**195**	180

The financial statements on pages 80 to 103 were approved by the Board of Directors on 9 August 2018 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 25 March 2018

	Notes	Share premium £m	Retained earnings £m	**Total equity £m**
At 26 March 2017		**465**	**(285)**	**180**
Profit for the year		**-**	**15**	**15**
Re-measurements on defined benefit surplus	11	**-**	**2**	**2**
Asset ceiling effect	11	**-**	**(2)**	**(2)**
At 25 March 2018		**465**	**(270)**	**195**

	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	11	-	30	30
Income tax effect		-	25	25
At 26 March 2017		465	(285)	180

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 25 March 2018.

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 25 March 2018 (2017: 52 weeks ended 26 March 2017).

Authorisation of financial statements

The parent company financial statements of Post Office Limited (the 'Company') for the year ended 25 March 2018 were authorised for issue by the Board of Directors on 9 August 2018 and the balance sheet was signed on the Board's behalf by P A Vennells and A Cameron. Post Office Limited is a company limited by share capital, incorporated and domiciled in England and Wales. The address of the registered office is given on page 104.

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 a profit of £15 million (2017: £237 million).

The results of Post Office Limited are included in the consolidated financial statements of Post Office Limited 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:

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

    b. 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 Flow's.

(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 £195 million at 25 March 2018 (2017: £180 million). At 25 March 2018 £327 million of the Company's working capital facility was undrawn (2017: £389 million). The Company has also shown a profit for the year of £15 million (2017: £237 million).

The following funding is agreed with the Secretary of State for Business, Energy and Industrial Strategy (BEIS): a working capital facility of £950 million to 31 March 2021; Network Subsidy Payment for 2018/19, 2019/20 and 2020/21 of £60 million, £50 million and £50 million respectively; and we also have investment funding of up to £210 million as required for the period from April 2018 to March 2020.

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

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.

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 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 was a one-off credit to the income statement in the prior year, and the surplus was written off through other comprehensive income. This is described in further detail within note 11.

The pension figures are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Company exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary. Details of the key assumptions are set out in note 11.

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

Provisions

The Company has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. Postmasters' compensation provisions are recognised when either postmaster's agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for postmasters' compensation at the 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 had been recognised and the carrying value of some assets had been impaired to zero on acquisition. In the prior year the Company made a profit from continuing operations and this was expected to be sustainable. In addition, the Company secured a Network Subsidy Payment to March 2021, and continued investment funding to March 2020 from Government. There was a change in accounting estimate to reflect this, which resulted in a reversal of impairment losses, and the carrying value of assets increased. The reversal of the impairment loss was recognised in the income statement in the prior year and the change in accounting estimate has been applied going forwards, 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 are depreciated on a straight-line basis over the following useful lives:

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

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value. 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.

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. They are amortised on a straight-line basis over the following useful lives:

	Range of asset lives
Software	3 – 6 years
Customer relationships	5 years

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 Company'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 Company.
- Significant negative micro- or macro-economic trends.

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

Discontinued operations

The Company treated the closure of its Retail Cash in Transit operation as a discontinued operation in the prior year. 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 Company and the nature of the operation was different to the rest of the business.

Leases

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

In the prior year the Company 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. Under the equity method, an 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.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interest issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

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 amount charged or credited as 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:

- On the initial recognition of goodwill.
- On 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.

- On the 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.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Current and deferred tax is recognised in the income statements, except to the extent that it relates to items recognised in other comprehensive income or directly to equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Pensions and other post-retirement benefits

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

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

The 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 was derecognised in the prior 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 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). As noted above, the RMPP 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 prior year there were one-off impacts on the income statement and statement of comprehensive income as a result of the closure of the RMPP Plan.

On 20 July 2017, the Trustees of the RMPP entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected by the purchase of two bulk annuities. Following this pension buy-in, the following items are recognised in other comprehensive income: the reduction in the accounting surplus by the difference between the insurance premium and the value of the insured liabilities; and the ancillary premium which transfers to the insurer the risk of incorrect data being used to price the premium. As the Company has no right to a future surplus in the scheme, an equal and opposite adjustment to the asset ceiling is recognised in other comprehensive income. As a result, there is no effect on the net assets position of the Company.

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.

