



Audit, Risk and Compliance Committee Agenda

Date:	Wednesday 29 May 2019	Time	14.00 – 16.30 hrs	Location	1.19 Wakefield
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Present		Other Attendees		
<ul style="list-style-type: none"> Carla Stent (Chair) Tom Cooper Tim Franklin Ken McCall 	<ul style="list-style-type: none"> Alisdair Cameron (Interim CEO) Shirine Khoury-Haq (Non-Executive Director) Tim Parker (Chairman – PO Limited) Andrew Paynter, PwC – by telephone (External Audit, Partner) Stewart Light, PWC – by telephone (External Audit, Director) Chris Neale (External Audit, Director) Lucy Mason (External Audit, Senior Manager) Amanda Bowe (item 2.) - by telephone (Chair, ARC PO Insurance) 	<ul style="list-style-type: none"> Johann Appel (Head of Internal Audit) Deana Hurley (Senior Manager, Assurance, deputising for Jenny Ellwood) Jonathan Hill (Compliance Director) Veronica Branton (Head of Secretariat) Micheal Passmore (item 4.) (Finance Director) Rob Houghton (item 5.) (Group COO) Mick Mitchell (item 5.) (IT Security & Service Director) Tony Jowett (item 5.) (Chief Information Security Officer) 		
<p>Apology: Jenny Ellwood</p>	<ul style="list-style-type: none"> Liz Robson (item 5.) (Change and IT Director – Retail) 	<ul style="list-style-type: none"> David Parry (Senior Assistant Company Secretary) 		
Agenda Item		Action Needed	Lead	Timings
1.	Welcome and Conflicts of Interest	Noting	Chair	
2.	Update from Subsidiaries: <ul style="list-style-type: none"> Post Office Management Services ARC 	Noting & Input	Amanda Bowe	14.00 – 14.05
3.	Minutes and Matters Arising	Approval	Chair	14.05 – 14.10
3.1	Minutes of the Audit, Risk and Compliance meeting held on 25 March 2019			
3.2	Actions List	Noting & Input		
3.3	Draft Minutes of the Risk and Compliance Committee held on 9 May 2019	Noting		
4.	Annual Report and Accounts External Audit	Approval	Micheal Passmore / Andrew Paynter (PwC)	14.10 – 14.40
4.1	ARA Covering Note			
4.2	Financial Statements			
4.3	Post Office Limited Briefing Book including Accounting Judgements			
4.4	PwC External Audit - Post Office Limited Audit and Risk Committee Report for the year ended 31 March 2019			
4.5	External Auditor Re-Appointment for 2019/20	Approval		
5.	PCI-DSS Update and Cyber Security Update	Noting & Input	Rob Houghton/Mick Mitchell/Liz Robson	14.40 – 15.05



Audit, Risk and Compliance Committee Agenda

6.	Consolidated Report from Internal Audit, Compliance and Risk Departments	Noting & Input	Johann Appel/ Jonathan Hill/Deana Hurley	15.05 – 16.10
6.1	Internal Audit Report			15.05 – 15.30
6.2	Compliance Report			15.30 – 15.45
6.3	Risk Report			15.45 – 16.10
6.4	Risk Management Section for Annual Report and Accounts 2018/2019			
7.	Any other Business Note: Date of next meeting 29 July 2019, 15.30 – 17.30 hrs	Noting	Chair	16.10 – 16.15
8.	NEDs meeting with Auditors (PwC)		Andrew Paynter/Stewart Light/Chris Neale/Lucy Mason	16.15 – 16.30

POST OFFICE INSURANCE
POST OFFICE LIMITED ARC

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GOVERNANCE UPDATE

POI Risk Management and Compliance Update

Author: Ian Holloway

Meeting date: 29 May 2019

Executive Summary

Context

This paper provides a concise summary for the POL ARC of the key matters considered within the POI Risk and Compliance Committee meeting on the 14th May 2019. It also provides a high level summary of matters considered at the Board risk workshop which was held on the same day.

Questions this paper addresses

1. What key points emerged from the Board risk workshop?
2. What are the key points considered within the Risk and Compliance meeting which the Board should be aware of?

Input Sought

The report is provided for information and discussion.

The Report

1. What key points emerged from the Board risk workshop?

The key summary points emerging from the POI Risk workshop were:

Cyber risks

- There is a need to define cyber risks and controls in greater depth so that we can be sure that we have appropriate risk coverage. In particular we should note risk pertaining to operational resilience and data security and compliance as well as the core cyber element.

Oversight of financial risks

- Second and third lines of defence within POI need to consider how they provide more oversight for financial risks.

Enhancing risk appetites

- Reputation risks needs greater specification, and POI needs to have a clear appetite for reputational risks.
- There is a need for more definition around how we define and manage third party risks. It was noted in particular that our need to oversight and control third parties will grow in importance post Nemesis. Cyber risks within third parties were particularly noted.
- Within POI's risks and appetites there is a need for more focus on people, skills and capabilities. The risks of key people should also be recognised and planned for- dependencies in product and change were particularly mentioned.

Conduct issues

- A Board paper is required to review our culture and how our culture is focused around achieving good outcomes for our customers and the achievement of our business plan.
- POI needs to consider further how it builds on our customer outcomes/values and ensure that we are properly focused on making these values live within our business. These values should more clearly link to our conduct model and to key controls, notably MI oversight.
- Our conduct models and risk appetites need to consider proposition as a whole rather than just product. Covering the entire proposition helps us ensure that we can see the risks along the customer journey, rather than just around the product design and pricing.
- There is a need to consider developing a joined up model which is capable of linking the two current conduct models used. There is also a need to show clearly the feedback loops and oversight techniques which are used to ensure compliance.
- There is a need for more visibility of root cause analysis (RCA), as a management tool. Notably around complaints. A paper on travel complaint RCA will be produced for the next ARC.

Action plans to address these areas are currently being developed.

2. What are the key points considered within the Risk and Compliance meeting which the Board should be aware of?

The transition of travel business from TIF to ERV is progressing satisfactorily. TIF initially queried the termination date for the agreement, and have attempted to raise net rates. Management's focus is on managing good outcomes for customers with TIF during the run-off of the agreement, and on managing the transition of the book to ERV. MI due from TIF is late and we are currently escalating this issue with TIF Management.

Mystery shopping results for March and April have significantly improved. Of 20 mystery shops conducted in March, 13 were scored green, 6 amber and one red. For April to date there were no red mystery shops with six scored green and five at amber. POI Management expect AR risks to be within tolerance by the end of June 2019 subject to the completion of all remaining actions which are currently on track.

POST OFFICE MANAGEMENT SERVICES LIMITED

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2.1

POI inadvertently failed to meet a requirement to supply supplier payment data to the Business Energy and Industrial Strategy (BEIS), for the period from the 26 March to 23 September 2018. This data has now been supplied and we have apologised to BEIS for the error.

A clear scope, timescale and resources for a marketing database review have yet to be agreed. This follows two breaches where data was inadvertently used to market POI and POL products without customers having clearly provided consent. Such a review is necessary to ensure that any risk of further breach is minimised

POI received an update from Ben Foat-Post Office General Counsel, on the current Group litigation case relating to Horizon functionality and Sub Post office colleagues. This focused on the potential risks for POI.

The FCA have produced their business plan for 2019/2020. Key focus areas will include governance, culture and specifically for general insurance product value, pricing and market access. POI Management will be coming back with clear plans to address areas raised within the FCA business plan, starting with a specific assessment of our culture.

The SMCR programme is making satisfactory progress. SORs are now complete, and application forms for Approved People have been submitted.

POST OFFICE LIMITED AUDIT AND RISK COMMITTEE MEETING
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MINUTES OF A MEETING OF THE AUDIT AND RISK COMMITTEE OF POST OFFICE LIMITED HELD ON MONDAY 25 MARCH 2019 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 12.30 PM

3.1

Present:	Carla Stent	Chair (CS)
	Tim Franklin	Non-Executive Director (TF)
	Tom Cooper	Non-Executive Director (TC)
	Ken McCall	Senior Independent Director (KM)
In Attendance:	Alisdair Cameron	Group Chief Financial and Operating Officer (AC)
	Tim Parker	Chairman, PO Limited (TP)
	Shirine Khoury-Haq	Non-Executive Director (SK) (items 5. – 10.)
	Andrew Paynter	Group Audit Partner, PwC (AP)
	Lucy Mason	Group Audit Senior Manager, PwC (LM)
	Stewart Light	Systems and Controls Director, PwC (by telephone) (SL)
	Jane MacLeod	Group Director, Legal, Risk and Governance (JM)
	Johann Appel	Head of Internal Audit (JA)
	Jenny Ellwood	Risk Director (JE)
	Jonathan Hill	Compliance Director (JH)
	Veronica Branton	Head of Secretariat (VB)
	Amanda Bowe	Chair, ARC PO Insurance (AB) (item 2.)
	Colin Stuart	Finance Director – FS&T (CSt) (item 6.)
	Sally Smith	MLRO (SM) (item 6.)
	Elizabeth Robson	Change and IT Director (ER) (item 5.)
	Mick Mitchell	IT Security & Service Director (MM) (item 5.)
Apologies:	Paula Vennells	Group Chief Executive

Action**1. Welcome and Conflicts of Interest**

The Directors declared that they had no new conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

2. Update from Subsidiaries

Amanda Bowe provided an overview of the key issues discussed at recent Post Office Insurance ARC meetings:

- the business was stretched with a number of key projects underway. Thought was being given to the risks and dependencies associated with the projects
- a separate session had taken place on Brexit preparation and risks. The ARC was confident that the team had done as much as possible to prepare
- good progress was being made on Appointed Representative issues
- the Board had decided to change its travel insurance underwriter. It had been concerned about the data breach experienced by TIF and the lack of clarity about the cause of the breach. We have had need to report a few breaches to the Information Commissioner's Office (ICO) and were mindful of this when taking the decision
- consideration was being given to Fit and Proper compliance risks over the next few months
- the PO Insurance ARC had been disappointed that a WH Smiths branch had been suspended for a second time following poor delivery of financial services
- a pricing paper and a paper reviewing our processes re how we treat customers had been considered. The position overall was seen as fair but it was a subject that would continue to be monitored closely.

POST OFFICE LIMITED AUDIT AND RISK COMMITTEE MEETING
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3.1

It was asked whether any price rises could be seen as exploitative? AB reported that the PO Insurance ARC had asked for work to be done to identify any price increase outliers and whether any vulnerable customers had been affected by price rises.

3. Minutes and Matters Arising

- 3.1 The minutes of the meeting of the Audit and Risk Committee held on 29th January 2019 were **APPROVED** and **AUTHORISED** for signature by the Chairman.
- 3.2 Progress with the completion of actions as shown on the action log was **NOTED**. In addition, Jenny Ellwood reported that PO Insurance and FS&T both included risks on their risk registers which incorporated the Competition and Market Authority's response to the super complaint as a potential strategic risk.
- 3.3 The draft minutes of the Risk and Compliance Committee held on 14 March 2019 were **NOTED**.

4. Compliance

Jonathan Hill introduced the Compliance Report and highlighted the key issues:

- Ofcom had responded formally to PO Limited's self-reporting of non-compliance with Text Relay requirements. The notification from Ofcom indicated that an early settlement may be possible.
- The regulator was comfortable with our approach on early termination payments. The financial impact of this approach would be around c£60k per annum. Customers were asked to sign up to broadband for a minimum term but had a 14 day cooling off period. If they decided to terminate after a longer period and there were reasons for us to apply discretion and waive the termination fee, we encourage that discretion to be applied. We also provide training to our agents on these issues.
- Fit and Proper. We were still aiming to meet the June 2019 deadline for providing Fit and Proper data for all branches selling financial services products and to register these branches with HMRC. We were working through what we would do if agents had not submitted their data in time (which could lead branches being 'switched off'). In tandem, we will be having discussions with HMRC about the potential for an extension should this be required.
- Payment Systems Regulator (PSR) was taking a greater interest in PO Limited cash processing activities. The PSR would need to apply to HM Treasury and Government to expand their role but we wished to flag the additional interest. It was noted that if there were a single cash utility it was likely that this would be regulated and we would need to consider what effective regulation would look like from our perspective.

A number of points were raised, including:

- On Telco: should we consider a 'no blame' / uncontested complaint option? JH to discuss this with Meredith Sharples.
- that we needed to make sure there was appropriate support to ensure agents understood the need to collect and provide the Fit and Proper data if they were struggling to do so.

JH/ MS

The Committee **NOTED** the Compliance Report.

5. Risk

Jenny Ellwood introduced the Risk Report and highlighted the key points:

Information Security Update

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3.1

PCI compliance

Liz Robson provided an overview of the work streams for PCI compliance: Communications; data Audit; and, IT. The Communications work stream was the route through which we were advising clients about our plans to secure PCI compliance and explaining that this was distinct from our security arrangements which we regarded as robust. We had provided updates twice at the Banking Framework Governance Forum. Barclays had, subsequently, asked for detailed information about our compliance plans. The QSA (Nettitude) was helping us with the audit work stream and had provided PO Limited with support and information, including reviewing our Business as Usual (BAU) processes, auditing these and helping to implement changes. The IT work stream posed the most significant challenge. We needed to implement point-to-point encryption of devices and were still developing the scope of this work. We had engaged DWM, a PCI specialist, and were working through the recommendations in their report and identifying where we held card data. Work was continuing with Fujitsu and Ingenico on pin pad encryption and ensuring that the devices worked pre and post encryption. We would be reporting back to ARC after 18th April 2019 on the revised scope of the PCI compliance plan.

LR/MM

We had begun conversations with the banks to enable us to receive data from them in encrypted form which would mean that this data did not need go through the Horizon system which would remove Horizon from the scope of PCI. We still had some control gaps which would need to be bridged in order to obtain PCI compliance. When we transition to the cloud, we would need to make sure that we maintained our PCI compliance.

A number of points were raised, including:

- that we seem to be struggling to find the right scope for the work. The ARC would like some certainty that this was going to be the full and final review. It was reported that more certainty on costs and delivery dates could be provided after 18 April 2019
- that the risk table indicated that the position on PCI compliance was deteriorating. Questions were raised as to why we did not know where we were holding card data and what assurance could be provided that the control had not worsened? It was reported that data discovery had not been completed. The context was that when we upgraded Horizon to HNGA, the QSA had advised us that more was in scope for PCI compliance than we had originally anticipated. By 18th April 2019 we expect to be in a position where we understand the scope of the work and can plan to mitigate the back end risk. Where possible, we want to simplify data flows which was why we were having the conversations we are with the banks about receiving encrypted data rather than this data going through the Horizon System
- should we not have clarified what card data we held as part of our work on GDPR compliance? It was reported that that GDPR legislation involves personal data and therefore only applies if the card data was linked to the person but not necessarily otherwise. LR undertook to check the nature of the card data that had been identified through the data audit.

LR/ MM

Cyber Security

Work had been taking place on Cyber Security (IT and second line risk reviews). The risks and associated mitigations were being considered.

A number of points were raised, including:

- how could Cyber Security be rated amber if we had experienced data breaches? It was reported that the incidents were linked to human behaviour (e.g. use of weak passwords). This risk was seen as a high amber rather than a red risk

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3.1

- did we know what data we held, where it was located, what our critical data was and that it had been locked down? It was reported that the preliminary Internal Audit Report was included and a more complete report had now been produced. The maturity of the controls had now been validated leading to improved ratings for many of the 34 controls. This linked to actions that the team had already taken. We now needed to update our risk appetite for Cyber Security. We needed to take into account all the recommendations from the Deloitte Report and work out a priority plan; this included clarity on what constituted our “crown jewels” from a data perspective and that this data was secure. Mick Mitchell had seen the draft Deloitte Report which benchmarked us against retail and financial services sectors. We would have to set targets on each of the deltas. We now needed to review our priorities against the Deloitte Report to ensure our security investment was appropriately targeted. Work was taking place to understanding the unstructured data we held. We had a Data Protection Officer (DPO), reporting to the Compliance Director and a Chief Data Officer (CDO) reporting to the Chief Information Officer. ARC Members were clear that the Information Security Committee needed to be held accountable for the overarching work and that the ARC needed to receive reports on this Committee’s work.

RSA Archer

JE reported that the RSA Archer integrated risk management system had been introduced for the Security Operations Centre for managing security incidents, but a wider rollout had not yet been agreed. It was noted that the system was critical to us being able to manage data and manage risks by exception. For some time we had not been able to negotiate a suitable price for the service we required but had reached a sensible position and were building a business case, including the information security functionality that was needed.

Risk appetite for Information Security

JE reported that we would need to break down our risk appetite statements by the different areas of Information Security and would bring these back to the May ARC with some recommendations.

A number of points were raised, including:

- whether we had defined our risk appetite and what within this would constitute red, amber and green ratings? It was reported that we had drawn up our risk appetite statement four years ago but need to consider this again
- the reference in the report to 140,000 “stale” (not accessed within 60 days) files containing sensitive data and about 14,000 sensitive files being shared with external users was queried with Committee Members asking whether the sensitive data had GDPR implications? The ARC requested an urgent update on what was included in the sensitive data
- whether updates on GDPR would be brought back through the work on information security? It was reported that the GDPR work was almost finished. Record retention was a separate piece of work that would include defining and categorising the unstructured data we held that was not personal data. The ARC requested an overarching paper on data, the work being undertaken and the gaps we had identified; this should include how we managed third party data and the contractual issues associated with this. This paper should be reviewed by the Information Security Committee. We needed proper frameworks in place to be able to look at the wider data security plan. Andrew Paynter noted that the third party assurance provisions were quite immature currently. Contractual robustness was one issue but there were reputational implications associated with any data breach.

LR/MM

LR/ MM

POST OFFICE LIMITED AUDIT AND RISK COMMITTEE MEETING
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3.1

Payzone Bills Payments (PZBP)

It was reported that controlled pen testing had been carried out following the acquisition and weakness had been identified in that some PZBP devices could be breached. Work would be taking place over next 3-6 months to rectify the issue. We had not been able to carry out full pen testing as part of the acquisition due diligence. We would be exploring whether we could charge Payzone for the associated costs. The Committee **NOTED** the Risk Report.

6. The Fin11 issue and Telecoms Controls

Colin Stuart (CSt) outlined the Fin11 issue which had arisen because of a mismatch between the billing system and the Fujitsu data warehouse which had resulted in records being incorrectly treated as live in the Fin11 report but correctly treated as on-hold by the billing system. CSt explained the work undertaken since discovering the error, which had included an independent review by PwC. The recommendations from this report had largely been implemented.

The lessons learnt from the incident included that we had been overly reliant on third party data; the monthly balance sheet reviews had been insufficient; and we needed to receive aged data reports. The recommendations from the report had been rolled out across the business. This included regular meetings between Telecoms and the Finance Team with more testing of the data undertaken.

It was reported that one of the key criteria for the award of new data warehouse contract would be data management, controls and reporting.

A number of points were raised, including:

- whether there was a contractual obligation for Fujitsu to give us accurate data? It was reported that this was not a contractual requirement of the historic agreement and will be included in any future agreement
- whether there were any outstanding concerns about balance sheet reviews? It was reported that third party data remained an area of focus and that Grant Thornton had been engaged to undertake a review of our third party data
- what was CSt's view of the current control environment? CSt reported that he had confidence in the current control environment.

The Committee **NOTED** the report on the Fin11 issue and Telecoms Controls.

7. Back Office Transformation

Al Cameron reported that on 28th January 2019 we had transitioned our Supply Chain operations to Transtrack CWC and financial processes to our Core Finance System (SAP CFS), which had mitigated a significant hardware risk. The migration had gone well. The "go live" on the cash side had identified two areas where there would need to be cash workarounds. That position was almost back to normal although reconciliation differences remained. The reconciliation report had worked before "go live" in the Belfast Cash Centre but had not worked after "go live". Cash was being counted correctly every week and data was being captured accurately but this was not flowing through correctly into the SAP CFS system.

Transtrack CWC had not been able to provide the service we needed, which in addition to the problems in reconciling daily cash movements from Transtrack CWC through to CFS, had led to delays in the intermediate and permanent solutions for branch cash forecasting. We had investigated the source of the problem and the main issue was that Transtrack had not been able to work through the issues quickly enough. As a result, we are unlikely to be building cash forecasting into the Transtrack CWC system.

POST OFFICE LIMITED AUDIT AND RISK COMMITTEE MEETING
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3.1

A number of points were raised, including:

- that we needed to understand the size of Transtrack and whether they could adequately support us over the next couple of years. It was reported that our focus currently was on resolving the immediate problem but the team would come back with a view¹ on Transtrack involvement in the longer term.
- what were the accounting implications? We are working with PwC on end of year accounting and auditing. Andrew Paynter reported that PwC was alert to the issue and its auditing work on cash would be substantive and with a focus on reconciliation.

An update was requested for the May ARC meeting.

Executive

8. Internal Audit

JA advised that there had been delays in finalising some of the reports, however network reporting and branch hub change reporting had been finalised since the report was issued; agent remuneration should be finalised this week. Vendor management should be finalised this week although there were certain actions where it was unclear who would be the appropriate owners. It was suggested that ownership of the framework should be jointly owned by the GC and the CIO, given his new additional operational responsibilities.

AC requested that delays in finalising reports should be reported to the CEO in the first instance and then to the ARC Chair should there be concerns.

It was noted that there were a number of reports due to be finalised before the May ARC and the Chair requested that these be issued to the Committee in stages, rather than waiting until the next meeting. It was noted that as a result of the GLO decision, consideration would need to be given as to whether additional audits needed to be scheduled around branch trading issues and processes. These would be monitored at subsequent meetings.

9. Treasury Policy

The paper and proposed changes to the Treasury Risk Management Framework, Policies and Authorities were noted and discussed.

Tom Cooper would have a separate conversation with the Executive about the Barclays overdraft. He also asked about the hedging arrangements for foreign exchange. It was reported that we did not want to take risk in relation to foreign currency. TC suggested that the Executive consider whether it would be appropriate to have two hedging arrangements in place, one to deal with short term currency fluctuation, the other with the longer term position.

TC / AC

The ARC **APPROVED** the changes to the Treasury Risk Management Framework, Policies and Authorities set out in the paper presented.

10. AOB

There being no further business, the meeting closed.

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Chairman Date

¹ That was likely to be in May or June 2019.

POST OFFICE LIMITED AUDIT AND RISK COMMITTEE MEETING
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Actions from meeting

Minute	Action	Lead	Due Date
4.	Telco: should we consider a 'no blame' / uncontested complaint option? JH to discuss this with Meredith Sharples.	JH	May
5.	Compliance: revised scope of the PCI compliance plan to be circulated to ARC.	LR/MM	May
5.	Risk appetite for Information Security: update on what was included in the sensitive data shared (14,000 files) with external users.	LR/MM	May
5.	Risk appetite for Information Security: overarching paper on data, the work being undertaken and the gaps we had identified; this should include how we managed third party data and the contractual issues associated with this. To be reviewed by the Information Security Committee	LR/MM	May
7.	Back Office Transformation: update on (1)whether Transtrack could adequately support us; (2) any accounting implications there are.	Executive	May
9.	Treasury Policy: Tom Cooper to have a separate conversation with the Executive about the [IRRELEVANT] overdraft. Executive to consider whether it would be appropriate to have two hedging arrangements in place, one to deal with short term currency fluctuation, the other with the longer term position.	TC/AC	May

3.1

REF.	ACTION	ACTION OWNER	DUE DATE	STATUS	OPEN / CLOSED
30 October 2018					
9. Business Continuity	An update on BCP to be provided.	Tim Armit	March 2019 May 2019 July 2019	BCP now included on the agenda for the May ARC meeting. Reviewed at the May RCC meeting. An update will be provided in the July ARC meeting.	Open
11. Insurance Policies	Review the risks covered by the suite of Insurance policies.	Jenny Ellwood	May 2019 July 2019	Update to be given at the May ARC meeting. Following discussion with the Chair, an update will be provided in the July ARC meeting.	Open
29 January 2019					
2. Updates from Subsidiaries					
2. (a)	Include the CMA's response to the super complaint as a potential strategic risk on the risk register.	Jonathan Hill	March 2019	We are checking that this risk appears on the Risk Registers for FS&T and PO Insurance.	Open
2. (b)	ARC to review the quality of sales of financial services products in the branch network in more depth.	Jonathan Hill	May 2019 July 2019	Proposals for deep dives and the sequencing of these will be brought to the May ARC meeting. Proposals will now be brought to the July ARC meeting.	Open
4. Risk Report					
6. Money Laundering Reporting Officer (MLRO) Annual Report					
6. (a)	To provide regular updates on the complete fit and proper data to HMRC.	Nick Boden/ Sally Smith	Ongoing	Ongoing until project close. Item included on ARC agenda.	Open
7. Security Strategy					
7. (a)	To provide quarterly reports to the ARC showing how we were performing against the metrics agreed to implement the Security Strategy once the deep dive with Deloitte had taken place.	Rob Houghton / Mick Mitchell	May 2019	Ongoing. Item included on ARC forward agenda.	Open
9. Audit Strategy Memorandum	To consider a deep dive on Successfactors given the cost of the system and its limited functionality.	Exec	May 2019 July 2019	Proposals for deep dives and the sequencing of these will be brought to the May ARC meeting. Proposals will now be brought to the July ARC meeting.	Open
25 March 2019					
4. Compliance Report -					
4. Telco	Consider whether we should write off ETCs where a complaint is received. This could save time and resource costs.	Jonathan Hill/Mered	May 2019	Customers joining enter a 12, 18 or 24 month contract which protects our commercial interests and their rights to service at a fixed cost, if either party break this contract then a penalty applies.	

Post Office Limited – Audit, Risk and Compliance Committee Actions List
Updated 22.05.19

		ith Sharples		<p>This penalty works for the customer and for POL e.g. if we raise the prices then customers can leave early without charge or if a customer chooses to leave early then we are entitled to charge a fee for Early Termination Charge (ETC)</p> <p>Any customers who complain follow a standard process by which their grievance is evaluated on a case by case basis, in the case of ETCs this can sometime lead us to cancel the charge.</p> <p>Our focus on customer is demonstrated by Ofcom reported complaints where we are below the industry average and have reduced by 33% YoY driven by our Customer First programme.</p> <p>Our complaints specifically around ETCS are at record low levels and are down 23% YoY.</p>	
5. Risk					
5. PCI Compliance	Check whether any of the additional credit card data we hold contains personal data and whether this had been covered as part of the GDPR work programme.	Mick Mitchell/ Liz Robson/ Jonathan Hill	May 2019	The GDPR programme looked at how we use all credit card (PCI) data across the business. PCI-related data would also be categorised as Personal Data, under GDPR. As part of the Process Mapping exercise, we have identified where this data is captured across our processes and procedures. The Data Audit addressed any PCI-related data held in systems.	
5. PCI Compliance	Circulate the updated scope for PCI compliance and the plan and timeline for its delivery as soon as the plan has been agreed (18 April 2019 is the target date).	Mick Mitchell/ Liz Robson	May 2019	The update report was issued to ARC members on the 25th April 2019. A further update paper will be provided as pre-read for the ARC meeting on the 29th May 2019.	
5. Cyber Security Report	The Information Security Committee should be accountable for the Cyber Security implementation strategy and should report back to ARC on this. The plan needed to take into account all the recommendations from the Deloitte Report and work out a priority plan.	Jane MacLeod / Rob Houghton	May 2019	An update is provided within the Cyber Security report.	

Post Office Limited – Audit, Risk and Compliance Committee Actions List
Updated 22.05.19

5. Risk Appetite for Information Security	Provide an answer urgently on what the data was contained in the 140k files shared with external users.	Mick Mitchell	May 2019	An update is provided within the Cyber Security report.	
5.	Bring back an overarching paper on data, what we are doing, where there are gaps, include the position on third party data and contractual issues. Take that paper through the Information Security Committee.	Jonathan Hill/ Jenny Ellwood	May 2019	Work is in train. A paper will be presented at the July ARC meeting.	
7. Back Office Transformation	Provide an update on Back Office Transformation and the position with Transtrack.	Executive	May 2019	An update will be provided in the CEO paper to the Board in May.	
9. Treasury Policy	Executive consider whether it would be appropriate to have two hedging arrangements in place for foreign exchange, one to deal with short term currency fluctuation, the other with the longer term position.	Executive	May 2019	An update will be provided at the July ARC meeting.	



POST OFFICE LIMITED RISK AND COMPLIANCE COMMITTEE

Minutes of a Risk and Compliance ("RCC") meeting held at
Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ
on 9 May 2019 at 13.00 pm

Present:	Alisdair Cameron (Chair) (AC) Priyanka Dewan (PD) (on behalf of Owen Woodley) Ben Foat (BF) Rob Houghton Mo Kang Cathy Mayor (CM) (on behalf of Debbie Smith)	Interim Chief Executive Officer Senior Strategy Manager Legal Director Group Chief Information Officer Group HR Director Finance Director, Retail
In Attendance:	Veronica Branton (VB) David Parry (DP) Johann Appel (JA) Jenny Ellwood (JE) Jonathan Hill (JH) Liz Robson (LR) Deana Herley (DH)	Head of Secretariat Senior Assistant Company Secretary Head of Internal Audit Risk Director Compliance Director CIO – Retail (item 3.) Senior Manager, Assurance (item 5.3)
Apologies	Debbie Smith, Chief Executive Officer, Retail, Owen Woodley, Chief Executive Officer, Financial Services, Telecoms and Identity, Group Marketing and Group Digital & Innovation.	

1. Welcome and Conflicts of Interest

Actions

Following introductions round the table, Alisdair Cameron opened the meeting. He remarked that the pack needed to be streamlined and that papers should be condensed, identifying the most significant risks and issues, what we were going to do to address these and the timeframes for doing so.

2. Minutes and Action Lists

The minutes of the RCC meeting held 14 March 2019 were **APPROVED**. Progress on completion of actions as shown on the action log were **NOTED**.

3. PCI-DSS Update

Liz Robson provided a verbal update on PCI compliance.

She explained this update would focus on the progress made on the alternative approach to banking services under investigation which would result in these transactions not being processed through Horizon and therefore not being in scope for PCI compliance. The progress report requested by ARC had been circulated for noting.

Regarding retail transactions via pin pad devices in branch, the deployment of point-to-point encryption (P2PE) of the Pin-Pad estate remained on track to plan, with devices being shipped to enable the required software upgrade and physical swap-out in branch.

PCI accreditation linked to the pin pad devices expired in the next 12 months and steps had been taken with Global Payments (our acquirer) to extend this accreditation until 2023 following accreditation testing. Accreditation cover came with the proviso that no further software changes would be made to the pin-pad devices beyond P2PE. An update from the Branch Device and Strategy Review on the future



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of Pin-Pad device for branches, along with other devices such as Paystations, was expected at the end of May.

Regarding banking transactions, positive progression had been made with Ingencio and Vocalink to process transactions directly with the banks via the Ingencio cloud. This approach removed the POL back-end from PCI scope, helping to simplify the process of achieving PCI compliance by moving these transactions out of scope. Design and planning sessions were in train with payment partners and a revised timeline plan plus associated costs was expected at the end of May 2019. P2PE deployment would not be impacted and remained crucial for PCI compliance being achieved. Work remained ongoing in parallel.

The recent Data Audit of the systems estate was almost complete, with low instances or no instances of PCI related data being identified. PCI data that had been identified was removed and users educated to prevent further occurrences. Audits for Computacenter and Accenture remained outstanding and completion dates would be confirmed with both partners.

The team had remained actively engaged with Nettitude, our Quality Security Assessor (QSA) and Global Payments throughout this activity, and our Acquirer was also fully aware and supportive of our plans. A full plan update would be provided at the end of May 2019.

A number of points were raised:

What challenges were associated with data encryption for banking transactions, as an alternative to processing data through Horizon? It was reported that there were two main challenges: 1) reconciliations and 2) banks needing to change their systems. A workshop was taking place with Ingenico and Global Pay to assess the technical feasibility of an alternative approach. The timescale for achieving PCI Compliance. It was reported that we would not be PCI compliant by the end of the year and JE and LR were working on identifying the associated risks, including the views of our partners.

The following was **AGREED**:

1. The Data Audit paper would include a section on how a BAU process would be implemented to monitor/scan the systems estate to identify and action any appropriate remediation for any PCI-related data. LR
2. The Branch Device Strategy paper would include an assessment of requirements of pin-pad devices in the future if they were going to be used for data entry by customers. LR
3. Mark Siviter would provide an update on current negotiations with RMG on the solution for International Data Capture. LR

A holistic plan on achieving PCI compliance, our position on data security and management (structured and unstructured data) and our risk controls would be presented to ARC in May.

4. Internal Audit (IA)

4.1 Internal Audit Report (IAR)

Johann Appel reported that apart from two change reviews, which had been deferred as part of the re-prioritisation plan, the Audit plan for 2018/2019 had been completed. 17 reports had been finalised with seven cleared by management. There was no outstanding fieldwork required for completion, and at 30 April 2019, there were no overdue actions.

AC requested that JA pass on his thanks to the team.

The RCC discussed the contents of the reports and noted that whilst there were no significant areas for concern, the message(s) conveyed could be more clearly identified. It was felt the reports should be focussed so that ARC members were fully aware of the key risks, the expected impacts, whether there

To do:
JA



were any shortcomings and the mitigating actions. Where appropriate, reports should be benchmarked against other industries and we should indicate where lessons from one report could be applied to other parts of the business.

It was suggested that the Internal Audit Report on Cyber Security needed to bring out the extent of our vulnerability, how long it would take to reach an acceptable position with reference to industry benchmarks, the prime drivers of weaknesses (e.g. not having strong passwords) and the activities we were undertaking such as tightening of controls around critical data assets.

It was noted that the security issues with some Payzone devices was not within the scope of the audit but Jenny Ellwood would reference this in her risk report.

JA was asked whether he had any concerns in relation to future audit reports planned or any other issues he wished to flag. He reported that terms of reference have not been agreed with process owners yet. The ToRs were in place for the Pensions Internal Audit. The Telco Internal Audit was at an early stage of planning. JA and RH would discuss the proposed change assurance work for the payment technology programme.

The reports would be circulated to the ARC for noting.

5. Risk

5.1 Consolidated Risk Report

Jenny Ellwood presented the consolidated risk report.

She reported that PCI, Information Security, Litigation and Change workforce remained the key risks but that there had been positive progress in relation to Information Security, including piloting some testing of third party supplier information security arrangements.

Emerging risks included uncertainty around the stability of the Government; people risk because of measures in the pipeline such as the introduction of a redundancy cap and because there had been significant people changes in critical roles recently and further organisational design changes were planned; and, the risk of the regulator taking action to address loyal customers' potential disadvantage vis-à-vis new customers. It was suggested that we should include what our mitigating actions would be in response to the loyalty super complaint.

