Registered Number 2154540

Post Office Limited

Annual Report & Consolidated Financial Statements 2018/19

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

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

I am pleased to report that the Post Office Limited has had another year of progress. Our focus continues to be on creating stronger foundations to provide better services to our customers and to support postmasters who run our branches. At the same time, we have been set a challenge by Government to become, for the first time in recent history, a self-sustaining company free of public subsidy. To achieve this, we are going to have to work harder than ever before. We must match the pace of change in the industry, embrace new technology, adapt to market trends and meet the ever rising expectations of our customers.

Our recent results show that we are effectively transforming the business to remain relevant, easily accessible and the first choice for customers. We grew revenue by 2% to £972m and our trading profit increased by £25 million to £60 million. We believe we are on the right track; the success of our Banking Framework arrangements with the UK's banks has seen us become the biggest high street provider of cash and point of access for everyday banking services in the country. We are now the last cash provider in thousands of communities, reflecting our social purpose in action, supporting the consumers and small businesses which fuel local economies. There is more growth to come and we are working hard to expand this offer, to simplify the processes underpinning it and provide a better share of that success to our postmasters.

Elsewhere we performed well against strong competition and emerging market trends. Our Insurance business continued to grow in the competitive travel market. Telecoms increased its customer base whilst significantly shifting it towards broadband. In savings, we broadly maintained total balances, against a backdrop of low interest rates, excess funding in the market, and new entrants offering very competitive rights to quickly gain market share.

This year's acquisition of Payzone Bill Payments Limited ("Payzone") underscores our determination to extend our reach and accessibility for both corporate and retail customers. The integration of Payzone's bill payments business will more than double the number of outlets at which these services can be conveniently transacted to 25,000 sites. This provides us with a much stronger platform through which to innovate and win new contracts from a wide range of corporate clients.

To support postmasters, we have been reviewing our ways of working to ensure that effort and complexity are kept to a minimum, whilst looking to extend their product offering and rebalancing transaction fees. Our ambition is to attract and retain high quality business people to deliver for all our customers with energy and care. The ongoing litigation involving Post Office and a group of postmasters is an important reminder that this aspect of our work reflects the fact that there have been disagreements in the past on the management of contractual relationships. We are determined in future to have the very best working relationship fit for today's business environment, and that we must always strive to do even better.

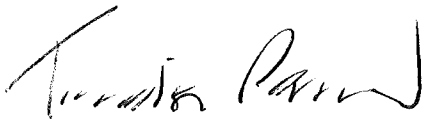
As ever, it is our people, whether working in branches across the country, in our supply chain or in our support centres, who are making these changes happen and I would like to thank them for their continued support and their dedication to making this business successful.

I would also like to express my appreciation to our Shareholder, the Secretary of State at the Department for Business, Energy and Industrial Strategy ("BEIS"), as well as his Ministers and officials in UK Government Investments and BEIS for their collaboration and support across the year. My colleagues on the Post Office Board and the Executive Team have, once again, demonstrated real drive and energy in addressing the many challenges involved in modernising the Post Office for future generations.

I would like to extend particular thanks to Paula Vennells for her service over the past seven years as Chief Executive, leading and transforming this unique business towards an even brighter future. During

Paula's leadership, Post Office has grown from a company that was losing £120 million a year, with a branch network in desperate need of modernising, to a strong, customer-focused, innovative and profitable business. She is leaving the business in much better shape and I wish her every success for the future.

Finally I would like to welcome Nick Read who takes over as her successor and wish him all the best for the future.



Tim Parker
Chairman
3 September 2019

Chief Executive Statement

The Post Office matters more today than ever before. Providing essential services to millions of consumers and small businesses, day-in, day-out, across the UK is a unique privilege. We are, therefore, relentlessly focused on what needs to be done to evolve Post Office so it is relevant for future generations, financially robust to weather new challenges, and always faithful to our central purpose: being there for every customer in every community.

We are growing net revenue now and continue to improve our profitability. This money is invested in the business so we continue to provide Postmasters and customers with free access to cash, reliable systems, the ability to comply with regulations and access to competitive products that customers want. Customers' buying visits to Post Offices fell by just 1% last year, a significant achievement in an increasingly online world. We are also expanding our own services online to ensure that customers access our markets in the way they choose.

We are hugely grateful to Postmasters and I particularly want to thank them for the extraordinary service they provide – Post Office does not exist without Postmasters and our customers benefit every day from their care and willingness to go beyond their standard duties. This literally saves lives as recognised in our recent awards, whether it's checking on the vulnerable customer who hasn't been into their Post Office or helping a heart attack customer until the ambulance arrived.

We are very mindful of the pressures on Postmasters and we are absolutely committed to making it easier for them to serve customers and run profitable businesses. We have announced an increase in pay for banking deposits and will announce further improvements in the autumn. We are working hard to improve training and support, prevent errors, resolve them more quickly and reduce Postmasters' costs.

This year saw us complete our Network Transformation Programme, by far the biggest change we have ever made, recognising that standalone Post Offices are rarely commercially viable. Investing in and modernising over 7,700 branches has resulted in significant increases in opening hours and levels of customer satisfaction. Over that period, we opened 440 new Post Offices in new locations, part of our strategy to increase convenience and choice for customers who want easier access to our services on their doorstep. With 11,638 branches as at the year-end (2018: 11,547), our network is more stable than in the past. A detailed breakdown will be available in this year's Network Report.

We are continuing to franchise branches to independent Postmasters, moving services from standalone Post Offices into retailers' premises. Post Office has always been a franchise network (93% in 1970) and unless the underlying economics change, we will continue in this direction. It is clear that the process by which we consult to make sure the new service works for everyone can, and should be, improved. We have launched a review and will revert with new ways to engage local communities.

We are consolidating and strengthening our position in some of our traditional markets, such as bill payments. Following clearance by the Competition and Markets Authority in October 2018, the successful acquisition of Payzone's bill payments business gives us a combined network of 25,000 locations at which customers can conveniently pay for essential services.

We have retained our position as number one in letters and parcels, with significant growth in home shopping returns offsetting the continued decline in stamps. Online shopping has continued to drive strong growth in Collections and Return volumes and we are working closely with Royal Mail to innovate and improve our customer offering. This year we launched the new 'Labels to Go' service for online shoppers to print a returns label at their local Post Office, by simply using a QR code on their mobile phone or tablet.

Our travel proposition also continues to grow as we leverage our market leading position in Travel Money, using technology to enhance our offer. More than 300,000 customers are already using our new Travel App. This enables customers to manage their Travel Money Card accounts 24/7 from anywhere in the world, as well as providing easy access to travel insurance. Over 700 branches are now offering Passport Digital Check and Send, enabling branches to process applications online, dramatically improving the customer experience, while boosting security. To round off what has

become a one stop shop for our customers' travel needs, we made International Driving Permits available in 2,500 branches across the country, selling 350,000 permits over two months.

Over 900,000 new customers registered for our GOV.UK Verify service, which provides a secure, and re-usable, means of definitive identity assurance giving customers access to a range of online Government services. The opportunity now is to build on this success and expand the benefits of digital identity to a much broader range of users and organisations. We believe the Post Office is ideally placed to help grow this wider market, and we are seeking to rekindle Government's impressive early interest and positive action in the development of this new and transformative technology. We are also seeking to work closely with Government on its planned replacement services for the Post Office Card Account, ensuring that vulnerable customers are looked after.

Concerns over bank branch closures across the country have grown louder across the year and underscore just how important the continued availability of access to basic banking services through the Post Office is to communities. Since its inception in January 2017, we have significantly grown the volume of transactions we undertake on behalf of all the UK's major banks and there is more to come.

So many people care deeply about Post Offices and can be very critical of us at Post Office Limited, whether it's over franchising, Postmaster pay, our conduct of the Group Litigation or the day to day service we provide. My message to them and to all of our people is that we welcome the criticism – we all want successful Post Offices open everywhere and for years to come. We will continually work with our critics across the business to learn and improve.

It has been a privilege to lead Post Office for a few months and I welcome Nick Read to take us forward and capture our very real opportunities. The thank you list is too long to repeat here but I would single out Postmasters and front line colleagues who deliver for customers every day.

Alisdair Cameron
Interim Chief Executive
3 September 2019

Financial and Business Review

Summary results

We delivered our third consecutive year of profit as we continue on the path to commercial sustainability.

Operating profit was £6 million (2018: £47 million). This is after increased depreciation and amortisation charges of £94 million (2018: £55 million), and exceptional items of £20 million (2018: £3 million).

Trading profit increased by £25 million to £60 million (2018: £35 million). Our revenue grew by £16 million during 2018/19 to £972 million (2018: £956 million). Growth was driven by our Mails (5%), Telecoms (4%), Identity (7%) and Insurance (15%) business areas.

As planned, the Network Subsidy Payment ("NSP") from Government decreased by £10 million to £60 million (2018: £70 million). NSP is to cover the costs of loss making branches which deliver our social purpose. It is our responsibility to demonstrate that the NSP received is equal to or less than the total loss these social purpose branches create. If the loss is less than the NSP, we are obliged to pay the difference back to Government. This reduction in the NSP has been offset by cost reductions of £1 million and revenue growth of £16 million. As a result, adjusted EBITDA increased by £15 million to £120 million (2018: £105 million).

Profit and Loss Summary – Trading

	2019 £m	2018 £m	Variance £m	Variance %
Revenue	**972**	956	16	2
Costs	**(959)**	(960)	1	-
Other income	**14**	5	9	180
Share of profit from joint venture	**33**	34	(1)	(3)
Trading profit	**60**	35	25	71
Add: Network Subsidy Payment	**60**	70	(10)	(14)
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA)	**120**	105	15	14
Depreciation and amortisation	**(94)**	(55)	(39)	(71)
Exceptional items	**(20)**	(3)	(17)	(567)
Operating profit before investments	**6**	47	(41)	(87)

Significant accounting judgements

Going concern

The Group (being the Group of companies headed by Post Office Limited) has net assets of £244 million at 31 March 2019 (2018: £203 million) and headroom on the loan from BEIS of £385 million (2018: £327 million). This is £185 million above the target minimum headroom of £200 million, hence we are not at risk of breaching this limit. We have also been profitable at a trading profit level with current year profit of £60 million (2018: £35 million) and shown a profit after tax of £40 million (2018: £17 million).

We have the following funding agreed with BEIS: a working capital facility of £950 million to 31 March 2021; a further £50 million facility available to provide same day liquidity to 4 April 2020; NSP of £50 million for 2019/20 and 2020/21 respectively; and we also have investment funding of up to £210 million available for the period from April 2018 to March 2020. Investment funding of £168 million was received in 2018/19.

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

	2019 £m	2018 £m	Variance £m
Revenue	**972**	956	16
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA) (note 23)	**120**	105	15
Operating profit before depreciation, amortisation, exceptional items, investments and Network Subsidy Payment (trading profit) (note 23)	**60**	35	25
Profit for the financial year	**40**	17	23

Profit and Loss

As disclosed in the consolidated income statement in the financial statements on page 41, we have split the results of the Group between trading 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 of £40 million (2018: £15 million). Once finance income/costs, taxation credit/charge have been factored in, the profit for the financial year is £40 million (2018: £17 million). See the consolidated income statement on page 41 for full details.

	2019 £m	2018 £m	Variance £m
Operating profit			
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA)	**120**	105	15
Depreciation and amortisation	**(94)**	(55)	(39)
Exceptional items	**(20)**	(3)	(17)
Operating profit before investments	**6**	47	(41)
Investments	**34**	(32)	66
Operating profit	**40**	15	25

Revenue

The Post Office business is organised into three strategic business units, Retail, Financial Services & Telecoms (including Insurance) and Identity. Revenue from our subsidiary Post Office Management Services Limited is included within the Insurance line below. Revenue from our subsidiary Payzone Bill Payments Limited ("Payzone") is included within the Payment Services line below. The divisions and their performance are detailed on the next pages:

		2019 £m	2018 £m	Variance £m	Variance %
Retail					
	Mails	**350**	334	16	5
	Retail & Lottery	**42**	45	(3)	(7)
	Payment Services	**27**	27	-	-
	Cash & Banking Services	**161**	158	3	2
Financial Services & Telecoms					
	Financial Services	**113**	127	(14)	(11)
	Telecoms	**153**	147	6	4
Insurance		**55**	48	7	15
Identity		**58**	54	4	7
Other*		**13**	16	(3)	(19)
Revenue		**972**	956	16	2

* Relates to Supply Chain income (£10 million) predominantly for warehousing of Royal Mail stock, transport of high value mails and release of Bank of Ireland deferred income (£3 million).

The grouping of products has altered in 2018/19 as a result of changes to internal reporting, with Post Office Card Account ("POCA") revenue moving from Government Services to Cash & Banking Services. Remaining Government Services revenue has been moved into the Identity business unit. Banking Services and ATMs revenue have also moved into Cash & Banking Services from Financial Services. Commission income relating to Government Services has been reclassified from revenue to other income because it did not fall within the scope of IFRS 15 *Revenue from Contracts with Customers*. The impact of these changes on the reported 2017/18 performance of the divisions is detailed below:

		2018 £m	POCA £m	Commission income £m	Identity £m	Banking Services £m	ATMs £m	2018 reclassified £m
Retail								
	Mails	334	-	-	-	-	-	334
	Retail & Lottery	45	-	-	-	-	-	45
	Government Services	99	(40)	(5)	(54)	-	-	-
	Payment Services	57	-	-	-	-	(30)	27
	Cash & Banking Services	-	40	-	-	88	30	158
Financial Services & Telecoms								
	Financial Services	215	-	-	-	(88)	-	127
	Telecoms	147	-	-	-	-	-	147
Insurance		48	-	-	-	-	-	48
Identity		-	-	-	54	-	-	54
Other		16	-	-	-	-	-	16
Revenue		**961**	**-**	**(5)**	**-**	**-**	**-**	**956**

Retail

The Retail business encompasses our position as the United Kingdom's number one mails provider, as well as providing Cash & Banking and Payment services.

Mails

Mails includes the sale of parcels and other mails products provided by Royal Mail and Parcelforce. Underlying trading revenue is up £16 million (5%) year on year. Growth in parcels (7%) and home shopping returns (35%) is partially offset by the continuing decline in stamps. In addition, there were planned reductions in the fixed fee element of the contract with the Royal Mail Group plc of £2 million.

Retail & Lottery

Retail & Lottery revenue has decreased by £3 million to £42 million (2018: £45 million). The reduction reflects the changing shape of our branch network; although, a higher number of lottery rollovers did in part offset the trend toward online sales.

Payment Services

Payment Services includes bill payment transactions. Revenue has remained flat at £27 million (2018: £27 million). The acquisition of Payzone contributed £4 million to revenue, offset by reduced volumes in the reseller market of £4 million.