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

	Software	Goodwill	Customer relationships	Total
	£m	£m	£m	£m
Cost				
At 28 March 2016	387	-	-	387
Reclassification	(53)	-	-	(53)
Additions	71	-	-	71
Disposals	(91)	-	-	(91)
At 27 March 2017	314	-	-	314
Reclassification	(2)	-	-	(2)
Additions	122	1	6	129
At 25 March 2018	**434**	**1**	**6**	**441**
Amortisation and impairment				
At 28 March 2016	387	-	-	387
Reclassification	(53)	-	-	(53)
Impairment	71	-	-	71
Impairment reversal	(115)	-	-	(115)
Disposals	(91)	-	-	(91)
At 27 March 2017	199	-	-	199
Reclassification	6	-	-	6
Amortisation	25	-	-	25
At 25 March 2018	**230**	**-**	**-**	**230**
Net book value				
At 25 March 2018	**204**	**1**	**6**	**211**
At 26 March 2017	115	-	-	115

3. Property, plant and equipment

	Land and Buildings						
	Freehold	Long leasehold	Short leasehold	Motor vehicles	Plant and machinery	Fixtures and equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 28 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 27 March 2017	45	41	23	26	1	795	931
Reclassification	1	1	1	-	-	(1)	2
Additions	-	-	-	1	-	18	19
Disposals	(6)	(3)	(2)	(2)	-	(7)	(20)
At 25 March 2018	**40**	**39**	**22**	**25**	**1**	**805**	**932**
Depreciation and impairment							
At 28 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 27 March 2017	32	14	23	26	1	677	773
Reclassification	-	-	-	-	-	(6)	(6)
Amortisation	1	2	-	-	-	25	28
Disposals	(4)	-	(2)	(2)	-	(3)	(11)
At 25 March 2018	**29**	**16**	**21**	**24**	**1**	**693**	**784**
Net book value							
At 25 March 2018	**11**	**23**	**1**	**1**	**-**	**112**	**148**
At 26 March 2017	13	27	-	-	-	118	158

Depreciation rates are disclosed on page 85 within the accounting policies note. No depreciation is provided on freehold land, which represents £2 million (2017: £3 million) of the total cost of properties.

During the current and prior year, a review of property, plant and equipment and intangible assets took place and resulted in reclassifications between categories.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses had been recognised and the carrying value of some assets had been impaired to zero on acquisition. In the prior year the Company made a profit from continuing operations and this was expected to be sustainable. In addition, the Company secured a Network Subsidy Payment to March 2021, and continued investment funding to March 2020 from Government. In these circumstances the Company no longer considered there to be indicators of impairment. There was a change in accounting estimate to reflect this, which resulted in a reversal of impairment losses, and the carrying value of assets increased. The reversal of the impairment loss was recognised in the income statement in the prior year and the change in accounting estimate has been applied going forwards, subject to a continuous review of trading and funding.

An impairment test was performed during the year. Intangible assets and property, plant 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 £604 million.

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 property, plant and equipment and intangible assets. 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.

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

	2018 £m	2017 £m
Investment in joint ventures	**66**	66

During the current and prior year, 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 (2017: £66 million), whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

6. Trade and other receivables

	2018 £m	2017 £m
Current:		
Trade receivables	**78**	69
Amounts owed by group undertakings	**6**	4
Prepayments and accrued income	**91**	95
Client receivables	**132**	144
Other receivables	**16**	15
Total	**323**	327
Non-current: Trade and other receivables	**12**	13

Non-current trade and other receivables relate to prepayments and accrued income.

7. Cash and cash equivalents

	2018 £m	2017 £m
Cash in the Post Office Limited network	**643**	666
Short-term bank deposits	**1**	1
Total	**644**	667

8. Trade and other payables

	2018 £m	2017 £m
Current:		
Trade payables	**40**	48
Amounts owed to group undertakings	**4**	-
Accruals	**155**	155
Deferred income	**32**	33
Social security	**8**	10
Client payables	**306**	296
Capital payables	**20**	11
Total	**565**	553
Non-current:		
Other payables	**18**	22

9. Financial liabilities – interest bearing loans and borrowings

	2018 £m	2017 £m
Department for Business, Energy and Industrial Strategy	**623**	561

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year-end (2017: 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 2021. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £327 million (2017: £389 million). The average interest rate on the drawn down loans is 0.8% (2017: 0.8%).