It was **AGREED** that we would:

- Check whether RMG was affected by LINK ceasing to settle for partner banks from 1 July 2019.
- Include an update on the Fit and Proper compliance risk.

5.2 Litigation Update

The second trial relating to the Horizon system was pending direction from the Court of Appeal following our application to recuse the managing judge, which had been denied. The trial was due to resume on 4 June 2019 until early July.

5.3 Annual Report and Accounts 2018/19 – key risks

Deana Hurley presented the Risk Report for the Annual Report and Accounts 2018/19.

The principal risks and top risks were noted.

DH commented that since the publication of the last Risk Report there had been two main changes. Firstly the risk of increased likelihood of litigation had been amended from unlikely to possible, and



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secondly, the risk related to Technology and Business Interruption had increased in impact as a result of being unable to automatically failover the second datacentre.

AC requested a review of the wording of the report. RH remarked that the cyber security risk had reduced as control effectiveness had improved; we were still not within risk appetite but we would be providing more information on additional risk mitigations.

DH

The Executive Declarations were noted. The following was **AGREED**:

- Mitigating actions should be included.
- The GLO litigation should be included under the risk section and should be expanded to include details of the risk(s) involved, timings, costs involved (where available) and any operational changes that may be required.
- Health and Safety had not previously been included as a risk but should be referred to.

An updated paper would be presented to ARC in May.

6. Compliance

6.1 Compliance Report

Jonathan Hill presented the consolidated compliance report.

The following key points were noted.

Ofcom would investigate the text relay breach and assistance was being provided to respond to information requests from Ofcom. Difficulty had arisen in that Ofcom wished to understand the position dating back to 2002. JH believed the potential penalty was likely to be hundreds of thousands of pounds, but it was noted that the self-declaration and wish to settle early had been well received by the regulator and was likely to be taken into consideration. The regulator had also recognised the mitigating actions we had completed to date.

6.2 Fit and Proper: Compliance with HMRC June 2019 Deadline

Since the last RCC meeting, the project team had focused on completing fit and proper returns. A large backlog of responses had been cleared and HMRC had agreed to extend the June 2019 deadline to September 2019 for MI data gathering purposes.

The RCC noted the improved and accelerated position but requested that the risks and how they would be tracked were identified.

JH

HMRC had increased branch registration fees from £130 per annum to £300 per annum from 1 May 2019. Fees would be in the region of £1.3 million and the plan was to stagger payments. Around 4,000 registered branches processed a limited number of transactions. Work was being undertaken on the implications of not providing a Forex service in those locations; however it was not thought that we should remove the service during the course of the litigation except where there were no transactions in a branch.

JH

Appointed Representatives

Work remained ongoing with CAP ONE on the Appointed Representative appointment. Any new arrangement would need to be consistent with the current approach taken with our existing regulatory principals.

Approved person forms would need to be filed at Companies House once completed.

Vulnerable Customers' Policy

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An external assessor had provided positive feedback on our vulnerable customers' policy and the associated training in branches.

Whistleblowing Policy

A question was raised about whether our whistleblowing policy was being used as we would hope. JH advised the whistleblowing hotline would become a Freephone number and that work was being undertaken by HR to encourage a culture which encouraged employees to raise issues of concern.

7. Cyber Security

RH advised that the main update of note was the work that had taken place on penetration testing of Payzone devices and the work now underway with the IT Security team to formulate a risk treatment plan to remediate vulnerabilities identified.

8. Business Continuity Plan and Policy

The paper and policy were **NOTED** but the item was deferred.

The POL policy template needed to be used and the risks and mitigating actions need to be clearer.

It was **AGREED** that with assistance from RH and JH, an updated paper and policy would be presented to the RCC and ARC in July 2019.

TA/RH/JH

9. GDPR Update

The paper was **NOTED**.

AC felt that the paper should use less technical language and be simplified to bring out the key challenges and the next steps. We also needed to provide a complete picture of data and not just the personal data covered by GDPR to provide the ARC with a holistic view. Further work required on data should also be set out.

The RCC noted that some contract remediation was outstanding and that before the GDPR programme could be signed off, the transition from programme to BAU needed to be clarified. It was also proposed that privacy/GDPR champions should be established group wide.

It was **AGREED** that:

1. A revised paper would be presented to ARC showing the work completed to date, and the areas of outstanding work. JH
2. An Internal Audit would be completed in Spring 2020. JA

10. Review of draft Audit, Risk and Compliance Committee meeting agenda

The draft ARC agenda for 29 May 2019 was **NOTED** and discussed.

A consolidated report for Risk, Compliance and Internal Audit would be presented to ARC.

11. Any other Business

11.1 Meeting dates

It was noted that the next scheduled RCC meeting was on 4 July 2019.

Annual Report and Accounts 2018/19

Author: Tom Lee

Sponsors: Micheal Passmore, Al Cameron

Date: 29 May 2019

Executive Summary

4.1

Context

The draft 2018/19 Annual Report and Accounts (ARA) is presented to the ARC, along with supporting papers, for review.

The papers comprise 1) the ARA, 2) a briefing book setting out the details of the financial results and accounting judgements, and 3) the Audit Committee Paper from PwC outlining the work performed and findings to date.

Questions addressed in this report

The following questions are addressed in this report:

1. In summary, what were POL's financial results for the year ended 31 March 2019?
2. What is the status of the audit work on the ARA?
3. What matters are we drawing to the ARC's attention in their review?

Conclusions

Post Office reported a trading profit (EBITDAS) of £61 million (2018: £35 million), an improvement of £26 million, comprising a small increase in commercial turnover and cost reductions. Net assets increased to £256 million (2018: £206m).

PwC is working to complete its audit procedures and will provide an update on their identified significant risk areas and areas of audit focus in their Audit Committee Paper to the ARC on 29 May. Subject to the completion of their audit work, PwC has not identified any significant issues to date which would impact on the signing of the ARA. Refer to the Audit Committee Paper prepared by PwC for details of findings to date.

The following items have been set out in this report:

- Accounting for the acquisition of Payzone Bill Payments Limited;
- Note Circulation Scheme; and
- Group Litigation Order.

Input Sought

The ARC is requested to review and comment on the draft ARA for the year ended 31 March 2019 prior to signing.

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The Report

In summary, what were POL's financial results for the year ended March 2019?

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1. Post Office made an underlying operating profit of £13 million (2018: £47 million) and reported a trading profit (EBITDAS) of £61 million (2018: £35 million). This represents a trading profit improvement of £26 million on the prior year. Trading revenue increased year on year by £16 million to £972 million principally as a result of growth in Identity and Insurance business areas, with continued growth also noted within Banking Services. This was partly offset by the anticipated decline in our Post Office Card Account income stream. The focus on controlling and reducing the cost base generated a reduction in direct costs of £2 million to £958 million (2018: £960 million).
2. On the Post Office Group balance sheet, net assets have increased from £203 million to £256 million. Notable changes driving this increase include an increase in tangible and intangible assets of £55 million, a decrease of £112 million in cash and a decrease in the government loan of £58 million.

What is the status of the audit work on the ARA?

3. PwC is working on the completion of its audit procedures. PwC will provide an update on each of their identified significant risk areas and areas of audit focus in their Audit Committee Paper at the ARC meeting on 29 May. Subject to the completion of their audit work, PwC has not identified any significant issues to date.
4. At this stage no significant findings or management letter points have been brought to management's attention. Findings and adjustments raised to date include:
 - £6m balance sheet reclassification, to move Camelot scratchcard balances from inventory to prepayments;
 - control recommendation around the leavers process in relation to global user access, however alternative procedures are being performed to provide appropriate assurance. Appropriate corrective measures will be performed internally once findings confirmed.
5. As part of the year end process, internal Post Office reviews have been undertaken to review post year end invoices, purchase orders and bank reconciliations and no adjustments are proposed as a result. This work is continuing to be updated, and PwC will also need to continue its post year-end review prior to signature.

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6. The migration from POLSAP to CFS was completed and reviewed internally prior to year-end. PwC are currently completing their procedures over the accuracy and completeness of the migration process. The results of this will be concluded and reported prior to signing the ARA.

4.1

What matters are we drawing to the ARC's attention?

Payzone Acquisition

7. On [IRRELEVANT] Post Office Limited acquired Payzone Bill Payments Limited for total consideration of [IRRELEVANT], which comprises [IRRELEVANT] and [IRRELEVANT] contingent fee (of which [IRRELEVANT] has been settled to date). The acquisition has been accounted for under IFRS 3 Business Combinations and has resulted in additions to intangible assets of [IRRELEVANT] and Goodwill of [IRRELEVANT]. From the date of acquisition to 31 March 2019, the Payzone business has contributed [IRRELEVANT] of revenue and [IRRELEVANT] to trading profit.

Note Circulation Scheme

8. In the 2018/19 Annual Report and Accounts we have included an explanation of the Note Circulation Scheme (NCS), in line with 2017/18, to provide greater transparency to users. A reference is included in the Finance and Business Review and note 22 includes a description of the scheme.
9. At the year-end [IRRELEVANT] was funded via the NCS. As in previous years we do not disclose anything on the Balance Sheet but have taken a decision to include narrative on the scheme in the notes to the accounts to allow the users of the accounts to better understand our funding. In 2017/18 we agreed the narrative included with the Bank of England and do not propose to amend it in the 2018/19 ARA. We have asked PwC to confirm that they agree with the off balance sheet treatment and associated disclosure.

Group Litigation Order

10. The High Court claim is expected to remain ongoing beyond the signing date of the ARA. The current disclosure in the ARA remains unchanged from 2017/18, being the disclosure of the litigation as an unvalued contingent liability with no provision made. We do not anticipate a material change to this disclosure, however the position will be revisited prior to ARA signing to reflect the latest status of the claim with any subsequent events reflected as required.
11. We have separated out the costs incurred in 2018/19 of £14m as an exceptional item, which corresponds with the 2017/18 treatment. This classification has been selected because the expenditure is not in the ordinary course of business and anticipated total costs are material. Further spend is expected in 2019/20 but the value cannot yet be estimated and no provision has been recognised.
12. PwC have and will continue to be consulted on the disclosures.

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Strategic Report

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

Chairman’s Foreword

The Post Office has had another strong year. ~~We grew our turnover~~ grew by 2% to £972 million, ~~and we have delivered a trading profit of~~ £61 million, a 74% increase on last year trading profit, a 74% increase on last year. A particularly encouraging performance was recorded in a number of areas including Banking, Mails, Telecoms and Travel, showing our resilience in what has been another challenging year on the high street.

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This year we have built on the major business restructures undertaken in previous years, consolidating and reshaping central and back office functions to better serve our increasingly dynamic organisation.

We are creating stronger foundations to provide better services to our customers and support to those who run our branches. At the same time, we have been challenged by Government to be a self-sustaining company free of public subsidy. To achieve all 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 customer expectations more decisively still.

Our recent results demonstrate that the ways in which we are transforming the business to remain relevant, easily accessible and the first choice for customers are working. 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.

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

Improving the support we provide our postmasters and agents, and making it easier for them to run their Post Offices profitably, remains a priority. We have been reviewing our ways of working to ensure that effort and complexity are kept to a minimum, while 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 Group Litigation involving Post Office is an important reminder that this aspect of our work is open ended, and that we must always strive to do even better.

As ever, it’s 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.

Finally, 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 good shape and I wish her every success for the future. I look forward to working with Al Cameron, Interim Chief Executive, and the Executive Team to build on Paula's success in the coming year.

Tim Parker
Chairman
XX XXXX 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, it fulfils a unique function in the UK. 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.

With a trading profit of £61 million this year, ~~achieved against a broadly flat~~ supported by a small increase in turnover-revenue profile, we are on track to achieve our £100 million trading profit target by 2020/21. As Government looks, quite rightly, to reduce its financial support for the business in favour of other spending priorities, it is essential that we build robust financial foundations.

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Our trading profit target reflects our shared ambition to become entirely subsidy free after 2020/21, and create sufficient value to build a thriving, UK-wide, business for the long term. This will not be easy. We have to keep developing ahead of the market, and generate enough profit to reinvest in products, technology, our branches, and our people. We take confidence from the fact that our recent results demonstrate that if we stay focused on the right things we can succeed.

This year saw us complete our Network Transformation Programme, by far the biggest change we have ever made, and one of the biggest in UK retail. Investing in and modernising over 7,700 branches has resulted in significant increases in opening hours and levels of customer satisfaction. Over the period, we also opened over 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 at its most stable for more than a decade, and is growing.

Franchising, combining a post office alongside a separate retail offering, enables us to share the property, staffing, and other costs of running any business. This model, which has been operated successfully across the vast majority of the network for decades, continues to be extended to some of our Directly Managed Branches ("DMBs"). These represent less than 2% of our network, but are disproportionately expensive to operate as stand-alone post offices. The decision to franchise is driven by a determination to keep these essential services available on high streets across the country in the face of the very significant cost challenges facing all retailers. Research shows that customer satisfaction levels return to, or even exceed, their pre-franchise levels soon after the change is made.

Improvements to our physical network of brick-and-mortar outlets has been matched by significant IT investment across the business. In financial year 2018/19, we substantially completed the transformation of our back office systems. These handle £60 billion in financial transactions each year for corporate clients and customers. As well as driving further efficiency, the changes give us better commercial insights to enable us to improve products and services. At the front line, we also renewed equipment in all our branches, and continue to look for opportunities for technology to expedite and simplify processes for our postmasters and customers.

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, significantly enhancing opportunities for future revenue growth in this competitive market.

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, with plans for further expansion in the year ahead.

Over 900,000 new customers registered for our GOV.UK Verify service, which provides a secure, and re-usable, means of definitive identity assurance to enable customers to access 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.

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 doubled revenue. We have been busy working on a significant further expansion over the next three year phase, rebalancing the fees we receive to better reflect the value of the service. We want all those involved to share in the success of the service, especially those working at the counter, and we recently announced that we are near tripling the fees our postmasters receive for cash deposits as a result.

We recognise that our postmasters are key to the success of our business. These are the people operating our branches alongside their retail businesses, serving our customers, day-in, day-out. While the model works well in thousands of branches across the country, we know that in common with other retailers, there are challenging head winds to face into. That is why have been working hard to make it easier for them to operate their post offices more profitably, with less effort, and better support from us. From the process of on-boarding, through improved training and field engagement, to simplified products and sales processes, we are continually improving the support we provide postmasters. Irrespective of the legal merits, the Group Litigation we are engaged in brings a sharper focus to this work. While our culture and practices have changed hugely over the 20 years spanned by the case, it is right that we must continue to do better.

I would like to thank the Post Office Board, led by Tim Parker, for its direction and support throughout the year, as well as our Shareholder and colleagues at BEIS. I must also thank all my colleagues in our main customer support centres for rising to the challenge, once more, as we build a stronger business. My final thanks are reserved for my predecessor, Paula Vennells, who over the past 7 years has led us, as CEO, to be a profitable, confident, business without losing sight of our values. The Group Executive is continuing, with passion and enthusiasm, to evolve an organisation like no other in the service of current and future generations.

Alisdair Cameron
Interim Chief Executive
XX XXXX 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 £13 million (2018: £47 million). This is after increased depreciation and amortisation charges of £94 million (2018: £55 million), and exceptional items of £14 million (2018: £3 million).

Trading profit increased by £26 million to £61 million (2018: £35 million). Our turnover grew by £16 million during 2018/19 to £972 million (2018: £956 million). Growth was driven by our Identity (9%) and Insurance (15%) business areas, with continued growth also noted within Banking Services (15%). This was partly offset by the anticipated decline in our card account income stream (down 25%).

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 was partly offset by cost reductions of £2 million and, when combined with the growth in revenue streams outlined above, resulted in an adjusted EBITDA increase of £16 million to £121 million (2018: £105 million).

Profit and Loss Summary – Trading

	2019 £m	2018 £m	Variance £m	Variance %
Turnover	972	956	16	2
Costs	(958)	(960)	2	1
Other income	14	5	9	180
Share of profit from joint venture	33	34	(1)	(3)
Trading profit	61	35	26	74
Add: Network Subsidy Payment	60	70	(10)	(14)
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA)	121	105	16	15
Depreciation and amortisation	(94)	(55)	(39)	(71)
Exceptional items	(14)	(3)	(11)	(367)
Operating profit before investments	13	47	(34)	(72)

Significant accounting judgements

Going concern

The Group (being the Group of companies headed by Post Office Limited) has net assets of £256 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 £61 million (2018: £35 million) and shown a profit after tax of £52 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 as required for up to March 2020.

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

Key Financial Performance Indicators

	2019	2018	Variance
	£m	£m	£m
Turnover	972	956	16
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA) (note [XX])	121	105	16
Operating profit before depreciation, amortisation, exceptional items, investments and Network Subsidy Payment (trading profit) (note [XX])	61	35	26
Profit for the financial year	52	17	35

Profit and Loss

As disclosed in note [XX] to the financial statements on page [XX], 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 £52 million (2018: £15 million). Once finance income/costs, taxation credit/charge have been factored in, the profit for the financial year is £52 million (2018: £17 million). See the consolidated income statement on page [XX] for full details.

	2019	2018	Variance
	£m	£m	£m
Operating profit			
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA)	121	105	16
Depreciation and amortisation	(94)	(55)	(39)
Exceptional items	(14)	(3)	(11)
Operating profit before investments	13	47	(34)
Investments	39	(32)	71
Operating profit	52	15	37

Turnover

The Post Office business is organised into three strategic business units, Retail, Financial Services & Telecoms (including Insurance) and Identity. Turnover from our subsidiary Post Office Management Services Limited is included within the Insurance line below. Turnover 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)
Turnover	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") turnover moving from Government Services to Cash & Banking Services. Remaining Government Services turnover has been moved into the Identity business unit. Banking Services and ATMs revenue have also moved into Cash & Banking 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
Identity	-	-	-	54	-	-	54
Insurance	48	-	-	-	-	-	48
Other	16	-	-	-	-	-	16
Turnover	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 turnover is up £17 million (6%) 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.

Cash & Banking Services

This comprises the following services:

	2019	2018	Variance	Variance
	£m	£m	£m	%
POCA	30	40	(10)	(25)
Banking Services	102	88	14	15
ATMs	29	30	(1)	(3)
Cash & Banking Services	161	158	3	2

POCA revenue has decreased by £10 million in line with expectations. ATMs revenue has remained stable despite market decline. Banking services has significant year on year growth of £14 million to £102 million as more high street banks are closing their branches, in addition to the switch made to automated deposit transactions in October 2018.

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 turnover, offset by reduced volumes in the reseller market of £4 million.

Financial Services & Telecoms

Financial Services

Our Financial Services products include mortgages, credit cards, savings and travel money, in addition to postal orders. Turnover 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). This is due to not having a minimum savings commission value in 2018/19. 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 due to Bank of Ireland pricing, but the expansion into the Broker channel is compensating this.

Turnover from Postal Orders declined by £2 million as this legacy product continues to decline in the marketplace. The impact of Brexit, 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 turnover 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 turnover 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 turnover 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.

Costs

Total costs decreased by £2 million to £958 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 4,703 in 2018/19 reflecting efficiency savings across the DMBs and the effect of the Network and DMB transformation programmes. Closing headcount for the year was 4,397 (2018: 5,020).

Other operating costs decreased by £7 million to £765 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 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.

Exceptional costs

On 11 April 2016, a High Court claim was issued on behalf of a number of postmasters against Post Office in relation to various legal, technical and operational matters, many of which have been the subject of significant external focus for a number of years. Post Office is robustly defending the claim, believes it lacks merit, but welcomes the opportunity to have these matters resolved through the Court managed Group Litigation Order.

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

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

The costs of £14 million included in exceptional items relate to Post Office defending the Post Office Group Litigation (2018: £3 million).

Joint venture

Post Office Limited has a joint venture with the Bank of Ireland with each holding 50% of First Rate Exchange Services Holdings Limited. 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	(64)	(63)
IT transformation	(13)	(6)
Severance	(38)	(17)
Total restructuring costs	(129)	(102)
Unwinding of discount on provisions	(1)	(2)
Total investment income/(charge)	38	(34)

Restructuring costs include the costs of delivery for major change programmes. In addition, we have incurred £154 million (2018: £151 million) of capital spend, primarily on IT transformation projects, as disclosed in notes [X] and [X].

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 £54360 million (2018: £655 million) at the year-end. There was a net cash outflow during the year of £95112 million (2018: £25 million).

Net debt (excluding cash in the Post Office network) decreased by £66 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	(119)	(116)
Other cash inflows from operating activities	5134	66
Net cash inflow from operating activities	10083	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	(149)	(135)
Net cash outflow from investing activities	(129)	(102)
Net cash outflow from financing activities	(8)	(5)
Decrease in cash and cash equivalents	95112	25
BEIS loan at the end of the year	(565)	(623)
Cash (excluding cash in the Post Office Network)	24	12
Total net debt carried forward at the end of the year	(541)	(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 [XX] 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.

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.

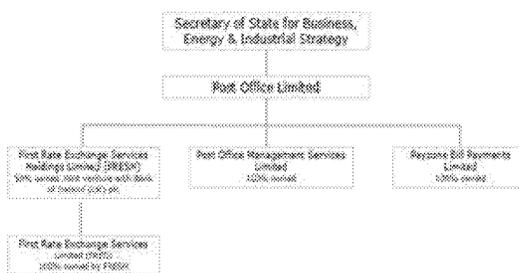
Alisdair Cameron
Interim Chief Executive
XX XXX 2019

Governance

Corporate Governance

Legal Ownership and Structure

Post Office Limited ("the Company") is wholly owned by the Department 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 Chairman, the Group Chief Executive, the Chief Finance and Operating Officer and five Non-Executive Directors (one of whom is designated the Senior Independent Director 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.

GRO	<p>Tim Parker, Independent Chairman, Chairman of the Nominations Committee and member of the Remuneration Committee</p> <p><i>Joined the Board 1 October 2015</i></p>	GRO	<p>Alisdair Cameron, Chief Finance and Operating Officer throughout the 2018/19 financial year and Interim Chief Executive from 5 April 2019.</p> <p><i>Joined the Board 28 January 2015</i></p>
GRO	<p>Ken McCall, Senior Independent Director, Chairman of the Remuneration Committee and member of the Audit, Risk and Compliance and Nominations Committees</p> <p><i>Joined the Board 21 January 2016</i></p>	GRO	<p>Tim Franklin, Non-Executive Director and member of the Audit, Risk and Compliance Committee</p> <p><i>Joined the Board 19 September 2012</i></p>
GRO	<p>Shirine Khoury-Haq, Non-Executive Director and member of the Nominations and Remuneration Committee</p> <p><i>Joined the Board 24 May 2018</i></p>	GRO	<p>Carla Stent, Non-Executive Director and Chairman of the Audit, Risk and Compliance Committee</p> <p><i>Joined the Board 21 January 2016</i></p>
GRO	<p>Tom Cooper, Non-Executive Director, and member of the Audit, Risk and Compliance and Remuneration Committees</p> <p><i>Joined the Board 27 March 2018</i></p>	GRO	<p>Paula Vennells, Group Chief Executive, throughout the 2018/19 financial year¹</p> <p><i>Joined the Board 18 October 2010</i></p>
<p>Company Secretary:</p> <p>Veronica Branton</p> <p><i>Appointed as Company Secretary XX XXX 2019</i></p>		<p>Jane Macleod</p> <p><i>Served as Company Secretary from her appointment on 30 August 2017 until 31 May 2019</i></p>	

¹ 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 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 in [May 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 [XX] to [XX].

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. 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 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 8 times (including additional meetings held either in person or by telephone). A record of Directors' attendance (attended/eligible to attend)² 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	TBC	-	4/4	6/6
Executive Directors					
Paula Vennells	7/8	TBC	-	-	-
Alisdair Cameron	8/8	TBC	-	-	-
Non-Executive Directors					
Ken McCall	8/8	TBC	4/5	4/4	6/6
Tom Cooper	8/8	TBC	5/5	-	5/6
Tim Franklin	8/8	TBC	4/5	-	-
Shirine Khoury-Haq	8/8	TBC	-	3/4	5/6
Carla Stent	8/8	TBC	5/5	-	-

² 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.

Remuneration Committee

Role and Membership

The duties and responsibilities of the Remuneration 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 Ken McCall, and the other members during the year were Tom Cooper, Shirine Khoury-Haq and Tim Parker.

In accordance with the Terms of Reference, the Group Chief Executive may attend meetings, at the invitation of the Committee Chairman, to discuss matters relating to the remuneration of the Chief Finance and Operating Officer and members of the Group Executive. However, the Committee recognises the need to manage any potential conflicts of interest and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

Work of the Committee in 2018/19

During the year the Committee reviewed and made recommendations to the Shareholder for the 2017/18 bonus payments against incentive plans for Executive Directors, annual pay increases for Executive Directors and targets and measures for 2018/19. The Committee approved senior salary pay changes, in line with increases provided to all employees, and pay at appointment where these

were within its remit and delegated authority.

The Committee received updates and advice from the HR and Finance teams and from PricewaterhouseCoopers LLP, its external adviser, on gender pay, market trends and benchmarking information and corporate governance.

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 Chairman, 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 [XX] to [XX].

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 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 Chairman.

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 to 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.

4.2

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 overtime, as we progress with the North Star strategy and business plan, 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. Litigation is also new, due to the change in posture. 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 this principle risk is improving. 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		
<p>Dependency on Strategic Relationships</p> <p>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.</p> <p>We work with our partners to align our direction and interests to enable us to meet evolving customer and market requirements and any misalignment.</p>	<p>Not achieving our strategic ambitions, losing revenue and market share.</p>	<ul style="list-style-type: none"> 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.
<p>Retail Proposition</p> <p>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:</p> <ul style="list-style-type: none"> increased high street costs; ongoing move to online; and a decline in traditional income streams. 	<p>Inability to meet our network commitment, and consequent adverse impact on delivery of our social purpose and consequential financial impacts.</p>	<ul style="list-style-type: none"> We are continuing to open branch locations where there is a customer need, adding 328 '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 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. We are developing 15 pilot locations for Post Office Parcel Shop and are continuing to develop automated locals, with the first proof of concept branch.

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Principal Risk / Movement	Potential Consequences	Key Mitigations
STRATEGIC RISKS		
<p>Economic and Political Environment</p> <p>Current uncertainties in the external political, economic and social environment could have a detrimental impact our strategy and operating model significantly:</p> <p>Brexit itself represents a potential series of risks which would be most pronounced in the event of a no-deal departure from the EU (see below), but has also taken a very serious toll on all aspect 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 will change in favour of a Labour agenda, with significant implications for the business. Examples include the implementation of Labour's proposals for the renationalisation of RMG, and the creations of a Post Bank.</p>	<p>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.</p> <p>Disruption to operations (customs labels in branch, accessibility issues for supply chain)</p> <p>Financial resilience of our postmasters and suppliers.</p> <p>Retention of skilled labour and recruitment.</p> <p>New income streams failing to grow.</p>	<ul style="list-style-type: none"> • 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'.
OPERATIONAL AND FINANCIAL RISKS		
<p>Health and Safety</p> <p>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.</p>	<p>NEW NEW</p> <p>Exposure to significant costs for reimbursement for damages and remediation, operational disruption, prosecution and reputational damage.</p>	<ul style="list-style-type: none"> • 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 monitoring of 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.

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Principal Risk / Movement	Potential Consequences	Key Mitigations
		<ul style="list-style-type: none"> 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.
TECHNOLOGY AND INFORMATION SECURITY RISKS		
<p>Technology, Business Interruption and Cyber As the digitalisation of our business continues to grow, Post Office is dependent on the continued effectiveness, availability, integrity and security of its information systems and associated infrastructure. Post Office, in common with other businesses, is continuing to track the threat "universe" and is aware of increasing risk from cyber-attackers (particularly nation states) seeking to undermine businesses, government and utilities.</p>	<p>Direct Impact on our network availability and reliability resulting in adverse customer service and financial performance and/or reputation.</p> <p>A cyber-attack could threaten the confidentiality, integrity and availability of our systems.</p>	<ul style="list-style-type: none"> 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 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: <ul style="list-style-type: none"> increasing capability within our security operations; and cultural awareness around data protection.

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Principal Risk / Movement	Potential Consequences	Key Mitigations
LEGAL & REGULATORY RISKS		
Group Litigation Post Office Limited is the defendant in <i>Bates & Others v. Post Office Limited</i> , 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.

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[The wording in italics in the table above (Technology and Information Security Risks) is with Rob Houghton to approve. The section is also subject to change by Mark Davies and team who will review for style and language.]

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 page [X].

Results and dividends

The profit after taxation for the year was £52 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 following served as Directors during the year:

T C Parker	P A Vennells (<i>resigned 30 April 2019</i>)
A C J Cameron	T K G Cooper
T A Franklin	S Khoury-Haq
K S McCall	C R Stent
V A Holmes (<i>resigned 27 March 2018</i>)	R J Callard (<i>resigned 27 March 2018</i>)

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

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 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 43%. 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 for 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>.

Post balance sheet events

In accordance with the funding agreement with Government, Post Office Limited received a Network Subsidy Payment of £17.5 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 [XX].

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 [XX] to [XX].

Audit information

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

Auditor

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

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

Strategic Report

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

Chairman's Foreword

The Post Office has had another strong year. ~~We grew our revenue by 2%, to £972 million, and we have delivered a trading profit of £61 million, a 74% increase on last year trading profit, a 74% increase on last year.~~ A particularly encouraging performance was recorded in a number of areas including Banking, Mails, ~~Insurance and~~ Telecoms and Travel, showing our resilience in what has been another challenging year on the high street.

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This year we have built on the major business restructures undertaken in previous years, consolidating and reshaping central and back office functions to better serve our increasingly dynamic organisation. ~~Improving the support we provide our postmasters and agents, and making it easier for them to run their Post Offices profitably, remains a priority.~~

We are creating stronger foundations to provide better services to our customers and support to those who run our branches. At the same time, we have been ~~set a~~ challenged by Government to become a self-sustaining company free of public subsidy. To achieve all 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 customer expectations more decisively still.

Our recent results demonstrate that the ways in which we are transforming the business to remain relevant, easily accessible and the first choice for customers are working. 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 its strong growth in the competitive travel market. Telecoms grew its customer base whilst significantly shifting it towards broadband. In savings, we broadly maintained total balances, but a continuing trend away from more profitable branch-based sales towards less profitable online sales impacted our income.~~

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

~~Improving the support we provide our postmasters and agents, and making it easier for them to run their Post Offices profitably, remains a priority.~~ ~~To support postmasters,~~ We have been reviewing our ways of working to ensure that effort and complexity are kept to a minimum, while 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 Group Litigation involving Post Office is an important reminder that this aspect of our work is open ended, and that we must always strive to do even better.

As ever, it's 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.

Finally, 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 good shape and I wish her every success for the future. I look forward to working with Al Cameron, Interim Chief Executive, and the Executive Team to build on Paula's success in the coming year.

Tim Parker
Chairman
XX XXXX 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, it fulfils a unique function in the UK. 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.

With a trading profit of £61 million this year, ~~achieved against a broadly flat~~ ~~supported by a small increase in revenue~~ revenue profile, we are on track to achieve our £100 million trading profit target by 2020/21. As Government looks, quite rightly, to reduce its financial support for the business in favour of other spending priorities, it is essential that we build robust financial foundations.

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Our trading profit target reflects our shared ambition to become entirely subsidy free after 2020/21, and create sufficient value to build a thriving, UK-wide, business for the long term. This will not be easy. We have to keep developing ahead of the market, and generate enough profit to reinvest in products, technology, our branches, and our people. We take confidence from the fact that our recent results demonstrate that if we stay focused on the right things we can succeed.

This year saw us complete our Network Transformation Programme, by far the biggest change we have ever made, and one of the biggest in UK retail. Investing in and modernising over 7,700 branches has resulted in significant increases in opening hours and levels of customer satisfaction. Over the period, we also opened over 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 at its most stable for more than a decade and is growing. A detailed breakdown will be available in this year's Network Report.

Franchising, combining a Post Office alongside a separate retail offering, enables us to share the property, staffing, and other costs of running any business. This model, which has been operated successfully across the vast majority of the network for decades, continues to be extended to some of our Directly Managed Branches ("DMBs"). These represent less than 2% of our network, but are disproportionately expensive to operate as stand-alone Post Offices. The decision to franchise is driven by a determination to keep these essential services available on high streets across the country in the face of the very significant cost challenges facing all retailers. Research shows that customer satisfaction levels return to, or even exceed, their pre-franchise levels soon after the change is made.

Improvements to our physical network of brick-and-mortar outlets has been matched by significant IT investment across the business, ~~powered by substantial investment funding from Government~~. In financial year 2018/19, we ~~largely~~ ~~substantially~~ completed the transformation of our back office systems. These handle £60 billion in financial transactions each year for corporate clients and customers. As well as driving further efficiency, the changes give us better commercial insights to enable us to improve products and services. At the front line, we also renewed equipment in all our branches, and continue to look for opportunities for technology to expedite and simplify processes for our postmasters and customers.

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, significantly enhancing opportunities for future revenue growth in this competitive market.

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, with plans for further expansion in the year ahead.

Over 900,000 new customers registered for our GOV.UK Verify service, which provides a secure, and re-usable, means of definitive identity assurance to enable customers to access 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.

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 doubled revenue. We have been busy working on a significant further expansion over the next three year phase, rebalancing the fees we receive to better reflect the value of the service. While the banking framework is already resonating strongly with customers, we continue to undertake awareness raising activity with our banking partners to secure maximum benefit from its operation. We want all those involved to share in the success of the service, especially those working at the counter, and we recently announced that we are near tripling the fees our postmasters receive for cash deposits as a result.

We recognise that our postmasters are key to the success of our business. These are the people operating our branches alongside their retail businesses, serving our customers, day-in, day-out. While the model works well in thousands of branches across the country, we know that in common with other retailers, there are challenging head winds to face into. That is why we have been working hard to make it easier for them to operate their Post Offices more profitably, with less effort, and better support from us. From the process of on-boarding, through improved training and field engagement, to simplified products and sales processes, we are continually improving the support we provide postmasters. Irrespective of the legal merits, the Group Litigation we are engaged in brings a sharper focus to this work. While our culture and practices have changed hugely over the 20 years spanned by the case, it is right that we must continue to do better.