Cash & Banking Services

Cash & Banking Services comprise of POCA, Banking and ATM services. Revenue has increased by £3 million to £161 million (2018: £158 million). ATMs revenue has remained stable despite market decline. POCA revenue has decreased in line with expectations. This has been offset by significant year on year growth in Banking Services as high street banks continued to close branches, and following the switch made to automated deposit transactions from October 2018.

Financial Services & Telecoms

Financial Services

Our Financial Services products include mortgages, credit cards, savings and travel money, in addition to postal orders. Revenue decreased by £14 million to £113 million (2018: £127 million).

The majority of the decrease is due to Bank of Ireland products, down £12 million to £45 million (2018: £57 million). The competitive, customer and regulatory environments remain tough; the continued low rate environment and Bank of England funding scheme are putting pressure on Mortgage margins and savings rates. Mortgages are also challenged by pricing constraints, but the expansion into the Broker channel is compensating for this.

Revenue from Postal Orders declined by £2 million as this legacy product continues to decline in the marketplace. The impact of Brexit uncertainty, weak sterling and tighter AML regulations continue to impact MoneyGram and to a lesser extent travel money, which has remained stable year on year.

Telecoms

Telecoms includes Post Office HomePhone, Broadband and Fibre services.

Telecoms revenue of £153 million increased by £6 million (2018: £147 million) as customer numbers have increased.

Insurance

Post Office Insurance provides Travel, Life and General insurance policy cover. Insurance revenue has grown by £7 million to £55 million (2018: £48 million). The increase was driven mainly by growth in our Over 50s Life insurance and Travel insurance businesses.

Identity

Identity provides Home Office, DVLA and Verify services. Identity revenue has grown by £4 million to £58 million (2018: £54 million) due to the launch of Universal Credit in Verify. A new pricing arrangement with the Government Digital Service in November 2018 significantly reduced average margin for the Verify service, and will do so in the future.

Costs

Total costs decreased by £1 million to £959 million (2018: £960 million).

People costs of £193 million increased by £4 million (2018: £189 million) due to pay increases.

Average headcount reduced from 5,066 in 2017/18 to 4,700 in 2018/19 reflecting the evolving shape of our operations and the effect of the Network and DMB transformation programmes. Closing headcount for the year was 4,391 (2018: 5,020).

Other operating costs decreased by £5 million to £766 million (2018: £771 million) of which £3 million relates to landlord compensation payments, with other controlled cost savings noted, especially in IT.

Depreciation and amortisation

Depreciation and amortisation charges increased to £94 million (2018: £55 million); a number of significant assets under construction came into use during the year and are now being depreciated or amortised.

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.

The litigation is very complex and the Judge ordered that it will be heard as a series of trials.

The first trial, which finished on 5 December 2018, was about determining the legal construction of the contract between Post Office and postmasters. The Judgment from this trial was made public on 15 March 2019.

On 23 May 2019, the Court awarded the Claimants their costs in respect of the first trial. As a result, Post Office was instructed to make a payment on account of £6 million. These costs have been recognised in 2018/19 as they reflect conditions that existed at the end of this reporting period.

The second trial, about technical matters concerning Post Office's Horizon computer system started on 11 March 2019 and concluded on 2 July 2019 when the Judge retired to consider his judgment. The judgment is not expected to be handed down before mid-September 2019.

Neither the first nor second trial have or will determine liability or the individual claimants' cases. A further third trial has been scheduled for March 2020, but the fourth trial has not yet been set down.

Further, a number of the Claimants assert that they have been convicted of criminal offences arising from their roles at Post Office, with 31 of those cases being considered by the Criminal Cases Review Commission ("CCRC"). The CCRC has the power to refer cases to the Court of Appeal who, in turn, have the power to overturn a conviction. This could then lead to claims for compensation.

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 would 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.

The Post Office Group Litigation represents a possible obligation arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

The costs of £20 million included in exceptional items relate to Post Office defending the Post Office Group Litigation (2018: £3 million) during the financial year.

On 14 June 2018, an Employment Tribunal claim was issued on behalf of a number of postmasters

against Post Office in which they seek to establish that they are "workers" of Post Office and therefore have rights to holiday pay.

Post Office's position is that postmasters are independent contractors in business on their own account, not workers, and this is supported by previous case law. However, if postmasters were to establish they are workers they would gain a number of additional rights such as to take and be paid for annual leave and a right to receive the National Minimum Wage/National Living Wage. This would likely result in future increased business costs and retrospective claims for compensation.

The litigation is at a relatively early stage. Post Office and the Claimants are currently going through a process of agreeing 'test cases'. It is anticipated that this process will be complete by 11 October 2019.

On 11 October 2019 there will be a hearing, which will set a date for a future preliminary hearing to decide whether or not the Claimants have worker status. No date has been set for that hearing but Post Office does not expect it to take place prior to April 2020.

That first hearing will only determine the legal principle of whether postmasters (or some categories of postmaster) are workers. Should the Claimants succeed on this point, a further trial will be required to decide the value of their quantum of their claims. No date has been set for this at present.

To date, the Claimants have not asserted the value of their claims.

This litigation represents a possible obligation arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

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 Employment Tribunal has determined the worker status question and the Claimants have provided the necessary information about the value of their claims. The Directors continue to keep this under close review.

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. The principal activity of the business 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 £33 million (2018: £34 million).

Capital and investment costs

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

	2019 £m	2018 £m
Investment funding	**168**	70
Restructuring:		
Business transformation	**(14)**	(16)
Network programmes	**(68)**	(63)
IT transformation	**(13)**	(6)
Severance	**(39)**	(17)
Total restructuring costs	**(134)**	(102)
Unwinding of discount on provisions	**(1)**	(2)
Total investment income/(charge)	**33**	(34)

Restructuring costs include the costs of delivery for major change programmes. In addition, we have incurred £139 million (2018: £151 million) of capital spend, primarily on IT transformation projects, as disclosed in notes 8 and 9. Combined with restructuring costs of £134 million (2018: £102 million), the total invested in the year was £273 million (2018: £253 million).

These are offset by Government funding, recognised to match the associated costs. Government funding for 2018/19 of £168 million (2018: £70 million) was received in quarterly instalments and was fully recognised in the year.

BEIS has approved funding of up to £210 million which is available for the period from April 2018 to March 2020. The maximum available in 2018/19 was £168 million and this was received in full.

Cash flow and net debt

Cash and cash equivalents amounted to £572 million (2018: £655 million) at the year-end. There was a net cash outflow during the year of £83 million (2018: £25 million).

Net debt (excluding cash in the Post Office network) decreased by £69 million year on year as shown in the table below.

		2019 £m		2018 £m
BEIS loan at the start of the year		**(623)**		(561)
Investment funding	**168**		70	
Restructuring costs	**(121)**		(116)	
Other cash inflows from operating activities	**76**		66	
Net cash inflow from operating activities		**123**		20
Dividends received from joint ventures	**33**		34	
Acquisition of businesses	**(17)**		(6)	
Proceeds from the sale of property, plant and equipment	**4**		5	
Purchase of tangible and intangible non-current assets	**(160)**		(135)	
Net cash outflow from investing activities		**(140)**		(102)
Net cash outflow from financing activities		**(8)**		(5)
Decrease in cash and cash equivalents		**83**		25
BEIS loan at the end of the year		**(565)**		(623)
Cash (excluding cash in the Post Office Network)		**23**		12
Total net debt carried forward at the end of the year		**(542)**		(611)

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 £385 million (2018: £327 million). The maximum drawn down under the facility during the year was £744 million on 13 April 2018. 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 £227 million (2018: £238 million) of Bank of England owned notes were held. See note 22 on page 83 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 £3 million (2018: £17 million) was outstanding under this arrangement.

The above amounts were not recognised on the Post Office balance sheet at year end.

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 are closed to new members and closed to future accrual.

In 2016/17, a Memorandum of Understanding was executed by Post Office with the Trustee of RMPP. This removed the unconditional right to refund from the RMPP. As a result of these events the surplus relating to this Plan was derecognised.

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

The immaterial 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:

	2019	2018
	£m	£m
Regular pension contributions	**(20)**	(20)
Funding of the pension deficit – RMSEPP	**-**	(1)
Payments relating to redundancy	**(1)**	(5)
Net cash payments	**(21)**	(26)

The income statement charge to trading for the year was £13 million (2018: £17 million) in relation to the defined contribution scheme. There was no charge (2018: £nil) in relation to the defined benefit scheme.

On behalf of the Board

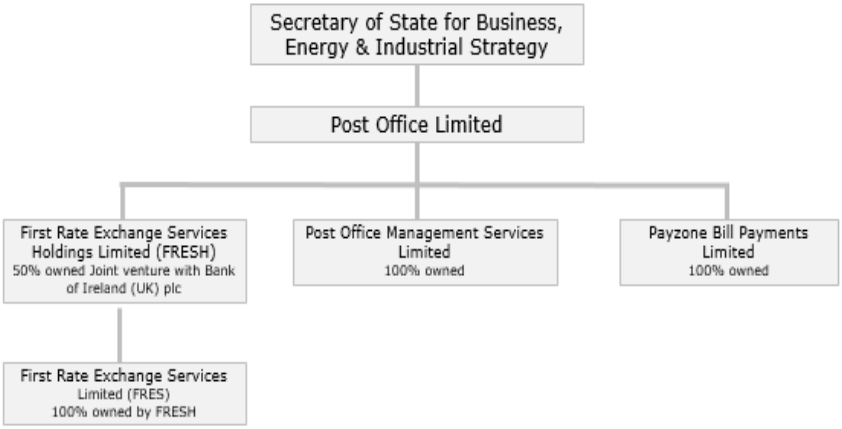
Alisdair Cameron
Interim Chief Executive
3 September 2019

Governance

Corporate Governance

Legal Ownership and Structure

Post Office Limited ("the Company") is wholly owned by the Secretary of State for Business, Energy and Industrial Strategy ("BEIS"). BEIS holds a special share in the Company, the rights of which are enshrined within the Post Office Limited Articles of Association (http://corporate.postoffice.co.uk/our-leadership).



BEIS has no day to day involvement in the operations of the Company or in the management of its branch network and staff. Through UK Government Investments ("UKGI"), BEIS monitors the Company'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. Tom Cooper currently holds this position.

Corporate Governance Overview 2018/19

The Company maintains standards of corporate governance appropriate for our ownership structure, commitment to social purpose and 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 Company's vision, values and organisational culture.

During 2018/19 the Board comprised an independent Non-Executive Chair, the Group Chief Executive, the Chief Finance and Operating Officer and five Non-Executive Directors (one of whom is designated the Senior Independent Director and four of whom are independent). 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.

Directors' statutory duties are set out in the Companies Act 2006. The primary duty of the Directors is to promote the success of the 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

Alisdair Cameron, Chief Finance and Operating Officer throughout the 2018/19 financial year and Interim Chief Executive from 5 April 2019.[1]

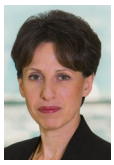
Joined the Board 28 January 2015

Ken McCall, Senior Independent Director, Chair 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[2]

Joined the Board 24 May 2018

Carla Stent, Non-Executive Director and Chair 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

Paula Vennells, Group Chief Executive, throughout the 2018/19 financial year[3]

Joined the Board 18 October 2010

Company Secretary:

Veronica Branton

Appointed as Company Secretary 25 July 2019

Jane Macleod

Served as Company Secretary from her appointment on 30 August 2017 until 31 May 2019

[1] Alisdair Cameron was appointed interim Chief Executive on 5 April 2019 and a handover period commenced until Paula Vennells' resignation on 30 April 2019.
[2] Shirine Khoury-Haq ceased her role as Non-Executive Director on 18 July 2019.
[3] Paula Vennells resigned as Group Chief Executive on 30 April 2019.

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. Ken McCall and Carla Stent were reappointed for a second term of three years on 29 January 2019 as Senior Independent Director and Non-Executive Director, respectively. As the Board representative of UKGI, Tom Cooper's appointment period is determined by the Secretary of State for BEIS.

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, as the sole shareholder, for the performance of the Company and is required to seek consent for certain matters, as included 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 legal and regulatory compliance, delivery of the strategy, providing constructive challenge to the Group Executive and communicating with the Shareholder. The Board has a schedule of matters reserved for its decision and has approved Terms of Reference for its committees, which are available on the Post Office Limited website.

The Board annually reviews the strategy, approves the annual budget and business plan required to deliver the strategic objectives for that year; the last approval was 30 April 2019. 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 of meetings, 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 executive Risk and Compliance Committee, from the internal and external audit teams and from operational 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 28 to 33.

Key focus and achievements in 2018/19

During the year to 31 March 2019, the Board continued to oversee the Post Office Limited's strategic plan to achieve 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.

The Company acquired Payzone Bill Payments Limited on 24 October 2018. The business has over 25 years' experience in the bill payments industry and offers payment terminals for bills, tickets, lottery and mobile top up in convenience stores, enabling these businesses to generate revenue and increase footfall.

The Board approved the appointment of new external auditors, following the resignation of Ernst & Young LLP at the end of their term of engagement. PricewaterhouseCoopers LLP were appointed as the Company's external auditors on 31 July 2018 following a tender process.

The Board also focused on a revised banking framework to provide banking services in Post Office branches on behalf of UK banks and approved investment for the Branch Hub (a self-service portal for branch operators and business owners to access support).

The Board receive regular health and safety reports and reviewed the Conflicts of Interest Policy.

The Board also reviewed and approved the Company's 2017/18 Modern Slavery Act Statement.

The Board continued to monitor the progress of the ongoing Group Litigation Order.

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.

In accordance with the Companies Act 2006, the Articles of Association 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 2018/19, 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.

Tim Parker, Ken McCall, Tim Franklin, Shirine Khoury-Haq and Carla Stent are considered Independent Non-Executive Directors. Tom Cooper is not an independent Non-Executive Director as he is a shareholder representative. Paula Vennells and Alisdair Cameron held executive roles throughout the financial year, and as such were not independent directors.

Board Meetings

During 2018/19 the Board met 12 times (including additional meetings held either in person or by telephone). A record of Directors' attendance (attended/eligible to attend)[4] at the Board and its Committees is set out in the table below:

Director	Board	Board (additional)	Audit, Risk and Compliance Committee	Nominations Committee	Remuneration Committee
Chairman					
Tim Parker	8/8	4/4	-	4/4	6/6
Executive Directors					
Paula Vennells	7/8	1/4	-	-	-
Alisdair Cameron	8/8	4/4	-	-	-
Non-Executive Directors					
Ken McCall	8/8	4/4	4/5	4/4	6/6
Tom Cooper	8/8	3/4	5/5	-	5/6
Tim Franklin	8/8	2/4	4/5	-	-
Shirine Khoury-Haq	8/8	4/4	-	3/4	5/6
Carla Stent	8/8	4/4	5/5	-	-

[4] Directors who are not members of a committee may attend meetings from time to time, at the invitation of the Chair.