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 Programmes £m	Onerous Leases £m	Severance £m	Other £m	Total £m
At 26 March 2017	42	21	9	16	88
Charged to investments	8	24	20	2	54
Charged to trading	-	-	1	3	4
Transfers between categories	-	-	2	(2)	-
Utilisation	(30)	(7)	(22)	(6)	(65)
Provisions released in the year – investments	(2)	(6)	(3)	(3)	(14)
Provisions released in the year – trading	-	-	-	(2)	(2)
At 25 March 2018	**18**	**32**	**7**	**8**	**65**

	Network Programmes £m	Onerous Leases £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 25 March 2018					
Current	**11**	**11**	**7**	**6**	**35**
Non-current	**7**	**21**	-	**2**	**30**
	18	**32**	**7**	**8**	**65**
At 26 March 2017					
Current	28	7	9	13	57
Non-current	14	14	-	3	31
	42	21	9	16	88

The Network Programmes provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page 84 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 £9 million includes £7 million of smaller provisions including £1 million for personal injury claims and £2 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 Executives Pension Plan (RMSEPP). Royal Mail Group Ltd is the principle employer of RMSEPP and Post Office Limited 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 Executives Pension Plan (RMSEPP)	UK senior executives	Defined benefit
Post Office Pension Plan (POPP)	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 was £16 million (2017: £4 million) and the Company contributions to this scheme were £20 million (2017: £5 million) during the year.

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 £63 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 being carried out as at 31 March 2018 but the results were not available at the date of the accounts being prepared. 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 being carried out as at 31 March 2018 but the results are not yet available.

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.
- Liabilities accrued in the RMPP to 31 March 2012 were largely transferred to the Royal Mail Statutory Pension Scheme. The pre-31 March 2012 liabilities are substantially no longer an obligation of Post Office and the transfer therefore resulted in a significant removal of pension risk for Post Office.
- 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.
- The Post Office section of the RMPP closed to future accrual on 31 March 2017 and so no further defined benefits have accrued 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).

Closure to future accrual means that no contributions in respect of normal service accrual are required after 31 March 2017. However there have been redundancy payments totalling £5 million (2017: £3 million) made to the RMPP during 2017/18, which were paid in order to fund enhanced benefits for the members concerned. The disclosures show a £4 million charge in the Profit and Loss in respect of those redundancies, which is the estimated cost of the enhancements under IAS19 assumptions.

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 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.

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.

In July 2017 the Trustee of the RMPP invested in two bulk annuity policies with Rothesay Life. Those policies provide an income to the Post Office section of the RMPP that matches the vast majority of the required benefit payments; as shown in the following disclosures, the estimated value of those policies (on the IAS 19 assumptions as at 31 March 2018) is £272 million, compared to the RMPP defined benefit obligation of £298 million. The £26 million difference in these figures is due to a £20 million reserve for future administration expenses (which are not matched by the annuity policies), plus £6 million in respect of small differences between the insured benefits and the actual benefit obligation. The estimated value of the bulk annuity policies with Rothesay Life (£272 million) on the 31 March 2018 IAS19 assumptions compares to premium payments made to Rothesay Life totalling £453 million. The difference between these values (broadly £180 million) represents the majority of the £201 million actuarial loss on RMPP assets that is shown in the below disclosures.

A bulk annuity policy (with Scottish Widows) is also held by the Trustee of the RMSEPP; as shown in the following disclosures, the estimated value of that policy (on the IAS 19 assumptions as at 31 March 2018) is £12 million, compared to the RMSEPP defined benefit obligation of £27 million.

Therefore, as at 31 March 2018, 87% of the aggregate defined benefit obligation (i.e. £284 million out of the £325 million) is matched by bulk annuities that provide income matching the required benefit payments. As such, the majority of the investment and longevity risk associated with Post Office's obligations in respect of the defined benefit plans has been removed (noting that the bulk annuity policies are subject to protection from insurance regulations, including access to the Financial Services Compensation Scheme, in the event of insurer insolvency). Nevertheless, to the extent that 13% of the defined benefit obligation is not matched by bulk annuities, some risk remains in respect of that 13%, in particular the risk that members with uninsured benefits live for longer than expected, the risk that inflation is higher than expected, leading to higher than expected increases to the uninsured benefits, the risk that the assets in excess of the bulk annuity polices generate poor investment returns, and the risk that administration expenses are higher than anticipated. However, these risks are expected to be mitigated by the surplus assets shown in the disclosures (before allowing for the fact that the RMPP surplus is not recognised on Post Office's balance sheet due to the Memorandum of Understanding described above).

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. However, the majority of any change in the defined benefit obligation due to changes in assumptions, will be matched by a corresponding change in the value in the bulk annuity policies (described above).