I would like to thank the Post Office Board, led by Tim Parker, for its direction and support throughout the year, as well as our Shareholder and colleagues at BEIS. I must also thank all my colleagues in our main customer support centres for rising to the challenge, once more, as we build a stronger business. My final thanks are reserved for my predecessor, Paula Vennells, who over the past 7 years has led us, as CEO, to be a profitable, confident, business without losing sight of our values. The Group Executive is continuing, with passion and enthusiasm, to evolve an organisation like no other in the service of current and future generations.

Alisdair Cameron
Interim Chief Executive
XX XXXX 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 £13 million (2018: £47 million). This is after increased depreciation and amortisation charges of £94 million (2018: £55 million), and exceptional items of £14 million (2018: £3 million).

Trading profit increased by £26 million to £61 million (2018: £35 million). Our ~~revenue~~ turnover grew by £16 million during 2018/19 to £972 million (2018: £956 million). Growth was driven by our Identity (97%) and Insurance (15%) business areas, with continued growth also noted within Banking Services (15%). This was partly offset by the anticipated decline in our card account income stream (down 25%).

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 ~~was partly~~ been offset by cost reductions of £2 million and, ~~revenue when combined with the growth of £16 million, in revenue streams outlined above~~ As a result, ~~adjusted~~ resulted in an adjusted EBITDA increased by £16 million to £121 million (2018: £105 million).

Profit and Loss Summary – Trading

	2019	2018	Variance	Variance
	£m	£m	£m	%
Revenue	972	956	16	2
Costs	(958)	(960)	2	±
Other income	14	5	9	180
Share of profit from joint venture	33	34	(1)	(3)
Trading profit	61	35	26	74
Add: Network Subsidy Payment	60	70	(10)	(14)
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA)	121	105	16	15
Depreciation and amortisation	(94)	(55)	(39)	(71)
Exceptional items	(14)	(3)	(11)	(367)
Operating profit before investments	13	47	(34)	(72)

Significant accounting judgements

Going concern

The Group (being the Group of companies headed by Post Office Limited) has net assets of £256 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 £61 million (2018: £35 million) and shown a profit after tax of £52 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, as required for up 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	2018	Variance
	£m	£m	£m
Turnover/Revenue	972	956	16
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA) (note [XX])	121	105	16
Operating profit before depreciation, amortisation, exceptional items, investments and Network Subsidy Payment (trading profit) (note [XX])	61	35	26
Profit for the financial year	52	17	35

Profit and Loss

As disclosed in note [XX] to the financial statements on page [XX], 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 £52 million (2018: £15 million). Once finance income/costs, taxation credit/charge have been factored in, the profit for the financial year is £52 million (2018: £17 million). See the consolidated income statement on page [XX] for full details.

	2019	2018	Variance
	£m	£m	£m
Operating profit			
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA)	121	105	16
Depreciation and amortisation	(94)	(55)	(39)
Exceptional items	(14)	(3)	(11)
Operating profit before investments	13	47	(34)
Investments	39	(32)	71
Operating profit	52	15	37

Turnover Revenue

The Post Office business is organised into three strategic business units, Retail, Financial Services & Telecoms (including Insurance) and Identity. Revenue Turnover from our subsidiary Post Office Management Services Limited is included within the Insurance line below. Revenue Turnover 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)
Turnover 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 turnover moving from Government Services to Cash & Banking Services. Remaining Government Services revenue turnover has been moved into the Identity business unit. Banking Services and ATMs revenue have also moved into Cash & Banking 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
Insurance	48	-	-	-	-	-	48
Other	16	-	-	-	-	-	16

Turnover & revenue	961	-	(5)	-	-	-	956
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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 turnover-revenue is up £167 million (65%) 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

This comprises the following services:

	2019	2018	Variance	Variance
	£m	£m	£m	%
POCA	30	40	(10)	(25)
Banking Services	102	88	14	15
ATMs	29	30	(1)	(3)
Cash & Banking Services	161	158	3	2

POCA revenue has decreased by £10 million in line with expectations. ATMs revenue has remained stable despite market decline. Banking services has significant year on year growth of £14 million to £102 million as more high street banks are closing their branches, in addition to the switch made to automated deposit transactions in October 2018.

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 turnover, offset by reduced volumes in the reseller market of £4 million.

Financial Services & Telecoms

Financial Services

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

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The majority of the decrease is due to Bank of Ireland products, down £12 million to £45 million (2018: £57 million). This is due to not having a minimum savings commission value in 2018/19. 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 due to Bank of Ireland by pricing constraints, but the expansion into the Broker channel is compensating for this.

Turnover Revenue from Postal Orders declined by £2 million as this legacy product continues to decline in the marketplace. The impact of Brexit, 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 turnover 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 turnover 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 turnover 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 in the future.

Costs

Total costs decreased by £2 million to £958 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 4,703 in 2018/19 reflecting reflecting the evolving shape of our operations efficiency savings across the DMs and the effect of the Network and DME transformation programmes. Closing headcount for the year was 4,397 (2018: 5,020).

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Other operating costs decreased by £76 million to £765 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.

Exceptional costs [to be updated]

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On 11 April 2016, a High Court claim was issued on behalf of a number of postmasters against Post Office in relation to various legal, technical and operational matters, many of which have been the subject of significant external focus for a number of years. Post Office is robustly defending the claim, believes it lacks merit, but welcomes the opportunity to have these matters resolved through the

Court managed Group Litigation Order.

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

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

The costs of £14 million included in exceptional items relate to Post Office defending the Post Office Group Litigation (2018: £3 million).

Joint venture

Post Office Limited has a joint venture with the Bank of Ireland with each holding 50% of First Rate Exchange Services Holdings Limited. 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	(64)	(63)
IT transformation	(13)	(6)
Severance	(38)	(17)
Total restructuring costs	(129)	(102)
Unwinding of discount on provisions	(1)	(2)
Total investment income/(charge)	38	(34)

Restructuring costs include the costs of delivery for major change programmes. In addition, we have incurred £1594 million (2018: £151 million) of capital spend, primarily on IT transformation projects, as disclosed in notes [X] and [X]. ~~Combined with restructuring costs of £129 million (2018: £102 million), the total invested in the year was £288 million (2018: £253 million).~~

These are offset by Government funding, recognised to match the associated costs. ~~Government funding~~ 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 £54360 million (2018: £655 million) at the year-end. There was a net cash outflow during the year of £95112 million (2018: £25 million).

Net debt (excluding cash in the Post Office network) decreased by £6669 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	(119)	(116)
Other cash inflows from operating activities	5134	66
Net cash inflow from operating activities	<u>10082</u>	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	(149)	(135)
Net cash outflow from investing activities	(129)	(102)
Net cash outflow from financing activities	(8)	(5)
Decrease in cash and cash equivalents	<u>95112</u>	25
BEIS loan at the end of the year	(565)	(623)
Cash (excluding cash in the Post Office Network)	243	12
Total net debt carried forward at the end of the year	(5421)	(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 [XX] 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.

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.

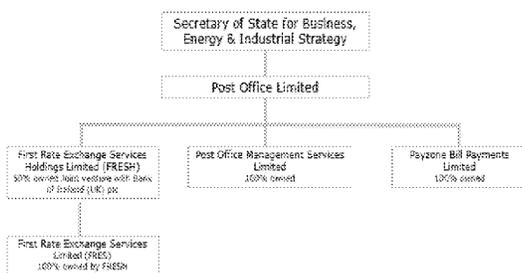
Alisdair Cameron
Interim Chief Executive
XX XXX 2019

Governance

Corporate Governance

Legal Ownership and Structure

Post Office Limited ("the Company") is wholly owned by the Department 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 Chairman, the Group Chief Executive, the Chief Finance and Operating Officer and five Non-Executive Directors (one of whom is designated the Senior Independent Director 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, Chairman of the Remuneration Committee and member of the Audit, Risk and Compliance and Nominations Committees

Joined the Board 21 January 2016



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

Joined the Board 19 September 2012



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

Joined the Board 24 May 2018



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

Joined the Board 21 January 2016



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

Joined the Board 27 March 2018



Paula Vennells, Group Chief Executive, throughout the 2018/19 financial year²

Joined the Board 18 October 2010

Company Secretary:

Veronica Branton

Appointed as Company Secretary XX XXX 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 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 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 in [May 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 [XX] to [XX].

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)³ 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 TBC	-	4/4	6/6
Executive Directors					
Paula Vennells	7/8	1/4 TBC	-	-	-
Alisdair Cameron	8/8	4/4 TBC	-	-	-
Non-Executive Directors					
Ken McCall	8/8	4/4 TBC	4/5	4/4	6/6
Tom Cooper	8/8	3/4 TBC	5/5	-	5/6
Tim Franklin	8/8	2/4 TBC	4/5	-	-
Shirine Khoury-Haq	8/8	4/4 TBC	-	3/4	5/6
Carla Stent	8/8	4/4 TBC	5/5	-	-

³ 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

Role and Membership

The duties and responsibilities of the Remuneration 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 Ken McCall, and the other members during the year were Tom Cooper, Shirine Khoury-Haq and Tim Parker.

In accordance with the Terms of Reference, the Group Chief Executive may attend meetings, at the invitation of the Committee Chairman, to discuss matters relating to the remuneration of the Chief Finance and Operating Officer and members of the Group Executive. However, the Committee recognises the need to manage any potential conflicts of interest and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

Work of the Committee in 2018/19

During the year the Committee reviewed and made recommendations to the Shareholder for the 2017/18 bonus payments against incentive plans for Executive Directors, annual pay increases for Executive Directors and targets and measures for 2018/19. The Committee approved senior salary pay changes, in line with increases provided to all employees, and pay at appointment where these were within its remit and delegated authority.

The Committee received updates and advice from the HR and Finance teams and from PricewaterhouseCoopers LLP, its external adviser, on gender pay, market trends and benchmarking information and corporate governance.

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 Chairman, 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 [XX] to [XX].

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 Chairman.

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 to 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.

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.

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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.

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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 business plan to achieve £100 million trading profit by 2020/21, 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. 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.

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Our principal risks evolve overtime, as we progress with the North Star strategy and business plan, 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. Litigation is also new, due to the change in posture. 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 this principle risk is improving. 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		
<p>Dependency on Strategic Relationships</p> <p>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.</p> <p>We work with our partners to align our direction and interests to enable us to meet evolving customer and market requirements and any misalignment.</p>	<p>Not achieving our strategic ambitions, losing revenue and market share.</p>	<ul style="list-style-type: none"> 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. <u>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.</u> <u>[Other mitigations to be added relating to RMG and BOI].</u>

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<p>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:</p> <ul style="list-style-type: none"> • increased high street costs; • ongoing move to online; and • a decline in traditional income streams. 	<p>↔</p> <p>Inability to meet our network commitment, and consequent adverse impact on delivery of our social purpose and consequential financial impacts.</p>	<ul style="list-style-type: none"> • We are continuing to open branch locations where there is a customer need, adding 328 '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 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. • We are developing 15 pilot locations for Post Office Parcel Shop and are continuing to develop automated locals, with the first proof of concept branch.
<p>Principal Risk / Movement</p>	<p>Potential Consequences</p>	<p>Key Mitigations</p>
<p>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:</p> <ul style="list-style-type: none"> • increased high street costs; • ongoing move to online; and 	<p>↔</p> <p>Inability to meet our network commitment, and consequent adverse impact on delivery of our social purpose and consequential financial impacts.</p>	<ul style="list-style-type: none"> • We are continuing to open branch locations where there is a customer need, adding 328 '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.

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<ul style="list-style-type: none"> a decline in traditional income streams. 			
STRATEGIC RISKS			
<p>Economic and Political Environment</p> <p>Current uncertainties in the external political, economic and social environment could have a detrimentally impact our strategy and operating model significantly:-</p> <p>Brexit itself represents a potential series of risks which would be most pronounced in the event of a no-deal departure from the EU (see below), 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 will may change in favour of any new Government's agenda, with potentially significant implications for the business. Labour agenda, with significant implications for the business. Examples include the implementation of Labour's proposals for the renationalisation of RMG, and the creations of a Post Bank.</p>	<p>↑↑</p>	<p>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.</p> <p>Disruption to operations (customs labels in branch, accessibility issues for supply chain)</p> <p>Financial resilience of our postmasters and suppliers.</p> <p>Retention of skilled labour and recruitment.</p> <p>New income streams failing to grow. ...</p>	<ul style="list-style-type: none"> 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 <small>(to discuss inclusion of a "People" risk at ARC)</small>			
<p>Health and Safety</p> <p>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.</p>	<p>NEW NEW</p>	<p>Exposure to significant costs for reimbursement for damages and remediation, operational disruption, prosecution and reputational damage.</p>	<ul style="list-style-type: none"> 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 monitoring of 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

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		<p>further strengthen our safety culture have been implemented.</p> <ul style="list-style-type: none"> An independent Risk Assessment of high risk building fabric has been undertaken and remediation actions completed. <u>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.</u> 	<p>Formatted: Normal, Indent: Left: 0 cm, Hanging: 0.4 cm, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm, Position: Horizontal: Right, Relative to: Column, Vertical: 0 cm, Relative to: Paragraph, Horizontal: 0.32 cm, Wrap Around</p> <p>Formatted: No bullets or numbering</p>
Principal Risk / Movement	Potential Consequences	Key Mitigations	<p>Formatted: Indent: Left: 0.63 cm, No bullets or numbering</p>
		<ul style="list-style-type: none"> 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. 	<p>Formatted: List Paragraph, Numbered list, Indent: Left: 0.63 cm</p>
TECHNOLOGY AND INFORMATION SECURITY RISKS			

<p>Technology, Business Interruption and Cyber As the digitalisation of our business continues to grow, Post Office is dependent on the continued effectiveness, availability, integrity and security of its information systems and associated infrastructure. -- Post Office, in common with other businesses, is continuing to track the threat "universe" and is aware of increasing risk from cyber-attackers (<u>particularly nation states</u>) seeking to undermine businesses, government and utilities.</p>	<p>Direct impact on our network availability and reliability resulting in adverse customer service and financial performance and/or reputation.</p> <p>A cyber-attack could threaten the confidentiality, integrity and availability of our systems.-</p>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> > increasing capability within our security operations; and > cultural awareness around data protection; and > continuous testing in house and with experience 3rd parties.
<p>Principal Risk / Movement</p>	<p>Potential Consequences</p>	<p>Key Mitigations</p>
<p>LEGAL & REGULATORY RISKS</p>		

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Tab 4.2 Financial Statements

<p>Group Litigation Post Office Limited is the defendant in <i>Bates & Others v. Post Office Limited</i>, Claim Nos. HQ16X01238, HQ17X02637 & HQ17X04248 in the High Court of Justice, Queen’s Bench Division (“The Post Office Group Litigation”).</p>	<p>NEW</p>	<p>Legal findings and court orders which have an adverse impact on financial performance and/or reputation.</p>	<ul style="list-style-type: none"> • Post Office has instructed specialist legal advisors to advise on and conduct its defence of the litigation, subject to senior management oversight.
<p>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.</p>	<p>↔</p>	<p>Fines, penalties, litigation and a resulting adverse impact on financial performance and/or reputation.</p>	<ul style="list-style-type: none"> • 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.

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[The wording in italics in the table above (Technology and Information Security Risks) is with Rob Houghton to approve. The section is also subject to change by Mark Davies and team who will review for style and language.]

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 page [X].

Results and dividends

The profit after taxation for the year was £52 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 following served as Directors during the year:

T C Parker	P A Vennells (<i>resigned 30 April 2019</i>)
A C J Cameron	T K G Cooper
T A Franklin	S Khoury-Haq
K S McCall	C R Stent
V A Holmes (<i>resigned 27 March 2018</i>)	R J Callard (<i>resigned 27 March 2018</i>)

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

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 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 43%. 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 for 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>.

Post balance sheet events

In accordance with the funding agreement with Government, Post Office Limited received a Network Subsidy Payment of £187.5 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 [XX].

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 [XX] to [XX].

Audit information

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

Auditor

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

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

Registered Number 2154540

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Post Office Limited

Annual Report & Consolidated Financial Statements

2018/19

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

Financial Statements

Directors' responsibilities statement

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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 parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2019 and of the Group's and the parent Company's profit and the Group's 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 parent 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.

4.2

We have audited the financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), which comprise: the Group consolidated and Company balance sheet as at 31 March 2019; the consolidated income statements and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and Company statements of changes to 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 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 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.

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

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 its 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 [XX], 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 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 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.

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

Use of this report

This report, including the opinions, has been prepared for and only for the parent 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 parent 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 parent 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
XX XXXX 2019

4.2

Consolidated Income Statement

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

	Note	2019 £m			2018 £m		
		Trading	Investments	Total	Trading	Investments	Total
Revenue from contracts with customers		972	-	972	956	-	956
Costs	2,4	(958)	(129)	(1,087)	(960)	(102)	(1,062)
Costs – exceptional items	19	(14)	-	(14)	(3)	-	(3)
Total costs		(972)	(129)	(1,101)	(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	13	39	52	47	(32)	15
Operating profit / (loss) before exceptional items		27	39	66	50	(32)	18
Finance costs	6	(8)	(1)	(9)	(5)	(2)	(7)
Profit / (loss) before taxation	3	5	38	43	42	(34)	8
Taxation credit	7	9	-	9	9	-	9
Profit / (loss) for the financial year		14	38	52	51	(34)	17

4.2

For the year ended 31 March 2019 trading profit was £61 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		52	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
Asset ceiling effect	17	1	(2)
Other comprehensive income		1	-
Total comprehensive income for the year		53	17

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

4.2

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		13	47
Total profit before investments		13	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:		(30)	(2)
(Increase)/decrease in trade and other receivables		(11)	5
Decrease in contract assets		5	-
Decrease in trade and other payables		(26)	(3)
Decrease/(increase) in inventories		1	(2)
Decrease in trading provision		(1)	-
Increase/(decrease) in provisions for discontinued operations		2	(2)
Pension costs paid		(21)	(26)
Cash payments in respect of investments items:		49	(46)
Investment funding		168	70
Restructuring costs		(119)	(116)
Surrender of tax losses to joint venture		8	9
Net cash inflow from operating activities		100	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		(149)	(135)
Net cash outflow from investing activities		(129)	(102)
Net cash outflow before financing activities		(29)	(82)
Cash flows from financing activities			
Finance costs paid		(8)	(5)
Proceeds of borrowings from BEIS	14	(58)	62
Net cash (outflow)/inflow from financing activities		(66)	57
Net decrease in cash and cash equivalents		(95)	(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	560	655

4.2

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		8	9
Trade and other receivables	11	344	324
Cash and cash equivalents	12	560	655
Total current assets		912	988
Total assets		1,452	1,481
Current liabilities			
Trade and other payables	13	(533)	(571)
Financial liabilities - interest bearing loans and borrowings	14	(565)	(623)
Provisions	15	(50)	(36)
Total current liabilities		(1,148)	(1,230)
Non-current liabilities			
Other payables	13	(14)	(18)
Provisions	15	(34)	(30)
Total non-current liabilities		(48)	(48)
Net assets		256	203
Equity			
Share capital	18	-	-
Share premium	18	465	465
Accumulated losses		(214)	(264)
Other reserves	18	5	2
Total equity		256	203

The notes on page [XX] to [XX] form an integral part of the consolidated financial statements.

The financial statements on pages [XX] to [XX] were approved by the Board of Directors on XX XXX 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

Note	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	-	-	52	-	52
Other comprehensive income	-	-	(2)	3	1
At 31 March 2019	-	465	(214)	5	256

4.2

Note	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
Other comprehensive income	-	-	-	-	-
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 [XX] to [XX] 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.

Notes to the financial statements (continued)

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. Presentational reclassifications on the face of the income statement 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 [XX] for further details of the reclassification. The accounting policies for revenue and for other income are on pages [X] and [X] respectively.

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 of approximately £[XX] million on 1 April 2019 and lease liabilities of £[XX] million. The net impact on the income statement account will be minimal – an increase in trading profit of some £[7-9]m as it will no longer have 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 £256 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 £61 million (2018: £35 million) and has shown a profit after tax of £52 million (2018: £17 million).

Notes to the financial statements (continued)

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 as required for the period from April 2018 to March 2020.

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

Critical accounting estimates and judgements in applying accounting policies

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

In addition the Group has to make judgements in applying its accounting policies which affect the amounts recognised in the 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.

Notes to the financial statements (continued)*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.

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 of 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.

Notes to the financial statements (continued)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.

4.2

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.

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. Refer to note [16] for further detail.

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. Refer to note [4] for further detail.

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. Provision for dilapidation are made where necessary. Refer to the provisions policy on page [X] and note [15] for further detail.

Notes to the financial statements (continued)**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

Notes to the financial statements (continued)*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
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life

4.2

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.

Notes to the financial statements (continued)*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

4.2

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, retail, lottery 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 losses, 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.

Notes to the financial statements (continued)

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

Notes to the financial statements (continued)

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.

Notes to the financial statements (continued)**2. Staff costs and numbers**

Employment and related costs were as follows:

	2019	2018
	£m	£m
People costs within trading:		
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	765	771
Total trading costs	958	960

4.2

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	4,397	5,020	4,703	5,066

Total employee numbers can be categorised as follows:

	2019	2018
Administration	1,205	1,205
Directly managed branches (DMB)	2,049	2,707
Supply Chain	854	848
Network programmes	164	213
Post Office Insurance	57	47
Payzone Bill Payments	68	-
Total	4,397	5,020

Notes to the financial statements (continued)**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	440	773
- audit of subsidiary	85	82
- audit related assurance services	-	105
- other assurance services	110	110

4.2

4. Investments

	2019 £m	2018 £m
Investment funding	168	70
<i>Restructuring:</i>		
Business transformation	(14)	(16)
Network programmes	(64)	(63)
IT transformation	(13)	(6)
Severance	(38)	(17)
Total restructuring costs	(129)	(102)
Unwinding of discounts on provisions	(1)	(2)
Total investments income / (charge)	38	(34)

Investment funding: Investment funding is received from BEIS.

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.

Notes to the financial statements (continued)**5. Directors' emoluments**

Directors accruing pension entitlements during the period under:

	2019	2018
	Number	Number
Defined benefit schemes	-	-
Defined contribution schemes	1	1

The Directors received the following emoluments:

Remuneration for each Director for the financial year 2018/19

Name	Annualised	Actual	Cash in lieu				Total	Total
	salary/fees	salary/fees	Benefits	of pension	STIP	LTIP	2018/19	2017/18
	2018/19 (note 1)	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2017/18
Non-Executive Directors								
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	35,000	30,000	-	-	-	-	30,000	-
Ken McCall	50,000	49,800	-	-	-	-	49,800	50,000
Tim Parker (note 4)	19,230	19,300	-	-	-	-	19,300	75,000
Carla Stent	45,000	44,800	-	-	-	-	44,800	45,000
Richard Callard (note 5)	-	-	-	-	-	-	-	-
Executive Directors								
Paula Vennells (note 6)	255,000	255,000	9,900	63,800	X	X	X	718,300
Alisdair Cameron	244,800	244,800	9,900	61,200	X	X	X	595,900

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

Note 6: Paula Vennells resigned as Group Chief Executive on 30 April 2019.

Remuneration Policy Summary

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

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

4.2

Notes to the financial statements (continued)**Short-Term Incentive Plan (STIP)**

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

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

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

4.2

Long-Term Incentive Plan (LTIP)

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

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

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

Differences in remuneration policy for the Executive Directors and employees generally

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

Claw-back provision

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

6. Finance costs

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

Notes to the financial statements (continued)**7. Taxation credit****(a) Taxation recognised in the year**

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

	2019 £m	2018 £m
<i>Current income tax:</i>		
Corporation tax credit for year	(8)	(8)
<i>Deferred income tax:</i>		
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 charge on profit on ordinary activities

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	43	8
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	8	1
Effect of unutilised losses carried forward	18	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)
Profits from disposals eligible for relief	-	-
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).

Notes to the financial statements (continued)**(d) Factors that may affect future tax charges**

The Group has unrecognised deferred tax assets of £183 million (2018: £190 million), comprising £148 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.

4.2

Notes to the financial statements (continued)**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

4.2

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.

Notes to the financial statements (continued)**9. Property, plant and equipment**

	Land and Buildings				Motor vehicles	Plant and machinery	Fixtures and equipment	Total
	Freehold	Long leasehold	Short leasehold					
	£m	£m	£m	£m	£m	£m	£m	£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	

Depreciation rates are disclosed on page [XX] 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.

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.

Notes to the financial statements (continued)

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.

4.2

Notes to the financial statements (continued)**10. Investments in joint ventures**

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

Joint ventures

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

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

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

	2019 Joint venture £m	2018 Joint venture £m
Share of assets and liabilities:		
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

4.2

Notes to the financial statements (continued)**11. Trade and other receivables**

	2019	2018
	£m	£m
Current:		
Trade receivables	97	81
Accrued income	71	78
Prepayments	19	17
Client receivables	138	132
Other receivables	19	16
Total	344	324
Non-current:		
Accrued income	2	2
Prepayments	4	10
Total	6	12

4.2

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:

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

	Current	>30 days and <60 days past due	>60 days and <120 days past due	>120 days past due	Total
25 March 2018					
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 at 25 March 2018.

Notes to the financial statements (continued)

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

4.2

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	537	643
Short-term bank deposits	14	9
Fiduciary cash balances held on behalf of third parties	9	3
Total cash and cash equivalents	560	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.

Notes to the financial statements (continued)**13. Trade and other payables**

	2019 £m	2018 £m
Current:		
Trade payables	61	45
Accruals	118	160
Deferred income	20	32
Social security	8	8
Client payables	312	306
Capital accruals	11	20
Other payables	3	-
Total	533	571
Non-current:		
Other payables	14	18
Total	14	18

4.2

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.

Notes to the financial statements (continued)**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	30	25	43	-	98
Charged to trading	-	-	-	9	9
Transfers	-	-	-	3	3
Utilisation	(36)	(9)	(24)	(6)	(75)
Provisions released in the year – investments	-	(7)	(4)	(1)	(12)
Provisions released in the year – trading	-	-	-	(5)	(5)
At 31 March 2019	12	41	22	9	84

4.2

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	6	14	22	8	50
Non-current	6	27	-	1	34
	12	41	22	9	84
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 £9 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.

Notes to the financial statements (continued)**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:

	Current £m	2019 Non - current £m	Total £m	Current £m	2018 Non - current £m	Total £m
Financial assets						
Trade and other receivables	325	2	327	307	2	309
Cash and cash equivalents	543	-	543	655	-	655
Financial liabilities						
Trade and other payables	(505)	(3)	(508)	(531)	(4)	(535)
BEIS loan	(565)	-	(565)	(623)	-	(623)
Total financial liabilities	(202)	(1)	(203)	(192)	(2)	(194)

4.2

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.

Notes to the financial statements (continued)

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/(loss) before tax and equity.

	Strengthening / (weakening) in US dollar rate %	Effect on profit before tax £m	Effect on equity £m	Strengthening / (weakening) in euro rate %	Effect on profit before tax £m	Effect on equity £m
	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)
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.

Notes to the financial statements (continued)**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.

	12 Months £m	1-2 Years £m	Total £m
At 31 March 2019			
Financial assets			
Trade and other receivables	325	2	327
Cash and cash equivalents	543	-	543
Financial liabilities			
Trade and other payables	(505)	(3)	(508)
Interest bearing loan	(565)	-	(565)
Total financial assets/(liabilities)	(202)	(1)	(203)
	12 Months £m	1-2 Years £m	Total £m
At 25 March 2018			
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 assets/(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.

Notes to the financial statements (continued)**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 was carried out as of 31 March 2018 using the projected unit method. For RMPP, this valuation was concluded at £20 million surplus (31 March 2015 valuation: £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.

Notes to the financial statements (continued)

- 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.

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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 policies 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).

Notes to the financial statements (continued)

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

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	At 26 March 2018
	% pa	% 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	2018
	£m	£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.

Notes to the financial statements (continued)

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

4.2

b) Plans' assets

The assets in the plans for the Group were:

	Market value 2019 £m	Market value 2018 £m
Sectionalised RMPP		
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.

Notes to the financial statements (continued)

	Market value 2019 £m	Market value 2018 £m
Share of RMSEPP		
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 asset ceiling adjustment	-	5
Less effect of asset ceiling	1	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	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

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Notes to the financial statements (continued)

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	(18)	23
Demographic assumption changes	4	9
Benefits paid	6	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	(1)	-
Financial assumption changes	(2)	3
Demographic assumption changes	1	1
Benefits paid	1	1
Share of liabilities in RMSEPP at end of period	(29)	(27)

4.2

Notes to the financial statements (continued)**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 (credited)/charged 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 (gains)/losses arising from changes in financial assumptions	(18)	23
Actuarial losses arising from experience adjustment	(6)	(2)
Actuarial (gains)/losses on liabilities	(20)	30
Effect of the asset ceiling	(2)	170
Total actuarial losses recognised in the statement of comprehensive income	-	(1)

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Notes to the financial statements (continued)

	Share of RMSEPP 2019 £m	Share of RMSEPP 2018 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to net pensions interest:		
Interest on plan liabilities	1	1
Interest income on plan assets	(1)	(1)
Net pensions credit to financing	-	-
Net charge to the income statement before deduction for tax	-	-
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on plan assets	(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 arising from experience adjustment	(1)	-
Actuarial (gains)/losses on liabilities	(2)	4
Total actuarial (gains)/losses recognised in the statement of comprehensive income before effect of asset ceiling	(4)	3
Effect of the asset ceiling	1	(2)
Total actuarial (gains)/losses recognised in the statement of comprehensive income after effect of asset ceiling	(3)	1

4.2

18. 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 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.

Notes to the financial statements (continued)**19. Commitments and contingent liabilities**

The Group is also committed to the following 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

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

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

On 11 April 2016, a High Court claim was issued on behalf of a number of postmasters against Post Office in relation to various legal, technical and operational matters, many of which have been the subject of significant external focus for a number of years. Post Office is robustly defending the claim, believes it lacks merit, but welcomes the opportunity to have these matters resolved through the Court managed Group Litigation Order.

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

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

The costs of £14 million included in exceptional items relate to Post Office defending the Post Office Group Litigation (2018: £3 million). These have been disclosed as exceptional items because we expect costs to remain significant in 2019/20 and 2020/21.

Notes to the financial statements (continued)**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.

Notes to the financial statements (continued)**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 with Government (page [XX]).
- 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 from Government (page [XX]).

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 note [5] on pages [XX] and [XX].

4.2

Notes to the financial statements (continued)**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) were held in this way.

4.2

Notes to the financial statements (continued)**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 and is calculated by taking operating profit from continuing operations before depreciation, amortisation, exceptional items, closure of activities, 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.

4.2

	2019 £m	2018 £m
Operating profit	52	15
<i>Adjusted for:</i>		
Exceptional items	14	3
Operating profit before exceptional items	66	18
Depreciation and amortisation	94	55
Investments	(39)	32
Trading profit before Network Subsidy Payment	121	105
Network Subsidy Payment	(60)	(70)
Trading profit	61	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.

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		8	9
Trade and other receivables	7	344	323
Cash and cash equivalents	8	541	644
Total current assets		893	976
Total assets		1,428	1,466
Current liabilities			
Trade and other payables	9	(523)	(565)
Financial liabilities - interest bearing loans and borrowings	10	(565)	(623)
Provisions	11	(49)	(35)
Total current liabilities		(1,137)	(1,223)
Non-current liabilities			
Other payables	9	(14)	(18)
Provisions	11	(33)	(30)
Total non-current liabilities		(47)	(48)
Net assets		244	195
Equity			
Share capital	13	-	-
Share premium	13	465	465
Accumulated losses		(226)	(272)
Other reserves		5	2
Total equity		244	195

The notes on page [XX] to [XX] form an integral part of the financial statements.

The result dealt with in the financial statements of the Company amounted to a profit of £[48] million (2018: £15 million).

The financial statements on pages [XX] to [XX] were approved by the Board of Directors on XX XXX 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

	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	-	-	48	-	48
Gains on cash flow hedges	-	-	-	3	3
Re-measurements on defined benefit surplus	-	-	(3)	-	(3)
Asset ceiling effect	-	-	1	-	1
At 31 March 2019	-	465	(226)	5	244

4.2

	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	-	-	2	-	2
Asset ceiling effect	-	-	(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 XX XXX 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 [XX].

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

Fundamental accounting concept – going concern

The Company had net assets of £244 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 £48 million (2018: £15 million).

Notes to the financial statements (continued)

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.

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.

4.2

Accounting policies

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

- Critical accounting estimates and judgements in applying accounting policies.
- Revenue.
- 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.

Notes to the financial statements (continued)**2. Staff costs and numbers**

Employment and related costs were as follows:

	2019	2018
	£m	£m
People costs within trading:		
Wages and salaries	157	151
Social security costs	17	18
Other pension costs (note [17])	13	16
Total people costs within trading	187	185
Other operating costs within trading	733	751
Total trading costs	920	936

4.2

Period end and average employee numbers were as follows:

	Period end employees		Average employees	
	2019	2018	2019	2018
Total employees	4,272	4,973	4,623	5,022

Total employee numbers can be categorised as follows:

	2019	2018
Administration	1,205	1,205
Directly managed branches (DMB)	2,049	2,707
Supply Chain	854	848
Network programmes	164	213
Total	4,272	4,973

Notes to the financial statements (continued)**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

4.2

Notes to the financial statements (continued)**4. Property, plant and equipment**

	Land and Buildings			Motor vehicles	Plant and machinery	Fixtures and equipment	Total
	Freehold	Long leasehold	Short leasehold				
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 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

Depreciation rates are disclosed on page XX 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.

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.

Notes to the financial statements (continued)

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.

4.2

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.

Notes to the financial statements (continued)**7. Trade and other receivables**

	2019 £m	2018 £m
Current:		
Trade receivables	90	78
Amounts owed by group undertakings	8	6
Accrued income	70	74
Prepayments	19	17
Client receivables	138	132
Other receivables	19	16
Total	344	323
Non-current:		
Accrued income	2	2
Prepayments	4	10
Total	6	12

4.2

8. Cash and cash equivalents

	2019 £m	2018 £m
Cash in the Post Office Limited network	537	643
Short-term bank deposits	4	1
Total	541	644

9. Trade and other payables

	2019 £m	2018 £m
Current:		
Trade payables	53	40
Amounts owed to group undertakings	4	4
Accruals	113	155
Deferred income	20	32
Social security	8	8
Client payables	312	306
Capital payables	10	20
Other Payables	3	-
Total	523	565
Non-current:		
Other payables	14	18
Total	14	18

Notes to the financial statements (continued)**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.