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 an independent 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 to assess that each Committee discharged its duties effectively in accordance with the Terms of Reference. The reviews conducted in March 2019 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 duties and responsibilities of the Nominations Committee are included in the Terms of Reference, which are available on the Post Office Limited website: www.corporate.postoffice.co.uk/our-leadership.

The Committee is chaired by Tim Parker, Chairman, and the other members during the year were Shirine Khoury-Haq, Non-Executive Director and Ken McCall, Senior Independent Director.

Work of the Committee in 2018/19

During the year the Committee considered the skills and experience required by the Board for a new Group Chief Executive and a new Non-Executive Director and worked with Russell Reynolds (search consultants) on the proposed appointments. The Committee approved re-appointments to subsidiary boards and the appointment of a new Chair of Post Office Management Services Limited.

The Nominations Committee monitored the independence and internal process for the evaluation of the Board and Board sub-committees and considered developments in corporate governance and how these should apply to the Company.

The Committee considered the reporting requirements under the Companies (Miscellaneous Reporting) Regulations 2018 and a section will be introduced to the 2019/20 Annual Report to show how the requirements of Section 172 of the Companies Act 2006 were fulfilled, including having regard for the views of the shareholder, employees, customers and suppliers when making decisions.

Remuneration Committee

The role, membership and work of the Remuneration Committee is detailed in the Remuneration Committee Chairman's Statement on pages 21 to 27.

Audit, Risk and Compliance Committee

Role and Membership

The duties and responsibilities of the Audit, Risk and Compliance Committee are included in the Terms of Reference which are available on the Post Office Limited website: www.corporate.postoffice.co.uk/our-leadership.

The Committee is chaired by Carla Stent, Non-Executive Director, and the other members during the year were Ken McCall, Senior Independent Director, Tom Cooper, Non-Executive Director and Tim Franklin, Non-Executive Director.

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 Directors of Risk & Compliance and Head of Internal Audit attended all of the meetings of the Committee and also met the Committee Chair, independently and regularly, throughout the year.

The external auditor was invited to, and attended, all meetings of the Committee except on 31 July 2018, where the Committee recommended to the Board the appointment of new external auditors PricewaterhouseCoopers LLP.

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 28 to 33.

Work of the Committee in 2018/19

During the year, the Committee reviewed the Annual Report and Financial Statements for 2017/18, 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. The Committee received and challenged, where appropriate, internal audit reports.
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 protecting personal data, as part of an annual review cycle.

Board and Committee Effectiveness Evaluations

The Board recognises that an effective Board is vital to the success of the Company and the business. Ken McCall, Senior Independent Director, led an internal Board effectiveness evaluation in December 2018 which included a formal evaluation of the performance of the Board, its Committees and the Chair.

The Board evaluation was conducted by internal questionnaire and, following a review of the results, recommendations were presented to the Board. The feedback and scores were positive but areas for additional focus were identified, including closer engagement with and understanding of stakeholders' perspectives, particularly postmasters and employees; the competitor landscape and franchising models; and periodic scheduling of meetings without the executives.

As part of the Board review process, each Board Committee undertook a review of its effectiveness. The feedback and scores were positive. Each Committee considered the feedback from the evaluation and agreed actions. The Audit, Risk & Compliance Committee decided to increase the number and length of meetings held annually to reflect the range and scope of legal and regulatory compliance and risk management issues across a span of business lines. It also agreed that Non-Executive Members of the Committee would hold separate meetings with the Head of Internal Audit periodically. The Nominations Committee added a succession planning review to its forward agenda and the Remuneration Committee commissioned a report on the group remuneration framework and the approvals process.

Remuneration Committee Chairman's Statement

This Directors' remuneration report for 2018/19, outlines the remuneration framework we've followed over the past financial year and how we intend to improve on this going forward.

During a year in which conditions have continued to be very difficult on the UK's high streets, with many businesses retreating, the Post Office has made strong progress against the trend.

We have completed a major transformation our Network Transformation Programme that is helping to keep Post Office branches at the heart of communities throughout the UK, with the business again returning a profit to reinvest and reduce our reliance on taxpayers.

Taking the right steps for stability and sustainability in our network has been crucial to provide the foundation from which to move forward. Our Chief Executive, Paula Vennells, who stepped down at the end of April after 7 years, leaves a legacy of turning the business around from a £120 million loss to a modernised, profitable organisation, thanks to her leadership and commitment. From the strong position in which Paula left the company, the Group Executive continues to be energetically focussed on responding to the challenges facing the business in an era of very fast-paced change.

2018/19 pay outcomes

The performance criteria used to determine both short-term and long-term incentives for the 2018/19 financial year were stretching as in previous years. The short-term incentive plan ("STIP") is based on a balanced scorecard of measures that ensures continued alignment with our business strategy. The performance measures for the long-term incentive plan ("LTIP") continue to focus on Post Office becoming a commercially sustainable business over time, measured predominantly by financial results.

Our response to the UK Corporate Governance Code (2018)

Whilst not a legal requirement, in next year's report we will carefully consider application of the UK Corporate Governance Code ("the Code") to our policy and disclosures, to the extent that it is relevant and practicable for Post Office. In this year's report we have already taken some steps towards application of the Code.

Shareholder engagement

Each year the Remuneration Committee ("the Committee") takes into account the views of BEIS. The Committee communicates with BEIS on developments of the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular. All remuneration for the Executive Directors requires BEIS approval.

Implementation of this policy going forward

Over the next year, we intend to operate our policy as we have in previous years. The Committee is confident that the current policy ensures that there continues to be a strong link between reward and performance. This report has been prepared in accordance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, to the extent that they are applicable for Post Office in its capacity as an unlisted company.

Remuneration Policy

Summary of Remuneration Policy

The Committee is responsible for setting the remuneration packages for the Chief Executive Officer ("CEO") and Chief Finance and Operating Officer ("CFOO") as well as determining the remuneration policy for the Group Executive.

The Committee's intention is that the remuneration policy aligns with the business strategy and risk profile so that individuals are motivated to deliver the Post Office objectives and protect its value. The Post Office remuneration strategy is based on the following:

- Attracting and retaining the right people within an agreed policy to lead and deliver the strategic plan;
- Using incentives appropriately to reward the achievement of the turnaround strategy and promote the long-term viability of the organisation;
- Reinforcing an emerging culture of mutual ways of working and partnership; and
- Providing a transparent approach to the disclosure of pay.

This table sets out the key elements of the Remuneration Policy for Executive Directors. The remuneration framework for the Executive Directors requires consent from BEIS each year.

Element and link to strategy	Operation	Opportunity
Base Salary To recruit and reward individuals based on their skills and for the responsibilities required.	Salaries are normally reviewed on an annual basis, in July. When determining base salary increases, consideration is given to (i) pay and employment conditions elsewhere in the Post Office and (ii) market data on comparable roles. The external pay benchmarking group is a basket of comparators, selected and agreed with BEIS.	There is no formal cap set on salaries. Any increase in Executive Directors' salaries will typically be no more than that applied to the wider workforce.
Benefits To provide market competitive benefits to enable the recruitment and retention of high-calibre individuals.	The value of the benefits package is monitored by the Committee and benchmarked against comparator organisations. Participation in life insurance and health cover schemes are part of Post Office wide benefit programmes and a grade / level dependent. Roles at grade 3a and above are eligible for Company car schemes.	The range and value of benefits is reasonable with regards to role grade/level and is aligned to the market.
Pension To provide market competitive pensions packages.	Executive Directors receive a salary supplement in lieu of pension scheme measurement.	The pension contribution scheme/cash allowance is currently under review for new hires.
Short-Term Incentive Plan (STIP) To reinforce and reward improved in-year financial, operational and personal performance**.**	The metrics and target ranges are agreed annually with the Board and BEIS as part of the annual business and budget planning cycle. 80% of the target STIP award is based on a business scorecard and 20% is based on individual performance objectives which are agreed with the Board and require approval by BEIS. The business scorecard is set annually to include a mix of financial and non-financial measures (including customer, modernisation and employee engagement measures). The precise metrics and their weightings are determined at the start of each financial year.	Maximum opportunity under STIP as % of salary for different levels of performance are as follows: CEO: Threshold: 38% Target: 48% Maximum: 80% CFOO: Threshold: 32% Target: 40% Maximum: 67%
Long-Term Incentive Plan (LTIP) 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.	LTIP awards are made annually. Performance measures for the LTIP are drawn from the Post Office Strategic Plan agreed with BEIS. The performance targets are agreed with BEIS in advance of each grant and will be described annually in the Report on Remuneration. LTIP awards may be subject to clawback.	Maximum opportunity under LTIP as % of salary for different levels of performance are as follows: CEO: Threshold: 56% Target: 70% Maximum: 98% CFOO: Threshold: 40% Target: 50% Maximum: 70%

Non-Executive Directors

The fees for the Chairman are reviewed by the Committee and approved by BEIS. The fees of the Non-Executive Directors are reviewed by the Executive Directors and submitted to BEIS.

Element and link to strategy	Operation	Opportunity
Fees To attract and retain a high calibre Chairman and Non-Executive Directors.	The Chairman is paid a single fee to cover all duties. The Non-Executive Directors are paid a basic fee together with additional fees for chairing Board Sub-Committees or the role of Senior Independent Director. Non-Executive Directors do not participate in any variable remuneration or receive any other benefits.	There is no prescribed maximum annual increase. The Committee is guided by the general increase for employees and the Executive Directors.

Clawback provisions

Executive Directors have clawback 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.

Consideration of shareholder's views

Each year the Committee takes into account the views of BEIS. The policy for pay at risk concentrates on ensuring remuneration is performance led with targets aligned with those of BEIS.

Approach to Recruitment remuneration

The remuneration package for a new Executive Director would normally be set in accordance with the terms of the remuneration policy of the Post Office in force at the time of appointment.

Item	Policy
Salary, Benefits and Pension	Salary may be set below normal market rate, with phased increases over time as the Executive Director gains experience in their new role. Benefit and Pension in line with the policy for existing Executive Directors.
STIP	Maximum annual participation will be set in line with the Company's Policy for existing Executive Directors and will not exceed 80% of salary.
LTIP	Maximum annual participation will be set in line with the Company's Policy for existing Executive Directors and will not exceed 98% of salary.
Buyout of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the nature, performance conditions and time horizon attaching to award forgone and will be tailored to the individual. Any such award would require approval by BEIS.
Internal appointment	Any variable pay element awarded in respect of their previous role will be allowed to pay out according to the terms on which it was originally granted. Adjustments may be made to the award, as relevant, to take into account their new role.

The Company's Policy when setting fees for the appointment of new Non-Executive Directors is to apply the policy which applies to current Non-Executive Directors.

Annual Remuneration Report

Single total figure of remuneration

	Paula Vennells CEO (note 1)		Alisdair Cameron CFOO (note 2)	
	2019	2018	2019	2018
	£	£	£	£
Annualised Salary	255,000	255,000	244,800	244,800
Actual Salary	255,000	253,800	244,800	243,600
Benefits	9,900	9,900	9,900	16,400
STIP (note 3)	143,800	196,400	115,200	147,900
LTIP	245,000	194,400	168,000	133,300
Cash in lieu of pension	63,800	63,800	61,200	54,700
Total Remuneration	717,500	718,300	599,100	595,900

Note 1: Paula Vennells resigned as Group Chief Executive on 30 April 2019.

Note 2: The 2018 benefits figure for Alisdair Cameron includes £6,500 company contributions to a Defined Contribution pension.

Note 3: The Remuneration Committee has exercised its discretion and has applied a 20% reduction to the STIP payment for Group Executive Members for the 2018/19 financial year. This has been applied taking into account the ongoing postmaster Group Litigation and its impact on the business. This reduction was applied to all 2018/19 Group Executive members.

Salaries for individual Executive Directors are reviewed annually by the Committee and normally take effect from July. The Committee considered the Executive Directors' pay review in July 2018 in light of pay review budgets across the Group.

Remuneration of the CEO over time

The table to below shows the total remuneration of the CEO over eight financial years (since the Post Office became independent from the Royal Mail), together with their STIP and LTIP payments in those years:

	2012	2013	2014	2015	2016	2017	2018	2019
	£	£	£	£	£	£	£	£
Total Remuneration	456,300	696,400	543,900	522,000	619,600	671,600	718,300	717,500
Salary/fees	250,000	250,000	250,000	250,000	250,000	250,000	255,000	255,000
STIP (% of maximum)	86%	79%	38%	48%	77%	99%	96%	71%
LTIP (% of maximum)	-	89%	59%	45%	59%	62%	80%	100%

Single Figure for Non-Executive Directors

The table below shows the remuneration of Non-Executive Directors for the year ended 31 March 2019 and the comparative figures for the year ended 25 March 2018.

Name	Annualised salary/fees 2019 (note 1)	Actual salary/fees 2019	Total 2019	Total 2018
	£	£	£	£
Tom Cooper (note 2)	-	-	-	-
Tim Franklin	40,000	39,800	39,800	40,000
Virginia Holmes (note 3)	35,700	300	300	35,500
Shirine Khoury-Haq (note 4)	35,000	30,000	30,000	-
Ken McCall	50,000	49,800	49,800	50,000
Tim Parker (note 5)	19,200	19,300	19,300	75,000
Carla Stent	45,000	44,800	44,800	45,000
Richard Callard (note 6)	-	-	-	-

Note 1: The annualised fees are shown as at 31 March 2019 or at the date of leaving.

Note 2: Tom Cooper is an employee of UK Government Investments Limited ("UKGI").

Note 3: Virginia Holmes ceased her role as Non-Executive Director on 27 March 2018.

Note 4: Shirine Khoury-Haq ceased her role as Non-Executive Director on 18 July 2019.

Note 5: Tim Parker donates the after tax value of his Board fees to charity. From 1 April 2018, Tim's time commitment has reduced and there has been a corresponding reduction in his annual fee.

Note 6: Richard Callard was an employee of UKGI and ceased his role as Non-Executive Director on 27 March 2018.

External appointments

Paula Vennells is a Non-Executive Director of Wm Morrison Supermarkets PLC, was appointed to the Cabinet Office Board and resigned as a Director of Hymns Ancient and Modern Limited in January 2019. Alisdair Cameron is a Non-Executive Director of Dover Harbour Board.

Payments to past Directors

No payments were made to past directors in 2018/19.

Payments for loss of office

No payments were made for loss of office in 2018/19.

Membership of the Remuneration Committee

The Committee determines, on behalf of the Board, the Company's policy on the remuneration of Executive Directors, other members of the Group Executive and the Chairman of the Board. The Committee determines the total remuneration packages and contractual terms and conditions for these individuals. The Policy framework for remunerating all senior executive managers is consistent with the approach taken for Executive Directors. The Committee also provides oversight of all employee reward, for example the annual bonus scheme, and reviews cascade and alignment of reward throughout the organisation. The Remuneration Committee Terms of Reference were updated in October 2018. The members of the Committee are listed in the table below. All are independent Non-Executive Directors, with the exception of the Company Chairman who was independent on his appointment. During the year ended 31 March 2019, the Committee met six times to discuss key remuneration issues arising, the review and operation of the Company's Remuneration Policy and market updates by its advisers.