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

	At 25 March 2018 % pa	At 26 March 2017 % pa
Increases to benefits that retain a link to pensionable pay	**3.3**	3.4
Rate of pension increases – RMPP sections A/B	**2.2**	2.3
Rate of pension increases – RMPP section C	**3.3**	3.4
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**2.2**	2.3
Rate of pension increases – RMSEPP all other members	**3.3**	3.4
Rate of increase for deferred pensions	**2.2**	2.3
Discount rate	**2.5**	2.3
Inflation assumption (RPI) – RMPP & RMSEPP	**3.3**	3.4
Inflation assumption (CPI) – RMPP & RMSEPP	**2.2**	2.3

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. As noted above, the bulk annuities held by the arrangements provide an income that matches the vast majority of the RMPP benefit payments, and a significant proportion of the RMSEPP benefit payments. Therefore the following changes in the defined benefit obligation would be largely offset by a corresponding change in the asset values.

	2018 £m	2017 £m
Changes in RPI and CPI inflation of +0.1% pa	**(8)**	(9)
Changes in discount rate of +0.1% pa	**8**	9
Changes in CPI assumptions of +0.1% pa	**(3)**	(4)
An additional one year life expectancy	**(9)**	(10)

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	**2018**	2017
Males	**100% x S2PMA**	100% x S2PMA
Female members	**100% x S2PFA**	100% x S2PFA
Female dependants	**100% x S2DFA**	100% x S2DFA
Future improvements	**CMI 2016 Core Projections with a 1.5% pa long-term trend**	CMI 2015 Core Projections with a 1.5% pa long-term trend

Average expected life expectancy from age 60:	**2018**	2017
For a current 60 year old male RMPP member	**27 years**	28 years
For a current 60 year old female RMPP member	**29 years**	30 years
For a current 40 year old male RMPP member	**29 years**	30 years
For a current 40 year old female RMPP member	**31 years**	32 years

b) Plans' assets

The assets in the plans for the Company were:

Sectionalised RMPP	**Market value 2018 £m**	Market value 2017 £m
Corporate bonds	**16**	394
Property	**-**	13
Private Equity	**6**	7
Cash and cash equivalents	**28**	68
Bond/fixed interest funds	**1**	25
Other loan/debt funds	**10**	17
Alternative asset funds	**5**	8
Bulk annuity policies*	**272**	-
Fair value of RMPP assets	**338**	532
Present value of RMPP liabilities	**(298)**	(322)
Surplus in plan before asset ceiling adjustment	**40**	210
Less effect of asset ceiling	**(40)**	(210)
Surplus in plan after asset ceiling adjustment	**-**	-

* As described above, the Post Office section of the RMPP holds two bulk annuity policies with Rothesay Life PLC. The value ascribed to the policies has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

Share of RMSEPP	**Market value 2018 £m**	Market value 2017 £m
UK equities	**-**	1
Overseas equities	**8**	12
Government bonds	**17**	2
Cash and cash equivalents	**1**	-
Alternative asset funds	**(8)**	2
Property	**2**	2
Bulk annuity policy*	**12**	13
Fair value of share in plan assets for RMSEPP	**32**	32
Present value of share in plan liabilities for RMSEPP	**(27)**	(31)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**5**	1
Less effect of asset ceiling	**(2)**	-
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**3**	1

* As described above, 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 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. A retirement benefit surplus of £3 million is disclosed on the balance sheet, representing the surplus in the RMSEPP 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 2018 £m**	Sectionalised RMPP 2017 £m
Assets in sectionalised RMPP at beginning of period	**532**	407
Contributions paid	**5**	17
Employee contributions paid	**-**	5
Finance income	**7**	15
Actuarial (losses)/gains	**(201)**	92
Benefits paid to members	**(5)**	(4)
Assets in sectionalised RMPP at end of period	**338**	532

Assets	**Share of RMSEPP 2018 £m**	Share of RMSEPP 2017 £m
Share of assets in RMSEPP at beginning of period	**32**	30
Contributions paid	**1**	1
Finance income	**1**	1
Actuarial (losses)/gains	**(1)**	1
Benefits paid to members	**(1)**	(1)
Share of assets in RMSEPP at end of period	**32**	32