4.2

Notes to the financial statements (continued)**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	30	25	43	-	98
Charged to trading	-	-	-	5	5
Transfers	-	-	-	3	3
Utilisation	(36)	(9)	(24)	(3)	(72)
Provisions released in the year – investments	-	(7)	(4)	(1)	(12)
Provisions released in the year – trading	-	-	-	(5)	(5)
At 31 March 2019	12	41	22	7	82

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	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	6	14	22	7	49
Non-current	6	27	-	-	33
	12	41	22	7	82

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. Pensions

The Company pension's disclosure is consistent with the Group disclosure included in note [17] on pages [XX] to [XX]

Notes to the financial statements (continued)**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

4.2

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 the Group financial statements (note [19]).

15. Related party disclosures

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

16. Investments expenditure

Details of operating investments expenditure is disclosed in the Group financial statements (note [4]).

17. Taxation

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

18. Business combination

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

19. Post balance sheet events

Details of post balance sheet events are included in note [24] in 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.

Notes to the financial statements (continued)**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.

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.

4.2

Corporate information

Registered Office

Post Office Limited
Finsbury Dials
20 Finsbury Street
London
EC2Y 9AQ

Actuary

Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

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Independent Auditor

PricewaterhouseCoopers LLP
29 Wellington St
Leeds
LS1 4DL

Consumer Body

Consumer Focus
4th Floor
Artillery House
Artillery Row
London
SW1P 1RT

Solicitor

Linklaters LLP
One Silk Street
London
EC2Y 8HQ



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Registered Number 2154540

4.2

Post Office Limited

Annual Report & Consolidated Financial Statements 2018/19

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

Post Office Limited

corporate.postoffice.co.uk | PAGE 0

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 parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2019 and of the Group's and the parent Company's profit and the Group's 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 parent 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 & Financial Statements (the "Annual Report"), which comprise: the Group consolidated and Company balance sheet as at 31 March 2019; the consolidated income statements and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and Company statements of changes to 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 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 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.

Independent Auditor's Report to the members of Post Office Limited (continued)**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 its 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 [XX], 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 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 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.

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

Use of this report

This report, including the opinions, has been prepared for and only for the parent 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 parent 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 parent 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
XX XXXX 2019

Consolidated Income Statement

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

	Note	2019 £m			2018 £m		
		Trading	Investments	Total	Trading	Investments	Total
Revenue from contracts with customers		972	-	972	956	-	956
Costs	2,4	(958)	(129)	(1,087)	(960)	(102)	(1,062)
Costs – exceptional items	19	(14)	-	(14)	(3)	-	(3)
Total costs		(972)	(129)	(1,101)	(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	13	39	52	47	(32)	15
Operating profit / (loss) before exceptional items		27	39	66	50	(32)	18
Finance costs	6	(8)	(1)	(9)	(5)	(2)	(7)
Profit / (loss) before taxation	3	5	38	43	42	(34)	8
Taxation credit	7	9	-	9	9	-	9
Profit / (loss) for the financial year		14	38	52	51	(34)	17

For the year ended 31 March 2019 trading profit was £61 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		52	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
Asset ceiling effect	17	1	(2)
Other comprehensive income		1	-
Total comprehensive income for the year		53	17

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

Consolidated Statement of Cash Flows

for the 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		13	47
Total profit before investments		13	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:		(30)	(2)
(Increase)/decrease in trade and other receivables		(11)	5
Decrease in contract assets		5	-
Decrease in trade and other payables		(26)	(3)
Decrease/(increase) in inventories		1	(2)
Decrease in trading provision		(1)	-
Increase/(decrease) in provisions for discontinued operations		2	(2)
Pension costs paid		(21)	(26)
Cash payments in respect of investments items:		49	(46)
Investment funding		168	70
Restructuring costs		(119)	(116)
Surrender of tax losses to joint venture		8	9
Net cash inflow from operating activities		100	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		(149)	(135)
Net cash outflow from investing activities		(129)	(102)
Net cash outflow before financing activities		(29)	(82)
Cash flows from financing activities			
Finance costs paid		(8)	(5)
Proceeds of borrowings from BEIS	14	(58)	62
Net cash (outflow)/inflow from financing activities		(66)	57
Net decrease in cash and cash equivalents		(95)	(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	560	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		8	9
Trade and other receivables	11	344	324
Cash and cash equivalents	12, 15	560	655
Total current assets		912	988
Total assets		1,452	1,481
Current liabilities			
Trade and other payables	13	(533)	(571)
Financial liabilities - interest bearing loans and borrowings	14	(565)	(623)
Provisions	15	(50)	(36)
Total current liabilities		(1,148)	(1,230)
Non-current liabilities			
Other payables	13	(14)	(18)
Provisions	15	(34)	(30)
Total non-current liabilities		(48)	(48)
Net assets		256	203
Equity			
Share capital	18	-	-
Share premium	18	465	465
Accumulated losses		(214)	(264)
Other reserves	18	5	2
Total equity		256	203

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The notes on page [XX] to [XX] form an integral part of the consolidated financial statements.

The financial statements on pages [XX] to [XX] were approved by the Board of Directors on XX
XXX 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

Note	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	-	-	52	-	52
Other comprehensive income	-	-	(2)	3	1
At 31 March 2019	-	465	(214)	5	256

Note	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
Other comprehensive income	-	-	-	-	-
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 [XX] to [XX] 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.

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Notes to the financial statements (continued)

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. Presentational reclassifications on the face of the income statement 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 [XX] for further details of the reclassification. The accounting policies for revenue and for other income are on pages [X] and [X] respectively.

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 of approximately £[XX] million on 1 April 2019 and lease liabilities of £[XX] million. The net impact on the income statement account will be minimal – an increase in trading profit of some £[7-9]m as it will no longer have 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 £256 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 £61 million (2018: £35 million) and has shown a profit after tax of £52 million (2018: £17 million).

Notes to the financial statements (continued)

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 ~~as required 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 gamounts 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.

Notes to the financial statements (continued)*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.

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 of 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.

Notes to the financial statements (continued)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.

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 in the accounting policy for IFRS 15 Revenue from Contracts with Customers on page XX. Refer to note [16] for further detail.

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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. Refer to note [4] for further detail.

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. Provision for dilapidation are made where necessary. Refer to the provisions policy on page [X] and note [15] for further detail.

Notes to the financial statements (continued)**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

Notes to the financial statements (continued)*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
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.

Notes to the financial statements (continued)*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, retail, lottery 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 losses, 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.

Notes to the financial statements (continued)

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

Notes to the financial statements (continued)

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.

Notes to the financial statements (continued)**2. Staff costs and numbers**

Employment and related costs were as follows:

	2019	2018
	£m	£m
People costs within trading:		
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	765	771
Total trading costs	958	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	4,397	5,020	4,703	5,066

Total employee numbers can be categorised as follows:

	2019	2018
Administration	1,205	1,205
Directly managed branches (DMB)	2,049	2,707
Supply Chain	854	848
Network programmes	164	213
Post Office Insurance	57	47
Payzone Bill Payments	68	-
Total	4,397	5,020

Notes to the financial statements (continued)**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	440	773
- audit of subsidiary	85	82
- audit related assurance services	-	105
- other assurance services	110	110

4. Investments

	2019 £m	2018 £m
Investment funding	168	70
<i>Restructuring:</i>		
Business transformation	(14)	(16)
Network programmes	(64)	(63)
IT transformation	(13)	(6)
Severance	(38)	(17)
Total restructuring costs	(129)	(102)
Unwinding of discounts on provisions	(1)	(2)
Total investments income / (charge)	38	(34)

Investment funding: Investment funding is received from BEIS.

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-envisioning 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.

Notes to the financial statements (continued)**5. Directors' emoluments**

Directors accruing pension entitlements during the period under:

	2019 Number	2018 Number
Defined benefit schemes	-	-
Defined contribution schemes	1	1

The Directors received the following emoluments:

Remuneration for each Director for the financial year 2018/19

Name	Annualised	Actual	Cash in lieu		STIP	LTIP	Total	Total
	salary/fees	salary/fees	Benefits	of pension				
	2018/19 (note 1)	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2017/18
Non-Executive Directors								
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	35,000	30,000	-	-	-	-	30,000	-
Ken McCall	50,000	49,800	-	-	-	-	49,800	50,000
Tim Parker (note 4)	19,230	19,300	-	-	-	-	19,300	75,000
Carla Stent	45,000	44,800	-	-	-	-	44,800	45,000
Richard Callard (note 5)	-	-	-	-	-	-	-	-
Executive Directors								
Paula Vennells (note 6)	255,000	255,000	9,900	63,800	X	X	X	718,300
Allsdairst Cameron	244,800	244,800	9,900	61,200	X	X	X	595,900

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

Note 6: Paula Vennells resigned as Group Chief Executive on 30 April 2019.

Remuneration Policy Summary

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

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

Notes to the financial statements (continued)

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

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

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

Long-Term Incentive Plan (LTIP) The LTIP is designed to reward and retain key executives and senior managers on the achievement of strategic longer term targets linked to the development and growth of a sustainable business.

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

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

Differences in remuneration policy for the Executive Directors and employees generally

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

Claw-back provision

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

6. Finance costs

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

Notes to the financial statements (continued)

7. Taxation credit**(a) Taxation recognised in the year**

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

	2019 £m	2018 £m
<i>Current income tax:</i>		
Corporation tax credit for year	(8)	(8)
<i>Deferred income tax:</i>		
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 charge on profit on ordinary activities

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	43	8
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	8	1
Effect of unutilised losses carried forward	18	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)
Profits from disposals eligible for relief	-	-
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).

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Notes to the financial statements (continued)**(d) Factors that may affect future tax charges**

The Group has unrecognised deferred tax assets of £183 million (2018: £190 million), comprising £148 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.

Notes to the financial statements (continued)

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

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.

Notes to the financial statements (continued)

9. Property, plant and equipment

	Land and Buildings			Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost							
At 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

Depreciation rates are disclosed on page [XX] 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.

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.

Notes to the financial statements (continued)

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 recoverable amount for Post Office Limited was £370 million (2018: £604 million) and for Post Office Management Services Limited was £35 million (2018: £105 million).

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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.

Notes to the financial statements (continued)**10. Investments in joint ventures**

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

Joint ventures

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

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

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	2018
	Joint venture	Joint venture
	£m	£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

	2019	2018
	Joint venture	Joint venture
	£m	£m
Share of assets and liabilities:		
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

Notes to the financial statements (continued)

11. Trade and other receivables

	2019 £m	2018 £m
Current:		
Trade receivables	97	81
Accrued income	71	78
Prepayments	19	17
Client receivables	138	132
Other receivables	19	16
Total	344	324
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.

Notes to the financial statements (continued)

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	537	643
Short-term bank deposits	14	9
Fiduciary cash balances held on behalf of third parties	9	3
Total cash and cash equivalents	560	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.

Notes to the financial statements (continued)

13. Trade and other payables

	2019 £m	2018 £m
Current:		
Trade payables	61	45
Accruals	118	160
Deferred income	20	32
Social security	8	8
Client payables	312	306
Capital accruals	11	20
Other payables	3	-
Total	533	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.

Notes to the financial statements (continued)

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	30	25	43	-	98
Charged to trading	-	-	-	9	9
Transfers	-	-	-	3	3
Utilisation	(36)	(9)	(24)	(6)	(75)
Provisions released in the year – investments	-	(7)	(4)	(1)	(12)
Provisions released in the year – trading	-	-	-	(5)	(5)
At 31 March 2019	12	41	22	9	84

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	6	14	22	8	50
Non-current	6	27	-	1	34
	12	41	22	9	84
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 £9 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.

Notes to the financial statements (continued)**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	325	2	327	307	2	309
Cash and cash equivalents	580	-	580	655	-	655
Financial liabilities						
Trade and other payables	(505)	(3)	(508)	(531)	(4)	(535)
BEIS loan	(565)	-	(565)	(623)	-	(623)
Total financial liabilities	(202)	(1)	(203)	(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.

Notes to the financial statements (continued)

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/(loss) before tax and equity.

	Strengthening / (weakening) in US dollar rate	Effect on profit before tax	Effect on equity	Strengthening / (weakening) in euro rate	Effect on profit before tax	Effect on equity
	%	£m	£m	%	£m	£m
	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)
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.

Notes to the financial statements (continued)**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.

	12 Months £m	1-2 Years £m	Total £m
At 31 March 2019			
Financial assets			
Trade and other receivables	325	2	327
Cash and cash equivalents	543	-	543
Financial liabilities			
Trade and other payables	(505)	(3)	(508)
Interest bearing loan	(565)	-	(565)
Total financial assets/(liabilities)	(202)	(1)	(203)
At 25 March 2018			
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 assets/(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.

Notes to the financial statements (continued)**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 was carried out as of 31 March 2018 using the projected unit method. For RMPP, this valuation was concluded at £20 million surplus (31 March 2015 valuation: £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.

Notes to the financial statements (continued)

- 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 policies 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).

Notes to the financial statements (continued)

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

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	At 26 March 2018
	% pa	% 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	2018
	£m	£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.

Notes to the financial statements (continued)

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:		
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:

	Market value 2019 £m	Market value 2018 £m
Sectionalised RMPP		
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.

Notes to the financial statements (continued)

	Market value 2019 £m	Market value 2018 £m
Share of RMSEPP		
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 asset ceiling adjustment	-	5
Less effect of asset ceiling	1	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	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	(22)	(1)
Benefits paid to members	(22)	(1)
Share of assets in RMSEPP at end of period	29	32

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Notes to the financial statements (continued)

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	(182)	23
Demographic assumption changes	4	9
Benefits paid	65	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	(1)(1)	-
Financial assumption changes	(22)	3
Demographic assumption changes	1	1
Benefits paid	1	1
Share of liabilities in RMSEPP at end of period	(29)	(27)

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Notes to the financial statements (continued)**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 (credited)/charged 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 (gains)/losses arising from changes in financial assumptions	(17)	23
Actuarial losses arising from experience adjustment	(6)	(2)
Actuarial (gains)/losses on liabilities	(19)	30
Effect of the asset ceiling	(2)	170
Total actuarial losses recognised in the statement of comprehensive income	-	(1)

Notes to the financial statements (continued)

	Share of RMSEPP 2019 £m	Share of RMSEPP 2018 £m	
Analysis of amounts recognised in the income statement			
Analysis of amounts charged to net pensions interest:			
Interest on plan liabilities	1	1	
Interest income on plan assets	(1)	(1)	
Net pensions credit to financing	-	-	
Net charge to the income statement before deduction for tax	-	-	
Analysis of amounts recognised in the statement of comprehensive income			
Actual return on plan assets	(1)	-	
Actual return on plan assets	(1)	-	Formatted: Not Highlight
Less: expected interest income on plan assets	(1)	(1)	Formatted: Not Highlight
Actuarial losses on assets (all experience adjustments)	(2)	(1)	Formatted: Not Highlight
Actuarial gains arising from changes in demographic assumptions	1	1	
Actuarial (losses)/gains arising from changes in financial assumptions	(2)	3	
Actuarial losses arising from experience adjustment	(1)	-	
Actuarial (gains)/losses on liabilities	(1)	4	Formatted: Not Highlight
Total actuarial (gains)/losses recognised in the statement of comprehensive income before effect of asset ceiling	(3)	3	Formatted: Not Highlight
Effect of the asset ceiling	1	(2)	
Total actuarial (gains)/losses recognised in the statement of comprehensive income after effect of asset ceiling	(2)	1	Formatted: Not Highlight

18. 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 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.

Notes to the financial statements (continued)**19. Commitments and contingent liabilities**

The Group is also committed to the following 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. Post Office is robustly defending the claim, believes it lacks merit, but welcomes the opportunity to have these matters resolved through the Court managed Group Litigation Order.

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

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

The costs of £14 million included in exceptional items relate to Post Office defending the Post Office Group Litigation (2018: £3 million). These have been disclosed as exceptional items because we expect costs to remain significant in 2019/20 and 2020/21.

Notes to the financial statements (continued)**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.

Notes to the financial statements (continued)**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 with Government (page [XX]).
- 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 from Government (page [XX]).

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 note [5] on pages [XX] and [XX].

Notes to the financial statements (continued)**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) were 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.

Notes to the financial statements (continued)**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 and is calculated by taking operating profit from continuing operations before depreciation, amortisation, exceptional items, closure of activities, 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	52	15
<i>Adjusted for:</i>		
Exceptional Items	14	3
Operating profit before exceptional items	66	18
Depreciation and amortisation	94	55
Investments	(39)	32
Trading profit before Network Subsidy Payment	121	105
Network Subsidy Payment	(60)	(70)
Trading profit	61	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		8	9
Trade and other receivables	7	344	323
Cash and cash equivalents	8	541	644
Total current assets		893	976
Total assets		1,428	1,466
Current liabilities			
Trade and other payables	9	(523)	(565)
Financial liabilities - interest bearing loans and borrowings	10	(565)	(623)
Provisions	11	(49)	(35)
Total current liabilities		(1,137)	(1,223)
Non-current liabilities			
Other payables	9	(14)	(18)
Provisions	11	(33)	(30)
Total non-current liabilities		(47)	(48)
Net assets		244	195
Equity			
Share capital	13	-	-
Share premium	13	465	465
Accumulated losses		(226)	(272)
Other reserves		5	2
Total equity		244	195

The notes on page [XX] to [XX] form an integral part of the financial statements.

The result dealt with in the financial statements of the Company amounted to a profit of £[48] million (2018: £15 million).

The financial statements on pages [XX] to [XX] were approved by the Board of Directors on XX XXX 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		-	-	48	-	48
Gains on cash flow hedges		-	-	-	3	3
Re-measurements on defined benefit surplus	12	-	-	(3)	-	(3)
Asset ceiling effect	12	-	-	1	-	1
At 31 March 2019		-	465	(226)	5	244

	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
Asset ceiling 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 XX XXX 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 [XX].

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

Fundamental accounting concept – going concern

The Company had net assets of £244 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 £48 million (2018: £15 million).

Notes to the financial statements (continued)

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.

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 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.

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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.

Notes to the financial statements (continued)

2. Staff costs and numbers

Employment and related costs were as follows:

	2019 £m	2018 £m
People costs within trading:		
Wages and salaries	157	151
Social security costs	17	18
Other pension costs (note [172])	13	16
Total people costs within trading	187	185
Other operating costs within trading	733	751
Total trading costs	920	936

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Period end and average employee numbers were as follows:

	Period end employees		Average employees	
	2019	2018	2019	2018
Total employees	4,272	4,973	4,623	5,022

Total employee numbers can be categorised as follows:

	2019	2018
Administration	1,205	1,205
Directly managed branches (DMB)	2,049	2,707
Supply Chain	854	848
Network programmes	164	213
Total	4,272	4,973

Notes to the financial statements (continued)

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

Notes to the financial statements (continued)

4. Property, plant and equipment

	Land and Buildings			Motor vehicles	Plant and machinery	Fixtures and equipment	Total
	Freehold	Long leasehold	Short leasehold				
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 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

Depreciation rates are disclosed on page XX 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.

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 recoverable amount for Post Office Limited was £370 million (2018: £604 million).

The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of the CGU's identified, being Post Office Limited. 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

Notes to the financial statements (continued)

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	2018
	£m	£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.

Notes to the financial statements (continued)

7. Trade and other receivables

	2019 £m	2018 £m
Current:		
Trade receivables	90	78
Amounts owed by group undertakings	8	6
Accrued income	70	74
Prepayments	19	17
Client receivables	138	132
Other receivables	19	16
Total	344	323
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	537	643
Short-term bank deposits	4	1
Total	541	644

9. Trade and other payables

	2019 £m	2018 £m
Current:		
Trade payables	53	40
Amounts owed to group undertakings	4	4
Accruals	113	155
Deferred income	20	32
Social security	8	8
Client payables	312	306
Capital payables	10	20
Other Payables	3	-
Total	523	565
Non-current:		
Other payables	14	18
Total	14	18

Notes to the financial statements (continued)

4.2

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.

Notes to the financial statements (continued)

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	30	25	43	-	98
Charged to trading	-	-	-	5	5
Transfers	-	-	-	3	3
Utilisation	(36)	(9)	(24)	(3)	(72)
Provisions released in the year - Investments	-	(7)	(4)	(1)	(12)
Provisions released in the year - trading	-	-	-	(5)	(5)
At 31 March 2019	12	41	22	7	82

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	6	14	22	7	49
Non-current	6	27	-	-	33
	12	41	22	7	82

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. Pensions

The Company pension's disclosure is consistent with the Group disclosure included in note [17] on pages [XX] to [XX]

Notes to the financial statements (continued)**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 the Group financial statements (note [19]).

15. Related party disclosures

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

16. Investments expenditure

Details of operating investments expenditure is disclosed in the Group financial statements (note [4]).

17. Taxation

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

18. Business combination

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

19. Post balance sheet events

Details of post balance sheet events are included in note [24] in 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.

Notes to the financial statements (continued)

4.2

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

Registered Office

Post Office Limited
Finsbury Dials
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EC2Y 9AQ

Actuary

Towers Watson Limited
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Reigate
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Independent Auditor

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Consumer Body

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One Silk Street
London
EC2Y 8HQ



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4.3

Post Office Limited
Audit, Risk and Compliance Committee
53 weeks ended 31 March 2019

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1. Glossary

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

Abbreviation	Meaning
AEI	Applicant Enrolment Identification
ATM	Automated Teller Machine
BACS	Bankers' Automated Clearing Services
BEIS	Department for Business, Energy & Industrial Strategy
BOI	Bank of Ireland
CPI	Consumer Price Index
DMB	Directly Managed Branch (formerly Crowns)
DVLA	Driver & Vehicle Licensing Authority
DWP	Department of Work & Pensions
Eagle	Deal in August 2012 to sell Post Office Financial Services (POFS) to the Bank of Ireland, restructure commission rates for personal financial services and extend the contract to 2023
EBITDAS	Earnings Before Interest Tax Depreciation Amortisation and Subsidy
EU BRP	European Union Biometric Residents' Permit
FRES	First Rate Exchange Services, our foreign currency joint venture with BoI
Gamma	A contract variation made in 2007 with POFS generating £100m cash and income over a number of years in return for a series of commitments through to 2020
GRNI	Goods Received Not Invoiced
HPBB	Homephone and Broadband
Horizon	Horizon Next Generation- IT Counter system in branches
IRIS	Restructuring of the Supply Chain to removal external service
NBV	Net Book Value
NS&I	National Savings & Investments
NSP	Network Subsidy Payment
POCA	Post Office Card Account, a mechanism for Government to pay benefits to people without bank accounts
PFS	Personal Finance Services
POFS	Post Office Financial Services
RMPP	Royal Mail Pension Plan, defined benefit pension plan for Post Office employees (closed from 31 March 2017)
RMSEPP	Royal Mail Senior Executive Pension Plan, defined benefit pension plan for Post Office Senior Executives (closed)
POPP	Post Office Pension Plan, defined contribution pension plan for all other Post Office employees
RBS	Royal Bank of Scotland
RPI	Retail Price Index
SGEI	Services of General Economic Interest, part of our social purpose commitment to Government
OSOP	Organisation Structure Optimisation Project, the removal of 20% of non-front office roles in H1 2017

2. Introduction

This Briefing Book has been prepared to explain the Post Office Limited Group results for the 53 weeks ended 31 March 2019. It is a summary analysis of the key data and trends which readers may find useful. It should be read in conjunction with the Annual Report and Accounts (ARA).

Analysis is presented based on a comparison of 2018/19 results to those of the prior year.

Comparison against budget has been discussed in the Monthly Performance Report presented to the Post Office Limited Board and is therefore excluded from the Briefing Book.

The 2018/19 financial numbers are subject to completion of outstanding audit procedures.

Accounting Policies

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

Accounting policies and estimates have been applied consistently from the prior year, with the exception of IFRS 15 and IFRS 9 which have been applied for the first time.

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, de-recognition 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 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.

IFRS 15 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. Presentational reclassifications on the face of the income statement have been required in respect of the Network Subsidy Payment and Post Office Card Account commission income. These two items were formerly recognised in revenue and have now been reclassified to other income.

3. Primary Statements**3.1 Consolidated Income Statement**

	2019 £m			2018 £m			
	Note	Trading	Investments	Total	Trading	Investments	Total
Revenue from contracts with customers		972	-	972	956	-	956
Costs		(958)	(129)	(1,087)	(960)	(102)	(1,062)
Costs – exceptional items		(14)	-	(14)	(3)	-	(3)
Total costs		(972)	(129)	(1,101)	(963)	(102)	(1,065)
Other operating income		14	-	14	5	-	5
Investment funding		-	168	168	-	70	70
Network Subsidy Payment		60	-	60	70	-	70
Depreciation and amortisation		(94)	-	(94)	(55)	-	(55)
Share of post-tax profit from joint venture		33	-	33	34	-	34
Operating profit / (loss)		13	39	52	47	(32)	15
Operating profit / (loss) before exceptional items		27	39	66	50	(32)	18
Finance costs		(8)	(1)	(9)	(5)	(2)	(7)
Profit / (loss) before taxation		5	38	43	42	(34)	8
Taxation credit		9	-	9	9	-	9
Profit / (loss) for the financial year		14	38	52	51	(34)	17
Trading Profit (EBITDAS)		61			35		

4.3

Trading represents the underlying trading of the business excluding investment funding, restructuring and transformation costs.

Investments comprises investment funding and transformational spend.

Trading profit is one of the Group's key financial measures and is calculated by taking operating profit before depreciation, amortisation, operating exceptional items, closure of activities, investments and Network Subsidy Payment. For the 53 weeks ended 31 March 2019 trading profit was £61 million (2018: £35 million).

3.2 Consolidated statement of cash flows

	2019 £m	2018 £m
Cash flows from operating activities		
Operating profit	13	47
Total profit before investments	13	47
Adjustment for:		
Share of profit from joint venture	(33)	(34)
Depreciation and amortisation	94	55
Pension operating costs	13	17
Other gains and losses	7	-
Working capital movements:	(30)	(2)
(Increase)/decrease in trade and other receivables	(11)	5
Decrease in contract assets	5	-
Decrease in trade and other payables	(26)	(3)
Decrease/(increase) in inventories	1	(2)
Decrease in trading provision	(1)	-
Increase/(decrease) in provisions for discontinued operations	2	(2)
Pension costs paid	(21)	(26)
Cash payments in respect of investments items:	49	(46)
Investment funding	168	70
Restructuring costs	(119)	(116)
Surrender of tax losses to joint venture	8	9
Net cash inflow from operating activities	100	20
Cash flows from investing activities		
Dividends received from joint ventures	33	34
Acquisition of businesses (net of cash acquired)	(17)	(6)
Proceeds from the sale of property, plant and equipment	4	5
Purchase of tangible and intangible non-current assets	(149)	(135)
Net cash outflow from investing activities	(129)	(102)
Net cash outflow before financing activities	(29)	(82)
Cash flows from financing activities		
Finance costs paid	(8)	(5)
Proceeds of borrowings from BEIS	(58)	62
Net cash (outflow)/inflow from financing activities	(66)	57
Net decrease in cash and cash equivalents	(95)	(25)
Cash and cash equivalents at the beginning of the year	655	680
Cash and cash equivalents at the end of the year	560	655

4.3

3.3 Consolidated balance sheet

	2019 £m	2018 £m
Non-current assets		
Intangible assets	291	264
Property, plant and equipment	176	148
Investments in joint venture	66	66
Retirement benefit surplus	1	3
Trade and other receivables	6	12
Total non-current assets	540	493
Current assets		
Inventories	8	9
Trade and other receivables	344	324
Cash and cash equivalents	560	655
Total current assets	912	988
Total assets	1,452	1,481
Current liabilities		
Trade and other payables	(533)	(571)
Financial liabilities - interest bearing loans and borrowings	(565)	(623)
Provisions	(50)	(36)
Total current liabilities	(1,148)	(1,230)
Non-current liabilities		
Other payables	(14)	(18)
Provisions	(34)	(30)
Total non-current liabilities	(48)	(48)
Net assets	256	203
Equity		
Share capital	-	-
Share premium	465	465
Accumulated losses	(214)	(264)
Other reserves	5	2
Total equity	256	203

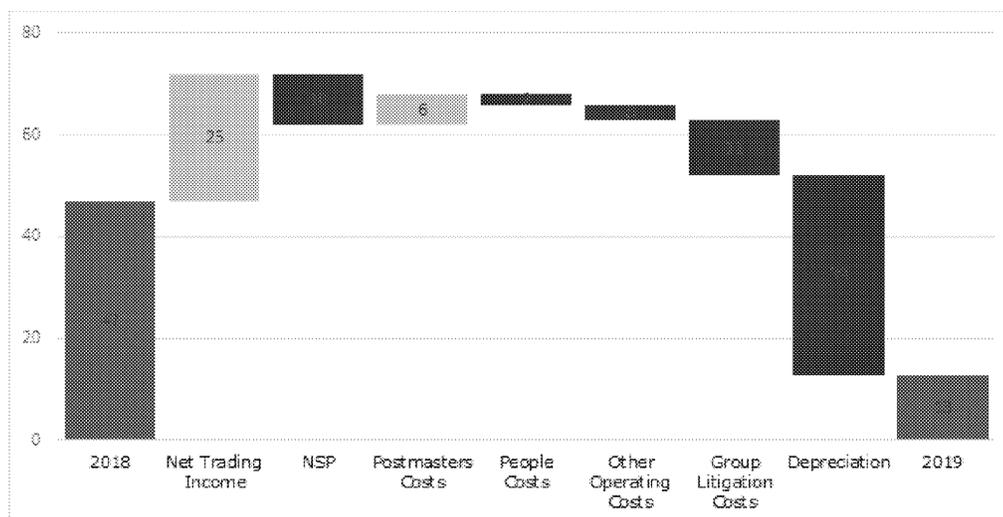
4.3

4. Operating Profit

The following bridges show the key movements that drive performance in the year when compared to the prior year closing position.

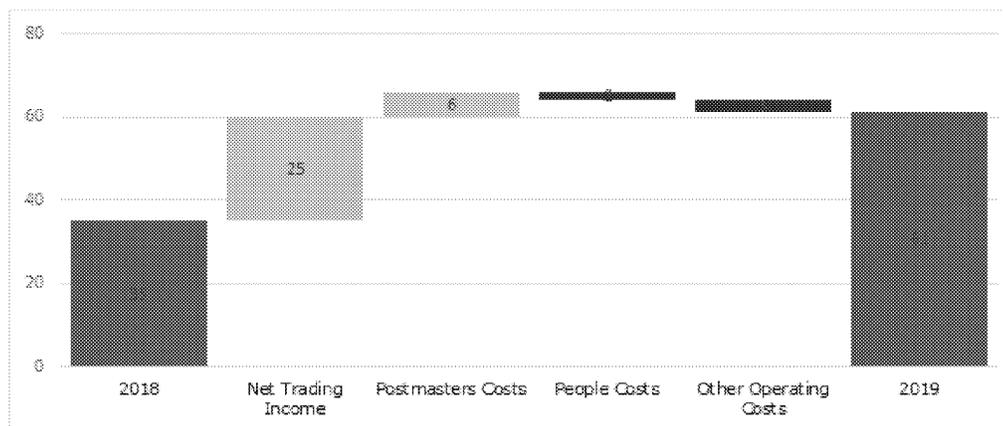
Analysis of revenue and costs underpinning the below tables are included in section 5 (revenue) and section 6 (costs).

4.1 Operating profit waterfall (£m)



4.3

4.2 Trading profit waterfall (£m)



4.3 Operating profit reconciles to trading profit as follows:

	£m
Operating profit	13
Add back depreciation	94
Less network subsidy	(60)
Add exceptional items	14
EBITDAS	61

4.4 Summary of Gross Profitability by business stream

	2019					Variance YoY
	Revenue £m	Cost of Sales £m	Gross Profit £m	GP Margin %	GP Margin 2018 %	
Retail						
Mails	350	-	350	100	100	-
Retail & Lottery	42	(1)	41	98	91	7
Payment Services	27	-	27	100	100	-
Cash & Banking Services	161	(19)	142	88	87	1
Financial Services & Telecoms						
Financial Services	113	-	113	100	100	-
Telecoms	153	(91)	62	41	46	(5)
Insurance						
Identity	58	(6)	52	90	88	2
Other	13	-	13	100	100	-
Total	972	(128)	844	87	87	-

4.3

The revenue streams above are net of commission where relevant, which means that Cost of Sales on some products are held in the client's p&l account.

Overall, Telecoms gross profit is down year on year and PO Insurance gross profit is relatively flat. See section 19 for more detail on PO Insurance.

5. Revenue

	Notes	2019 £m	2018 £m	Variance £m	Variance %
Retail	5.1				
Mails	5.1.1	350	334	16	5
Retail & Lottery	5.1.2	42	45	(3)	(7)
Payment Services	5.1.3	27	27	-	-
Banking Services	5.1.4	102	88	14	16
POCA	5.1.5	30	40	(10)	(25)
ATMs	5.1.6	29	30	(1)	(3)
Financial Services & Telecoms	5.2				
Financial Services	5.2.1	113	127	(14)	(11)
Telecoms	5.2.2	153	147	6	4
Insurance	5.3	55	48	7	16
Identity	5.4	58	54	4	7
Other	5.5	13	16	(3)	(19)
Turnover		972	956	16	2
Network Subsidy Payment		60	70	(10)	(14)
Revenue		1,032	1,026	6	1

4.3

Trading revenue increased year on year by £16 million to £972 million. Growth was driven by our Identity (7%) and Insurance (15%) business areas, with continued growth also noted within Banking Services (15%). This was partly offset by the anticipated decline in our card account income stream (down 25%). Mails trading turnover saw 5% growth year on year, which is a significant achievement in a competitive market.

5.1 Retail

5.1.1 Mails (£16.0m increase year on year)

	2019 £m	2018 £m	Variance £m	Variance %	Volumes		
					2019 m	2018 m	Variance %
Parcelforce	21	20	1	5	4	4	-
Special Delivery	51	49	2	4	50	50	-
International Priority & Standard	34	34	-	-	39	39	-
Stamps (1st & 2nd Class plus other stamps)	23	23	-	-	449	468	(4)
Labels (1st & 2nd Class)	96	91	5	5	167	161	4
RM Signed For	23	23	-	-	80	79	1
Home Shopping Returns	23	18	5	28	48	38	26
Mails Other (trading)	21	16	5	31	16	14	14
Annual fee	48	50	(2)	(4)	n/a	n/a	n/a
Mailwork	10	10	-	-	n/a	n/a	n/a
Total	350	334	16	5	n/a	n/a	n/a

Overall Mails volumes are generally in decline, but were offset by a 3.4% RPI increase impact, a 53rd week of trading, £1.5m accrual release from successful

Royal Mail negotiations, and £2.4m contractual decline in annual fixed fee. Pick-up/Drop-off products, such as Home Shopping Returns, and Click & Collect (Mails Other) have shown volume growth in year, including a £5.2m increase in Home Shopping Returns driven by 21% year on year volume growth.