	Meetings attended in 2018/19
Ken McCall (Remuneration Committee Chairman)	6/6
Tim Parker	6/6
Tom Cooper	5/6
Shirine Khoury-Haq	5/6

The CEO attends the meeting by invitation of the Chairman and assists the Committee in its deliberations, except in matters relating to their own remuneration. No Directors are involved in deciding their own remuneration. The Committee also receives advice from the Group Human Resources Director, along with other members of the Human Resources team and external consultants.

External advisors

In the year under review, advice on matters related to executive remuneration was primarily obtained from PricewaterhouseCoopers LLP ("PwC"). PwC is a founding member of the Remuneration Consultants Group and voluntarily operates under the Code of Conduct in relation to Executive Remuneration consulting in the UK. The Committee has reviewed the operating processes in place at PwC and whilst they are also our statutory auditors, they are satisfied that the advice that it receives is objective and independent.

Fairness, diversity and wider workforce considerations

When making remuneration for the Executive Directors, we consider pay, policies and practices elsewhere in the Group.

As part of our commitment to fairness, we have introduced this section which sets out more information on our wider workforce pay conditions, our gender pay statistics, and our diversity policy. Whilst we recognise there is much work still to do, we believe that transparency is an important first step towards making improvements in relation to these important issues.

Engagement with the wider workforce

Employee engagement continues to be a focus for Post Office. Employee engagement rose by 13 percentage points to 51% in 2018 and a further 8 percentage point improvement has been reported within the Retail division in March 2019. Over 90% of colleagues responded to the survey in 2018.

Going forward, our priority is improving management capability as a key driver of engagement. It is important for each employee at the Post Office to understand the role they have to play in securing a successful future for the business, and a line manager plays a key part in creating this understanding.

We continue to encourage everyone to set goals which are aligned to business priorities. For 2019/20 we have a new leadership objective which every leader in the business will share and be measured on, focused on performance delivery, and reinforcing the importance of offering coaching and feedback that enables personal development for all colleagues.

The Chairman of the Remuneration Committee will be joining engagement champions at an event in August 2019. This constitutes around 80 colleagues from across the business. One of the topics to be addressed will be executive remuneration and how it aligns to the wider workforce.

Gender Pay gap reporting

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. At Post Office we recognise that more needs to be done to reduce the gender pay gap and we are committed to doing so.

We continue to make progress. Our gender pay gap is 0.5% lower than last year, and smaller than the UK average. We are closer to our goal of filling 50% of senior manager roles with women which was 39% in our last report and is currently 42%. The number of women holding mid-level managerial roles has risen by a third in the last year. We provide tailored coaching and mentoring for female colleagues and run recruitment programmes to encourage more women to pursue careers in IT and Finance. Our commitment has been recognised by The Times as we made their list of Top 50 Employers for Women for the third time.

Both our mean and median hourly gap has reduced. Our median gender pay gap is 7.9%, (as compared with the national figure of 18.4%) and our mean gender pay gap is 17%. The main reason for the gap is the lower proportion of women in senior roles relative to men. Another reason is part-time working – 45% of female colleagues work part-time, compared with only 12% male colleagues. This especially impacts the bonus pay gap.

However, we are not complacent. There is still work to do to ensure women at Post Office realise their potential. We are taking actions to reduce the gender pay gap further, such as continuing to offer tailored mentoring to female colleagues and making sure we have 50/50 gender balanced shortlists for senior level vacancies and our next graduate intake. Above all else, we continue to listen to our colleagues and understand what they need to help them to flourish. We will use these conversations, alongside the data contained in our full gender pay report, to improve again next year. Because it is the right thing to do – for the future of Post Office and our people. For our full gender pay report please see: http://corporate.postoffice.co.uk.

Diversity Policy

Our diversity and inclusion agenda has been a significant focus for us over the past year. We aspire to provide a positive work environment. Employment decisions – whether related to recruitment, promotions, transfers or terminations – are based on merit and fairness.

We have improved our reporting of diversity data and now have a clearer picture of where we stand with regards to the diversity of [i] our workforce as a whole, [ii] our leadership team and [iii] our pipeline of talent and promotion appointments. We are continuing to work on increasing the disclosure rate of other diversity data, including sexual orientation and disability.

We also have gender diversity and ethnic diversity targets on our business scorecard relating to representation at senior management level. Both targets are stretching and aim to have a leadership team that is reflective of the customers and communities we serve by 2020 (50% female representation and 14% BAME (Black, Asian and Minority Ethnic colleagues) representation at leadership level by the end of 2019/20). Introducing this target has sent a clear message to our leaders and colleagues in the business that gender diversity is not just a HR issue, but a business imperative and helps to keep this issue on the agenda.

Other actions we have taken include:

- **Being more demanding of our executive search firms.** We insist on being provided with gender balanced shortlists for senior roles to ensure that we are looking within the widest possible pool of talent when recruiting new leaders into the business. This has contributed to the increase we have seen in the representation of senior women in the business to 42%. We are now aiming to broaden this to include greater ethnic diversity on shortlists for leadership roles also.
- **Placing greater emphasis on diverse talent pipelines for senior and executive roles.** Our Head of Talent is working with each group executive member to identify their top talent and challenge where this is not a diverse list. As a result we have seen an increase in the number of women promoted internally with 60% of our upward transfers in the last year being women, and 24% of our upwards transfers being BAME colleagues.
- **Working to create an inclusive culture.** Diversity and inclusion is recognised as a strategic priority by the business from the very top level. We reinforce the importance of diversity and inclusion to all our people through profiling diverse role models; celebrating the diversity of our people and marking awareness days; growing the number and impact of our employee led diversity networks; and educating our people on the business impact of having diverse and inclusive teams.

Ken McCall
Chair of the Remuneration Committee
3 September 2019

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 and 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. The Risk and Compliance Committee ("RCC") reviews the effectiveness of the risk management framework and management of principal risks. The outputs are reported to the ARC as necessary.

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 by the Central Risk team and at the RCC and the ARC 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.

During the year we have further improved our oversight over the level of risks being taken across Post Office and effectiveness of our mitigating actions, including close monitoring of emerging risk themes and incidents. Plans are also in place to fully refresh risk appetite to better inform decision making. This is a component within our wider enhancement plan to continue maturing our Risk Management framework.

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.

What has changed since last year?

Our principal risks evolve over time, as we progress with our strategy and drive to become a self-sustaining company, new risks emerge and our mitigation activities adapt. Health and Safety has become a new principal risk this year, reflecting the high importance we place on the safety of our staff, colleagues and customers. Litigation is also new, due to the ongoing litigation involving the Post Office. People is also a key focus, we recognise the need to attract, motivate, develop and retain people with the right expertise to be successful. The level of risk has increased for Economic and Political environment, in response to the ongoing political and economic uncertainty. Dependency on strategic relationships remains a principal risk and is in an improving position. We have invested considerably in Technology, Business Interruption and Cyber and residual risk is improving, although the management and Board are not complacent to these risks. Both our Retail Proposition and Regulatory Environment risks are stable. Our Retail Proposition remains fundamental to enabling us to continue to successfully deliver our social purpose and the regulatory environment continues to evolve and introducing new ways of doing business.

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 GE level.

Principal Risk / Movement		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. The number of such relationships is increasing. We work with our partners to align our direction and interests to enable us to meet evolving customer and market requirements and any misalignment.	↓	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. • Our key Banking Framework contract has been comprehensively re-negotiated to place it on a strategic, commercially sustainable and long term footing. Linkages have been established at Bank Board, POL Board and Government levels to ensure strategic alignment. • With Royal Mail Group we maintain a wide range of relationships, from our front end colleagues in branch through to Board level. Discussions have commenced about the long term future of the partnership and the shape of any future agreement.

Principal Risk / Movement		Potential Consequences	Key Mitigations
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. We continue to review and develop our proposition to enable us to continue to successfully deliver our social purpose, which addresses the impact of: • increased high street costs; • ongoing move to online; and • a decline in traditional income streams.	↔	Inability to meet our network commitment, and consequent adverse impact on delivery of our social purpose and consequential financial impacts.	• We are continuing to open branch locations where there is a customer need, adding 440 'new network locations' in 2018/19. We are also continuing to improve our support to existing postmasters and have strengthened our field support team this year. • New technology will help our postmasters manage costs and our business to remain relevant to customers and we are investing in the next generation of automation for our branches as well as further developing the software that will allow retailers to sell Post Office products on their own tills.
STRATEGIC RISKS			
Economic and Political Environment Current uncertainties in the external political, economic and social environment could detrimentally impact our strategy and operating model significantly: Brexit itself represents a potential series of risks which would be most pronounced in the event of a no-deal departure from the EU, but has also taken a very serious toll on all aspects of Government and politics more broadly. There remains a possibility that the current impasse will increase the pressure for a General Election, with the attendant risk that Government and our Shareholder's priorities may change in favour of any new Government's agenda, with potentially significant implications for the business.	↑	Spending patterns of our customers during economic uncertainty and potential downturn of the economy e.g. decline in the sale of banking products, particularly mortgages. Disruption to operations (customs labels in branch, accessibility issues for supply chain). Financial resilience of our postmasters and suppliers. Retention of skilled labour and recruitment. New income streams failing to grow.	• We regularly perform horizon scanning to identify external events and assess their potential impact on our business. • Our strategy considers customer requirements, market trends and competitor behaviour. • We continue to invest in the development of our digital capability. • In terms of Brexit arrangements, PO have communications, training and contingency processes in place to deploy in the event of a 'no deal'.

Principal Risk / Movement		Potential Consequences	Key Mitigations
OPERATIONAL AND FINANCIAL RISKS			
Health and Safety Due to Post Office's wide reach through the size and operation of its Network including fleet, it is essential we invest in our safety procedures and controls. A health and safety incident or failure could result in serious injury, ill health or loss of life.	**NEW**	Exposure to significant costs for reimbursement for damages and remediation, operational disruption, prosecution and reputational damage.	• We have regular Health & Safety training provided to all colleagues and managers including Directly Managed Branches and Supply Chain Managers. • We regularly review, update and monitor Local Risk Assessments and safe systems of work. • We have developed a Road Risk Policy. • We regularly review our Health & Safety policy and Property Statutory Compliance policies. • Our Health & Safety Management System has been independently audited and assessed as strong and mature. Initiatives recommended to further strengthen our safety culture have been implemented. • An independent Risk Assessment of high risk building fabric has been undertaken and remediation actions completed. • We undertake a dynamic risk assessment, work closely with industry experts and bodies and have invested heavily in security related interventions to reduce the risk of attack and assault across the Network and Supply Chain.
People The Post Office is dependent on a dedicated workforce to meet the expectations of customers and stakeholders. Continuing to attract, motivate, develop and retain people with the right expertise is key to its success.	**NEW**	Failure to deliver our purpose, achieving our strategic objectives and loss of engagement	• Development of Talent Acquisition and Talent Development Programmes. • Review of Succession Planning on key roles and skills required. • Updating the Employee Value Proposition. • Engagement Champions in place to act as an enabler of employee voice across the business. Regional events led by Post office leaders will be introduced to increase senior leadership visibility and trust. • Introduction of Digital Stars with ongoing workshops to upskill staff on the use of new platforms. • Recruitment is underway for the new Digital and Innovation Board (c. 15 new roles). • Work continues to help increase colleague engagement led by Engagement and Talent team.

Principal Risk / Movement		Potential Consequences	Key Mitigations
			• Continual review of our organisational structure to ensure it evolves and supports our requirements. • Key capabilities for our current and future state needs identified with a capability Heatmap. Key capabilities for our current and future state needs identified with a capability Heatmap. • Investment in developing our people.
TECHNOLOGY AND INFORMATION SECURITY RISKS			
Technology, Business Interruption and Cyber 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 (particularly nation states) 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. A cyber-attack could threaten the confidentiality, integrity and availability of our systems.	• We are continuing to mitigate this risk by migrating some of our aging legacy systems to new infrastructure and this will continue through 2019/20. • We regularly evaluate the adequacy of our IT infrastructure and related controls. • We regularly meet with our key third parties to ensure they fulfil their obligations covering the security, resilience and availability of our IT systems and infrastructure. • We have introduced a Security Improvement Plan enabling our third party suppliers to use their security experience to identify a gap or improvement to a security process or tool that Post Office has not identified, improving our partnership and utilise their experiences to improve our overall security posture. • We have policies in place for cyber, disaster recovery, information security and acceptable use. • We monitor and provide assurance against the minimum controls defined in these policies. • A Security Operations Centre has been built, enabling our IT Security Team to assess and manage vulnerabilities, identify and mitigate the risk of cyber-attacks. • We continue to further invest and further mature our cyber defences including: ➢ increasing capability within our security operations; ➢ cultural awareness around data protection; and ➢ continuous testing in house and with experience 3rd parties.

Principal Risk / Movement		Potential Consequences	Key Mitigations
LEGAL & REGULATORY RISKS			
Group Litigation Post Office Limited is the defendant in *Bates & Others v. Post Office Limited*, Claim Nos. HQ16X01238, HQ17X02637 & HQ17X04248 in the High Court of Justice, Queen's Bench Division ("The Post Office Group Litigation").	**NEW**	Legal findings and court orders which have an adverse impact on financial performance and/or reputation.	• Post Office has instructed specialist legal advisors to advise on and conduct its defence of the litigation, subject to senior management oversight.
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, location fees as well as Fit and Proper) and telecoms space, which increases the risk of non-compliance, costs and could impact our financial performance.	↔	Fines, penalties, litigation and a resulting adverse impact on financial performance and/or reputation.	• We have open dialogue with key regulators to understand and clarify expectations. • We regulatory perform 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.

Directors' Report

The Directors present the Group Annual Report and Financial Statements and Company Financial Statements for the year ended 31 March 2019.

Expected future developments

Expected future developments are detailed in the Chief Executive's statement on pages 4 and 5.

Results and dividends

The profit after taxation for the year was £40 million (2018: £17 million). The Directors do not recommend the payment of a dividend (2018: £nil).

Political contributions

No political contributions were made in the year (2018: £nil).

Research and development

We submitted our first research and development claim during 2018/19 in respect of 2017/18 and 2016/17. The claim relates to IT transformation projects.

Directors and their interests

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

T C Parker	P A Vennells *(resigned 30 April 2019)*
A C J Cameron	T K G Cooper *(appointed 27 March 2018)*
T A Franklin	S Khoury-Haq *(appointed 24 May 2018) (resigned 18 July 2019)*
K S McCall	C R Stent
V A Holmes *(resigned 27 March 2018)*	R J Callard *(resigned 27 March 2018)*

No Director has a beneficial interest in the share capital of Post Office Limited. The emoluments of Directors are set out in the Remuneration Committee Chairman's Statement on pages 24 and 25.