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

Liabilities	**Sectionalised RMPP 2018 £m**	Sectionalised RMPP 2017 £m
Liabilities in sectionalised RMPP at beginning of period	**(322)**	(184)
Current service cost	**-**	(23)
Past service cost	**(4)**	-
Curtailment costs	**-**	2
Finance cost	**(7)**	(7)
Employee contributions	**-**	(5)
Experience adjustments on liabilities	**(2)**	6
Financial assumption changes	**23**	(129)
Demographic assumption changes	**9**	(5)
Benefits paid	**5**	4
Effect of closure of RMPP	**-**	19
Liabilities in sectionalised RMPP at end of period	**(298)**	(322)

Liabilities	**Share of RMSEPP 2018 £m**	Share of RMSEPP 2017 £m
Share of liabilities in RMSEPP plans at beginning of period	**(31)**	(27)
Finance cost	**(1)**	(1)
Experience adjustments on liabilities	**-**	7
Financial assumption changes	**3**	(11)
Demographic assumption changes	**1**	-
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(27)**	(31)

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 2018 £m	Sectionalised RMPP 2017 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to operating profit from trading:		
Current service cost	**-**	23
Loss due to curtailments	**-**	2
Effect of the closure of the RMPP	**-**	(4)
Total charge to trading	**-**	21
Analysis of amounts charged to closure of activities:		
Loss/(gain) due to curtailments	**4**	(4)
Effect of the closure of the RMPP	**-**	(15)
Total charge to operating profit	**4**	2
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**7**	7
Interest income on plan assets	**(7)**	(15)
Net pensions credit to financing	**-**	(8)
Net charge / (credit) to the income statement	**4**	(6)
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on plan assets	**(194)**	107
Less: expected interest income on plan assets	**(7)**	(15)
Less: taxation on surplus recoverable through plan refunds	**-**	-
Actuarial (losses)/gains on assets (all experience adjustments)	**(201)**	92
Actuarial gains arising from changes in demographic assumptions	**9**	6
Actuarial gains/(losses) arising from changes in financial assumptions	**23**	(129)
Actuarial losses arising from experience adjustment	**(2)**	(5)
Actuarial gains/(losses) on liabilities	**30**	(128)
Effect of the asset ceiling	**170**	(210)
Total actuarial losses recognised in the statement of comprehensive income	**(1)**	(246)

	Share of RMSEPP 2018 £m	Share of RMSEPP 2017 £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
Less: expected interest income on plan assets	**(1)**	(1)
Less: taxation on surplus recoverable through plan refunds	**-**	-
Actuarial gains/(losses) on assets (all experience adjustments)	**(1)**	1
Actuarial gains arising from changes in demographic assumptions	**1**	7
Actuarial gains/(losses) arising from changes in financial assumptions	**3**	(11)
Actuarial gains/(losses) on liabilities	**4**	(4)
Total actuarial gains/(losses) recognised in the statement of comprehensive income before effect of asset ceiling	**3**	(3)
Effect of the asset ceiling	**(2)**	-
Total actuarial gains/(losses) recognised in the statement of comprehensive income after effect of asset ceiling	**1**	(3)

12. Equity

Called up share capital:

	2018 £	2017 £
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 one ordinary share of £1 was 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 £20 million (2017: £57 million).

Details of the Company commitments under non-cancellable operating leases and Company contingent liabilities 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 22).

15. Investments expenditure

Details of operating investments 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. Business combination

Details of the business combination are included in note 21 in the Group financial statements.

19. Post balance sheet events

In accordance with the Funding Agreement with Government signed on 30 March 2017, Post Office Limited received a Network Subsidy Payment of £20 million on 17 April 2018. The Network Subsidy Payment is received on a quarterly basis and a total of £60 million will be received from Government in 2018/19.

Post Office Limited also received investment funding from Government of £35 million on 17 April 2018. This receipt was in accordance with the Government announcement on 20 December 2017 that investment funding of up to £210 million for the period April 2018 to March 2020 will be made available to Post Office Limited.

20. Immediate and ultimate parent company

The Post Office Limited was a wholly owned subsidiary of Postal Services Holding Company Limited until it entered voluntary liquidation in June 2017 and the shares in Post Office Limited were transferred to the Secretary of State for BEIS.

BEIS holds a special share in Post Office Limited and the rights attached to that special share are enshrined within Post Office Limited Articles of Association. BEIS, through UK Government Investments Limited (UKGI), has no day to day involvement in the operations of Post Office Limited or in the management of its branch network and staff. As such, at 25 March 2018, the Directors regarded Post Office Limited as the immediate and ultimate parent company.

The largest group to consolidate the results of the Company is Post Office Limited, a company registered in the United Kingdom. Post Office Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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