There was a £2.0m increase in Special Delivery from continuous service this year after weather disruption in prior year hindered operations.

Stamps revenue has remained stable year on year, assisted by strong finish to the year as a result of buy forward activity in advance of price increase (3p increase on 1st and 2nd class stamps).

5.1.2 Retail and Lottery (£2.6m reduction year on year)

- Decrease in Retail (£3.1m) due to a smaller number of DMBs.
- Lottery sales increased by £0.5m, as higher number of rollovers helped to mitigate the impact of market switch to online sales.

5.1.3 Payment Services (flat year on year)

- (£4.0m) decline in payment services, driven by 9% market decline together with loss of Allpay reseller housing contracts.
- £4.3m revenue from Payzone acquisition in 18/19. Refer to section 8 regarding business combinations.

5.1.4 Banking Services (£13.7m increase year on year)

- £13.7m increase in Banking Services fueled by branch closures, but also driven by successful automation of deposit transactions for two major banks which doubled the level of weekly transactions. 15 additional banks have also joined the banking framework.

5.1.5 POCA (£10.3m decrease year on year)

- (£10.3m) reduction in POCA revenue as DWP actively reduce number of active accounts. Reduction in line with budget expectation.

5.1.6 ATMs (£1.0m decrease year on year)

- (£1.0m) reduction in ATMs income of (3%), which is less than (6%) declining market trend. Availability of ATM network has been increased from 92% to 94%.

5.2 Financial Services & Telecoms

5.2.1 Financial Services

	2019	2018	Variance	Variance
	£m	£m	£m	%
PO Money	46	58	(12)	(21)
Travel Money	28	28	-	-
Moneygram	26	26	-	-
Postal Orders	13	15	(2)	(13)
Total	113	127	(14)	(11)

4.3

- PO Money decrease impacted by £12m Value Share agreement with BoI in 17/18; £nil in 18/19.
- The competitive, customer and regulatory environments remain tough: the continued low rate environment and BoE funding scheme are putting pressure on Mortgage margins and Savings rates; Mortgages are challenged due to BoI pricing but the expansion into Broker channel is partially offsetting this.
- Travel Money is flat year on year, with the 53rd week masking an underlying decrease as travel market trend continues at a 10% decline.
- Moneygram revenue includes £2.4m additional commissions from new deal, offsetting an underlying £2.0m reduction caused by volume decline to Eastern Europe.
- (£1.5m) decrease on Postal Orders, consistent with expected volume decline.

5.2.2 Telecoms

	2019	2018	Variance	Variance
	£m	£m	£m	%
Homephone	28	70	(42)	60
Dual	117	75	42	55
Fibre	7	1	6	600
Other	1	1	-	-
Total	153	147	6	4

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

Telecoms revenue increased £5.7m year on year. Growth was driven by higher customer numbers, caused in part by the annualised effect of acquiring the customer base of the residential broadband and home phone provider New Call in the prior year, and the use of growth fund marketing in prior year. Average Revenue per User (ARPU) was adversely impacted by renewing customers at cheaper rate.

5.3 Insurance

	2019	2018	Variance	Variance
	£m	£m	£m	%
Travel	19	15	4	27
General	23	24	(1)	(4)
Life – Over 50s	9	6	3	50
Life – SLI	3	2	1	50
Other	1	1	-	-
Total	55	48	7	16

4.3

- £4.4m increase in Travel insurance due to re-engineering of business to gain greater control of client servicing and improve margins.
- (£0.6m) reduction on General insurance predominantly from Home Insurance, as work progresses on the future operating model.
- £3.1m increase in Life Over 50s insurance resulting from change to new supplier (Royal London) with better terms and higher margin.

5.4 Identity

	2019	2018	Variance	Variance
	£m	£m	£m	%
Home Office	28	32	(4)	(12)
DVLA	9	7	2	28
Identity Services	5	4	1	25
Verify	15	10	5	50
Environment Agency	1	1	-	-
Total	58	54	4	7

- (£4.0m) decrease in Home Office due to (£6.5m) reduction in paper passports as market share reduced driven by online and digital channels. Digital passports £1.6m increase and UKVI £0.9m increase to offset.
- £2.0m increase in DVLA driven by international driving permit applications as a result of Brexit.
- £5.3m increase in Verify caused by significant volume growth due to launch of universal credit. Reduced pricing with GDS from November 18; average margin per transaction for 19/20 will be £1.17 compared to £17.00 before pricing change.

5.5 Other Income

Other income of £13.3m relates to Supply Chain income (£10m) predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income (£3m).

6. Costs

Total Trading Costs Analysis

	Notes	2019 £m	2018 £m	Variance £m	Variance %
COST OF SALES	6.1	(130)	(121)	(9)	(7)
Wages & Salaries		(131)	(129)	(2)	(2)
Pensions		(13)	(16)	3	19
Overtime		(5)	(5)	-	-
Bonus & Productivity		(19)	(15)	(4)	(27)
Employers NI		(18)	(18)	-	-
Temporary Resource		(7)	(5)	(2)	(40)
PEOPLE COSTS	6.2	(193)	(188)	(5)	(3)
Postmasters pay	6.3	(365)	(371)	6	2
Legal Costs		(2)	(4)	2	50
Staff & Agent Related Costs		(10)	(10)	-	-
Compliance and Advice Services		(7)	(6)	(1)	(17)
Brand & Marketing		(25)	(18)	(7)	(39)
Property & Facilities Management	6.4	(32)	(41)	9	22
IT Infrastructure & IT Services	6.5	(91)	(96)	5	6
Finance & Losses	6.6	(24)	(28)	4	14
Other Operating Costs	6.7	(75)	(73)	(2)	(3)
Vehicles		(4)	(4)	-	-
TOTAL TRADING OTHER OPERATING COSTS		(635)	(651)	16	2
TOTAL COSTS		(958)	(960)	2	-

Underlying people costs have reduced £2m when excluding the 53rd week, bonus and temporary resource. Non-staff costs of £270m have reduced £10m from prior year, with larger underlying reduction when excluding the increase in brand and marketing.

6.1 Cost of Sales (£8.7m increase year over year)

The table below includes revenue movement to show cost of sales movement comparison.

	2019 £m	2018 £m	Variance £m	Variance %	Revenue Variance £m
Telecoms	(91)	(82)	(11)	(13)	6
Cash & Banking Services	(19)	(22)	3	14	3
PO Insurance	(11)	(9)	(2)	(22)	7
Identity	(6)	(4)	(2)	(50)	4
Retail & Lottery	(1)	(4)	3	75	(3)
Payzone	(2)	-	(2)	(100)	4
Total	(130)	(121)	(9)	(7)	21

Increase in Telecoms cost of sales due to more customers switching from Homephone to Dual package which carries greater cost. Also increased Homephone cost implemented by Talk Talk. Costs associated with Payzone acquisition revenues also flowed through in year.

6.2 People Costs (2019 £193m vs 2018 £188m)

People costs represent 20.1% (2018: 19.5%) of the cost base.

Average headcount reduced by 363 to 4,703 reflecting efficiency savings across DMBs and the effect of the Network and DMB transformation programmes. Closing headcount for the year was 4,397 (2018: 5,020), with 68 employees in 2019 relating to Payzone.

See analysis below:

- Wages & salaries have increased by £2.1m (1.6%) as a result of pay increases issued during the year (£5m), 53rd week (£1m), Payzone (£1m) and growth in marketing function (£1m), offset by reduced headcount savings of £6m (annualised impact of headcount reduction £9m).
- Pension costs have decreased by £2.8m (17%) reflecting the reduction in headcount.
- Temporary Resource has increased by £1.4m (25%) due to greater use of contractors.

Total employee numbers can be categorised as follows:

	2019	2018	Variance	Variance %
Administration	1,205	1,205	-	-
Directly managed branches	2,049	2,707	(658)	(24)
Supply Chain	854	848	6	1
Network programmes	164	213	(49)	(23)
Post Office Insurance	57	47	10	21
Payzone Bill Payments	68	-	68	100
Total - Period End	4,397	5,020	(623)	(12)
Total - Average	4,703	5,066	(363)	7

Payzone was acquired during 2019 hence no employees listed for 2018.

6.3 Postmaster pay (£6.0m decrease year on year)

	2019	2018	Variance	Variance %
	£m	£m	£m	%
Agents Variable Costs	(316)	(315)	(1)	(1)
Agents Fixed Costs	(43)	(49)	6	12
Agents WHS Costs	(4)	(4)	-	-
Agents Tax	(2)	(3)	1	33
Postmaster Costs	(365)	(371)	6	2

Agents' variable remuneration as a percentage of variable revenue for 18/19 was 35.4%, down from 36.1% in 17/18. Mails dropped from 64.2% to 61.5% due to an increase in Home Shopping returns, which attract lower rates of Agents remuneration than stamps or labels. Most other product areas have remained at similar levels year on year.

6.4 Property & Facilities Management (£9.2m reduction year on year)

	2019 £m	2018 £m	Variance £m	Variance %
Property	(12)	(17)	5	29
Property Charge	(12)	(15)	3	20
Utilities	(2)	(3)	1	33
Security	(3)	(3)	-	-
Maintenance Office Equipment	(3)	(3)	-	-
Property & Facilities Management	(32)	(41)	9	22

Property costs reduction due to landlord compensation of £2.9m received in relation to Trafalgar Square and Poplar in 18/19. Also a result of property portfolio decreasing from 405 in April 18 to 341 in March 19.

4.3

6.5 IT Infrastructure & IT Services costs (£5.9m) reduction year on year)

	2019 £m	2018 £m	Variance £m	Variance %
Total IT Infrastructure and IT Services	(91)	(96)	6	6

Overall reduction in IT costs due to cost savings implemented with Fujitsu and Computacenter (both 20% reductions year on year), offset by £0.7m of Payzone IT costs in year. Further cost savings planned for 19/20.

6.6 Finance & Losses (£4.2m reduction year on year)

	2019 £m	2018 £m	Variance £m	Variance %
VAT Recovery	7	4	3	75
Finance Costs	(18)	(19)	1	5
Other	(13)	(13)	-	-
Finance & Losses	(24)	(28)	4	14

Additional £3.0m VAT refund from historic understatement of recovery rate.

Finance costs includes £12.3m (2018: £12.2m) of card and cheque processing costs, £2.8m (2018: £3.7m) insurance premiums, £1.2m for the apprenticeship levy and £0.7m of bank charges.

Key items within other costs include former agents' losses of £4.4m (2018: £4.1m) and robbery and theft of £1.8m (2018: £3.0m). Telecoms bad debt provision of £1.9m (2018: £2.2m) is also included.

6.7 Other Operating costs (£2.4m increase year on year)

	2019	2018	Variance	Variance
	£m	£m	£m	%
Managed Services & Customer Management	(28)	(29)	1	3
Shared Services	(11)	(10)	(1)	(10)
Logistics	(22)	(19)	(3)	(16)
Contract Penalties	(5)	(5)	-	-
Stationery & Other	(9)	(10)	1	10
Total Other Operating Costs	(75)	(73)	(2)	(3)

4.3

Logistics increase caused by PSD2 regulation to send POCA statements monthly, rather than twice a year as previously. Contract penalties relates to £4.8m for mails segregation. Stationery & other includes £6.3m stationery expense, £0.7m equipment costs and £1.5m non-capital building expense. Stationery expense has increased £0.9m from prior year, as a result of higher printer cartridge costs from faster and more reliable branch printers being rolled out, along with an increase in label printing.

7. Quality of Earnings

Quality of earnings shows the underlying financial performance at EBITDAS level adjusted for one-off items.

	2019	2018	Variance	Variance
	£m	£m	£m	%
Profit before exceptional items	27	49	(22)	(45)
Network Subsidy Payment	(60)	(70)	10	14
Add back depreciation	94	56	38	68
Reported EBITDAS	61	35	26	74
Historic VAT recovery	(3)			
ATM reconciliation	1			
FRES marketing recharge	1			
Banking deferred income		(1)		
FRES bad debt release		(1)		
BOI Value Share provision		1		
Total adjustments	(1)	(1)		
Adjusted to exclude one-offs	60	34	26	76
Bonus stretch	4	3		
Adjusted EBITDAS	64	37	27	73

4.3

Historic VAT recovery

We incur VAT on all sorts of spend types which are not directly related to an exempt activity or a taxable activity, so it is partly recoverable. We therefore calculate the proportion we can claim through a partial exemption method. Following a review of this method, it was found that prior years had been under claimed, with the £3m historic recovery relating to 15/16, 16/17 and 17/18.

ATM reconciliation

A provision was raised against an aged POLSAP ATM balance which cannot be sufficiently verified.

FRES marketing recharge

Following a thorough review of the marketing balance, a historic figure which cannot be recharged to FRES has been written off.

Bonus stretch

Bonus stretch is achieved when actual EBITDAS growth is greater than or equal to 20% above budget target.

8. Business Combinations

On 24 October 2018, the Group acquired Payzone Bill Payments Limited 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 helped to grow 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
Intangible assets – software	1
Property, plant and equipment	4
Trade and other receivables	5
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 £4.3m of revenue and £1m to trading profit.

4.3

9. Pensions

9.1 Background

The Post Office participates in pension schemes as detailed below. The RMPP closed to future accrual on 31 March 2017.

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

4.3

9.2 Assumptions

IAS 19 requires a number of assumptions. The choice of assumptions used for the calculations is the responsibility of the Directors, based upon advice given by an independent actuary (Willis Towers Watson). The key assumptions for the year to 31 March 2019 are set out in the table below.

% pa RMPP Post Office Section	March 2019	March 2018
Inflation (RPI)	3.4	3.3
Inflation (CPI)	2.3	2.2
Discount rate (i.e. bond rate)	2.4	2.5
Rate of increase in Pensionable salaries	3.4	3.3
Rate of pension increases – RMPP A/B	2.3	2.2
Rate of pension increases – RMPP C	3.4	3.3
Rate of increases in deferred pensions	2.3	2.2

Demographic assumptions, for example mortality, remain aligned with the assumptions used for the actuarial valuation.

9.2.1 Inflation – RPI

The RPI inflation assumption is set with reference to the breakeven long term rate of RPI inflation derived from the relative yields on long-dated fixed interest and inflation-linked gilts at the measurement date, taking account of the term of the liabilities.

9.2.2 Inflation – CPI

The margin between RPI and CPI inflation of 1.1% is the same as that adopted in prior year. This lies within the Willis Towers Watson range for the best-estimate of around 0.9% pa to 1.1% pa. Based upon the Willis Towers Watson assessment of the underlying differences between RPI and CPI, a long-term assumption for the margin between RPI and CPI inflation of up to 1.1% pa remains a credible best estimate.

9.2.3 Discount rate

Under IAS19, the discount rate should be based on the rate of return at the valuation date on high quality (AA rated, or equivalent status) corporate bonds of equivalent currency and term to the plan liabilities.

The discount rate used reflects the Willis Towers Watson RATE:Link model. This model derives a discount rate from a corporate bond yield curve (based on market data) by matching the curve to projected benefit payments. The model is based on an extrapolation of corporate bond yields beyond the term that current corporate bonds extend over.

The approach taken to determining the discount rate in the current year is consistent with the prior year. Given the uncertainty of extrapolation performed in the model used, it is considered appropriate to be consistent with the prior year and continue to apply a prudent approach in the current year.

4.3

9.2.4 Rate of increase in pensionable salaries

As consistent with the last year-end, the assumption has been set at the same level as assumed RPI inflation.

9.2.5 Other increases to benefits

At current levels of inflation it remains appropriate to set the increases in line with the relevant inflation measure.

9.3 Movements in the RMPP defined benefit surplus

The movement in the RMPP defined benefit accounting surplus during the year to 31 March 2019 is detailed below.

	2019	2018
	£m	£m
Opening sectionalised RMPP net retirement benefit surplus	-	210
Current service cost	-	-
Effect of redundancies	-	(4)
Net financing credit	-	-
Employers contributions	1	5
Impact of closure	-	-
Actuarial gain/(losses)	41	(171)
Closing RMPP net retirement benefit surplus	42	40
Effect of asset ceiling	(42)	(40)
Closing net retirement benefit surplus	-	-

As consistent with prior year, the surplus is restricted to £nil by the asset ceiling adjustment; this means that no surplus is recognised on the balance sheet in respect of RMPP. This is as a result of the Memorandum of Understanding signed on 21 March 2017, which stated that Post Office no longer has an unconditional right to refund from the Plan; the accounting impact of this was to de-recognise the pension accounting asset in the prior year, and to hold no surplus on the balance sheet going forwards.

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

There is no current service cost or net financing income in the current year due to the closure of the plan in the prior year.

The past service cost in the current year is in relation to additional benefits granted on redundancy in the year; some members were provided enhanced pensions as a result of redundancy and that Post Office paid contributions to in order to fund those enhancements. The contributions were determined using terms set by the Trustee, and the £1m past service cost is the cost of the enhancements on an IAS19 basis.

Actuarial gains and losses are recorded directly in the statement of changes in equity (and not the income statement).

9.4 RMPP pension buy-in

Although there was an investment by the Post Office section of the RMPP in 17/18, no such investment was made in 18/19.

9.5 Movements in the RMSEPP defined benefit surplus

The movement in the RMSEPP defined benefit accounting surplus during the year to 31 March 2019 is detailed below.

	2019	2018
	£m	£m
Opening sectionalised RMSEPP net retirement benefit surplus	3	1
Employers contributions	-	1
Actuarial gain/(losses)	(3)	3
Closing RMSEPP net retirement benefit surplus	-	5
Effect of withholding tax	1	(2)
Closing net retirement benefit surplus	1	3

4.3

The reason for the decrease in the RMSEPP surplus this year is due to a change in market conditions resulting in a lower discount rate compared to prior year. This has acted to increase RMSEPP liabilities by around £2m (£27m to £29m).

10. Investment expenditure

This section discusses the investment items on the income statement.

The following investment items were recognised in the consolidated income statement for the years ended 31 March 2019 and 25 March 2018.

	2019	2018
	£m	£m
Investment funding	168	70
Restructuring:		
Business transformation	(14)	(16)
Network programmes	(64)	(63)
IT Transformation	(13)	(6)
Restructuring – severance	(38)	(17)
Total restructuring costs	(129)	(102)
Unwinding of discount on provisions	(1)	(2)
Total investments (charge)/income	(38)	(34)

4.3

10.1 Government Grants: During 2018/19 the Post Office received investment funding totalling £168m from the Government, (17/18: £70m) to fund capital projects and transformation work.

10.2 Restructuring costs can be broken down as follows:

- Business transformation costs relate to various transformational projects across the business predominantly in Retail and FS&T, with key items being:
 - Re-negotiating the fundamental bedrock long-term contracts with BOI and Royal Mail (£4.0m),
 - Payzone integration costs (£3.4m),
 - The transformation of our telecoms customer offer (the Project Galaxy initiatives) in response to changes to our key markets driven by unprecedented regulatory intervention (£2m),
 - Costs around vacating premises at Trafalgar square (£1.9m).

- Network programme costs can be broken down as follows:
 - Network Transformation £24m: The costs relate to compensation payments made to agents, as along with the implementation costs of the transformation programme.
 - Network Development £12m: This is the next phase of Network Transformation. It is a multi-year programme designed to simplify the retailer proposition. Costs have decreased as expected due to the nearing completion of Network Transformation.
 - Directly Managed Branch Transformation £28m: The programme costs include onerous property provisions, for future non-profitable contractual spend. The main reason for the increase in the current year is due to a larger number of branches franchised. This resulted in an increase to the onerous lease provision.
- IT Transformation programme costs of £13m (2018: £6m) have increased due to Back Office systems transformation and cloud enablement work.
- Redundancy costs of £38m (2018: £17m) are higher than 2017/18 due to the restructure programmes in HR and Operations in addition to £13.7m Group Litigation costs.

11. Interest, Cash, Debt, Funding and Hedging**11.1 Net finance costs (£2m increase year on year)**

	2019	2018	Variance	Variance
	£m	£m	£m	%
Interest payable on loans	(6)	(5)	(1)	(20)
Finance charges	(2)	-	(2)	(100)
Total - trading	(8)	(5)	(3)	(60)
Unwinding of discounts on provisions	(1)	(2)	1	50
Total - investments	(1)	(2)	1	50
Total - net finance costs	(9)	(7)	(2)	(12)

4.3

Interest payable on the BEIS Loan has increased year on year due to increase in interest rates.

Other finance charges include commitment fees to BEIS for the Post Office credit facility. Prior year charge of £0.4m does not show due to rounding. Increase attributed to rise in interest rates in 18/19.

Unwinding of discounts on provisions relates to onerous and vacant leases, in line with DMB franchising programme rollout.

11.2 Cash, cash equivalents and debt on the balance sheet

	2019	2018	Variance	Variance
	£m	£m	£m	%
Cash in the Post Office Limited network	520	643	(123)	(19)
Short-term bank deposits	14	9	5	55
Fiduciary cash balances held on behalf of insurance third parties	9	3	6	200
Total cash and cash equivalents	543	655	(112)	(19)
Department for Business, Energy and Industrial Strategy	565	623	58	19
Net cash, cash equivalents and debt	(22)	32	(54)	(169)

12. Fixed assets

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

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.

Our depreciation and amortisation policies are as follows.

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

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets are depreciated on a straight-line basis over the following useful lives:

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

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value. They are depreciated on a straight-line basis over the following useful lives:

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

The remaining useful lives of freehold buildings are reviewed periodically and adjusted where applicable on a prospective basis. Where freehold property and long leasehold includes the fit-out of those properties, then the fit-out is depreciated over its useful economic life in line with fixtures and fittings.

Intangible assets with a finite useful life:

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

	Range of asset lives
Software	3 – 6 years
Customer relationships	5 years
Merchant relationships	5 – 10 years
Brands	15 years

4.3

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.

The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

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

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

Non-current assets within subsidiaries

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

12.1 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
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

Other intangibles includes customer relationships, merchant relationships and brands.

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. 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).

Net book value at 31 March 2019 predominantly made up of Belfast refurbishment (£25m), Verizon networks (£22m) and Back office transformation (£17m).

4.3

12.2 Property, plant and equipment

	Land and Buildings			Motor vehicles	Plant and machinery	Fixtures and equipment	Total
	Freehold	Long leasehold	Short leasehold				
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 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	-	-	33	36
Added on acquisition	-	-	-	-	-	4	4
Disposals	(4)	(1)	(2)	-	-	(22)	(29)
At 31 March 2019	39	39	21	25	1	847	972
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	-	138	174
At 25 March 2018	11	23	1	1	-	112	148

Net book value at 31 March 2019 predominantly made up of Branch technology refresh (£16m), Finsbury Dials fit out (£7m) and EUC (End User Computing) additional activities (£5m).

4.3

12.3 Capital expenditure

Capital spend has been greatest in the following areas:

- Back Office Transformation £19.3m – removal of POLSAP and transformation of CFS
- EUC Branch Deployment £10.8m – Modernising branch equipment
- Solar £10.4m
- IT cloud enablement £9.7m
- Risk and resilience £6.8m – service level risk reduction investments
- Migration of home insurance to Duck creek system £7.1m

4.3

13. Investments in joint ventures

Investments in joint ventures and associates

	2019	2018
	£m	£m
Investment in joint ventures	66	66

Joint ventures

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

Post Office Limited's share of FRES' 2018-19 post tax profit was £33m, with £33m being received as a dividend during the year creating a £nil movement in the carried value in the balance sheet.

4.3

14. Working capital

Refer to Consolidated Balance Sheet in section 3.3 for overview.

14.1 Inventories

	2019	2018
	£m	£m
Scratch Cards	6	6
Retail	2	3
Total	8	9

4.3

Retail stock includes a £2m provision for Royal Mint coins.

14.2 Trade and other receivables (Current)

	Section	2019	2018
		£m	£m
Trade receivables	14.2.1	97	81
Client receivables	14.2.2	138	132
Prepayments and accrued income	14.2.3	90	95
Other receivables	14.2.4	19	16
Total		344	324

14.2.1 Trade receivables

	2019	2018
	£m	£m
Sales ledger	27	28
Homephone debtors	6	7
Postmaster debt	2	2
Uncleared debit, credit cards	38	27
Bank of Ireland, FRES cost recovery	13	13
Other	11	3
Total	97	81

The Bank of Ireland cost recovery debtor relates to marketing and promotional spend incurred on their behalf.

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

Trade receivables		
	2019	2018
	£m	£m
Bank of Ireland	4	4
Banking services	6	5
Government & DVLA	3	6
PoCA	2	3
ATMs	2	2
Other	10	8
Total	27	28

4.3

Ageing of Trade receivables:

Debtors over 60 days overdue: March 2019: £nil (March 2018: £1m).

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

14.2.2 Client receivables

Analysis of client balances at year end is as follows:

	2019	2018
	£m	£m
ATM (Bank of Ireland)	81	78
Card Account (JP Morgan)	18	21
Others	29	33
Total	138	132

14.2.3 Prepayments and accrued income

	2019	2018
	£m	£m
Accrued income	71	78
Prepayments	19	17
Total	90	95

4.3

Accrued income at 31 March 2019 predominantly made up of Banking Services (£13.0m), Bank of Ireland (£5.7m), and Telecoms (£2.6m). Telecoms balance consistent with prior year (£3m) after late adjustment for error reduced balance from £8m. £39m of the balance relates to automated accruals created by realtime Horizon transactions in branch, which are then billed out on a monthly basis.

Prepayments are consistent at a holistic level year on year and predominantly comprise:

- Telephony pre-contract costs with Fujitsu is £4m at March 2019 (March 2018: £3m).
- £6m of IT prepayments (March 2018: £7m).
- £4m of property cost prepayments (March 2018: £4m).

14.2.4 Other receivables at March 2019 £20m (March 2018 £16m)

Other receivables largely consists of FRES tax losses debtor, which has increased by £1.2m.

14.2.5 Non-current receivables at March 2019 £6m (March 2018 £12m)

This represents £2m Gift vouchers and £2m Fujitsu invest to save prepayments. The remaining £3m is for telephony contracts with Fujitsu which are amortised over the life of the contract (£3.7m cost to p&l in the year).

14.3 Payables: amounts due within one year

		2019	2018
	Section	£m	£m
Trade payables	14.3.1	51	45
Accruals	14.3.1	119	160
Client payables	14.3.2	312	306
Advance customer payments	14.3.3	30	32
Capital payables	14.3.1	11	20
Social security		8	8
Other payables		3	-

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Total	533	571
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14.3.1 Trade payables and accruals

	2019	2018
	£m	£m
<i>Trade payables</i>	51	45
Accruals, GRNI	85	81
Postmaster, employee pay balances	15	56
Productivity, bonus schemes	17	17
Others	9	7
<i>Accruals</i>	119	160
<i>Capital accruals</i>	11	20
Total Trade payables and accruals	181	225

4.3

Decrease in postmaster and employee pay balances due to timing of year end with actual payment to agents and staff.

14.3.2 Client payables

	2019	2018
	£m	£m
Santander	95	100
DVLA	23	12
Utility companies	6	8
Bank of Ireland	3	4
BACS	20	21
Royal Mail	24	28
Lottery	4	2
Others	137	131
Total	312	306

The increase in DVLA payables is driven by higher volumes around associated products, predominantly international driving permits.

14.3.3 Advanced customer payments

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

	2019	2018
	£m	£m
Advanced customer payments	1	1
Uncashed postal orders	11	11
Drop and Go	2	1
Gamma	4	4
Telephony credit balances	3	3
Homephone line rental advance payments	9	12
Total	30	32

4.3

No significant movements to note.

14.4 Payables: amounts due after one year

Payables due after one year	2019	2018
	£m	£m
Rent-free incentives	3	3
Bank of Ireland deferred income (Gamma)	11	15
Total	14	18

The rent free incentive creditor relates to buildings with an initial rent free period where the rent free incentive is spread evenly over the life of the lease.

Bank of Ireland deferred income is recognised in line with an agreed amortisation schedule through to 2022-23.

15. Provisions

Provisions (March 2019: £84m vs March 2018: £66m)

	Netwo rk Progr amme s £m	Onerous Leases £m	Severance £m	Other £m	Total £m
At 26 March 2018	18	32	7	9	66
Charged to investments	30	25	43	-	98
Charged to trading	-	-	-	9	9
Transfers	-	-	-	3	3
Utilisation	(36)	(9)	(24)	(6)	(75)
Provisions released in the year – investments	-	(7)	(4)	(1)	(12)
Provisions released in the year – trading	-	-	-	(5)	(5)
At 31 March 2019	12	41	22	9	84
	Netwo rk Progr amme s £m	Onerous Leases £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	6	14	22	8	50
Non-current	6	27	-	1	34
	12	41	22	9	84
At 26 March 2018					
Current	11	11	7	7	36
Non-current	7	21	-	2	30
	18	32	7	9	66

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.

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 £9 million includes a number of smaller provisions including:

- £1 million for personal injury claims;
- £2 million relates to the repayment of commission received in the event of the cancellation of insurance policies (POI);

4.3

16. Litigation and Claims- Potential Claims regarding Horizon

Background

- 16.1** In 2009, Post Office Ltd received claims from postmasters alleging defects in the Horizon system and Post Office's internal processes.
- 16.2** Following discussions with James Arbuthnot MP and the "Justice for Subpostmasters Alliance" (JFSA), in July 2012 independent investigator Second Sight Support Services Ltd (Second Sight) was appointed to carry out a review of these claims.
- 16.3** On 8 July 2013, Second Sight published a Report asserting shortcomings in Post Office's internal training and support to postmasters on the Horizon system, but that there were no systemic problems with Horizon itself.
- 16.4** Following Second Sight's July 2013 Report, on 27 August 2013 Post Office launched a Complaint Review and Mediation Scheme ("The Scheme") aimed at understanding and resolving individual complaints made about Horizon.

4.3

Mediation Scheme

- 16.5** The Scheme received 150 applications, 136 of which were investigated in detail (the remainder being either ineligible or swiftly resolved). The cases were all progressed through the Scheme and were concluded by 1 February 2016.

Legal Activity

- 16.6** On 11 April 2016 a Claim Form in *Bates & Others v. Post Office Limited*, Claim No. HQ16X01238, was issued in the High Court, Queen's Bench Division (the "Group Litigation"). The first named Claimant is Alan Bates of the JFSA.
- 16.7** The Claim Form was formally served on Post Office on 5 August 2016 on behalf of 198 claimants. On 22 March 2017 a Group Litigation Order was made for the management of issues common to all claimants, and on 31 March 2017 Mr Justice Fraser was nominated to be the Managing Judge. Further Claim Forms were filed on 24 July 2017 and 23 November 2017. As of 15 May 2019, the total number of Claimants is 555.
- 16.8** The claimants allege Post Office has acted in breach of contractual and/or tortious and/or fiduciary duties and is also liable for deceit, negligent misstatement, misrepresentation, harassment, malicious prosecution and /or unjust enrichment. Initial claims for misfeasance in public office, conspiracy and contravention of the European Convention on Human Rights have been withdrawn but could be restated.

16.9 The Group Litigation is being managed through a series of trials:

16.9.1 The Common Issues Trial, which took place in November and December 2018 concerning the legal relationship between Post Office and postmasters. Judgment on the Common Issues was handed down on 15 March 2019 and was adverse to Post Office but did not make any findings of liability. Post Office can seek permission to appeal the judgment at a hearing before the Managing Judge on 23 May 2019, or if that is refused, directly from the Court of Appeal.

16.9.2 The Horizon Issues Trial, which commenced on 11 March 2019 addressing technical issues concerning the "Horizon" IT system. The evidence of factual witnesses for both parties concluded on 11 April 2019, and the trial will resume with expert evidence in the weeks commencing 4 and 11 June 2019. Closing arguments will be made in the week commencing 1 July 2019.

16.9.3 The Further Issues Trial, which is listed to take place in November 2019 and is currently intended to address specific issues concerning limitation periods and quantification of financial loss and damage. The directions for this trial may be affected by an appeal of the Common Issues judgment.

16.9.4A "Fourth Trial" has been scheduled to take place in March 2020 which should consider whether Post Office has in fact acted in breach of contract (including whether postmasters were held wrongly liable for losses in their branches) and if so with what financial and other consequence. No directions have yet been made by the Court to prepare for this trial.

16.10 Following the handing down on 15 March 2019 of the Common Issues judgment, on 21 March 2019 Post Office applied for the Managing Judge to be recused on the grounds of apparent bias (the "Recusal Application"). The Managing Judge refused that application on 9 April 2019. Permission to appeal that refusal was denied by the Managing Judge on 9 April and by the Court of Appeal on 10 May 2019.

16.11 The Claimants have not yet provided a combined value for their claims, but the directions for the Further Issues and Fourth Trials should assist in this valuation.

16.12 The Claimants have asked Post Office to pay their legal costs of the Common Issues Trial (£7.7m) and Recusal Application (£454k). The Managing Judge should decide how these costs are to be treated on 23 May 2019.

Media Activity

16.13 The Group Litigation has received some media coverage in the national press. It is also frequently commented on by a small group of interested journalists and postmasters on social media. Post Office teams continue to monitor and manage media and communications activity.

Criminal Cases Review Commission ("CCRC")

16.14 Post Office is engaging with the CCRC in relation to applications from 34 former postmasters for the CCRC to review convictions obtained against

them following Post Office-led prosecutions. The CCRC can refer a case to the Court of Appeal if its review identifies new evidence or legal argument which gives rise to a "real possibility" that the conviction would be overturned on appeal.

16.15 Post Office's Legal team is liaising with the CCRC so as to comply with its statutory obligations under the Criminal Appeals Act 1995, and continues to provide substantial documentation to the CCRC for review.

16.16 There is no estimated date for the completion of the CCRC's reviews. The CCRC has however indicated that it would await the outcome from the Horizon Issues Trial in the Group Litigation before concluding its reviews.

4.3

Employment Tribunal Proceedings

16.17 On 9 July 2018 Post Office received a claim in the Employment Tribunal from 123 agency postmasters under the name Mr M Baker & 122 Others v Post Office Ltd (Case No. 1402149/2018).

16.18 The claimants are claiming they are not "self-employed" agents but rather they are Post Office's "workers" and, as such, they are due certain worker rights, for example holiday pay. It is understood the claim is funded and supported by the Communication Workers Union. The claimants have not yet valued their claims.

16.19 Post Office filed its response to the claim on 2 August 2018 denying the claimants are workers based on previous Tribunal rulings. The first case management hearing is listed for 3 June 2019, at which further directions and, possibly, a date for a hearing will be fixed. Post Office has instructed leading employment barrister Chris Jeans QC to act for it in this matter.