People

People are critical to our success, whether in branch or in our offices. To attract and retain the right people 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).
- 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.
- 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.
- Require all Hiring Managers to complete Effective Interviewing and Unconscious Bias Training to ensure a consistent, fair and unbiased selection process takes place.
- 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 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

Gender pay gap is detailed in the Remuneration Committee Chairman's Statement on pages 26 to 27.

Post balance sheet events

In accordance with the funding agreement with Government, Post Office Limited received a Network Subsidy Payment of £18 million on 2 April 2019. The Network Subsidy Payment is received on a quarterly basis and a total of £50 million will be received from Government in 2019/20.

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 48.

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 69 to 71.

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware, that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent Auditor

PricewaterhouseCoopers LLP were appointed as the Company's external auditors on 31 July 2018 following a tender process.

By order of the Board

Veronica Branton

Veronica Branton

Company Secretary, Post Office Limited (Company Number 2154540)
Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ
3 September 2019

Financial Statements

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial 53 week period. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Independent Auditor's Report to the members of Post Office Limited

In our opinion:

- Post Office Limited's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2019 and of the Group's profit and cash flows for the 53 week period (the "period") then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Consolidated Financial Statements (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 March 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and Company statements of changes in equity for the 53 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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 and 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 37, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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 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 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
3 September 2019

Consolidated Income Statement

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

		2019 £m			2018 £m		
	Note	Trading	Investments	Total	Trading	Investments	Total
Revenue from contracts with customers		**972**	**-**	**972**	956	-	956
Costs	2,4	**(959)**	**(134)**	**(1,093)**	(960)	(102)	(1,062)
Costs – exceptional items	19	**(20)**	**-**	**(20)**	(3)	-	(3)
Total costs		**(979)**	**(134)**	**(1,113)**	(963)	(102)	(1,065)
Other operating income		**14**	**-**	**14**	5	-	5
Investment funding	4	**-**	**168**	**168**	-	70	70
Network Subsidy Payment		**60**	**-**	**60**	70	-	70
Depreciation and amortisation	8,9	**(94)**	**-**	**(94)**	(55)	-	(55)
Share of post-tax profit from joint venture	10	**33**	**-**	**33**	34	-	34
Operating profit / (loss)	3	**6**	**34**	**40**	47	(32)	15
Operating profit / (loss) before exceptional items		**26**	**34**	**60**	50	(32)	18
Finance costs	6	**(8)**	**(1)**	**(9)**	(5)	(2)	(7)
(Loss) / profit before taxation	3	**(2)**	**33**	**31**	42	(34)	8
Taxation credit	7	**9**	**-**	**9**	9	-	9
Profit / (loss) for the financial year		**7**	**33**	**40**	51	(34)	17

For the year ended 31 March 2019 trading profit was £60 million (2018: £35 million).

Trading profit is one of the Group's key financial measures and is calculated by taking operating profit before depreciation, amortisation, exceptional items, investments and Network Subsidy Payment. Further detail is given in note 23.

All amounts relate to continuing operations.

Consolidated Statement of Comprehensive Income

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Note	**2019 £m**	2018 £m
Profit for the financial year		**40**	17
Items that may be reclassified to profit or loss			
Gain on cash flow hedge	16	**3**	-
Items that will not be reclassified to profit or loss			
Re-measurements on defined benefit surpluses	17	**(3)**	2
Tax effect	17	**1**	(2)
Total other comprehensive income		**1**	-
Total comprehensive income for the year		**41**	17

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

Consolidated Statement of Cash Flows

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Note	**2019 £m**	2018 £m
Cash flows from operating activities			
Operating profit		**6**	47
Total profit before investments		**6**	47
Adjustment for:			
Share of profit from joint venture	10	**(33)**	(34)
Depreciation and amortisation	8,9	**94**	55
Pension operating costs	17	**13**	17
Other gains and losses		**7**	-
Working capital movements:		**2**	(2)
(Increase)/Decrease in trade and other receivables		**(5)**	4
Decrease in contract assets		**5**	-
Decrease in trade and other payables		**-**	(3)
Decrease/(increase) in inventories		**1**	(1)
Increase in trading provision		**3**	-
Decrease in provisions for discontinued operations		**(2)**	(2)
Pension costs paid		**(21)**	(26)
Cash payments in respect of investments items:		**47**	(46)
Investment funding		**168**	70
Restructuring costs		**(121)**	(116)
Surrender of tax losses to joint venture		**8**	9
Net cash inflow from operating activities		**123**	20
Cash flows from investing activities			
Dividends received from joint ventures	10	**33**	34
Acquisition of businesses (net of cash acquired)	20	**(17)**	(6)
Proceeds from the sale of property, plant and equipment		**4**	5
Purchase of tangible and intangible non-current assets		**(160)**	(135)
Net cash outflow from investing activities		**(140)**	(102)
Net cash outflow before financing activities		**(17)**	(82)
Cash flows from financing activities			
Finance costs paid		**(8)**	(5)
Net (repayments)/proceeds of borrowings from BEIS	14	**(58)**	62
Net cash (outflow)/inflow from financing activities		**(66)**	57
Net decrease in cash and cash equivalents		**(83)**	(25)
Cash and cash equivalents at the beginning of the year	12	**655**	680
Cash and cash equivalents at the end of the year	12	**572**	655

Consolidated Balance Sheet

at 31 March 2019 and 25 March 2018

	Note	2019 £m	2018 £m
Non-current assets			
Intangible assets	8	**291**	264
Property, plant and equipment	9	**176**	148
Investments in joint venture	10	**66**	66
Retirement benefit surplus	17	**1**	3
Trade and other receivables	11	**6**	12
Total non-current assets		**540**	493
Current assets			
Inventories		**2**	3
Trade and other receivables	11	**345**	330
Cash and cash equivalents	12, 16	**572**	655
Total current assets		**919**	988
Total assets		**1,459**	1,481
Current liabilities			
Trade and other payables	13	**(544)**	(571)
Financial liabilities - interest bearing loans and borrowings	14	**(565)**	(623)
Provisions	15	**(52)**	(36)
Total current liabilities		**(1,161)**	(1,230)
Non-current liabilities			
Other payables	13	**(14)**	(18)
Provisions	15	**(40)**	(30)
Total non-current liabilities		**(54)**	(48)
Net assets		**244**	203
Equity			
Share capital	18	**-**	-
Share premium	18	**465**	465
Accumulated losses		**(226)**	(264)
Other reserves	18	**5**	2
Total equity		**244**	203

The notes on pages 46 to 84 form an integral part of the consolidated financial statements.

The financial statements on pages 41 to 84 were approved by the Board of Directors on 3 September 2019 and signed on its behalf by:

A C J Cameron
Interim Chief Executive

Consolidated Statement of Changes in Equity

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Share capital £m	Share premium £m	Accumulated losses £m	Other reserves £m	**Total equity £m**
At 26 March 2018	**-**	**465**	**(264)**	**2**	**203**
Profit for the year	**-**	**-**	**40**	**-**	**40**
Other comprehensive income	**-**	**-**	**(2)**	**3**	**1**
At 31 March 2019	**-**	**465**	**(226)**	**5**	**244**

	Share capital £m	Share premium £m	Accumulated losses £m	Other reserves £m	Total equity £m
At 27 March 2017	-	465	(281)	2	186
Profit for the year	-	-	17	-	17
At 25 March 2018	-	465	(264)	2	203

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 53 weeks ended 31 March 2019 (2018: 52 weeks ended 25 March 2018).

Basis of preparation

The Group financial statements on pages 41 to 84 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. IFRS interpretations are issued by the International Accounting Standards Board (IASB) and must be adopted into European Law, referred to as endorsement, before they become mandatory under the IAS regulation. Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention.

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Post Office Limited is a private Company limited by shares incorporated in England and Wales.

The income statement presents the results of the Group in a columnar format – in total and split between trading and investments. The trading column represents the underlying performance of the business. Investment funding from Government, restructuring and transformation costs are separately disclosed in the investments column.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings as at 31 March 2019. 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 53 weeks ended 31 March 2019. A separate set of financial statements has also been prepared for Payzone Bill Payments Limited (subsidiary, registered address: Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ), which was acquired on 24 October 2018, see note 20 for details.

The year-end dates of these subsidiaries are in line with the Company. The subsidiaries use consistent accounting policies where appropriate and their results have been consolidated into the Group financial statements. All intra-group balances, transactions, and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

New and amended standards adopted by the Group

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018/19, but do not have an impact on the financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from 2018/19 has not had a material impact on our results, with the key issues for Post Office being around documentation of policies and new hedge documentation.

IFRS 9 operates an expected credit loss model rather than an incurred credit loss model. Providing for loss allowances on our existing financial asset has not had a material impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 using the modified retrospective method of adoption. The standard has not had a material impact on revenue recognition at Post Office and therefore, on initial application, no adjustment was required to the opening balance of retained earnings. Income statement presentational reclassifications have been required in respect of the Network Subsidy Payment and commission income relating to Government Services. These two items were formerly recognised in revenue and have now been reclassified to other income as they did not meet the recognition criteria from revenue under IFRS 15. Refer to page 9 for further details of the reclassification. The accounting policies for revenue and for other income are on pages 49 to 51.

New standards and interpretations not yet adopted

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for operating leases.

The Group will apply the standard from its mandatory adoption date – for Post Office this is from 1 April 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any existing onerous and vacant lease provisions). The Group therefore expects to recognise right-of-use assets and lease liabilities of approximately £75-85 million on 1 April 2019. This range is before any adjustment for impairment. The net pre-tax impact on the consolidated income statement will be minimal – an increase in trading profit of some £5-10 million as there will no longer be a charge for operating leases, matched by increases in depreciation, to recognise the usage of the new right-of-use assets, and finance costs, to recognise the unwinding of the discount on the lease liability. There will be no impact on the cash flows of the business.

The Group's activities as a lessor are not material and hence the group does not expect any significant impact on the financial statements.

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 £244 million at 31 March 2019 (2018: £203 million). At 31 March 2019 £385 million of the Group's working capital facility was undrawn (2018: £327 million). The Group has also been profitable at a trading profit level with current year profit of £60 million (2018: £35 million) and has shown a profit after tax of £40 million (2018: £17 million).

We have the following funding agreed with BEIS: a working capital facility of £950 million to 31 March 2021; a further £50 million facility available to provide same day liquidity to 4 April 2020; Network Subsidiary Payment of £50 million for 2019/20 and 2020/21 respectively; and we also have investment funding of up to £210 million available for the period from April 2018 to March 2020. Investment funding of £168 million was received in 2018/19.

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 financial statements. The most significant areas where judgements and estimates are made are discussed below:

Critical accounting estimates:

Key assumptions used in impairment tests for non-current assets
The Group assesses whether there are any indicators of impairment for all non-current assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. 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.

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 (CGU) exceeds its recoverable amount. The recoverable amount is determined based on value in use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a two year period. Cash flows beyond this period are extrapolated using estimated growth rates. Refer to note 9 for the results of the latest impairment test, including sensitivity analysis.

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

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 and in accordance with published statistics and experience. Refer to note 17 for details of the key assumptions and sensitivity analysis performed.

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.

Property provisions
The Group recognises provisions for property leases that are onerous. Assumptions are made to determine whether the unavoidable costs of meeting the obligations of a lease agreement exceed the economic benefits expected to be received under it. These include estimates around the future trading performance of the site and cost allocations.

Critical accounting judgements:
The recognition of a contingent liability in respect of the Group Litigation Order is a key accounting judgement as at the accounting reference date. The key judgement is the level to which a potential liability is deemed possible versus probable and therefore whether a contingent liability is the correct accounting treatment. Refer to note 19 for further detail.

Revenue

The following revenue accounting policy relates to the prior year only.

Revenue 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. Revenue from Financial Services and some Retail services comprises the commission received. Revenue 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. Revenue from all other transactions is recognised when the transaction is completed. All revenue is derived wholly from within the United Kingdom.

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

Revenue from contracts with customers

In 2018/19, the Group adopted IFRS 15.

Retail

The Group provides Mails support services to Royal Mail and Parcelforce. Each Mails product and service has an associated transaction price. The transaction price may vary due to the volume transacted in the period. Revenue from providing Mails support services is recognised in the accounting period in which the services are rendered.

The Group acts as a selling agent and earns commission on the sale of lottery tickets, scratch cards and gift vouchers. The transaction price is a contractual commission rate, which is based on the value of sales in the period. Revenue from the sale of lottery tickets, scratch cards and gift vouchers is recognised in the accounting period in which these sales are made.

Payment services comprise bill payments (including the subsidiary Payzone Bill Payments Limited). The transaction price is the fee that the Group earns for each bill paid in a branch. Revenue from bill payments is recognised in the accounting period in which the service is rendered and is based on the transaction price multiplied by the volume of bill payments in the period.

Through the Banking Framework Agreement, the Group provides over-the-counter banking services, such as withdrawals, deposits and balance enquiries, on behalf of banks. A transaction price is associated with each banking service provided. Revenue is recognised in the accounting period in which the services are rendered and is based on the transaction price multiplied by the volume of each service provided in the period.

Identity Services

Identity services are provided under contract to Government departments, such as the DWP, DVLA and the Home Office. Each Government service has an associated transaction price. Revenue is recognised in the accounting period in which the services are rendered and is based on the transaction price multiplied by the volume of each service provided in the period.

Financial Services & Telecoms

Our Financial Services products include mortgages, credit cards, savings, travel and banking. The Group earns commission on the sale of these products. The transaction price is a contractual commission rate. This commission rate varies by product and is based on volume or value of products sold in the period as well as the channel of sale, for example online or through the branch network. Revenue is recognised in the accounting period in which the new products are sold.

Telecoms includes Post Office HomePhone and Broadband services. The transaction price is the subscription fee, consisting primarily of charges for access to broadband and other internet access or voice services. Revenue is recognised as the service is provided because the customer receives and uses the benefits simultaneously.

Insurance

Through its subsidiary, Post Office Management Services Limited, the Group provides general and life insurance intermediation. The transaction price is a contractual commission rate. This commission rate varies by product and is based on the volume or value of products sold in the period as well as the channel of sale, for example online or through the branch network. Revenue is recognised in the accounting period in which the new products are sold.

For all the revenue streams noted above, a receivable is recognised when the goods are delivered or the services are provided, as this is the point in time that the consideration is unconditional, because only the passage of time is required before the payment is due.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction process for the time value of money.

Accrued and deferred income

Income is accrued on the balance sheet for goods and services for which control has transferred to the customer before consideration is due. Accrued income is reclassified as trade receivables when the right to payment becomes unconditional and we have invoiced the customer.

Deferred income is recognised when we have received advance payment for goods and services that we have not yet transferred to the customer.

Other income

The Network Subsidy Payment is received from Government and is recognised as other income to match the related costs of making available the network of public Post Offices that the Secretary of State for BEIS considers appropriate. The subsidy is recognised in the year in which it is received. If the subsidy were to exceed the cost of making the network available, the excess would be repaid to Government.

Other income also includes commission income relating to Government Services. This income, along with the Network Subsidy Payment, was previously presented within revenue; however they do not

fall within the scope of IFRS 15. As a result these two items have been reclassified to other income, as previously referenced on page 47.

Investments column in the income statement

Income statement items are presented in the investments column when they are significant in size or nature, and either they do not form part of the underlying trading of the business or their separate presentation enhances understanding of the financial performance of the Group. Investment funding from Government, restructuring and transformation costs are separately disclosed in the investments column. Investment funding is recognised at the point of receipt and is received for transformational activities. Investment spend is presented within the investment column to correspond with the investment funding to which it relates. Refer to note 4 for further detail.

Exceptional items

Exceptional items are significant, one off items which require disclosure on their own on the Income Statement.

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. A provision for dilapidations is made where necessary. Refer to the provisions policy on page 54 and note 15 for further detail.

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.

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. The joint venture is an integral part of the Group’s operations.

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, within the investments column.

Property, plant and equipment

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	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
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Long leasehold and short 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.

Assets in the course of construction are carried at cost, with depreciation charged on the same basis as all other assets once those assets are ready for their intended use.

Intangible assets

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.

Software:

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it

- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Research and development:
Research expenditure and development expenditure that does not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

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
Merchant relationships	5 – 10 years
Brands	15 years

Assets in the course of construction are carried at cost, with amortisation commencing once the assets are ready for their intended use.

Inventories

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

Trade receivables

Trade receivables are recognised and carried at original invoice amount. An allowance is made when collection of the full amount is no longer probable. The Group applies IFRS 9 to measure this allowance for expected credit loses, grouping trade receivables based on shared risk characteristics and days past due. Bad debts are written off when identified.

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 subsidiaries Post Office Management Services Limited and Payzone Bill Payments Limited hold some fiduciary cash balances, these are held on trust on behalf of third parties, see note 12 for details.

Pensions and other post-retirement benefits

Membership of occupational pension schemes is open to most permanent UK employees of the Group.

The Group is the principal employer of the Post Office Section of the Royal Mail Pension Plan (RMPP), and is a participating employer within the Royal Mail Senior Executives Pension Plan (RMSEPP). RMPP and RMSEPP are both defined benefit plans closed to new members and closed to future accrual. All members of these plans are contracted out of the earnings-related part of the State pension scheme.

A Memorandum of Understanding was executed in 2016/17 which removed the unconditional right to refund from the RMPP. As a result of these events the surplus relating to this Plan was derecognised.

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.

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.

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. As the Group has no right to a future surplus in the RMPP, an equal and opposite adjustment to the asset ceiling is recognised in other comprehensive income. 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.

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. 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 determined by discounting the expected future cash flows at an appropriate pre-tax rate.

Financial instruments

Initial measurement of financial instruments

All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

Subsequent measurement of financial assets

IFRS 9 divides all financial assets into two classifications – those measured at amortised cost and those measured at fair value.

Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, "FVTPL"), or recognised in other comprehensive income (fair value through other comprehensive income, "FVTOCI)".

The classification of a financial asset is made at the time it is initially recognised. If certain conditions are met, the classification of an asset may subsequently need to be reclassified.

Subsequent measurement of financial liabilities
IFRS 9 divides all financial liabilities into two measurement categories: FVTPL and amortised cost. All of the Group's financial liabilities are measured at amortised cost.

Derecognition of financial assets
A financial asset is derecognised when the Group determines that it has transferred substantially all of the risks and rewards of ownership of the asset.

Derecognition of financial liabilities
A financial liability is removed from the balance sheet when it is extinguished; that is, when the obligation specified in the contract is either discharged or cancelled or expires.

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date that a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges).
- Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).
- Hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 16. Movements in the hedging reserve are shown within other reserves in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedges that qualify for hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other reserves within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were previously recognised in the statement of comprehensive income are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

2. Staff costs and numbers

Employment and related costs were as follows:

People costs within trading:	**2019 £m**	2018 £m
Wages and salaries	**162**	154
Social security costs	**18**	18
Other pension costs (note 17)	**13**	17
Total people costs within trading	**193**	189
Other operating costs within trading	**766**	771
Total trading costs	**959**	960

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

Period end and average monthly employee numbers were as follows:

	Period end employees		Average monthly employees	
	2019	2018	**2019**	2018
Total employees	**4,391**	5,020	**4,700**	5,066

Total employee numbers can be categorised as follows:

	2019	2018
Administration	**1,202**	1,205
Directly managed branches (DMB)	**2,047**	2,707
Supply Chain	**853**	848
Network programmes	**164**	213
Post Office Insurance	**57**	47
Payzone Bill Payments	**68**	-
Total	**4,391**	5,020

3. Operating profit

The following items are included within operating profit:

	2019 £m	2018 £m
Postmasters' fees	**365**	371
Depreciation and amortisation (notes 8 and 9)	**94**	55
Cost of inventories recognised as an expense	**1**	4
Loss on disposal of fixed assets	**5**	1
Operating lease charges – Land and buildings	**13**	12
Operating lease charges – Motor vehicles	**1**	1
Fees payable to the Group's auditor for audit and other services:	**£000**	£000
- parent Company and Group audit	**567**	773
- audit of subsidiary	**115**	82
- audit related assurance services	**-**	105
- other assurance services	**110**	110

4. Investments

	2019 £m	2018 £m
Investment funding	**168**	70
Restructuring:		
Business transformation	**(14)**	(16)
Network programmes	**(68)**	(63)
IT transformation	**(13)**	(6)
Severance	**(39)**	(17)
Total restructuring costs	**(134)**	(102)
Unwinding of discounts on provisions	**(1)**	(2)
Total investments income / (charge)	**33**	(34)

Investment funding: Investment funding is received from BEIS for transformation activities.

Restructuring: Restructuring costs are transformational spend incurred in order to implement the major transformation programmes. Business transformation is an overarching programme that will transform the business, driving Post Office toward commercial sustainability through technological innovation and the fundamental re-envisaging of long-term contracts. Network programmes is a multi-year initiative designed to simplify the retailer proposition, with key areas of focus being simplification, automation and the extension of the franchising model to some of our directly managed branches. IT transformation includes programmes to restructure our IT operating model and overhaul legacy back office systems, transitioning to a cloud based architecture. As part of the aforementioned transformational activities, severance costs have been incurred.

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

5. Directors' emoluments

Directors accruing pension entitlements during the period under:	**2019 Number**	2018 Number
Defined contribution schemes	**1**	1

Disclosures required by the Companies Act 2006 in relation to Directors' emoluments are provided on pages 24 and 25.

6. Finance costs

	2019 £m	2018 £m
Trading:		
Interest payable on loans	**(6)**	(5)
Finance charges	**(2)**	-
Total – trading	**(8)**	(5)
Investments:		
Unwinding of discounts on provisions	**(1)**	(2)
Total – investments	**(1)**	(2)
Total – net finance costs	**(9)**	(7)

7. Taxation credit

(a) Taxation recognised in the year

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

	2019 £m	2018 £m
Current income tax:		
Corporation tax credit for year	**(8)**	(8)
Deferred income tax:		
Deferred tax income relating to the utilisation of losses brought forward	**(1)**	(1)
Taxation credit	**(9)**	(9)

The current income tax credit recognised in the income statement is £8 million (2018: £8 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 (2018: £1 million) 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 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 credit on profit

As in 2018, the tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 £m
Profit before taxation	**31**	8
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	**6**	1
Effect of unutilised losses carried forward	**20**	29
Decrease in tax charge as a result of change in unrecognised deferred tax assets	**(21)**	(24)
Surrender of tax losses to joint venture	**(8)**	(8)
Tax effect of share of results of joint venture	**(6)**	(7)
Taxation credit	**(9)**	(9)

(c) Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Acquired intangible assets	**(2)**	(1)	**1**	1
Tax losses	**2**	1	**-**	-
Deferred tax (liability) / asset	**-**	-	**-**	-
Deferred tax income	**-**	-	**1**	1

In the current year a deferred tax liability of £2 million (2018: £1 million) has been recognised on the acquisition of intangible assets as part of a business combination, with a corresponding deferred tax asset of £2 million (2018: £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 (2018: £nil).

(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £183 million (2018: £190 million), comprising £150 million (2018: £143 million) relating to tax losses that are available to offset against future taxable profits, £32 million (2018: £46 million) relating to fixed asset timing differences and £1 million (2018: £1 million) relating to temporary differences on provisions. The Group has rolled over capital gains of £2 million (2018: £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 2019 and reduce to 17% with effect from 1 April 2020.

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	Other intangibles £m	Total £m
Cost				
At 27 March 2017	323	44	-	367
Reclassification	(2)	-	-	(2)
Additions	125	1	6	132
At 25 March 2018	446	45	6	497
Reclassification	(29)	-	-	(29)
Additions	101	-	-	101
Added on acquisition	1	8	7	16
Disposals	(17)	-	-	(17)
At 31 March 2019	**502**	**53**	**13**	**568**
Accumulated amortisation				
At 27 March 2017	200	-	-	200
Reclassification	6	-	-	6
Amortisation	27	-	-	27
At 25 March 2018	233	-	-	233
Added on acquisition	1	-	-	1
Amortisation	55	-	3	58
Disposals	(15)	-	-	(15)
At 31 March 2019	**274**	**-**	**3**	**277**
Net book value				
At 31 March 2019	**228**	**53**	**10**	**291**
At 25 March 2018	213	45	6	264

Included within the above table are assets under construction of £59 million (2018: £137 million).

Other intangibles includes customer relationships, merchant relationships and brands.

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

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

Additions to goodwill and other intangibles relate to the Payzone Bill Payments Limited ("Payzone") business combination disclosed within note 20. 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 (2018: £nil).

Goodwill was not considered to be impaired at the date of the last review. Refer to note 9 for details of the impairment review performed during the year.

Amortisation rates are disclosed on page 53 within the accounting policies note.

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 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
Reclassification	2	-	-	-	-	27	29
Additions	1	1	1	-	-	35	38
Added on acquisition	-	-	-	-	-	4	4
Disposals	(4)	(1)	(2)	-	-	(22)	(29)
At 31 March 2019	**39**	**39**	**21**	**25**	**1**	**849**	**974**
Accumulated depreciation							
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
Depreciation	1	2	-	-	-	33	36
Disposals	(2)	(1)	(2)	-	-	(17)	(22)
At 31 March 2019	**28**	**17**	**19**	**24**	**1**	**709**	**798**
Net book value							
At 31 March 2019	**11**	**22**	**2**	**1**	**-**	**140**	**176**
At 25 March 2018	11	23	1	1	-	112	148

Included within the above table are assets under construction of £9 million (2018: £11 million).

Depreciation rates are disclosed on page 52 within the accounting policies note. No depreciation is provided on freehold land, which represents £2 million (2018: £2 million) of the total cost of properties.

During the current and prior year, reviews of property, plant and equipment and intangible assets took place and resulted in reclassifications between categories to give a more appropriate representation of the nature of the assets.

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. Post Office Management Services Limited is a standalone entity with an identifiable asset base and therefore is deemed one CGU. Post Office Limited runs a national network of branches which provide a distinct retail offering resulting in a fluid customer base across the network. As such the network as a whole is deemed to be one CGU.

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 two year period (and then continued into perpetuity), with no nominal growth rate assumed outside of this period. Pre-tax discount rates for Post Office Limited of 9.5% (2018: 9%) and for Post Office Management Services Limited of 12% (2018: 12%) have been used to discount the forecasted cash flows.

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 12%, zero growth rate and a decrease in forecasted EBITDA by 5%. 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 venture

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

Joint venture

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 29 to 33.

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 2019 have been used.

	2019 Joint venture £m	2018 Joint venture £m
Share of net assets		
Total net investment at 26 March 2018, 27 March 2017	**66**	66
Share of post-tax pre dividend profit	**33**	34
Dividend	**(33)**	(34)
Total net investment at 31 March 2019, 25 March 2018	**66**	66

Share of assets and liabilities:	**2019 Joint venture £m**	2018 Joint venture £m
Receivables	**193**	220
Cash and cash equivalents	**22**	14
Non-current assets	**7**	8
Share of gross assets	**222**	242
Current liabilities	**(156)**	(176)
Share of net assets	**66**	66
Share of revenue and profit:		
Revenue	**82**	84
Profit after tax	**33**	34

11. Trade and other receivables

	2019 £m	2018 £m
Current:		
Trade receivables	**92**	81
Accrued income	**71**	78
Prepayments	**25**	23
Client receivables	**133**	132
Other receivables	**24**	16
Total	**345**	330
Non-current:		
Accrued income	**2**	2
Prepayments	**4**	10
Total	**6**	12

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

£5m (2018: £4m) has been recognised within current prepayments for costs incurred to fulfil contracts. Non-current prepayments constitute costs incurred to fulfil contracts, in both the current and prior year.

The Group applies IFRS 9 when measuring expected credit losses. Trade receivables have been grouped based on shared credit risk characteristics and the days past due to measure the expected credit losses. The loss allowance for the current and prior year has been determined as follows:

31 March 2019	Current	>30 days and <60 days past due	>60 days and <120 days past due	>120 days past due	Total
Expected loss rate - %	-	-	21%	65%	
Gross carrying amount - £m	-	-	1	18	19
Loss allowance - £m	**-**	**-**	**1**	**18**	**19**

25 March 2018	Current	>30 days and <60 days past due	>60 days and <120 days past due	>120 days past due	Total
Expected loss rate - %	-	-	-	95%	
Gross carrying amount - £m	-	-	-	19	19
Loss allowance - £m	-	-	-	19	19

There is a loss allowance in the current, more than 30 days and more than 60 days ageing categories, however it is immaterial for disclosure.

The closing loss allowance for trade receivables as at 31 March 2019 reconciles to the opening loss allowance as follows:

	2019 £m	2018 £m
Opening loss allowance	**19**	14
Increase in loss allowance	**9**	14
Receivables written off as uncollectible	**(7)**	(5)
Unused amounts reversed	**(2)**	(4)
Closing loss allowance	**19**	19

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

12. Cash and cash equivalents

	2019 £m	2018 £m
Cash in the Post Office Limited network	**549**	643
Short-term bank deposits	**14**	9
Fiduciary cash balances held on behalf of third parties	**9**	3
Total cash and cash equivalents	**572**	655

Cash in the Post Office Limited network represents the note and coin in circulation in branches and cash centres. Refer to note 22 for further detail.

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 or Payzone Bill Payments Limited and are held on trust on behalf of third parties and cannot be called upon should either company become insolvent.