Political Activity

16.20 The complaints underlying the Group Litigation and Post Office's response to them have been the subject of Parliamentary debate, most notably the Westminster Hall Debate on 17 December 2014 and BIS Select Committee hearing on 3 February 2015.

16.21 There has however been no recent political activity concerning the Group Litigation. Post Office teams continue to work with BEIS and UKGI officials to keep them apprised of developments.

17. Taxation**Income statement**

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

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

4.3

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.

18. Future Change in Accounting Policies

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 net impact on our income statement account will be minimal – an increase in trading profit of some £9m as we will no longer have 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.

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.

4.3

19. PO Insurance

Full year EBITDA of £5.6m has reduced £1.9m from FY17/18.

PO Insurance P&L	2019	2018	YoY
	£m	£m	%
Gross income	55.5	47.8	16.1%
Cost of sales	(10.9)	(8.9)	(22.5%)
Net income	44.6	38.9	14.7%
Staff costs	(6.0)	(4.0)	(50.0%)
Non-staff costs	(18.8)	(15.3)	(22.9%)
POL commission	(14.2)	(12.1)	(17.4%)
Total Expenditure	(39.0)	(31.4)	(24.2%)
EBITDA	5.6	7.5	(25.3%)

4.3

Turnover consists of commission earned from sales and renewals of general insurance and life insurance products, principally travel, motor, home and life insurance products.

Reported turnover increased 16% year on year due to improved performance in Travel and Protection products partially offset by declining Home insurance revenues.

There is a project ongoing which is looking at migrating the Home insurance product from a third party operator to the Duck Creek system, currently used for Travel insurance.

Staff costs increased year on year due to flow through of new hires in 17/18 to 18/19.

Decrease in operating profit was due to a significant increase in expenses as the company invests in its capability and expands its distribution foot print in line with its strategic objectives.

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Post Office Limited Audit and Risk Committee Report

Year ended 31 March 2019

*Audit and Risk
Committee meeting*
29 May 2019



Tab 4.4 PwC External Audit - Post Office Limited Audit and Risk Committee Report for the year ended 31 March 2019



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

Dear Members of the Audit and Risk Committee,

I am pleased to share with you our report on the year end audit of the Post Office Limited and its subsidiaries (“Post Office” or “the Group”) for the period ended 31 March 2019.

In our Audit Plan submitted to the January 2019 Audit and Risk Committee, we set out the objectives of our audit, our approach, including an assessment of the significant and elevated risks relevant to the audit, and our proposed responses. There have been no significant changes to our plan.

At the time of writing we are still progressing our audit work across a number of areas. We have focussed our efforts on key judgments and areas of significant and elevated risk and this report discusses our work to date on such matters. On completion of our audit work we will update the Committee either verbally and/or through further written communication.

The contents of the attached report have been discussed with Alisdair Cameron and Michael Passmore, and where applicable, their comments have been reflected in the text.

I am pleased to report that our first audit of Post Office Limited is progressing smoothly and I would like to record our thanks to the various members of your staff who have assisted us during the process. The tone set by senior members of the Finance team in respect of accounting and disclosure has been excellent and their willingness to engage early in the key areas of judgement has had a very positive impact. This has helped us focus our audit work in the right areas and resulted in a positive and collaborative process.

We look forward to discussing our report with you on 29 May 2019.

Yours sincerely,

GRO

Andrew Paynter



Andrew Paynter
Partner

M: **GRO**
E: **GRO**

PricewaterhouseCoopers LLP, 29 Wellington Street, Leeds, LS1 4DL

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Bureau de Change

1. At a glance

Scope and status	Accounting and reporting matters	Presentation and disclosure items
<p>Overview and status At the date of writing, our work in a number of areas remains ongoing. We have however focused our work to date on key judgemental areas, and areas of significant and elevated risk.</p> <p>Scope and risk assessment Our assessment of risks has not changed since we issued our Audit Plan in January 2019.</p> <p>Materiality Our overall materiality has been set at £9.7 million, which is consistent with the materiality level communicated in our Audit Plan. This is calculated as 1% of reported revenue.</p>	<p>Impairment of tangible and intangible assets As at 31 March 2019, the Group holds an intangible asset balance of £293 million (2017/18: £264 million) and a property, plant and equipment balance of £174 million (2017/18: £148 million). Management has performed its annual impairment assessment over these assets and has concluded that no impairment charge is required for the year (2017/2018: £nil). We have reviewed impairment in detail, including assessing the reasonableness of the assumptions used in the discounted cash flow models, and our work to date suggests that the position adopted by management is reasonable.</p> <p>Property provisioning (onerous lease, dilapidations and vacant possession) There has been a net charge of £9 million in the year (2017/18: net charge of £11 million), resulting in an overall £41 million (2017/18: £32 million) provision at the year end. A provision for vacant properties of £8 million (2017/18: £9 million) is included within this balance. Other property related provisions include £21 million for onerous leases (2017/18: £16 million) and £12 million (2017/18: £8 million) for dilapidations on a number of leasehold branches. Our work on property provisioning is ongoing at the time of writing this report, and we will verbally update the Audit and Risk Committee as to our findings next week.</p> <p>Assumptions in the pension schemes' liabilities The Group has recognised a net pension asset of £1 million (2017/2018: net asset of £3 million) in relation to the Royal Mail Senior Executive Pension Plan. Consistent with the treatment applied in previous years, the net pension asset of £42 million (2017/2018: £40 million) relating to the POL fund of the Royal Mail Pension Plan is not recognised on the balance sheet in accordance with IFRIC 14 as the Group does not have an unconditional right to refund from the Plan. We have reviewed this treatment, along with the assumptions applied by the actuaries. We are still completing our detailed testing, however our work to date suggests that the position adopted is reasonable.</p> <p>Fair value of Payzone assets acquired In [IRRELEVANT] Post Office acquired the entire share capital of Payzone for cash consideration of [IRRELEVANT] with additional contingent consideration ranging from [IRRELEVANT]. Management has recognised intangible assets in relation to the brand [IRRELEVANT] and merchant contracts and related relationships [IRRELEVANT]. This has resulted in implied goodwill of [IRRELEVANT] (value). We have concluded that the valuation methodologies used by the Group are appropriate.</p>	<p>IFRS 16 Management will be applying the modified retrospective transition approach to implementing IFRS 16 in the 2019/20 financial statements and will not be restating comparative amounts for the year prior to first adoption. Following an exercise supported by Grant Thornton, management is determining the expected impact to be disclosed within the 2018/19 financial statements. This will include significant amounts in relation to the inclusion of a gross right of use asset offset by impairment, and lease liabilities, along with a pre-tax income statement impact. At the time of writing, we are reviewing the detailed calculations supporting the transition to IFRS 16 and will update the Committee once this work is complete.</p> <p>Classification and recognition of Trading Profit The Group uses a three column format in the income statement in order to segregate what it considers to be the underlying results of the business. Total investment expenditure in the year of £129 million (2017/18: £102 million) has been recognised in the financial statements, of which £64 million relates to network programs and £27 million to business and IT transformation. We are currently testing the classification of these amounts to ensure that they meet both the definition of the Group's accounting policy and the FRC's guidelines in this area. Our work has uncovered no issues to date.</p> <p>Postmasters' Group Litigation Order ("GLO") There are many uncertainties in relation to the potential outcome of the trials in the GLO. Whilst it is possible that a present obligation exists, management does not consider it probable and at this stage is unable, in their opinion, to reliably estimate the potential quantum of any future liability. We will continue to monitor the progress of the case and work with management to ensure that the disclosures made in the Annual Report are reflective of the latest position at the point of signing.</p> <p>Other reporting matters</p> <p>Fraud - Auditing Standards require us to focus in particular on two areas of risk of fraud – management override of controls and the risk of fraud in revenue recognition. We have no exceptions to report from our work in either of these areas to date.</p> <p>Independence – We confirm we are independent of the Group and we will include a summary of non-audit services and related fees within our July Audit and Risk Committee report.</p>

2. Scope and status

Status

We have focused our work to date on areas of judgment/complexity and areas of significant and elevated risk. We have completed the majority of our work however our work here and in a number of other areas remains ongoing.

We have not identified any material adjustments during the course of our audit work to date. We have included the summary of uncorrected misstatements in Appendix 2.

Risk assessment

As communicated in our Audit Plan, our risk assessment is detailed below:

	2018/19 Risk assessment	EY 2017/18 Risk assessment
Management override of controls*	Significant	Significant
Risk of fraud in revenue recognition*	Significant	Significant
Impairment of tangible assets	Significant	Significant
Impairment of intangible assets subject to amortisation	Significant	Significant
Capitalisation of intangible assets	Elevated	Normal
Impairment of goodwill	Elevated	Significant
Valuation of onerous lease provision	Elevated	Normal
Disclosure impact of IFRS 16	Elevated	N/A
Fair value of assets relating to the Payzone acquisition	Elevated	N/A
Assumptions in the pension schemes' liabilities	Elevated	Elevated
Classification and recognition of Trading Profit	Elevated	Significant
VAT accounting	Elevated	Elevated
Postmasters' Group Litigation Order	Elevated	Elevated

Materiality

We calculate Group materiality by reference to reported revenue of £972 million (2017/18: £956 million).

We have therefore applied an overall materiality of £9.7 million (2017/18: EY £9.3 million) based on 1% of the above measure and have used a performance materiality of £6.1 million (2017/18: EY £4.6 million) to direct our testing.

We have used a de minimis threshold for reporting to the Audit and Risk Committee any uncorrected misstatements in excess of £490,000 (2017/18: EY £470,000). A summary of uncorrected misstatements can be found in Appendix 2.

Scope

The scope of work we have performed across the Group is in line with that communicated in our Audit Plan, with the exception of work relating to Post Office Management Services Limited ("Post Office Insurance"). We initially considered this could be a significant component of the Group and therefore that it would require a full scope audit, however we have concluded that only certain balances are material, therefore specified procedures have been performed over these areas in support of the Group audit. However alongside the work performed for the Group audit, we are also performing a full statutory audit of the Post Office Insurance entity to its own much lower materiality levels.

Independence and non audit fees

Auditing standards require that we consider whether adequate arrangements are in place to safeguard the objectivity and independence of the firm.

We confirm that appropriate safeguards remain in place in respect of all non-audit work we have performed and that in our professional judgement, as at the date of this report, we are independent of the Group, and that the objectivity of the audit partner and audit staff is not impaired in any way.

We will submit an Independence Letter to the July Audit and Risk Committee, which will include a summary of the non-audit fees in respect of services provided to the Group during the period ended 31 March 2019, as well as the safeguards in place to ensure that those services did not impact our independence.

3. Accounting and reporting matters

Significant risk - Impairment of tangible and intangible assets

The Group holds significant amounts of tangible assets, intangible assets and goodwill on the balance sheet. At the year end, management performed its annual impairment assessment over goodwill (£53 million), intangible assets such as software (£293 million) and property, plant and equipment (£174 million) held across the network of 11,500 branches and head offices and concluded that no impairment charge was required for the year, as the discounted cash flow assessments showed headroom versus the carrying value of these assets.

	Post Office Limited £m	Post Office Insurance £m	Total £m
Software			
Goodwill			
Other intangible assets			
Intangible assets			
Property, plant and equipment			
Total fixed assets			
Investments in joint ventures			
Long term receivables			
Long term provisions			
Capital payables			
Total assets			
Discounted cash flows - original			
Headroom/(impairment)			
*Discounted cash flows - final			
*Headroom/(impairment) - final			

IRRELEVANT

Key assumption - Cash Generating Units (“CGUs”)

Consistent with previous years, two CGUs have been identified by the Post Office, being Post Office Limited and Post Office Insurance. We have considered whether this judgement is reasonable and meets the requirements of accounting standards and challenged management as to whether an individual branch would be a more appropriate CGU. Due to the distinct nature of the services provided and the extensive Post Office network, upon closure of a branch, customers will locate to their next nearest branch, suggesting a clear and significant interdependence between branches. We also challenged management as to whether the new Payzone entity should be considered to be a separate CGU, as it has its own separately identifiable assets and cash flows. Management has provided a high level assessment to show that Payzone’s assets are clearly supported by the Payzone cash flows and that the residual impact on the overall impairment assessment is immaterial. We have therefore concluded that management’s conclusion of two CGUs is reasonable and appropriate. We have encouraged increased disclosure of the judgements made in defining these CGUs within the accounting policy in the Annual Report.

Key assumption - value in use

The mechanics of the impairment model are broadly consistent with previous years. The value in use calculations are based on an overall statutory entity discounted cash flow analysis. We have tested the mathematical accuracy of the calculations derived from the cash flow forecasts and have assessed key inputs in the calculations, such as discount rate and growth assumptions, by reference to board approved forecasts, industry reports and our own expertise.

Key assumption - free cash flows

The model uses Group EBITDA (“trading profit”) of [IRRELEVANT] in 2019/20 as a proxy for free cash flows. In some cases, adjustments would also be made for working capital movements, however no such adjustments are made by Post Office. We are currently working through this judgement with management and will report our findings to the Audit and Risk Committee if we disagree with the stance taken.

Key assumption - growth assumptions

The model assumes growth in Group EBITDA of [IRRELEVANT] from 2018/19 to 2019/20, a further increase in EBITDA of [IRRELEVANT] in the following year and then no growth into perpetuity including a 0% long-term growth rate. The financial plan that will be presented to the May Board is in line with the forecasts used in management’s impairment assessment. We have spent time with management to understand the key drivers of the increase to EBITDA (which include the impact of the new Banking Framework agreement and the change benefits associated with the Group’s continued strategy to close directly managed branches (“DMBs”)) and have included this reconciliation on the following page.

Key assumption - Network Subsidy Payment

A key change in assumptions from the prior year is the exclusion of the Network Subsidy Payment (“NSP”). In 2017/18, management made the assumption that the NSP would be received into perpetuity. The original forecasts used in the 2018/19 impairment assessment excluded the £50 million NSP receivable in both 2019/20 and 2020/21, as management wanted to evidence that underlying trading, before NSP, generates sufficient headroom. We challenged management as to whether this should be included for the next two years as it is essentially a confirmed cash inflow that supports the loss-making branches included within the forecast EBITDA. Management has since updated the model to include the NSP cash flows for 2019/20 and 2020/21.

Key assumption - discount rate

A pre-tax discount rate of 9% (2017/18: 9%) had been used in the impairment model that supports the Post Office Limited CGU. Although this assumption is not particularly sensitive, as an acceptable range determined by our valuations experts was between 9.4%-11.4%, management has changed the discount rate applied in the model to 9.5%, which does not result in an impairment charge. The discount rate used in the Post Office Insurance impairment assessment of 12% (2017/18: 12%) is at the top end of our acceptable range (10% - 12%) determined specifically for this CGU. Management should continue to assess the appropriateness of the discount rates used in both models in light of any changes in market conditions.

3. Accounting and reporting matters (continued)

Significant risk - Impairment of tangible assets and intangible assets (continued)

We have included a summary of the budgeted Group EBITDA 2019/20 bridge from the actual 2018/19 position below, along with some sensitivity analysis over the key assumptions.

Management has prepared a detailed bridge from the 2018/19 actual EBITDA of [IRRELEVANT] to the forecast EBITDA of [IRRELEVANT] in 2019/20. We have included the details of this in the table to the left and highlight some key information below.

One of the main drivers of the growth in EBITDA comes from the updated Banking Framework agreement. At the time of writing, all but two of the national banks have now signed up to the new agreement. The new contract incorporates additional fixed fees as well as an increase in the rate applied to variable income. The new rates are applicable from January 2020 and the [IRRELEVANT] growth is therefore representative of the three months to the 2019/20 year end. We understand that Post Office has also factored in an outflow to cover improved agents rates as a result of this from October 2019 onwards.

Management has built in an EBITDA reduction from the loss of the UK Visas and Immigration contract (such as the provision of resident permits). The Group has also seen a price reduction in their 'Verify' services which has been factored into the budget.

When reviewing the breakdown of the [IRRELEVANT] change benefits, management has estimated [IRRELEVANT] million revenue growth and is expecting to reduce staff costs of [IRRELEVANT]. Management has also estimated an increase in costs in relation to agents' pay as staff costs reduce in directly managed branches, as they continue to close and move to the franchise model. We have considered the sensitivity of these EBITDA forecasts on the following page and are continuing to work with management to fully understand and verify these amounts - including obtaining evidence that the change benefits are not reliant on any expenditure not factored into the models.

	£m	£m
Group EBITDA (Trading profit) 2018/19		
Banking framework agreement updates		
'Verify' Price Reduction		
Discontinuation of UK Visas and Immigration		
New Bank of Ireland deal		
Total contractual changes		
Marketing		IRRELEVANT
2.6% pay increase		
Change benefits (see breakdown of this below)		
Improving agents' relationships		
Other		
Total change and trading		
Budgeted Group EBITDA 2019/20		

Change benefits	£m
Revenue growth	
Cost reduction	
New recurring cost	
Staff cost reduction	[IRRELEVANT]
Agent's pay	
Payzone	
Total change benefits	

Description of issue including judgements and estimates made by management	Audit approach	Audit conclusion
<ul style="list-style-type: none"> There is a risk that goodwill, property, plant and equipment and other intangible assets (such as software) carrying values are overstated. The carrying value of goodwill and other assets should be compared to its recoverable value which is the higher of fair value less costs to sell or value in use. Impairment involves high levels of management judgement with key assumptions relating to growth and the discount factor. 	<ul style="list-style-type: none"> We have obtained management's discounted cash flow models and understand the rationale behind the assumptions applied. We have obtained a bridge from 2018/19 reported Group EBITDA to the budgeted 2019/20 Group EBITDA and challenged management on the key drivers. We have engaged with our valuations specialists to review the discount rates used by management to ensure they are appropriate. We have performed sensitivities over the main assumptions applied in the models. We have reviewed the disclosures provided in the financial statements and are working with management to ensure these are robust and comply with the requirements of the standard. 	<p><i>Although at the time of writing our work over impairment remains ongoing, the judgements taken appear to be reasonable. We are still finalising our audit work in relation to corroborating the growth in EBITDA.</i></p>

3. Accounting and reporting matters (continued)

Significant risk - Impairment of tangible assets and intangible assets (continued)

We have summarised the results of our sensitivity analysis for both Post Office Limited and Post Office Insurance below.

Sensitivity analysis

The impairment model is, as expected, sensitive to movements in the assumptions. We have assessed all the assumptions made by management and, at the time of writing, are largely comfortable with the judgements that have been made in the final models, as discussed on the previous page (with some final corroboration to obtain for elements of the drivers in EBITDA growth). Our sensitivity analyses have been performed for what we consider to be *reasonably possible* changes, in aggregate, in the key assumptions. In determining our sensitivities, we have considered the 2018/19 results, held meetings with the divisional directors and reviewed results since the year end, along with considering whether there is any contradictory evidence, to understand performance in 2019/20. A summary of these sensitivities is set out below.

Discount rate

In the original model, a discount rate of 9% was used for the Post Office Limited CGU. Following the work performed by our valuations experts, management has increased this to 9.5%, which decreases the headroom by £41 million to £282 million. We note that a highly unrealistic increase in the discount rate of 6% (taking the discount rate to 15%) would be necessary to result in an impairment charge for the Post Office Limited CGU. Management is planning on disclosing the impact of a percentage change in discount rate within the financial statements, as required by the standards, but at the date of writing, we have not seen the final disclosure or performed work over it.

Growth assumptions

The growth assumptions assume an increase in EBITDA to [IRRELEVANT] in year one and an additional increase to [IRRELEVANT] into perpetuity with 0% long term growth. The initial growth in the first two years could be viewed as optimistic when compared to current industry expectations, however it would not be unreasonable to expect some element of long term growth, so we consider 0% into perpetuity is a prudent judgement. From the work we have performed, we note that the growth assumptions, whilst significant, are not of themselves needed to deliver headroom as there is sufficient headroom if the Post Office were to continue at current profitability levels. In addition, we have assessed the impact if the Post Office were not able to sustain its current profitability of [IRRELEVANT].

Post Office Insurance ("POI")

We have run sensitivities on the Post Office Insurance CGU which are detailed in the table below. The discount rate is at the top of the acceptable range and therefore we have focussed our sensitivity analysis on the growth assumptions. Our analysis demonstrates that if budgeted EBITDA of [IRRELEVANT] is not met then impairment could occur.

POI - EBITDA assumption	NSP assumption	Long term growth	Discount rate assumption	Discounted cash flow £m	Headroom/(impairment) £m
IRRELEVANT					
POI - EBITDA assumption	Long term growth	Discount rate assumption	Discounted cash flow £m	Headroom/(impairment) £m	
IRRELEVANT					

Overall conclusion - sensitivity analysis

The sensitivity analysis indicates that for the Post Office Limited CGU the break point arises when there is a significant reduction in forecast EBITDA. Given the annualised impact of the new Banking Framework Agreement, this is not considered to be a realistic scenario.

3. Accounting and reporting matters (continued)

Significant risk - Impairment of intangible assets

The Group has invested significantly in its operational systems in recent years through a number of different projects and the net book value of software development costs at the year end is £230 million (2017/18: £213 million). Management will perform an impairment review of these projects to demonstrate that the carrying value of these assets continues to be supported, and we will review this and report back to the Audit and Risk Committee at a later date.

Summary of intangible assets	Software £m	Goodwill £m	Other £m	Total £m
Balance brought forward at 26 March 2018	213	45	6	264
Additions	102	-	-	102
Additions on acquisition of Payzone	IRRELEVANT			
Disposals	(17)	-	-	(17)
Reclassifications	(29)	-	-	(29)
Amortisation (incl. disposal)	(41)	-	(3)	(44)
NBV carried forward at 31 March 2019	IRRELEVANT			

Audit approach

- We have held discussions with management to understand the progress of different projects and discuss any potential impairment indicators.
- We have assessed Payzone specific assets by using Payzone specific cash flows and no impairment has been identified.
- We will challenge management as to whether the development of new software or systems supersedes or impairs any other assets on the balance sheet. We are currently awaiting management's analysis to support this. We will then apply our own understanding of new and existing projects and consider whether, in our view, there are any projects where the software is no longer in use or its life was shortened by any development activity. We will report back to the Audit and Risk Committee if we find any such items.
- In addition, management's discounted cash flow impairment models (see pages 4 and 5) demonstrate that there is sufficient residual cash flows available to support the carrying value of these intangible assets.

Elevated risk - Capitalisation of intangible assets

Accounting standards dictate specific criteria that costs need to meet in order to be capitalised as an intangible asset and this creates a risk of misstatement. The value of such additions in the year is £104 million (2017/18: £125 million).

Audit approach

- We have performed testing over the additions in the year ensuring they meet the criteria for capitalisation. We have traced a sample of additions to supporting documentation, such as invoices or payroll reports and obtained evidence that the staff member was working on the relevant project.
- We have ensured that no projects are being amortised until 100% complete, and once they are complete that they are then amortised.
- We have assessed the design, implementation and operating effectiveness of management's key controls over the impairment and capitalisation of costs associated with IT development and noted no areas of concern. We are in the process of assessing the outcome of prior year budgets and forecasts to identify whether previous costs capitalised were in-line with the planned spend, in order to assess for the possibility of impairment.

Elevated risk - Impairment of goodwill

At a Post Office Insurance level there is a **IRRELEVANT**

IRRELEVANT

Audit approach

- Our component team has held discussions with management to understand the model that supports this goodwill balance and the underlying assumptions within it. There is **IRRELEVANT** based on the current model, suggesting no impairment is required. They have reviewed the inputs into this model, assessed its mathematical accuracy, considered the reasonableness of cash flow forecasts along with other assumptions used and have performed a sensitivity analysis over the model. Our valuations experts have reviewed the 12% discount rate applied with no issues noted. Our component team is finalising its testing over the model, including its work in relation to sensitivities, which shows that the **IRRELEVANT**
IRRELEVANT

Conclusion

At the date of writing this report, we are still finalising our testing over capitalisation of intangible assets and impairment of intangible assets. Our work to date has uncovered no issues.

3. Accounting and reporting matters (continued)

Elevated risk - Onerous lease provisioning

The Group's leasehold stores are assessed by management to identify any where the expected future benefits from trading are forecast to be less than the future lease commitments, indicating that an onerous lease provision may be required.

Property provision breakdown	2018/19 £m	2017/18 £m	Property provision reconciliation	£m	£m	Summary of Directly Managed Branches ("DMBs")	2018/19	2017/18
Onerous lease	(21)	(16)	Balance brought forward at 26 March 2018		32	Opening onerous DMBs	117	141
Dilapidations	(12)	(8)	New provisions charged	25		Branches closed in the year	(30)	(26)
Vacant possession	(8)	(8)	Provisions released in the year	(7)		Branches announced for franchising	2	2
Total property provisions	(41)	(32)	Net charge to investments		18	Closing onerous branches	89	117
Current portion	(14)	(11)	Utilisation		(9)	Profitable branches	19	19
Non current portion	(27)	(21)	Balance carried forward at 31 March 2019		41	Branches not announced for closure	80	119
						Total number of open DMBs	188	255

Key assumption - identification of loss-making branches

The Group identifies directly managed branches ("DMBs") for inclusion within the onerous lease provision when they have met the following criteria:

- 1) The branch has been announced for closure and there are plans to open a franchise in the area in lieu of the DMB
- 2) The identified branch is loss-making and expecting to continue to incur losses

We have raised with management that, in line with accounting standards, loss-making branches should be considered for an onerous lease provision irrespective of whether they are announced for closure or not. As a result, we have identified c.100 branches at the 2018/19 year end (2017/18: c.120) that were not announced for closure and therefore may require an onerous lease provision. In addition, we have identified six franchises (2017/18: six) where Post Office holds the lease agreement and these branches should also be included within management's assessment. We are working through these points to assess whether there could be a material impact on the level of provision required both in the current or the prior period.

Key assumption - cost and income allocation

Management uses each individual branch profit and loss account as the starting point in identifying loss-making branches. Directly attributable costs (such as property and staff costs) are allocated, as well as certain specific central costs based on the branch's proportion of turnover; we are currently assessing whether such costs should be included in this assessment in accordance with IAS 37.

Key assumption - discount rate

A discount rate of 3.5% (the government 'Greenbook' rate) has been used when calculating the onerous and vacant lease provision, whereas IAS 37 is clear that a risk free rate should be applied. As the cash flows used by management to account for the onerous lease are not risk adjusted, we would expect a risk free rate of 1.6% (UK Gilt 30 year yield) to be used. The impact of this would be an increase in the current onerous lease provision of £3.7 million, however this may change depending on the outcome of the branches we have found are not currently included in the provision (see 'Identification of loss-making branches' above).

Key assumption - Network Subsidy Payment ("NSP")

Management has not included an allocation of NSP when calculating their onerous lease provision. This is a reasonable assumption, as the NSP is not allocated to specific branches.

Key assumption - future cash flows/lease commitments

The basis for the calculation of the onerous lease provision is the forecast rental commitment for each branch, discounted over the length of the lease. We have challenged management as to whether this is appropriate as we would expect the Group to provide for the unavoidable costs under a contract, which are defined as being the least net cost of exiting the contract. This should be the lower of the cost to exit or breach the contract and the cost of fulfilling it. Management should therefore forecast the expected losses incurred if the branch were to continue to trade, discounted until the lease break and provide for this amount (if it is lower than the rental commitment). We have been made aware that once branches are advertised for closure and to be franchised, they are generally closed within six to nine months and therefore move into the vacant possession provision. Where branches close shortly after announcement, we believe providing for the rental commitment is a reasonable and appropriate assumption. However, where branches continue to trade for a sustained period of time we would expect the provision to be based on forecast losses. Management is currently assessing whether these changes will have a material impact on the provision.

Key assumption - dilapidations assumptions

The Group recognises a dilapidations provision when properties have been identified as loss-making for the onerous lease provision (i.e. announced for closure) or when they become vacant, as this is the point at which they deem the dilapidations provision to become probable. Branches that are excluded from this are expected to continue to trade into the long term. Management uses actual assessments carried out by BNP Paribas, who act as property manager for the Group, to calculate the provision, or where this has not been performed, management makes an estimate at 80% of the rental commitment. The minimum provision per branch is £50,000. We are working through these assumptions at the date of writing and will verbally update the Audit and Risk Committee in the meeting.

Key assumption - vacant possession

The model includes 118 branches (2017/18: 111) within the vacant possession model. This provision relates to branches that the Group are no longer trading from, or using for other business purposes and the unavoidable costs exceed the benefits of the contracts. Consistent with the onerous lease provision, this is calculated as the cost of fulfilling the contract up to the lease end date, or the break date should one exist.

3. Accounting and reporting matters (continued)

Elevated risk - Onerous lease provisioning (continued)

Onerous lease - Top 10 branches	£m
The City of London	(2.08)
Camden High Street	(1.62)
Glasgow	(1.35)
Baker Street	(1.23)
Broadway	(1.04)
Edinburgh City	(0.90)
Cambridge City	(0.84)
Islington	(0.82)
Redditch	(0.77)
Great Portland Street	(0.72)
Total top 10 branches	(11.37)

Areas of outstanding work - onerous lease provision

We have identified a number of factors that may that have an impact on the overall onerous lease provision position at the year end. We are unable to quantify this impact at the time of writing, however we have requested management to provide updated workings and corroborating support so that we are able to verbally update the Committee at the meeting. As noted on the prior page, key areas outstanding relate to;

- the completeness of loss-making branches (which could increase the provision required);
- the basis of calculating the provision (which potentially could decrease the provision required); and
- the discount rate used (which increases the provision required).

We hope to be able to summarise the financial impact of this at the Audit and Risk Committee.

Description of issue including judgements and estimates made by management	Audit approach	Audit conclusion
<ul style="list-style-type: none"> • Onerous lease provisioning involves significant management judgement regarding assumptions such as sales and margin growth and the discount factor. A continued challenging trading environment is an indicator of an increased number of branches with onerous leases. • There is a completeness risk that there are unidentified loss-making stores that require an onerous lease provision. 	<ul style="list-style-type: none"> • We have obtained management's assessment of loss-making branches and assessed this for completeness. We are still working with management to quantify the impact of certain branches which we believe should be included in the Group's assessment. • We are testing the mathematical accuracy of the calculations in the cash flow forecasts and are assessing key inputs to the calculations, such as the discount rate and sales assumptions, by reference to management's forecasts and our own expertise, with no issues noted at the time of writing. • We have challenged management on the key assumptions underpinning the model, including whether management should be providing for the forecast losses rather than the committed rental expense. We are working closely with management to assess the impact of this. • We have engaged with our valuations experts to review the discount rate used of 3.5% and have concluded that the appropriate risk free rate to use is 1.6%. The current impact of this is an increase in the provision of £3.7 million (see Appendix 2). 	<p><i>We are still working through management's assessments in relation to onerous lease provisioning. At the date of writing this report, we have identified one misstatement as a result of using a higher discount rate than we consider appropriate. This would increase the provision by £3.7 million using the existing onerous lease model. However, as noted above management is providing us with updated calculations in this area, so this number is likely to change. We will report further findings in this area verbally to the Audit and Risk Committee next week.</i></p>

3. Accounting and reporting matters (continued)

Elevated risk - Assumptions in the pension schemes' liabilities

The Group has two defined benefit schemes; the POL fund of the Royal Mail Pension Plan (RMPP) and Post Office Limited's share of the assets and liabilities of the Royal Mail Senior Executive Pension Plan (RMSEPP) (together "the Plans"). In aggregate, these show a net surplus of £1.2 million (2017/18: £3 million) on the balance sheet at the year end, net of asset ceiling adjustments.

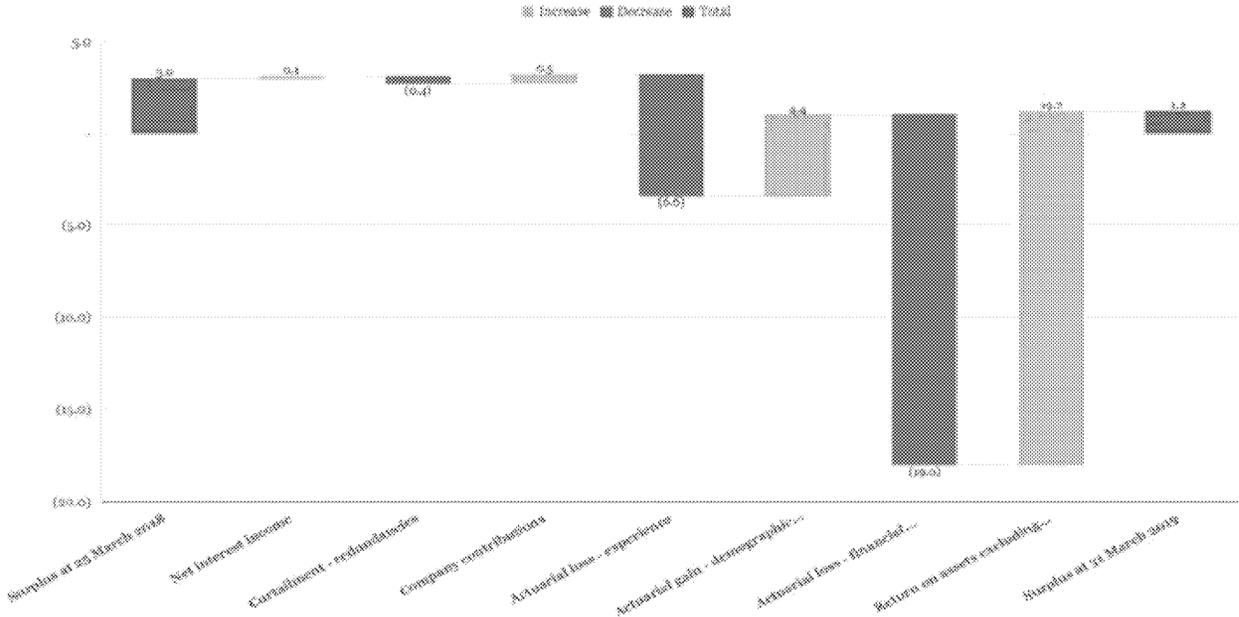
We have prepared a bridge which reconciles the position of the schemes for the period 25 March 2018 to 31 March 2019:

POL fund	2018/19 £m	2017/18 £m
Fair value of plan assets	362.3	338.0
Defined benefit obligation	(320.4)	(297.8)
Surplus	41.9	40.2
Effect of asset ceiling	(41.9)	(40.2)
Defined benefit position	-	-

RMSEPP	2018/19 £m	2017/18 £m
Fair value of plan assets	29.1	32.1
Defined benefit obligation	(27.9)	(27.4)
Surplus	1.2	4.7
Effect of asset ceiling	-	(1.7)
Defined benefit position	1.2	3.0

Assumption (%p.a)	2018/19	2017/18
Discount rate	2.40%	2.50%
RPI inflation	3.40%	3.30%
CPI inflation	2.40%	2.20%

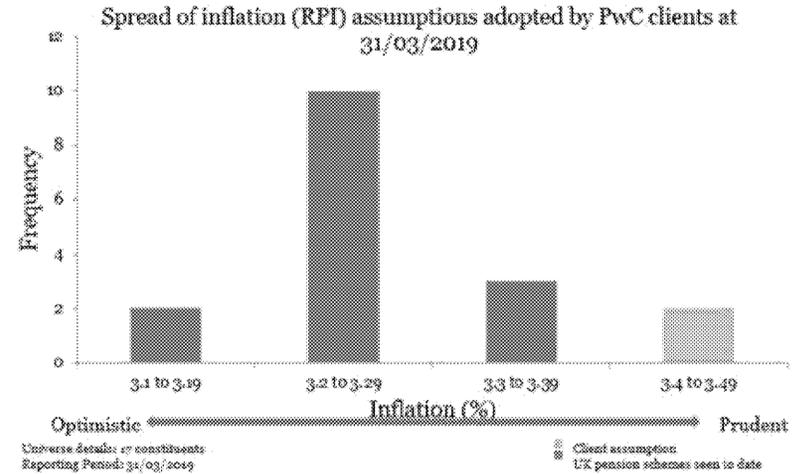
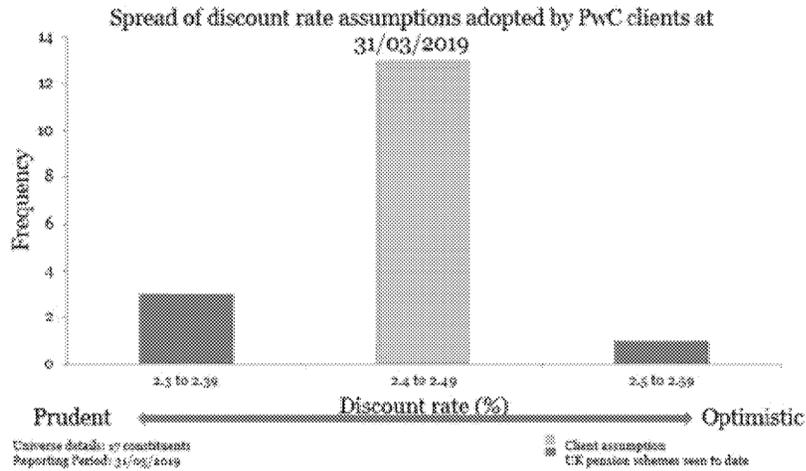
The assumptions adopted for both the POL fund and the RMSEPP are consistent.