13. Trade and other payables

	2019 £m	2018 £m
Current:		
Trade payables	**62**	45
Accruals	**122**	160
Deferred income	**20**	32
Social security	**8**	8
Client payables	**316**	306
Capital accruals	**11**	20
Other payables	**5**	-
Total	**544**	571
Non-current:		
Other payables	**14**	18
Total	**14**	18

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

14. Financial liabilities – interest bearing loan and borrowings

	2019 £m	2018 £m
Department for Business, Energy and Industrial Strategy	**565**	623

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year-end (2018: 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 £385 million (2018: £327 million). The average interest rate on the drawn down loans is 1.1% (2018: 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	Property £m	Severance £m	Other £m	Total £m
At 26 March 2018	18	32	7	9	66
Charged to investments	33	20	43	-	96
Charged to trading	-	-	-	10	10
Transfers	-	-	-	3	3
Utilisation	(36)	-	(24)	(6)	(66)
Provisions released in the year – investments	-	(7)	(4)	(1)	(12)
Provisions released in the year – trading	-	-	-	(5)	(5)
At 31 March 2019	**15**	**45**	**22**	**10**	**92**

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	9	12	22	9	52
Non–current	6	33	-	1	40
	15	45	22	10	92
At 25 March 2018					
Current	11	11	7	7	36
Non-current	7	21	-	2	30
	18	32	7	9	66

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.

The Network Programmes provision relates to payments due to postmasters in relation to the major transformation programme. Provisions are recognised when either postmasters agree to terminate their existing contracts or sign the new format contracts under Network Transformation.

Property provisions relate to vacant and onerous leases and dilapidations. Vacant and onerous lease provisions are recognised on leasehold properties when the unavoidable costs of meeting the obligations of the lease agreement exceed the benefits expected to be received under it.

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.

Other provisions of £10 million includes £1 million for personal injury claims and £2 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.

16. Financial assets and liabilities

a. Financial assets and liabilities by category

The breakdown of the Group's financial instruments at 31 March 2019 and 25 March 2018 is shown below:

	2019			2018		
	Current £m	**Non - current £m**	**Total £m**	Current £m	Non - current £m	Total £m
Financial assets						
Trade and other receivables	**320**	**2**	**322**	307	2	309
Cash and cash equivalents	**572**	**-**	**572**	655	-	655
Financial liabilities						
Trade and other payables	**(516)**	**(3)**	**(519)**	(531)	(4)	(535)
BEIS loan	**(565)**	**-**	**(565)**	(623)	-	(623)
Total financial liabilities	**(189)**	**(1)**	**(190)**	(192)	(2)	(194)

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 £7 million favourable impact on the Group's equity and income statement. A 50 basis point decrease would have resulted in a £7 million adverse impact on the Group's equity and income statement.

In 2018/19, to hedge its exposure to the variability of commission income linked to 1-month Libor, the Group entered into a three year amortising interest rate swap which has the effect of fixing a proportion of the interest commission income. The qualifying criteria for hedge accounting were met and in accordance with IFRS 9 the swap was designated as the hedging instrument in a cash flow hedge. At year end, the hedging instrument had a fair value of £3 million and has been included within trade and other receivables on the balance sheet.

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 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 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)
2019	**10**	**1**	**1**	**10**	**2**	**2**
	(10)	**(1)**	**(1)**	**(10)**	**(2)**	**(2)**
2018	10	1	1	10	3	3
	(10)	(1)	(1)	(10)	(3)	(3)

Credit risk

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

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

Business credit risk is monitored centrally. The level of bad debt provision is 2% (2018: less than 2%) of revenue.

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 31 March 2019 the Group has unused facility of £385 million (2018: £327 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 charge 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 £95 million (2018: £100 million).

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

At 31 March 2019	**12 Months £m**	**1-2 Years £m**	**Total £m**
Financial assets			
Trade and other receivables	**320**	**2**	**322**
Cash and cash equivalents	**572**	**-**	**572**
Financial liabilities			
Trade and other payables	**(516)**	**(3)**	**(519)**
Interest bearing loan	**(565)**	**-**	**(565)**
Total financial (liabilities)	**(189)**	**(1)**	**(190)**

At 25 March 2018	12 Months £m	1-2 Years £m	Total £m
Financial Assets			
Trade and other receivables	307	2	309
Cash and cash equivalents	655	-	655
Financial Liabilities			
Trade and other payables	(531)	(4)	(535)
Interest bearing loan	(623)	-	(623)
Total financial (liabilities)	(192)	(2)	(194)

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. Retirement benefit surplus

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 £13 million (2018: £17 million) and the Group contributions to this scheme were £20 million (2018: £20 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 is currently being finalised and will be carried out as at 31 March 2018 using the projected unit method. The previous RMPP valuation, as at 31 March 2015, concluded at a £63 million surplus on a Technical Provisions basis. Valuations are carried out triennially.

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 2018 using the projected unit method. For 100% of RMSEPP, the valuation concluded at £49 million surplus (31 March 2015 valuation: £17 million surplus) on a Technical Provisions basis.

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 were redundancy payments of £1 million (2018: £5 million) made to the RMPP during 2018/19, which were paid in order to fund enhanced benefits for the members concerned.
- 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 concluded that it no longer had 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.

Even though RMSEPP had a funding surplus on a Technical Provisions basis at the date of the latest full actuarial funding valuation, under the associated Schedule of Contributions, payments of £1 million per annum has been made. Post Office's share of these payments is 7% of the total. The payments will continue to 31 March 2025.

The weighted average duration of the Post Office section of the RMPP is around 25 years, and for RMSEPP is around 20 years.

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 2019) is £292 million (2018: £272 million), compared to the RMPP defined benefit obligation of £320 million (2018: £298 million). The £28 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 £8 million in respect of small differences between the insured benefits and the actual benefit obligation.

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 2019, is £28 million (2018: £12 million), compared to the RMSEPP defined benefit obligation of £29 million (2018: £27 million).

Therefore, as at 31 March 2019, 92% of the aggregate defined benefit obligation (i.e. £320 million out of the £349 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 8% of the defined benefit obligation is not matched by bulk annuities, some risk remains in respect of that 8%, 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 financial statements 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 31 March 2019 % pa	At 26 March 2018 % pa
Increases to benefits that retain a link to pensionable pay	**3.4**	3.3
Rate of pension increases – RMPP sections A/B	**2.4**	2.2
Rate of pension increases – RMPP section C	**3.4**	3.3
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**2.4**	2.2
Rate of pension increases – RMSEPP all other members	**3.4**	3.3
Rate of increase for deferred pensions	**2.4**	2.2
Discount rate	**2.4**	2.5
Inflation assumption (RPI) – RMPP & RMSEPP	**3.4**	3.3
Inflation assumption (CPI) – RMPP & RMSEPP	**2.4**	2.2

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.

	2019 £m	2018 £m
Changes in RPI and CPI inflation of +0.1% pa	**(8)**	(8)
Changes in discount rate of +0.1% pa	**8**	8
Changes in CPI assumptions of +0.1% pa	**3**	(3)
An additional one year life expectancy	**11**	(9)

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	**2019**	2018
Male members	**100% x S2PMA**	100% x S2PMA
Male dependants	**100% x S2PMA**	100% x S2PMA
Female members	**100% x S2PFA**	100% x S2PFA
Female dependants	**100% x S2PFA**	100% x S2DFA
Future improvements	**CMI 2018 Core Projections with a 1.5% pa long-term trend**	CMI 2016 Core Projections with a 1.5% pa long-term trend

Average expected life expectancy from age 60:	**2019**	2018
For a current 60 year old male RMPP member	**27 years**	27 years
For a current 60 year old female RMPP member	**29 years**	29 years
For a current 40 year old male RMPP member	**28 years**	29 years
For a current 40 year old female RMPP member	**31 years**	31 years

b) Plans' assets

The assets in the plans for the Group were:

Sectionalised RMPP	**Market value 2019 £m**	Market value 2018 £m
Corporate bonds	**-**	16
Private Equity	**4**	6
Cash and cash equivalents	**43**	28
Bond/fixed interest funds	**9**	1
Other loan/debt funds	**10**	10
Alternative asset funds	**4**	5
Bulk annuity policies*	**292**	272
Fair value of RMPP assets	**362**	338
Present value of RMPP liabilities	**(320)**	(298)
Surplus in plan before asset ceiling adjustment	**42**	40
Less effect of asset ceiling	**(42)**	(40)
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 2019 £m**	Market value 2018 £m
Overseas equities	**-**	8
Government bonds	**-**	17
Cash and cash equivalents	**-**	1
Alternative asset funds	**-**	(8)
Property	**1**	2
Bulk annuity policy*	**28**	12
Fair value of share in plan assets for RMSEPP	**29**	32
Present value of share in plan liabilities for RMSEPP	**(29)**	(27)
Surplus in plan for the share of RMSEPP before tax	**-**	5
Tax effect	**1**	(2)
Surplus in plan for share of RMSEPP after tax	**1**	3

*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 no longer has an unconditional right to refund from the Plan. A retirement benefit surplus of £1 million is disclosed on the balance sheet, representing the surplus in the RMSEPP 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 2019 £m**	Sectionalised RMPP 2018 £m
Assets in sectionalised RMPP at beginning of period	**338**	532
Contributions paid	**1**	5
Finance income	**7**	7
Actuarial gains/(losses)	**21**	(201)
Benefits paid to members	**(5)**	(5)
Assets in sectionalised RMPP at end of period	**362**	338

Assets	**Share of RMSEPP 2019 £m**	Share of RMSEPP 2018 £m
Share of assets in RMSEPP at beginning of period	**32**	32
Contributions paid	**-**	1
Finance income	**1**	1
Actuarial losses	**(2)**	(1)
Benefits paid to members	**(2)**	(1)
Share of assets in RMSEPP at end of period	**29**	32

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

Liabilities	**Sectionalised RMPP 2019 £m**	Sectionalised RMPP 2018 £m
Liabilities in sectionalised RMPP at beginning of period	**(298)**	(322)
Past service cost	**(1)**	(4)
Finance cost	**(7)**	(7)
Experience adjustments on liabilities	**(6)**	(2)
Financial assumption changes	**(17)**	23
Demographic assumption changes	**4**	9
Benefits paid	**5**	5
Liabilities in sectionalised RMPP at end of period	**(320)**	(298)

Liabilities	**Share of RMSEPP 2019 £m**	Share of RMSEPP 2018 £m
Share of liabilities in RMSEPP plans at beginning of period	**(27)**	(31)
Finance cost	**(1)**	(1)
Experience adjustments on liabilities	**(2)**	-
Financial assumption changes	**(2)**	3
Demographic assumption changes	**1**	1
Benefits paid	**2**	1
Share of liabilities in RMSEPP at end of period	**(29)**	(27)

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 2019 £m	Sectionalised RMPP 2018 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to investments:		
Loss due to curtailments	**1**	4
Total charge to operating profit	**1**	4
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**7**	7
Interest income on plan assets	**(7)**	(7)
Net pensions credit to financing	**-**	-
Net charge to the income statement	**1**	4
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on plan assets	**28**	(194)
Less: expected interest income on plan assets	**(7)**	(7)
Actuarial gains/(losses) on assets (all experience adjustments)	**21**	(201)
Actuarial gains arising from changes in demographic assumptions	**4**	9
Actuarial (losses)/gains arising from changes in financial assumptions	**(17)**	23
Actuarial losses arising from experience adjustment	**(6)**	(2)
Actuarial (losses)/gains on liabilities	**(19)**	30
Effect of the asset ceiling	**(2)**	170
Total actuarial losses recognised in the statement of comprehensive income	**-**	(1)

	Share of RMSEPP 2019 £m	Share of RMSEPP 2018 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged/(credited) to net pensions interest:		
Interest on plan liabilities	**1**	1
Interest income on plan assets	**(1)**	(1)
Net pensions credit to financing	**-**	-
Net charge to the income statement before deduction for tax	**-**	-
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on plan assets	**(1)**	-
Less: expected interest income on plan assets	**(1)**	(1)
Actuarial losses on assets (all experience adjustments)	**(2)**	(1)
Actuarial gains arising from changes in demographic assumptions	**1**	1
Actuarial (losses)/gains arising from changes in financial assumptions	**(2)**	3
Actuarial (losses)/gains on liabilities	**(1)**	4
Total actuarial (losses)/gains recognised in the statement of comprehensive income before tax effect	**(3)**	3
Tax effect	**1**	(2)
Total actuarial (gains)/losses recognised in the statement of comprehensive income after tax effect	**(2)**	1

18. Equity

Share capital

	2019 £	2018 £
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 (2018: £2 million) relate to First Rate Exchange Services Holdings Limited, the joint venture entity, and £3 million (2018: £nil) relates to a cash flow hedge.

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 £313 million 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 £152 million resulted from this subscription.

19. Commitments and contingent liabilities

Capital commitments contracted for but not yet provided in the financial statements amount to £9 million (2018: £20 million).

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

	Land and buildings		Motor vehicles	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Within one year	**11**	13	**1**	1
Between one and five years	**24**	34	**1**	-
Beyond five years	**18**	33	**-**	-
Total	**53**	80	**2**	1

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.

The litigation is very complex and the Judge ordered that it will be heard as a series of trials.

The first trial, which finished on 5 December 2018, was about determining the legal construction of the contract between Post Office and postmasters. The Judgment from this trial was made public on 15 March 2019.

On 23 May 2019, the Court awarded the Claimants their costs in respect of the first trial. As a result, Post Office was instructed to make a payment on account of £6 million. These costs have been recognised in 2018/19 as they reflect conditions that existed at the end of this reporting period.

The second trial, about technical matters concerning Post Office's Horizon computer system started on 11 March 2019 and concluded on 2 July 2019 when the Judge retired to consider his judgment. The judgment is not expected to be handed down before mid-September 2019.

Neither the first nor second trial have or will determine liability or the individual claimants' cases. A further third trial has been scheduled for March 2020, but the fourth trial has not yet been set down.

Further, a number of the Claimants assert that they have been convicted of criminal offences arising from their roles at Post Office, with 31 of those cases being considered by the Criminal Cases Review Commission ("CCRC"). The CCRC has the power to refer cases to the Court of Appeal who, in turn, have the power to overturn a conviction. This could then lead to claims for compensation.

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 would 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.

The Post Office Group Litigation represents a possible obligation arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

The costs of £20 million included in exceptional items relate to Post Office defending the Post Office Group Litigation (2018: £3 million) during the financial year.

On 14 June 2018, an Employment Tribunal claim was issued on behalf of a number of postmasters against Post Office in which they seek to establish that they are "workers" of Post Office and therefore have rights to holiday pay.

Post Office's position is that postmasters are independent contractors in business on their own account, not workers, and this is supported by previous case law. However, if postmasters were to establish they are workers they would gain a number of additional rights such as to take and be paid for annual leave and a right to receive the National Minimum Wage/National Living Wage. This would likely result in future increased business costs and retrospective claims for compensation.