Description of issue including judgements and estimates made by management	Audit Approach	Audit results/PwC conclusion
<ul style="list-style-type: none"> Pension accounting in relation to defined benefit schemes is complex and there are a number of judgements made when calculating the liabilities. In addition there is a judgement made in relation to the recognition or not of any surplus. There is a risk that the pension liability is incorrectly valued at year end resulting in a material liability balance being understated. This is a key area of focus due to the magnitude of the balances and the judgemental nature of the estimates associated with the liability. 	<ul style="list-style-type: none"> We have obtained the IAS 19 report and consulted with our independent actuarial specialists to assess the above assumptions that have been applied to determine the costs of meeting future obligations. Overall, the assumptions sit towards the prudent end of the range. This is due to a relatively low discount rate, combined with a high RPI inflation assumption and a prudent mortality assumption. The methodologies used to derive the assumptions appear to be consistent with last year and we are finalising our conclusions on their reasonableness at the date of writing. 	<p><i>The results we have communicated are indicative conclusions, and we are currently finalising our testing of the assumptions and fair value of plan assets.</i></p>

3. Accounting and reporting matters (continued)

Elevated risk - Assumptions in the pension schemes' liabilities (continued)



Our initial assessment of the discount rate of 2.4% is in the low to middle of the range of assumptions that we have observed at 31 March 2019. Last year, the discount rate was slightly more towards the bottom (prudent) end and therefore the discount rate is slightly more optimistic than last year.

Our initial assessment of the RPI inflation assumption of 3.4% pa is towards the top (prudent) end of the range of assumptions that we have observed at 31 March 2019. Last year, the RPI inflation assumption was also towards the prudent end of the expected range and therefore the inflation assumption is comparable to last year.

IFRIC 14

We note that the two defined benefit schemes are in a net asset position at the balance sheet date. Under IFRIC 14, management is required to consider the recoverability of these assets through a refund or reduction in future contributions. The Group does not have an unconditional right to refund from the POL fund of the RMPP, and has therefore not recognised the net pension asset of £42 million (2017/18: £40 million) on the balance sheet. We have reviewed this treatment, along with the assumptions applied by the actuaries, and are comfortable with this treatment.

Guaranteed Minimum Pension ("GMP") Equalisation

Following a ruling by the High Court on 26th October 2018, pension schemes are required to recalculate their obligations for the impact of guaranteed minimum pensions which were provided by schemes that were contracted-out of the State Earnings-Related Pension Scheme up until 5 April 1997. These benefits were inherently unequal between males and females because of their different state pension retirement ages.

In line with advice from the Scheme actuary, the main scheme will not be in scope for GMP as the accrual relating to this was transferred to the government when the Post Office was privatised in 2012. The RMSEPP scheme is in scope for equalisation and we have been informed that the impact is around 0.1% of liabilities, which would result in an amount of £279,000 being provided. Based on a high level calculation using 3% as a worst case scenario, the potential maximum exposure that we expect on the income statement would be £837,000, which is immaterial. At the time of writing, we are performing our review over the GMP assumption and will report our final analysis at a later date.

3. Accounting and reporting matters (continued)

Elevated risk - Fair value of assets relating to Payzone acquisition

During October 2018/19, Post Office acquired Payzone Bill Payments Limited (“Payzone”) for **IRRELEVANT** cash consideration, and a maximum of **IRRELEVANT**. Management has engaged with Smith & Williamson to support them with their valuation of the intangible assets acquired as part of this transaction.

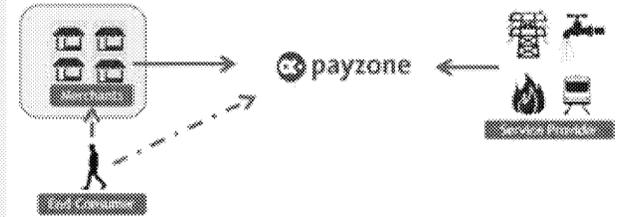
Summary of acquisition	Fair value £m	% Fair value allocated
Working capital	IRRELEVANT	
Fixed assets		
Other intangibles (capitalised software)		
Deferred tax liability on intangible assets		
Net tangible assets		
Merchant contracts and related relationships		
Payzone brand		
Intangible assets		
Assembled workforce		
Implied goodwill (excluding workforce)		
Total implied goodwill		
Total enterprise value (EV)		

Discount rate

The WACC used by Smith & Williamson in order to discount future cash flows associated with the business and intangible assets identified is 10.5%. A relative risk adjustment has then been applied to the discount rate used in valuing the merchant relationships. Our valuations experts have reviewed the WACC used and deem it to be reasonable and appropriate.

Merchant contracts & related relationships

The majority of merchant relationships are exclusive, unlike the service providers who work with PayPoint. Smith & Williamson used a Multi-period Excess Earnings Method (MEEM) and attrition assumptions based on management discussions, qualitative factors, and analysis of historical customer sales data to value the intangible, and estimated a useful economic life of six years.



Payzone brand

The Payzone brand has been in use since its registration by Alphyra in 1999 and is dual purpose - being a Business-to-Consumer brand driving end-consumers to the terminals, and acting as a Business-to-Business brand to merchants and service providers. Smith & Williamson have used a relief-from-royalty approach and applied a 3% royalty rate to Payzone’s expected sales.



Description of issue including judgements and estimates made by management	Audit Approach	Audit results/PwC conclusion
<ul style="list-style-type: none"> IFRS 3 <i>Business Combinations</i> outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date and to be separately recognised from goodwill. There is a risk that there are unidentified fair value adjustments, or assets/liabilities on acquisition. 	<ul style="list-style-type: none"> We have obtained the Smith & Williamson report and engaged with our valuations specialists to ensure the methodologies used when valuing intangible assets identified are reasonable and appropriate. We have also assessed other inputs, such as growth rates and asset charges for reasonableness. We have used our valuations specialists to assess the discount rates used in each of the valuation models. We have benchmarked the royalty rates used and also comparable transaction intangibles allocation. We have reviewed the fair value adjustments for reasonableness and completeness. We have verified that the acquisition and integration costs of £3.4 million have been expensed through the Income Statement. These have been recognised within the 'Investments' column, as they predominantly relate to advisory/consultancy costs and the acquisition relates to the Group's strategy to transform the business and improve their commercial sustainability. 	<p><i>At the time of writing our report, we have concluded that the methodology applied, discount rates used and growth rates used by Smith & Williamson are appropriate and reasonable. We are still performing our work over the cash flows used as part of the valuation and the assumptions applied.</i></p>

3. Accounting and reporting matters (continued)

Elevated risk - VAT accounting

Due to the different divisions and revenue streams within the Post Office, there are a number of arrangements in relation to VAT which make this a complex area.

Description of issue including judgements and estimates made by management	Audit Approach	Audit results/PwC conclusion
<ul style="list-style-type: none"> • There is a risk that the liability at year end is misstated due to the complexities in relation to the various VAT arrangements that are in place. • Misstatements could occur due to complexity arising from the significant number of goods and services sold through the business which require appropriate VAT rates to be identified and applied. • Misstatements could also arise from special rate arrangements in place with HMRC. 	<ul style="list-style-type: none"> • We are obtaining the VAT arrangements in place and will review the latest correspondence with HMRC. • We have engaged with VAT specialists to review complex arrangements and assist in testing compliance. • We are tracing the liability in place at year end to post year end payments. • We are testing a sample of transactions, with reference to the VAT arrangements in place, and ensure they have been correctly treated within the general ledger and also the VAT return. 	<p><i>At the date of writing this report we are in the early stages of our testing over VAT accounting and compliance but have not noted any issues to date. We will report back to the Audit and Risk Committee when we have completed our work in this area.</i></p>

4. Presentation and disclosure items

Elevated risk - Disclosure of expected impact of IFRS 16

Under IAS 17, lessees are required to make a distinction between a finance lease (which is held on the balance sheet) and an operating lease (which is held off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard is effective for Post Office for the 2019/2020 year end.

Description of risk including judgements and estimates made by management	Audit Approach	Audit results/PwC conclusion
<p>Management will be applying the modified retrospective transition approach to implementing IFRS 16 in the 2019/2020 financial statements. In line with the requirements of IAS 8, management has included disclosure of the expected impact on adoption in their financial statements for 2018/2019. There are a number of judgemental assumptions in relation to the implementation of IFRS 16, including the discount rate used.</p> <p>At the time of writing, management is in the process of finalising the relevant disclosure including quantifying the impact for inclusion in the Annual Report.</p>	<p>We have performed the following procedures with no significant issues to report to date;</p> <ul style="list-style-type: none"> Obtained and reviewed a sample of original lease contracts, including amendments to verify the accuracy of inputs into the model; Recalculated a sample of leases and compared the outcome to the Grant Thornton model used by the Group; Our valuations experts are working through building up an appropriate discount rate to compare this to the rate applied by management; and Verified the completeness of leases included in the IFRS 16 assessment. 	<p><i>At the time of writing, our work in relation to IFRS 16 remains ongoing. We will report to the Audit and Risk Committee our findings in this area once the work is complete and the appropriate disclosures have been made in the financial statements.</i></p>

Overview of risk and audit strategy

As communicated in our Audit Plan at the January Audit and Risk Committee, we assessed the risk for our audit in relation to this area as elevated, given the complexities of the new standard, the anticipated sensitivity of key assumptions and the magnitude of the expected impact. For context, given the detailed disclosures presented by the Group in the financial statements, our audit procedures are required to be full scope in nature, and as such, we have audited the amounts presented, as if they has been adopted in 2018/2019 by Post Office. This has been a significant project for the Post Office and the audit procedures we are required to carry out to gain comfort over the implementation of the new standard, are also significant.

Summary of expected impact on the 2018/2019 financial statements	£m	Key assumption - Discount rate
Gross right of use assets	[x]	<p>IFRS 16 states that when readily available, the rate implicit in a lease is to be used to discount the future lease payments back to their present day value. When the rate implicit in a lease is not readily determined the lessee may use the Incremental Borrowing Rate ('IBR'). The IBR is the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.</p> <p>Post Office has used a discount rate of 3.5% for each lease in calculating the lease liability required. This does not comply with the requirements of the standard, which notes four factors that need to be built up when formulating the IBR. These are; to start with a risk free rate, add in a country risk premium, add a credit risk factor and finally to make an asset specific adjustment (depending on the category of asset in question to reflect the borrowing rates implicit in that asset). We have engaged our valuations experts to build up a notional IBR across a sample of 30 leases (which vary in category) in order to assess the reasonableness of the 3.5% applied across the board by management. Our work in this area is ongoing however an initial view is that the discount rate applied is at the lower end of the spectrum, particularly for longer term property leases. This could have a significant impact on the amounts to be disclosed in the Annual Report.</p>
Impairment of right of use assets	[x]	
Lease liability	[x]	
Derecognition of onerous lease liability	[x]	
Net income statement impact (pre-tax)	[x]	

4. Presentation and disclosure items (continued)

Elevated risk - Classification and recognition of trading profits

The Group uses a three column approach in its income statement in order to segregate what it considers underlying results from net income and expenditure associated with business transformation activities and the associated government funding.

Description of risk including judgements and estimates made by management	Audit Approach	Audit results/PwC conclusion
The Group uses "Trading Profit" as its key alternative profit measure and it is calculated by taking operating profit from continuing operations before depreciation, amortisation, operating exceptional items, closure of activities, investments and Network Subsidy Payment. There is judgement in the classification of relevant costs and income which therefore carries audit risk.	<ul style="list-style-type: none"> We have obtained an understanding of management's approval process in relation to investment expenditure. We have obtained an understanding of management's criteria and accounting policy in relation to recognising costs within the 'Investments' column of the Income Statement. We are currently corroborating a sample of these costs (across a number of different projects, including smaller ones) to supporting documentation to ensure they meet the criteria and that they are not inappropriately classified within 'Investments'. 	<i>We are still performing our work over the classification of the costs recognised within the investment column.</i>

Investment funding and expenditure policies and process

The Post Office receives money each year from the Department for Business, Energy & Industrial Strategy ("BEIS"), which is disclosed as 'Investment Funding' in the financial statements. A total of £210 million has been secured with £168 million being drawn down in 2019. The funding has been provided on the basis that it enables the Post Office Limited to transform its network of branches across the UK. Project proposals are prepared by individual business units and then submitted to the Investment Committee, with anything above £5 million requiring approval by the board. Investment and project spend is monitored on a quarterly basis by the board, which includes a UKGI representative. Further updates of the key projects are provided to BEIS on a monthly basis to monitor progress.

Summary of 'Investments'	2018/19 £m	2017/18 £m
Investment funding	168	70
<i>Expenditure</i>		
Business transformation	(14)	(16)
Network programs	(64)	(63)
IT transformation	(13)	(6)
Severance	(38)	(17)
Total restructuring costs	(129)	(102)
Unwinding of discounts on provisions	(1)	(2)
Total investment income/(charge)	38	(34)
Capital expenditure	(133)	(97)
Total investment charge	(95)	(131)

Investment funding and expenditure

We have understood the key objectives of the main elements of the investment expenditure. There are a significant number of 'sub-projects' for each area of spend which we are in the process of understanding in more detail.

Business Transformation: This relates to an overarching programme that will drive Post Office towards commercial sustainability, through technological innovation and the fundamental re-envisaging of long-term contracts. This includes re-negotiations with Bank of Ireland, updates to the telecoms business to meet regulatory changes and HR programs such as Success Factors for payroll.

Network Programs: This 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 the Post Office directly managed branches.

IT Transformation: This relates to programmes to restructure the Post Office's IT operating model and overhaul legacy back office systems, transitioning to a cloud based architecture.

Severance: These costs include retail severance within DMBs as well as HR, supply chain and Financial Services and Telecoms through travel hub.

Summary of 'Network programs'	2018/19 £m
DMB - predominantly property provisions	26.4
Network development - staff and consultancy costs	14.7
Network transformation - includes compensation to agents	18.9
Losses on disposal	4.0
Total network programs	64.0

Exceptional items

Exceptional items are disclosed separately to the 'investments'. All costs relate to the Group Litigation Order (see page 15 for further details). Costs for 2018/19 were £13.7 million and this expenditure was predominantly driven by legal costs, travel costs and payroll costs associated with the ongoing litigation.

4. Presentation and disclosure items

Elevated risk - Postmasters' Group Litigation Order ("GLO")

The Post Office has an ongoing litigation with a number of postmasters which was highlighted as a contingent liability in 2017/18. Since we presented our Audit Plan in January 2019, the first trial which was in relation to the legal construction of the contract between the Post Office and agents (the 'Common Issues' trial), has concluded, with the judgement in the claimant's favour. Following the judgement, the Post Office made an application to the Court for the sitting judge who would be presiding over the remaining trials to be recused. This was rejected by the judge and taken to the Court of Appeal. On 10 May, the Court of Appeal rejected the Post Office legal team's appeal against the judge's decision not to remove himself from the Horizon IT system trial. The Post Office is now in the process of appealing the ruling given in the first trial with the expected outcome to be released on 23 May 2019.

Description of risk including judgements and estimates made by management	Audit Approach	Audit results/PwC conclusion
<p>The GLO is a highly uncertain situation which could, based on past events, lead to a material economic outflow from the Group. At this time, management's position is consistent with the prior year; losing the trial/needing to settle is not yet considered a 'probable' outcome and, even if it was, it is not possible to make a reliable estimate of any future economic loss at this stage. On these grounds, management expects to continue to disclose a contingent liability (as opposed to recognising a provision) in the accounts, however the position will be re-assessed prior to signing the financial statements.</p>	<ul style="list-style-type: none"> We have held a number of discussions with the Post Office legal team and reviewed the various public legal documents in order to ensure we are fully aware of the latest developments; We will be circulating legal letters to and holding discussions with the Group's legal representatives in order to obtain third party confirmation of the information that we are being provided with by management; We have reviewed the requirements of IAS 37 and will ensure that the latest situation at the point of signing has been taken into account when independently assessing the need for a provision or a contingent liability. We will also ensure that any associated disclosure is sufficient to inform the reader of the current situations and management's approach; We will consider the need for a provision for legal costs associated with the first trial which may be instructed by the court to be paid in the near future. 	<p><i>Our work in this area will be completed shortly prior to the signing of the financial statements.</i></p>

New standards

IFRS 15 "Revenue from contracts with customers" has replaced IAS 18 "Revenue" and IAS 11 "Construction contracts" and IFRS 9 "Financial Instruments" has replaced IAS 39 "Financial Instruments Recognition and Measurement." The Group has adopted both new standards in the current financial period.

IFRS 15

The Group adopted IFRS 15 using the modified retrospective method. Post Office has assessed the requirements of the standard for each of its revenue streams and concluded that there is no material impact on revenue recognition, other than the presentational reclassifications relating to the Network Subsidy Payment and Post Office Card Account commission income, which were previously disclosed as revenue but are now classified as 'other operating income.' We have reviewed management's impact assessment and materially agree with their assessment. We have also tested the potential impact of the standard by reviewing the underlying contracts, for a sample of transactions as a part of revenue testing. Our work in this area is ongoing however an initial view is that there are no material misstatements on transition to the new standard, although we have noted some small differences in the Telco revenue stream.

In addition, we have identified an adjustment to operating costs, in relation to aggregator fees paid by Post Office Insurance ('POI'). Under IFRS 15, POI should capitalise these fees as a contract asset which is then released in line with expected customer attrition rates. Management has modelled the outcome which includes a £6.6 million (2017/18: £6.5 million) contract asset on the balance sheet and an impact to Group EBITDA of £0.1 million (2017/18: £3.1 million), however we have not yet audited these numbers. As we continue to work through the audit of revenue, if there are other such items of note, we will highlight these to the Audit and Risk Committee.

IFRS 9

Management has assessed the impact of the standard and concluded that it has not had a material impact. We have tested the potential impact of the standard through our financial asset and liability testing procedures. Furthermore, we have reviewed the hedge documentation and effectiveness of the Interest Rate Swap instrument started in 2018/19. Our work in this area is ongoing however an initial view is that there are no material misstatements in this regard.

5. Other reporting matters

Significant risks - Fraud in revenue recognition and Management override of controls

As required by Auditing Standards, we have considered the risk of fraud in relation to management override of controls and the risk of fraud in revenue recognition. Relevant audit procedures are currently being performed to address both risks and at the date of writing, we have not identified any material issues, however we still have audit work to perform in each area.

Fraud in revenue recognition

The majority of the Group's revenue is commission receivable based on volumes/values of products sold by the Post Office on behalf of a number of suppliers. As detailed in our Audit Plan, given the volume of revenue transactions across a variety of different streams (including retail, financial services and telecoms, and insurance) this has been an area of focus, with the relevant assertion for all streams being existence/occurrence.

Due to the high volume/low value nature of revenue, we rebutted the fraud risk at an individual transactional level, however we assess the fraud risk does exist at the point where management could introduce fraudulent invoices or other journal postings into revenue accounts in the centralised financial reporting process.

Revenue split	2018/2019 £m	2017/2018 £m
Retail	581	564
Financial Services and Telecoms	266	274
Insurance	55	48
Identity	58	54
Other (supply chain income)	13	17
Total	973	957

Audit work performed

- We have considered each revenue stream in isolation and performed detailed walkthroughs to understand the design and effectiveness of the controls in place.
- We are testing a sample of revenue transactions and agreeing the commission rates applied to contractual terms and the basis of invoicing (volumes or values) to underlying contracts. We will recalculate the revenue for our selected sample and are tracing to cash receipt in bank.
- Where revenue is calculated using volumes/values driven by sales in branches, we expect to gain comfort over the accuracy and completeness of this data through the ITGCs obtained over the Horizon system. This includes testing over the interfaces between Horizon, Credence and CFS.
- For each revenue stream we will carry out procedures over cut off and completeness of revenue.
- Our work in these areas to date has uncovered no instances of fraud.

Fujitsu telecoms accrued/deferred income

In the prior year, management identified a £5 million error in relation to accrued telco income reported from Fujitsu. At 31 March 2019, the accrued income relating to telco is £2 million, which is below our testing threshold.

Risk of management override of controls

We have performed detailed testing of key year end reconciliations, reviewed areas of management judgment such as impairment, provisions, pensions assumptions and other accounting estimates, are testing journal entries recorded within the financial period and additionally have incorporated an element of unpredictability into our testing. We are utilising data auditing, including use of our data interrogation tool 'Halo', to audit both automated and manual journals posted throughout 2018/2019. Our testing is focussing on journals we consider to be higher risk based on our fraud risk assessment procedures, such as, journals posted by those in a position of influence, unexpected credits to the profit and loss account, and journals with unusual descriptions and account combinations. Our work considers both the misappropriation of assets and fraudulent financial reporting. No instances of fraud or error have yet been detected as a result of the work we have performed. We are continuing to work through this testing and will highlight any issues if they arise.

Non-compliance with laws and regulations

We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations or the entity's articles of association.

Going concern

Auditing standards require us to formally consider management's going concern assessment and to ensure it covers a period of at least 12 months from the date of signing the financial statements.

Post Office has a working capital facility from the Department Of Business, Energy and Industrial strategy ("BEIS") of £950 million which expires on 31 March 2021 and a further £50 million facility available to provide same day liquidity to 4 April 2020. In addition, they will receive £50 million in both 2019/2020 and 2020/2021 in the form of the Network Subsidy Payment ("NSP") to subsidise the loss-making branches they have to keep open to comply with the terms of the NSP. As at 31 March 2019, the Group had £385 million (2017/2018: £327 million) of its working capital facility as undrawn.

We have corroborated the existence of the above facilities to the underlying agreements. Our work is also focussed on assessing the budgets and cash flow forecasts prepared by management, including an assessment of downside scenarios (for example the Group's ability to withstand a significant downside scenario in respect of the GLO litigation).

We will continue to assess the Group's ability to continue as a going concern up to the date of signing the financial statements.

5. Other reporting matters (continued)

Normal risk - Cash and cash equivalents

Type of cash held	2018/19 £m	2017/18 £m	Breakdown of cash held in cash centres (counts attended)	Amounts counted by PwC £m
Cash in bank accounts	49.5	5.6	London	11.4
Cash held at branches	346.2	314.3	Birmingham	25.4
Cash held in cash and coin centres	89.8	60.2	Glasgow	7.6
Cash in transit	75.2	264.5	Hemel Hempstead	0.1
Total cash	560.7	644.6	Total cash	44.7

Note Circulation Scheme

The Post Office is a member of the Bank of England's Note Circulation Scheme ("NCS"), which allows its members to hold sterling notes within Cash Centres, or, under certain conditions, at other locations or whilst in transit. There are two main elements of the NCS:

- 1) *Bond Facility Cash ("the Bond")* - cash held within the Bond (secure vaults at Post Office cash centres) is the property of the Bank of England and is not recognised on the Post Office's balance sheet.
- 2) *Note Recirculation Facility* - this cash is held securely either in the Bond or in the branch network. It is sold to the Bank at the end of each day, with a commitment from the Post Office to buy it back the next morning. The Post Office is required to lodge gilts with the Bank to the value of what is sold each night. The Post Office has a contract with RBS to use their gilts and the contracted value that they are able to lodge overnight is £350 million. There is an annual limit ("the Cap") imposed by the Bank, dependent upon the volume of notes sorted and issued from Post Office cash centres. At the year end, £230 million (2017/18: £238 million) was held in this way; the amount is disclosed in the Annual Report but is not recognised as Post Office's cash.

Description of issue including judgements and estimates made by management	Audit Approach	Audit results/PwC conclusion
<ul style="list-style-type: none"> • There is a risk that cash is materially misstated in the locations it is held at the Post Office. • The volume of cash in the network and the level of transactions which pass through the business means fraud and/or error could occur in a variety of areas. 	<ul style="list-style-type: none"> • <i>Bank accounts</i> - we have obtained bank reconciliations for all accounts at year end and agreed balance per bank statement to external confirmations. We have tested a sample of reconciling items to supporting documentation and ensured they are correctly classified as reconciling items. • <i>Cash in branches</i> - we have attended 25 branches to observe and re-perform the daily cash count and Horizon declaration procedures. We have also attended three monthly stock and cash counts and inspected the results of an additional 22 monthly stock and cash counts. We have held meetings with the Fraud Analysis Team and reviewed results of a sample of the internal audits that they have performed. • <i>Cash in cash and coin centres</i> - We attended the full year end cash counts at the cash centres detailed above. • <i>Cash in transit</i> - We have traced a sample of cash in transit at year end to evidence of receipt of cash at the branch/cash centre, within a reasonable time frame, post year end. • <i>Other</i> - During the year, as part of the Back Office Transformation project, the cash centres moved to a new system, "CWC" to record their transactions. During the transition to CWC, issues arose in relation to the interfacing of the transactions into CFS. As a result, management has processed manual journals to correct the split of cash between cash in branch, cash in transit and cash in cash centres. We are currently testing these journals at the point of writing our report. 	<p><i>We are still performing our work over cash and cash equivalents, including the recognition and treatment of reconciling items included on the bank reconciliations.</i></p>

5. Other reporting matters (continued)

Inventory - Camelot

A significant portion of inventory relates to Camelot scratchcards and as a result has been a focus area during the audit. From discussions held with management, we have identified the following two challenges:

1. Do the Camelot scratch cards meet the definition of inventory?
2. Should Post Office be recognising amounts in relation to Camelot scratch cards on the balance sheet at all?

Post Office recognises scratch cards as inventory once they have been delivered and subsequently 'activated'. At the year end, there will be an element of 'unactivated' scratch cards which have not been recognised on the balance sheet. We have concluded that these unactivated scratch cards do not meet the definition of inventory, as control over the scratch cards ultimately remains with Camelot, even though they have been physically delivered to the Post Office branches. The key factors that show Camelot retains control are:

1. Camelot is able to get the Post Office to return inventory or transfer inventory without compensation
2. The Post Office is unable to transfer scratch cards between locations
3. Post Office is unable to determine pricing of the products

Whilst Post Office does bear an element of risk, as it is liable for any loss, damage or theft of scratch cards, as per the accounting standard this is of lesser importance. We have therefore raised an adjustment to reclassify this balance from inventory to prepayments (see Appendix 2).

Gamma

The Group is currently holding deferred income of £14 million which is being released to revenue at £4 million per annum until 2022/23. This amount reflects contractual relationships with the Bank of Ireland dating back to 2008, where Post Office have been required to provide certain intermediary services in its branches. Amounts totalling £85 million were received up to and including 2015 and the accounting treatment to defer and spread this income was agreed specifically with the previous auditor.

At the time of writing, we are working with management in order to obtain evidence that the Group has an ongoing performance obligation in accordance with these contractual relationships; such ongoing obligations are usually required in order to support an accounting treatment of deferring revenue. We will update the Committee regarding this matter in due course.

Bank of England Note Circulation Scheme - Agreed upon procedure

Whilst our testing is not yet in a place for us to form a final conclusion as to the design and operating effectiveness of the controls to meet all of the Bank of England's seven control objectives for the Note Circulation Scheme ("NCS"), our findings to date suggest that:

- Our opinion will need to be qualified in relation to Control Objective 1 (in relation to staff training and staff access to NCS-related systems) and Control Objective 3 (in relation to review of the Notes Recirculation Facility ("NRF") forecasts against actuals, and any adjustments made to the forecasts as a result);
- We have also identified some findings on the management review controls in relation to Control Objectives 2 and 4 (which consider the NRF and Cash Centre Outflow declarations, respectively) - we are still investigating these findings and considering whether mitigating or compensating controls exist so as to form a conclusion around the achievement of these control objectives; and
- We are still midway through testing for Control Objectives 5 (around the bond itself), 6 (around the Non-investment Product System ("NIPS") Code of Connection) and 7 (which relates to Disaster Recovery) - we expect to have a firmer picture as to these Control Objectives to verbally update the Audit and Risk Committee on 29 May 2019, subject to requested evidence being provided.

Summary of inventory	2018/19 £m	2017/18 £m
Camelot - scratch cards	6.2	6.0
Royal Mint	3.2	2.6
Other inventory	1.8	1.7
Inventory provision (Royal Mint)	(2.8)	(1.2)
Total	8.4	9.1

Fiduciary cash balance

Within Post Office Management Services Limited and Payzone Bill Payments Limited there are fiduciary cash balances that are held on trust on behalf of third parties and cannot be called upon should either Company become insolvent. Our component team has held discussions with management to understand the nature of these balances. We understand this relates to the monies collected from customers on behalf of insurers relating to the travel insurance products. We have obtained the contracts with insurers and are reviewing them to ensure that appropriate risk transfer has occurred and it is not client money and that recognition on balance sheet is appropriate.

5. Other reporting matters (continued)

IT General Controls - Horizon Controls (Fujitsu and Post Office Limited)

Horizon Online is the main application used in all Post Office branches. This is a system that has been developed and is managed by Fujitsu, who is responsible for providing evidence to Post Office that IT General Controls (“ITGCs”) are properly designed and operating effectively. For this purpose, an annual ISAE 3402 report is prepared by Fujitsu and audited by an independent firm (Ernst & Young). The final audited version of the report is issued to Post Office and it contains the results of the controls’ design and operating effectiveness. PwC has obtained a copy of the ISAE 3402 report and Bridging Letter for the period in scope and verified that no exceptions were noted for Fujitsu’s ITGCs, and so reliance can be placed upon it for our audit.

As per the ISAE 3402 report, Fujitsu’s controls do not apply to Logical Access Management controls at the entity level, which relate to Post Office controls that should be designed and implemented to ensure its users’ access to the Horizon Online system are appropriate. Based on this statement, PwC proceeded to evaluate the design and implementation of the access controls listed in the table below. In our view, this further work is necessary for us to rely on Horizon ITGCs, although it has not been performed historically by the previous auditor.

Our work in this areas remains ongoing. We are working closely with management to obtain sufficient evidence that the points identified below do not indicate significant control weaknesses and that ITGCs can be relied on. This continues to be a time consuming process and is reflective of the fact that such testing has not been performed historically. We will update the Committee verbally with the status of our work in this area at our meeting.