The litigation is at a relatively early stage. Post Office and the Claimants are currently going through a process of agreeing 'test cases'. It is anticipated that this process will be complete by 11 October 2019.

On 11 October 2019 there will be a hearing, which will set a date for a future preliminary hearing to decide whether or not the Claimants have worker status. No date has been set for that hearing but Post Office does not expect it to take place prior to April 2020.

That first hearing will only determine the legal principle of whether postmasters (or some categories of postmaster) are workers. Should the Claimants succeed on this point, a further trial will be required to decide the value of their quantum of their claims. No date has been set for this at present.

To date, the Claimants have not asserted the value of their claims.

This litigation represents a possible obligation arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

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 Employment Tribunal has determined the worker status question and the Claimants have provided the necessary information about the value of their claims. The Directors continue to keep this under close review.

20. Business combinations

On 24 October 2018, the Group acquired Payzone Bill Payments Limited ("Payzone") for cash consideration of £16 million. Further consideration of £3 million is contingent on the future performance of certain Payzone revenue streams. £1 million has been paid as at 31 March 2019. The acquisition developed the bill payments 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
Property, plant and equipment	**4**
Trade and other receivables	**6**
Cash and cash equivalents	**1**
Trade and other payables	**(6)**
Net assets acquired	**5**
Intangible assets – merchant relationships	**6**
Intangible assets – brand	**1**
Deferred tax liability on acquired intangible assets	**(1)**
Goodwill	**8**
Total consideration	**19**
Consideration is represented by:	
Cash	**16**
Contingent consideration	**3**
Total consideration	**19**

The goodwill arising from the acquisition represents the opportunity to integrate technology and combine the Group's existing bill payments business with Payzone in order to compete for new and bigger bill payment contracts from a stronger position. 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, within the investments column.

From the date of acquisition to 31 March 2019, the Payzone business has contributed £4 million of revenue and £1 million to trading profit.

21. Related party disclosures

Joint venture

The following Company is a joint venture of the Group:

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

All shareholdings are equity shares. Summarised financial information for the joint venture is included in note 10.

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	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
First Rate Exchange Services Holdings Limited	**36**	34	**112**	118	**2**	8	**6**	4

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, such as the DWP, the DVLA and the Home Office. Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted.

Separately:

- The Group has certain loan facilities of £950 million (2018: £950 million) with Government (page 48).
- The Group has received investment funding from Government of £168 million (2018: £70 million), all of which was recognised through the income statement.
- The Group has received the Network Subsidy Payment of £60 million (2018: £70 million) from Government (page 41).

Key management personnel comprises the Executive and Non-Executive Directors of the Post Office Limited Board at 31 March 2019. The remuneration of the key management personnel of the Post Office Group is disclosed in the Remuneration Committee Chairman's Statement on pages 24 and 25.

22. 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 £227 million (2018: £238 million) of NRF was held in this way.

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 £3 million (2018: £17 million) was outstanding under this arrangement.

23. 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

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

	2019 £m	2018 £m
Operating profit	**40**	15
Adjusted for:		
Exceptional items	**20**	3
Operating profit before exceptional items	**60**	18
Depreciation and amortisation	**94**	55
Investments	**(34)**	32
Trading profit before Network Subsidy Payment	**120**	105
Network Subsidy Payment	**(60)**	(70)
Trading profit	**60**	35

24. 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 £18 million on 2 April 2019. The Network Subsidy Payment is received on a quarterly basis and a total of £50 million will be received from Government in 2019/20.

25. Ultimate controlling party

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.

The Secretary of State for 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 31 March 2019, 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

Company

Financial Statements

2018/19

Company balance sheet

at 31 March 2019 and 25 March 2018

	Note	2019 £m	2018 £m
Non-current assets			
Intangible assets	3	**215**	211
Property, plant and equipment	4	**173**	148
Investment in subsidiaries	5	**74**	50
Investments in joint venture	6	**66**	66
Retirement benefit surplus	12	**1**	3
Trade and other receivables	7	**6**	12
Total non-current assets		**535**	490
Current assets			
Inventories		**2**	3
Trade and other receivables	7	**345**	329
Cash and cash equivalents	8	**553**	644
Total current assets		**900**	976
Total assets		**1,435**	1,466
Current liabilities			
Trade and other payables	9	**(531)**	(565)
Financial liabilities - interest bearing loans and borrowings	10	**(565)**	(623)
Provisions	11	**(52)**	(35)
Total current liabilities		**(1,148)**	(1,223)
Non-current liabilities			
Other payables	9	**(14)**	(18)
Provisions	11	**(39)**	(30)
Total non-current liabilities		**(53)**	(48)
Net assets		**234**	195
Equity			
Share capital	13	**-**	-
Share premium	13	**465**	465
Accumulated losses		**(236)**	(272)
Other reserves		**5**	2
Total equity		**234**	195

The notes on pages 88 to 98 form an integral part of the financial statements.

The result dealt with in the financial statements of the Company amounted to a profit after tax of £38 million (2018: £15 million).

The financial statements on pages 86 to 98 were approved by the Board of Directors on 3 September 2019 and signed on its behalf by:

A C J Cameron
Interim Chief Executive

Company statement of changes in equity

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Notes	Share capital £m	Share Premium £m	Accumulated losses £m	Other reserves £m	**Total equity £m**
At 26 March 2018		**-**	**465**	**(272)**	**2**	**195**
Profit for the year		**-**	**-**	**38**	**-**	**38**
Gains on cash flow hedges		**-**	**-**	**-**	**3**	**3**
Re-measurements on defined benefit surplus	12	**-**	**-**	**(3)**	**-**	**(3)**
Tax effect	12	**-**	**-**	**1**	**-**	**1**
At 31 March 2019		**-**	**465**	**(236)**	**5**	**234**

	Notes	Share capital £m	Share Premium £m	Accumulated losses £m	Other reserves £m	Total equity £m
At 27 March 2017		-	465	(287)	2	180
Profit for the year		-	-	15	-	15
Re-measurements on defined benefit surplus	12	-	-	2	-	2
Tax effect	12	-	-	(2)	-	(2)
At 25 March 2018		-	465	(272)	2	195

Notes to the financial statements

1. Accounting Policies

The accounting policies which follow, set out those which apply in preparing the Company financial statements for the 53 week period ended 31 March 2019.

Financial year

The financial year ends on the last Sunday in March and accordingly, these financial statements are made up to the 53 weeks ended 31 March 2019 (2018: 52 weeks ended 25 March 2018).

Authorisation of financial statements

The parent Company financial statements of Post Office Limited (the 'Company') for the year ended 31 March 2019 were authorised for issue by the Board of Directors on 2019 and the balance sheet was signed on the Board's behalf by A C J 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 99.

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. The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own income statement.

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 requirements of paragraphs 10(d), 10(f), 39(c), 40.A and 134-136 of IAS 1 'Presentation of Financial Statements';

(d) the requirements of IAS 7 'Statement of Cash Flow's;

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

(f) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'; and

(g) 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 £234 million at 31 March 2019 (2018: £195 million). At 31 March 2019 £385 million of the Company's working capital facility was undrawn (2018: £327 million). The Company has also shown a profit for the year of £38 million (2018: £15 million).

We have the following funding agreed with BEIS: a working capital facility of £950 million to 31 March 2021; a further £50 million facility available to provide same day liquidity to 4 April 2020; NSP of £50 million for 2019/20 and 2020/21 respectively; and we also have investment funding of up to £210 million as required for the period from April 2018 to March 2020. Investment funding of £168 million was received in 2018/19.

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.

Accounting policies

The following accounting policies are consistent with those of the Group as detailed in note 1 of the Group financial statements:

- IFRS 9 Financial Instruments.
- IFRS 15 Revenue from Contracts with Customers.
- IFRS 16 Leases.
- Critical accounting estimates and judgements in applying accounting policies.
- Revenue.
- Other income.
- Investments column in the income statement.
- Leases.
- Taxation.
- Investments in joint venture.
- Business combinations.
- Property, plant and equipment.
- Intangible assets.
- Inventories.
- Trade receivables.
- Cash and cash equivalents.
- Pensions and other post-retirement benefits.
- Foreign currencies.
- Provisions.
- Financial instruments.
- Derivatives and hedging activities.

Auditors' remuneration

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

Directors' emoluments

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

Investment in subsidiaries

Investment in subsidiaries are carried at cost less accumulated impairment losses.

2. Staff costs and numbers

Employment and related costs were as follows:

People costs within trading:	**2019 £m**	2018 £m
Wages and salaries	**157**	151
Social security costs	**17**	18
Other pension costs (note 12)	**13**	16
Total people costs within trading	**187**	185
Other operating costs within trading	**734**	751
Total trading costs	**921**	936

Period end and average employee numbers were as follows:

	Period end employees		Average employees	
	2019	2018	**2019**	2018
Total employees	**4,266**	4,973	**4,619**	5,022

Total employee numbers can be categorised as follows:

	2019	2018
Administration	**1,202**	1,205
Directly managed branches (DMB)	**2,047**	2,707
Supply Chain	**853**	848
Network programmes	**164**	213
Total	**4,266**	4,973

3. Intangible assets

	Software £m	Goodwill £m	Other Intangibles £m	Total £m
Cost				
At 27 March 2017	314	-	-	314
Reclassification	(2)	-	-	(2)
Additions	122	1	6	129
At 25 March 2018	434	1	6	441
Reclassification	(29)	-	-	(29)
Additions	90	-	-	90
Disposals	(17)	-	-	(17)
At 31 March 2019	**478**	**1**	**6**	**485**
Accumulated amortisation and impairment				
At 27 March 2017	199	-	-	199
Reclassification	6	-	-	6
Amortisation	25	-	-	25
At 25 March 2018	230	-	-	230
Amortisation	52	-	3	55
Disposals	(15)	-	-	(15)
At 31 March 2019	**267**	**-**	**3**	**270**
Net book value				
At 31 March 2019	**211**	**1**	**3**	**215**
At 25 March 2018	204	1	6	211

Included within the above table are assets under construction of £46 million (2018: £134 million). Amortisation rates are disclosed on page 53 within the Group accounting policies note.

4. 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 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
Reclassification	2	-	-	-	-	27	29
Additions	1	1	1	-	-	35	38
Disposals	(4)	(1)	(2)	-	-	(22)	(29)
At 31 March 2019	**39**	**39**	**21**	**25**	**1**	**845**	**970**
Accumulated depreciation and impairment							
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
Depreciation	1	2	-	-	-	32	35
Disposals	(2)	(1)	(2)	-	-	(17)	(22)
At 31 March 2019	**28**	**17**	**19**	**24**	**1**	**708**	**797**
Net book value							
At 31 March 2019	**11**	**22**	**2**	**1**	**-**	**137**	**173**
At 25 March 2018	11	23	1	1	-	112	148

Included within the above table are assets under construction of £9 million (2018: £11 million).

Depreciation rates are disclosed on page 52 within the Group accounting policies note. No depreciation is provided on freehold land, which represents £2 million (2018: £2 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 to give a more appropriate representation of the nature of the assets.

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 the value in use calculations.

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. Value in use is determined

using the Group's net cash inflows from the continued use of the assets within each CGU over a two year period (and then continued into perpetuity), with no nominal growth rate assumed outside of this period. Pre-tax discount rates for Post Office Limited of 9.5% (2018: 9%) have been used to discount the forecasted cash flows.

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 12%, zero growth rate and a decrease in forecasted EBITDA by 5%. 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.

5. Investment in subsidiaries

The carrying value of £74 million relates £55 million to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company with 55,000,000 shares at a nominal value of £1 and 1 share with a nominal value of £100; and £19 million, in Payzone Bill Payments Limited, a 100% subsidiary of the Company with 1 share at a nominal value of £1. The registered address of both Post Office Management Services Limited and Payzone Bill Payments Limited is Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

6. Investments in joint ventures

	2019 £m	2018 £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 (2018: £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.

7. Trade and other receivables

	2019 £m	2018 £m
Current:		
Trade receivables	**92**	78
Amounts owed by group undertakings	**8**	6
Accrued income	**71**	74
Prepayments	**25**	23
Client receivables	**125**	132
Other receivables	**24**	16
Total	**345**	329
Non-current:		
Accrued income	**2**	2
Prepayments	**4**	10
Total	**6**	12

8. Cash and cash equivalents

	2019 £m	2018 £m
Cash in the Post Office Limited network	**549**	643
Short-term bank deposits	**4**	1
Total	**553**	644

9. Trade and other payables

	2019 £m	2018 £m
Current:		
Trade payables	**50**	40
Amounts owed to group undertakings	**4**	4
Accruals	**118**	155
Deferred income	**20**	32
Social security	**8**	8
Client payables	**316**	306
Capital payables	**10**	20
Other Payables	**5**	-
Total	**531**	565
Non-current:		
Other payables	**14**	18
Total	**14**	18

10. Financial liabilities – interest bearing loans and borrowings

	2019 £m	2018 £m
Department for Business, Energy and Industrial Strategy	**565**	623

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year-end (2018: 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 £385 million (2018: £327 million). The average interest rate on the drawn down loans is 1.1% (2018: 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.

11. Provisions

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
At 26 March 2018	18	32	7	8	65
Charged to investments	33	20	43	-	96
Charged to trading	-	-	-	6	6
Transfers	-	-	-	3	3
Utilisation	(36)	-	(24)	(2)	(62)
Provisions released in the year – investments	-	(7)	(4)	(1)	(12)
Provisions released in the year – trading	-	-	-	(5)	(5)
At 31 March 2019	**15**	**45**	**22**	**9**	**91**

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	**9**	**12**	**22**	**9**	**52**
Non-current	**6**	**33**	**-**	**-**	**39**
	15	**45**	**22**	**9**	**91**
At 25 March 2018					
Current	11	11	7	6	35
Non-current	7	21	-	2	30
	18	32	7	8	65

Details of the provisions are included in note 15 in the Group financial statements.

12. Retirement benefit surplus

The Company pension's disclosure is consistent with the Group disclosure included in note 17 on pages 72 to 78.

13. Equity

Called up share capital

	2019	2018
	£	£
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 £313 million 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 £152 million resulted from this subscription.

14. Commitments and contingent liabilities

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

15. Related party disclosures

Related parties for Post Office Limited are as per the Group; details of which are disclosed in note 21 of the Group financial statements.

16. Investments expenditure

Details of operating investments expenditure is disclosed in note 4 of the Group financial statements.

17. Taxation

Details of the taxation credit recognised in the year are disclosed in note 7 of the Group financial statements.

18. Business combination

Details of the business combination are included in note 20 of the Group financial statements.

19. Post balance sheet events

Details of post balance sheet events are included in note 24 of the Group financial statements.

On 1 April 2019 Post Office Management Services Limited issued 5,000,000 ordinary shares with a value of £1 each to Post Office Limited. These were issued and paid at par value.

20. Ultimate controlling party

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.

The Secretary of State for 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 31 March 2019, 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.

Corporate information

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