Logical Access	Observations	Results
Access Granting	<p>We verified the following aspects in the Access Granting process for Horizon:</p> <ul style="list-style-type: none"> a. We identified 5,934 active SmartIDs that have at least more than one Horizon ID assigned. b. We also identified 4,423 active SmartIDs that have been assigned to Horizon IDs in more than one branch. <p>Access in branches is granted by the Branch Manager and not controlled by Post Office. We did not identify there was a process in place to ensure that these SmartIDs assigned to multiple Horizon users and branches were appropriate. These items are being discussed with the HR and IT team.</p>	Ongoing
Access Revoking	<p>We verified the following aspects in the Access Revoking process for Horizon:</p> <ul style="list-style-type: none"> a. We matched the leavers list to the active SmartID users list and identified 77 potential exceptions. These users are still under management analysis. b. We used the “Branch User Last Logon date” to filter active SmartIDs that had not been used in any Horizon ID user for more than 90 days. As a result, we verified 1,706 potential dormant SmartIDs. HR monitors the dormant SmartID accounts which should be disabled after between 60 to 90 days of inactivity. These items are being discussed with the HR and the IT team. 	Ongoing
Global Users	<p>We verified the following aspects in the Global Users process for Horizon:</p> <ul style="list-style-type: none"> a. There is no timely review in order to make sure that access to Global Users are removed whenever an employee with this access left the company b. There is no timely review to ensure that Global Users access is still appropriate based on the employee function c. There is no timely review to ensure that all Global Users access in the system is appropriate. This would be recommended for users with roles “Setup” (who can create Manager Users in Horizon) and “Auditor E” (who obtain full managerial and accounting facilities access). 	Ongoing

Appendices

Appendix 1: Risk strategy summary

Appendix 2: Summary of uncorrected misstatements

Appendix 3: Required communications with those charged with governance

Appendix 1: Risk strategy summary

<i>FSLI</i>	<i>Inherent risk</i>	<i>Controls reliance</i>	<i>Planned substantive</i>
Fraud risk	Significant	None	High
Going concern	Normal	None	High
Capitalisation of intangible assets	Elevated	None	Moderate
Impairment of intangible assets	Significant	None	High
Disclosure impact of IFRS 16	Elevated	None	Moderate
Postmaster litigation	Elevated	None	Moderate
Related party transactions	Normal	None	Low
Cash and cash equivalents	Normal	Partial	Low
Property, plant and equipment	Normal	None	Low
Impairment of fixed assets	Significant	None	High
Valuation of onerous lease provision	Elevated	None	Moderate
Accounts receivables and allowance for bad debts	Normal	None	Low
Client receivables	Normal	None	Low
Prepaid expenses & other debtors	Normal	None	Low
Investments in subsidiaries and joint ventures	Normal	None	Low
Derivatives	Normal	None	Low
Inventory	Normal	Partial	Low
Client payables	Normal	None	Low
Accounts payables	Normal	None	Low
Intercompany accounts	Normal	None	Low
Accruals, provisions and other liabilities	Normal	None	Low
Income taxes and deferred taxes	Normal	None	Low
VAT accounting	Elevated	None	Moderate
Notes payable, long-term debt and interest expense	Normal	None	Low
Assumptions in the pension schemes liabilities	Elevated	None	Moderate
Share capital and other equity accounts	Normal	None	Low
Revenue	Normal	Partial	Low
Fraud in revenue recognition	Significant	None	High
Cost of sales	Normal	None	Low
Operating expenses	Normal	None	Low
Salaries and agents pay	Normal	Partial	Low
Classification and Recognition of Trading Profit	Elevated	None	Moderate
Exceptional items	Normal	None	Low
Fair value of assets and liabilities relating to Payzone acquisition	Elevated	None	Moderate

Appendix 2: Summary of uncorrected misstatements

The uncorrected misstatements of greater than £490,000 which have been identified during the course of our audit are set out below. We accept management's decision not to adjust these items on the basis that none are material individually or in aggregate. We will notify those charged with governance should any further items be identified prior to signing the financial statements.

No	Description of misstatement	Accounts affected	Income Statement		Balance Sheet	
			DR £m	CR £m	DR £m	CR £m
1	Use of risk free discount rate of 1.6% instead of 3.5% in the onerous lease provision calculation*	Finance costs Accruals, provisions and other liabilities		3.7		(3.7)
Total uncorrected misstatements				3.7		(3.7)
Impact on 'investments' column				3.7		
Impact on 'trading' column				-		

*This adjustment is currently based on the existing onerous lease model provided by management. We expect the impact of this will change when management provides us with a final version (see page 7 for further details).

Appendix 3: Summary of corrected misstatements

The corrected misstatements of greater than £490,000 which have been identified during the course of our audit are set out below. Management has corrected these in their financial statements. We will notify those charged with governance should any further items be identified prior to signing the financial statements.

No	Description of misstatement	Accounts affected	Income Statement		Balance Sheet	
			DR £m	CR £m	DR £m	CR £m
1	Reclassification of Camelot stock to prepayments	Inventory Prepayments			6.2	(6.2)
2	Reclassification of assets under construction not in the correct asset category	Tangible assets Intangible assets			2.1	(2.1)
Total corrected misstatements					8.3	(8.3)

Appendix 3: Required communications to those charged with governance

Required communication	Audit plan	Year-end report	As required
Copy of engagement letter to those charged with governance	✓		
Independence and objectivity confirmation	✓	✓	
Detail of all non-audit work performed by the firm worldwide and related fees		✓	
Nature and scope of work together with timing of expected reports	✓		
Expected modifications to the auditors' report		✓	✓
Uncorrected misstatements		✓	
Material weaknesses in internal control identified during the audit		✓	
Views about the qualitative aspects of the entity's accounting practices and financial reporting		✓	
Matters specifically required by other ISAs to be communicated to those charged with governance	✓	✓	✓
Final draft of representation letter			✓
Any other audit matters of governance interest	✓	✓	✓

We have prepared this report solely for the use of Post Office Limited. This report forms part of the continuing dialogue between the Group and us and therefore it is not intended to include every matter, whether large or small, that has come to our attention. For this reason, this report should not be made available to third parties, and if any third party were to obtain a copy without prior written consent, we would not accept any responsibility for any reliance that they might place on it.

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEEPAGE 1 OF 1
DECISION PAPER

External Auditor Re-Appointment

Author: Elizabeth Hallissey, Senior Assistant Company Secretary
Meeting date: 29 May 2019

Sponsor: Veronica Branton, Head of Secretariat

Executive Summary

4.5

Context

The Company's external auditor, PricewaterhouseCoopers LLP were appointed by the Board on 31 July 2018.

In accordance with the Companies Act 2006, Section 485, an auditor must be appointed for each financial year of the Company, within the period for appointing auditors. It is proposed that the auditor remains PricewaterhouseCoopers LLP, and approval is sought to satisfy the Companies Act 2006 requirements. The Terms of Reference include a duty that the Committee will review and recommend to the Board the nomination or discharge of the independent external auditors.

The period for appointing auditors is either 28 days after the statutory financial statements are filed at Companies House, or 28 days after the end of the period for filing accounts.

The directors have authority to appoint an auditor of the Company, in accordance with the Companies Act 2006, Section 485 (3). Additionally, the Companies Act 2006, Section 487 requires that the auditors must be re-appointed by the directors annually.

This annual re-appointment will be included on the forward agenda for the Committee and the Board, to coincide with the consideration and recommendation of the annual statutory financial statements.

Contractual Arrangements

The contract between Post Office Limited and PricewaterhouseCoopers LLP commenced on 1 October 2018, initially for 2 years until 1 October 2020. There is an extension option for a further 2 years until 1 October 2022. 3 months' notice is required to agree the 2 year extension, and should be confirmed by 1 July 2020.

Input Sought

The Committee is requested to consider, and if thought fit, approve the recommendation to the Board the appointment of PricewaterhouseCoopers LLP as the external auditor for the Company for the financial year 2019/20, effective on the date the Companies' statutory financial statements for the current period are filed at Companies House.

Strictly Confidential

POST OFFICE
AUDIT AND RISK COMMITTEE

PCI Compliance Status Update.

Author: Liz Robson
Date: 17th May 2019

Sponsor: Rob Houghton

5.1

Executive Summary

Context

Further to the update on the PCI Programme that was issued to ARC on the 25th April 2019, this paper provides a progress update, specifically on the alternative approach to process banking and retail transactions, the progress of the Point-to-Point Encryption (P2PE) deployment across the pin-pad estate and the overall plan timeline to achieve full PCI compliance.

Questions this paper addresses

1. What is the progress of the alternative technical design to simplify the processing of banking and retail transactions from the pin-pad?
2. What's the status and outcome of the data audit?
3. How will we change our operating model to ensure process/procedures are in place to maintain PCI compliance?
4. What is the overall timeline for achieving full PCI compliance, including progress of the Point-to-Point Encryption (P2PE) deployment?

Conclusion

1. The alternative design is progressed enough with Ingenico, Fujitsu and Vocalink to know that it is technically feasible and we can proceed to detailed design and implementation. The advantage of this approach, whilst delaying us, saves considerable effort, both unknown and known, in making the POL environment PCI compliant with Fujitsu and avoids costs in the future data centre cloud migration.
2. The data audit is 85 % complete, with the outstanding actions to be completed by the end of May. The findings have so far identified low or no instances of PCI-related data. The low number of occurrences found have been in the Office 365 area, held within emails or documents. Remediation actions have been to delete this data and educate users to prevent future occurrences.
3. Our operating model will be updated to include the necessary processes and procedures to monitor and manage ongoing adherence to PCI regulation. These will identify and impact assess any future changes in PCI scope, and maintain periodic scanning of our systems estate to assure no further instances of PCI-related data being held.
4. We need to do more work on the detailed design planning with Ingenico, on the alternative design, to get a better estimate of the dates. Current plan shows 2Q/2020 to 4Q/2020 with more work being done to narrow this down.

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Page 1 of 4

ARC PCI-DSS Paper

Context

1. We have three transaction types that are within scope of PCI compliance:
 1. Retail transactions: for payment transactions via credit card
 2. Banking transactions: for cash withdrawals, balance enquiries, pin changes and deposits
 3. Bill payments and non-chip and pin transactions (for example, scanning barcodes to pay utility bills – the barcode can often include PAN number for use in transaction execution)

2. Our solutions to ensure PCI compliance are:
 - 2.1 Point-to-Point Encryption (P2PE) at the point of entry into our estate: the pin-pad devices in branch. The rollout of P2PE across the estate is underway with the agreed plan for shipment, firmware upgrade and in-branch device swap-out agreed and progressing with delivery partners, Ingenico and Computacenter/Buybox.
 - 2.2 A joint solution with Ingenico, Vocalink (Santander) and Fujitsu that will see all transactions (banking and retail) be directed from the pin-pad through to an Ingenico Cloud solution (Axis) for onward transmission to the Banks via the Vocalink/Santander networks for banking, and to Global Payments for retail transactions. Our Quality Security Assessor (QSA) has indicated that the new solution is an improved route to pursue than the previously proposed approach.
 - 2.3 Client engagement (e.g All4One) to see changes to their cards to include PCI compliant account/customer numbers; a proposal to manage prepay card transactions as per banking transactions; a review of all card data ingested by swiping the card at branch, to identify any further product amendments that may be required to ensure PCI compliance.

3. The delivery of these solutions will enable POL to achieve the Reports of Compliance required as Merchant and Banking Services provider.

4. The Data Audit of our systems estate has progressed with our key vendor partners – Fujitsu, Accenture, Computacenter and Atos. The work is now 85% complete overall. Fujitsu and ATOS have completed their work and the outstanding activity remains with Computacenter and Accenture, which will be completed by the end of May. The results of the systems scans so far have revealed low or no instances of PCI-related data. Where any instances have been identified, e.g. in MS365 emails/documents, steps have been taken to remove the data and educate users to prevent future occurrences.

5. The PCI Programme includes a work-stream of activity focused on the Target Operating Model, to ensure we have the processes and procedures in place to monitor and manage our ongoing adherence to PCI regulation. This will include the remit to notify any changes to PCI scope as a result of any future version change and to assess the impact to systems and processes in order to maintain compliance. Ongoing periodic scanning of our systems estate to identify instances of PCI-related data will also be included in the future processes.

5.1

6. The overall timeline to achieve full PCI Compliance – that is, receiving Reports of Compliance for both Merchant and Banking services - is forecast between Q2-Q4 2020, based on all the estate being primed for activity by the end of 2019. Whilst the deployment of P2PE is understood and underway, we have still to finalise the development and deployment timeline of the new solution with Ingenico and Vocalink – this is an entirely new development for Ingenico and we are working with their senior team to influence their prioritisation and allocation of key resources to the development of this solution.

Current status

5.1

1. Alternative Banking Services Solution:

- 1.1 Since the update at the end of April, the team have worked closely with Ingenico, Vocalink and Fujitsu to successfully complete a feasibility review and high level design on a solution that removes the requirement for POL systems to process PCI data.
- 1.2 Once deployed, this solution will ensure that from the point of pin-pad entry in the branch environment, both banking and retail transactions will be processed through the Ingenico Cloud service, for onward transmission to either Vocalink/Santander networks for banking, or Global Payments for retail transactions.
- 1.3 The transaction information will still be registered in POL back-end systems for reconciliation purposes, but as this data is not under PCI regulation, this alternative approach effectively removes POL back-end systems from PCI scope. This reduces the PCI compliance footprint across our overall systems estate now and in the future.
- 1.4 The team are now at the detailed design stage and we are engaging with the senior team at Ingenico to influence their prioritisation of this work – specifically, as early inclusion in their product development timetable as possible, and the allocation of key development resources to achieve a timely delivery of the solution.

2. Point-to-Point Encryption Deployment

- 2.1 Work to deploy Point-to-Point Encryption (P2PE) to our pin-pad estate continues with partners, Computacenter/Buybox and Ingenico. The deployment timetable will see the upgrade to pin-pad firmware and device swap-out in branch run from September 2019 to March 2020. Timelines are based on lead-time for Ingenico to order hardware to support the rollout, the pin-pads being shipped back to Ingenico for the PCI compliant software to be installed and the devices redeployed back to all our branches.
- 2.2 Having been informed that the PCI accreditation of the version of the Pin-Pad device we have in our estate expires in the next 12 months, we have taken steps to agree with our acquirer, Global Payments, to extend the accreditation of this version of the device, such that once it is accreditation tested, it will be covered to 2023. The accreditation cover comes with the proviso that no further software changes are made to the Pin-Pad device beyond P2PE – there are no plans currently in place for any further software updates. This approach has now been ratified by Global Payments with Visa and Mastercard.

- 2.3 In the meantime, the Branch Device Strategy review and paper will advise on the future Pin-Pad device for our branch estate, along with other devices, such as Paystations. An update is expected by the end of May to advise on this.

3 PCI Card Data Scan

- 3.1 Fujitsu – complete. Results indicate a small known number of reported instances of card data. With Fujitsu. Likely little remediation needed outside of AP-ADC which we are pursuing separately
- 3.2 Accenture – Common Digital Platform (website) scan complete and all remediation activities have been successfully completed. Scanning of back office environment due to conclude by the end of May.
- 3.3 Computacenter – to be completed by the end of May. The majority of databases have been scanned, with the few remaining to be completed shortly. The results so far show there is no card data held in the databases. The scan of unstructured data files has identified 339 instances of card data – emails and documents within Office 365 – remediation has been to delete the data and educate users not to hold PAN data.
- 3.4 Atos AP-ADC scripts – complete. 65 instances of the 1300 scripts scanned. The team will now analyse the results and confirm if processes (systems/people) need to be adjusted to ensure PCI-related data is handled in a compliant way.
- 3.5 The team continue to engage with both our Quality Security Assessor (QSA) Nettitude and our Acquirer, Global Payments to ensure our remediation activities will result in required Reports of Compliance.

5.1

Cyber Security Update

Author: David Meldrum Sponsor: Rob Houghton Meeting date: 29th May 2019

Executive Summary

Context

In this paper we outline the progress we have made with the Security Strategy that was shared with ARC in January 2019, incorporating the findings from the Deloitte Cyber Security Maturity review. We provide an update on the remedial activities following the security incidents that occurred at the start of the year. The paper also outlines the vulnerabilities that were discovered during the penetration testing of the Payzone environment and the identified remediation activities to remediate those vulnerabilities.

5.2

Questions this paper addresses

- What progress have we made on implementing the Security strategy?
- What have we done to improve our cyber security maturity following the Deloitte assessment?
- What is the progress of the implementation of Archer?
- What further remedial activities have we carried out as a result of the security incidents at the start of the year?
- What vulnerabilities were discovered during the penetration testing of the Payzone environment and what is the plan to mitigate them?

Conclusion

1. We continue to make progress on our Security Strategy. We have incorporated the findings from the Deloitte review and the focus continues on the 3 identified areas of improving the reach and capability of the SOC; improving our Data Security posture; and improving the governance around our 3rd parties with regards to Cyber Security.
2. We have agreed a number of actions and a targeted security maturity position over the next 12 months with Deloitte.
3. RSA Archer has been implemented for use on the SOC and the rollout of the additional risk modules including third party assurance and top-down risk will commence in June.
4. We have documented and implemented a Cyber Security Incident Response Team (CSIRT) capability. The process and team has already been created to minimise the impact of security incidents by identifying the approach for preparing, identifying, containing, eradicating and recovering from security incidents. The CSIRT process was followed during the NCSC password incident that occurred in February, and the Payzone security incident following their initial Pen test results.
5. IRM have completed a planned penetration test in the Payzone environment including infrastructure, devices, applications and the network devices. A risk treatment plan has been created for all actions required as a result. The progress to close all issues identified is well underway and reported and reviewed on a weekly basis. It is anticipated that all action will complete by the end of 2019.

Input Sought

The ARC is requested to note the progress made and provide feedback on the report.

Report

What progress have we made on implementing the Security strategy?

1. We have improved the coverage and capability of the new security operations centre (SOC). Work is ongoing with Payzone, Post Office Insurance, Accenture CDP, Branch Hub and Fujitsu to plan and design the integration of their security logs with the Post Office SOC. These areas will be on-boarded over the coming months increasing the visibility for the Post Office Security team across the Post Office estate. Security alerts will be managed and co-ordinated through the Post Office SOC invoking the CSIRT (Cyber Security Incident Response Team) process where required.
2. At the last ARC meeting, we discussed the c140k of unstructured Data files we discovered during scans of our O365 environment using new data discovery tools that were being tested, which equated to 8% of the estate with c10% of all files containing data that could be viewed as being sensitive (e.g. documents that are classified as confidential or highly confidential). Investigation of the files highlighted that this data were files such as word documents, spreadsheets and presentation documents. Further review indicated that this is in line with most organisations, and the documents were being shared with critical suppliers who are governed by contracts to ensure they protect our data. To further assure and protect unstructured Data sources, we have commenced work to more effectively manage this data by discovering the data business owners for each data asset, and validating and classifying this data. This work will include setting validation metrics on all unstructured data sources to ensure there is no transfer of sensitive data. This work is expected to be completed by September 2019.
3. Whilst we have commenced regular Security reviews with our major suppliers to assure they are governing themselves we will in addition be implementing the RSA Archer Third-Party Risk modules in June to improve the overall visibility of our Third-Party vendor risks. The questionnaires that were completed initially in OneTrust by the suppliers and the manual reporting that has been used will be ported into RSA Archer to ensure one source of the truth for the Third-Party security risks.
4. We have recently implemented Recorded Futures as our Threat Intelligence partner which provide additional Third-Party Risk scores that can be used within RSA Archer.
5. Tony Jowett has been recruited as CISO (Chief Information Security Officer) and started on the 21st May 2019. Tony has obtained insight into the Post Office as he was part of the Deloitte audit team that performed the cyber security maturity assessment earlier this year. He will report directly into Rob Houghton (Chief Operating Officer) and his remit will be to pull together the disparate information and cyber security teams into one operational organisation. He will also work with the project teams and the Third-Party Supplier teams to ensure the delivery of all aspects of the Security Strategy through the IT Security Transformation Programme.
6. The following table shows the progress that has been made with the various Security Strategy initiatives:

Initiative	Time Line	Status	Outcome
Recruitment of CISO	January –May 2019	Completed	Recruitment of Group CISO to provide added focus on end to end security activity
Recruitment of Programme Manager	April 2019	Completed	Recruitment of Programme Manager to drive the IT Security Transformation Programme
Multi-factor authentication	November 2018	Completed	Ensuring all remote login's to Post Office environment requires a multi-factor authentication code

Tab 5.2 Security Update

Security Operations Centre Go-Live	November 2018	Completed	Centralised security management into joint Verizon / Post Office Security Operations Centre
Recruitment of SOC Lead	January 2019	Completed	Recruitment of Post Office SOC Lead to drive continual improvement
Creating Post Office CSIRT	March 2019	Completed	Cyber Security Incident Response Team to manage security incidents and issues
Password Audits	December 2018 – March 2019	Completed	Proactive cracking of Post Office password directory to identify scale of issue with weak internal passwords
Disabled all users with weak Passwords	December 2018- April 2019	Completed	Disabling all users found to have a weak password. Being reviewed on a weekly basis.
Password Strength Tool Deployment	Go Live March 2019	Completed	Subsequent deployment of password strength tool, enforcing use of strong passwords
Microsoft Advanced Threat Analytics	Commenced February 2019	Inflight	Security insight on employee office 365 security – multiple logins in different locations, login whilst on leave etc
Threat Intelligence Platform	April 2019	Completed	Replaced Digital Shadows with Recorded Futures for an improved Threat Intelligence
zScalar SSL Interception	June 2019	Inflight	Interception of Encrypted traffic to determine if Post Office data is being removed from the environment
Data Discovery Phase 1	February 2019	Completed	Proactive scan of our active directory and share point environment to identify scale of unstructured data
Data Discovery Phase 2	April 2019	Inflight	Wider scan and auto-classification of data based on the results of Phase 1
Proactive Phishing Campaigns	February 2019	Continuous	Measuring the susceptibility of Post Office user base to simple phishing campaign
Red Teaming exercise	October 2018	Completed	Proactive Ethical hacking exercise simulating internet-based attack of Post Office
Deloitte Audit	January onwards	Completed/Ongoing	End-End Security assessment against industry standards and reviewing progress made in 2016 Deloitte Audit
Symantec Endpoint Protection Upgrade	Commenced February 2019	Inflight/Complete End of May 2019	Improving and updating the anti-virus and laptop protection suite for Post Office end users
Culture and Communications	January 2019	Ongoing	Regular messaging from Post Office leadership highlighting expectations around key security themes
Data Security Transformation Programme	December 2019	Inflight	Launched to deliver holistic data classification, protection and management
Third-party governance commenced	January 2019	Ongoing	Measuring and managing the compliance of our 3 rd parties to internal security policies and standards
Security Enterprise Risk Management	February 2019	Completed	Quantifying and managing residual risk to report to ARC
Data Loss Prevention Suite (DLP)	Commenced April 2019	Business Case Approved/Inflight	To automatically prevent the egress of confidential or sensitive data from Post Office
Data Classification Tool	Commenced April 2019	Business Case Approved/Inflight	Users will be forced to security classify documents before they can save/print – enabling the DLP tooling
Security Operations Centre Enhancement	Commenced April 2019	Business Case Approved/Inflight	Ensuring full coverage of all critical systems and services in the SOC
Archer Risk Management Platform	Commenced April 2019	Business Case Approved/Inflight	Expanding the current use of Archer within the SOC into wider security management like 3 rd Party assurance

5.2

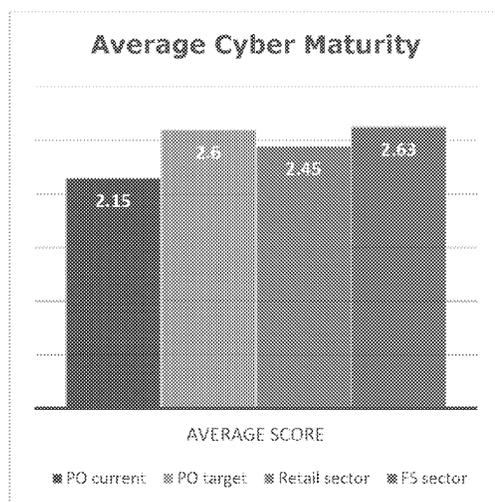
What have we done to improve our cyber security maturity following the Deloitte assessment?

- In December 2018, the POL Board commissioned Deloitte to assess the maturity of Post Office's Cyber Security capabilities. The review was carried out in two phases. Phase one enabled rapid reporting of provisional maturity scores to the ARC in January 2019. Phase two involved an in-depth validation of maturity, the development of detailed recommendations for each area and allowed POL

to select maturity targets through discussions with Deloitte. The review covered 34 cyber capabilities across 4 top level domains:

- a. **Governance** – how the organisation is set up to address cyber security.
 - b. **Secure** - what proactive protection is in place to defend against cyber threats.
 - c. **Vigilant** – how the organisation detects malicious, unknown or unauthorised activity.
 - d. **Resilient** – whether the organisation can respond quickly and appropriately when a risk materialises.
8. Deloitte leveraged their Cyber Security Framework (CSF) and supporting tool to provide an objective and repeatable assessment of cyber maturity. Strong buy-in and support from the business, in particular the IT Security, IT Risk, Information Protection and Assurance, and Physical Security teams allowed Deloitte to quickly identify relevant information and provide a focused analysis of strengths and opportunities. Deloitte concluded that Post Office has made significant progress over the last 12 months in developing its IT and information security capabilities. Increases in maturity scores between phases one and two of this review confirmed progress made in the first 3 months of 2019. Nevertheless, a total of 224 recommendations were identified across 34 cyber domains to improve the Post Office cyber maturity to the agreed Target maturity.

5.2



9. Phase two of the assessment identified that Post Office cyber maturity had increased 12% from phase one and our current cyber maturity is 83% of our target maturity.
10. Deloitte identified 10 overarching actions that would have the most significant impact in moving Post Office towards its chosen target cyber security maturity level and would reduce the overall cyber risk. The following actions were identified as a priority, with a target date of the end of May for completion, and we are currently on track to meet this deadline:
- a. Create a prioritised list of “crown jewels”
 - b. Agree target maturity levels for all Cyber Security Domains (complete)
 - c. Perform a gap analysis between the IT Security Transformation Programme (ITSTP) and the recommendations from this review
 - d. Update the ITSTP to address any gaps from the gap analysis

11. Work has already commenced on the other 6 overarching actions that have a target date later in the year to ensure we remain on track to adequately improve the security posture within the agreed timeframes.
12. Internal Audit will have the responsibility to test and sign-off the remediated actions to ensure the controls have been implemented correctly and are working. This will be an ongoing process as actions are remediated.
13. An initial analysis was performed on the findings and recommendations in the report and 24% of the capabilities, where a maturity shortfall was identified, are covered by other areas of the business, however we will track these capabilities to ensure those areas of the business focus on the remediation tasks necessary to improve security within their area. The plan is to achieve the PO target maturity within the next 18 months.
14. The prioritised list of crown jewels will permit Post Office to ensure focus on the correct areas of the business to assess the critical data to ensure it has the correct security controls in place to appropriately protect it. This work has already commenced through the Data Governance and GDPR projects.

What is the progress of the implementation of Archer?

15. The Security Operations Centre (SOC) Analysts continue to use the platform for managing security incidents that are raised from the Post Office Security Information and Event Management (SIEM) tool.
16. Discussions and workshops have been held between the Risk function, IT Security and RSA Archer. An agreement has been reached that Archer will be rolled out for Governance, Risk and Compliance (GRC) and all the commercials have been signed-off. We will commence the implementation of the third party assurance, security controls assurance and top-down risk modules in May 2019.
17. The implementation of RSA Archer will be performed by an RSA business partner who are subject matter experts in the implementation and configuration of the tool. There will be two tracks of work that will be executed in parallel:
 - a. The first track will implement and configure the Top-Down Risk module which will be used by the Risk function to document risks and controls throughout Post Office
 - b. The second will implement Third-Party Risk and IT Controls Assurance allowing the IT Security function to appropriately govern our third party suppliers, documenting their risks and ensuring adherence to Post Office policies and standards. All third party suppliers' contracts existing and new will include (where they do not already) that they must comply with Post Office policies and standards including remediation and audit rights if they fail to comply with the Security standards

What further remedial activities have we carried out as a result of the security incidents at the start of the year?

18. Building upon the Security Operations Centre (SOC) we have created the CSIRT (Cyber Security Incident Response Team) Plan ensuring Post Office is prepared to react and manage Cyber Security incidents in an effective and efficient manner. This will be tested regularly both internally and with suppliers to ensure all areas responsible for Security at Post Office are fully prepared to respond to incidents.
19. At the end of December 2018 we were alerted to 50 PO accounts being available, through an Iranian state exploit of multiple companies, by the National Cyber Security Centre (NCSC). All 50 accounts had weak passwords and as users continue to be our greatest threat we have now implemented the Microsoft Password Strength tool which checks the strength of a users' password and blocks them from changing it to a weak one.

20. NCSC have completed investigations on the Post Office cyber-attack in December and did not find any evidence to indicate any further breaches and are satisfied with the remedial actions that Post Office have implemented to prevent similar attacks in the future. The NCSC have also agreed to Post Office's revised legal consent letter with regards to future data exchanges which will permit a quicker engagement and support from the NCSC if necessary.
21. We have implemented the services of Recorded Futures as a Threat Intelligence platform that has replaced Digital Shadows. Recorded Futures use machine learning and natural language processing to enable it to perform automated collection and processing of data at massive scale enabling them to provide alerts in matter of minutes rather than days. They also provide real-time contextualized intelligence highlights on our third parties alerting when they have vulnerabilities or actively under attack which in turn could affect Post Office.

5.2

What vulnerabilities were discovered during the penetration testing of the Payzone environment and what is the plan to mitigate them?

22. IRM were contracted to perform a penetration test of the Payzone environment to identify security vulnerabilities that could pose a risk to the business and included the following areas:
 - a. Internal infrastructure
 - b. External infrastructure
 - c. Branch devices
 - d. Android tablets and applications
 - e. Network device configuration
 - f. Build reviews
23. During the above testing a number of high priority issues came to light concerning patching of servers, use of unsupported operating systems, and weak security controls around tablets and applications. In response to this a security upgrade plan has been formulated in conjunction with Payzone and IRM. Whilst these remediation efforts continue on plan to complete by October, enhanced transactional and financial monitoring has been put in place by Payzone to mitigate the risks associated with these vulnerabilities in the interim.

Risk, Compliance and Audit Report

Author: Jenny Ellwood, Jonathan Hill, Johan Appel Sponsor: Jane Macleod Meeting date: 29 May 2019

Executive Summary

Context

This paper provides an update on the key and emerging risks and issues the Post Office is managing and an update on the latest Audit position.

Questions this paper addresses

- What are the key risks facing the business and what is being done to address these?
- What are the emerging risks we face in both the short and medium term and what are we doing to address these?
- What are key compliance issues and what is the business doing to address these?
- What is the forward-looking regulatory agenda?
- What progress has been made with the internal audit plan and what key messages have been reported?

6.1

Conclusion

- Within this paper there are two 'red' principal risk categories within the heatmap relating to three key risks namely PCI, Information Security and the GLO (see appendix 1). In terms of Brexit, the risk of a 'No Deal' has been receded to 31 October and confidence has increased in terms of how we would manage a 'No Deal' scenario. That said, the extension and the problems faced in agreeing a deal does increase the possibility of a General Election and a change in Government.
- Within ARC reporting there are separate papers on the following key risks: PCI, and Cyber Security. Additionally within the Board reports the postponement of Belfast Exit is covered and an update item on the GLO.
- In terms of emerging/future risks the paper notes the challenge of people risks following recent and planned structural and organisational design changes. Additionally, we are maintaining a watching brief on the Loyalty Super Complaint. Whilst the outcome is still awaited, Ofcom have unveiled new rules requiring broadband, phone and TV firms to inform customers of their best deals.
- Funding has been approved for Archer (GRC Tool). A project team has been stood up and we are now drafting a roadmap and plan for implementation. A full update will be given in July.
- Within the Compliance dashboard (appendix 2) there are no 'red' areas identified this reporting period. We have the received the Ofcom Text relay investigation request and we are preparing our response. HMRC has confirmed that branch registration will increase from £130 to £300 per annum which is expected to have a significant impact on our annual renewal fees on 1st June.

- A further 7 internal audits reports have been issued, with no adverse (red/amber) ratings. The last 7 reports are in final stages of being cleared with management. No audit actions are currently overdue.
- The Cyber Security maturity assessment has concluded that Post Office has made significant progress over the last 12 months in developing its IT and information security capabilities. Actions are already underway to address gaps in 76% of the capabilities, where a maturity shortfall was identified.

Input Sought

There are no decisions required at this time. The Committee is requested to note this paper.

The Report

What are the key risks facing the business and what is being done to address these?

1. There are two areas reported 'red' on the heatmap status: Legal and Regulatory and Strategic (see appendix 1). A principal risk on third parties is now incorporated and has been populated for each Business Area.
2. PCI remains a 'red' risk and a separate paper provides the latest position. We will continue to report until we gain confidence in solution and timeline.
3. IT Security's 19/20 Security Improvement Plan is progressing. A separate paper provides further detail.
4. In relation to Payzone a risk relating to general security controls is being managed following the results of a planned Penetration test of their devices and front-end Network. It flagged that the device used to make bill payments was insecure and could be manipulated by testers. The risk relates to all devices, however they would have to be individually compromised and this significantly reduces the risk of a single coordinated attack across Payzone's payment network.
5. A comprehensive remediation plan is in flight to address the vulnerabilities in order of their criticality. It is likely these actions will continue until October 2019. Work is also underway to assign a Risk Business Partner from the Central Risk team to support Payzone to implement risk management practices aligned to the Post Office Framework.
6. Under Legal and Regulatory elements of the heatmap, the Banking Director has reported there has been heightened interest from the banks regarding cash withdrawal card transactions. Point of sale card transactions carry a merchant charge whilst cash withdrawal card transactions do not. The latter also creates an increase in remuneration for the Postmaster. Given this there is a risk the transactions may not be processed correctly by the Postmaster. Work is underway to assess the volume of potential transactions processed incorrectly and further communications and training are in development.

6.1

7. In terms of Litigation risk, a range of workstreams are being mobilised as part of an Operations Transformation Programme. The programme is organised into 4 value streams to reflect the end to end lifecycle of an agent. A full business case is expected to be ready by the end of June.
8. The second High Court trial relating to Horizon is due to resume on 4 June and conclude week commencing 1 July. We have asked Deloitte, who have a team with relevant experience in crisis preparedness and response work, to assist us prepare for a potentially adverse judgment on Horizon issues.
9. In the January 2019 ARC, the Central Risk team was asked to consider the severity of AML and whether this would lend itself to be listed separately from Financial Crime as a principal risk on the heatmap. There has been significant improvements to the control environment for AML which is now rated 'amber.' These improvements include stronger mandatory Compliance training and monitoring and profiling of 'bureau de change' data. Given this we recommend not to separately categorise AML at this time.
10. In terms of Change, the overall status of the portfolio is unchanged at 'amber'. By P12, actual realised benefits for 2018/19 were £37.5m (6.7% below baselined plan). The overall portfolio continues to be prioritised to ensure benefits over the next 3 years are secured. By P12 actual 2018/19 investment was 'amber'. Although the end year position was in line with the revised 9+3 forecast it actually exceeded the original 2018/19 budget. Portfolio prioritisation for 2019/20 has been revisited to ensure there is appropriate focus on GLO outcomes along with recommendations from the McKinsey work on a new target operating model.
11. There is a risk that some branches may fail the Fit & Proper (F&P) test or fail to respond to the required registration requests. Resulting in us switching off Forex capability, which may adversely impact POL and FRES revenue. This risk is currently scored at 5:3. Work is underway to reduce this risk by tackling those agents that process the most FC business and to improve communications and escalation processes. The outstanding returns volumes will be provided at the meeting.
12. A summary of the current key 'Platinum and Gold' change programmes and their current reporting status is provided at Appendix 3. 7 projects are reporting 'red' RAG status. Key ones are:
 - Back Office Transformation (All RAG statuses 'red'): An update is provided in the Board CEO report.
 - Data Analytics (Benefits and Risk 'red' RAG): Programme funding significantly reduced in prioritisation. Programme is now being changed with data governance and MI moving into BAU and work is underway with POI to deliver a POL-wide 'Data Lake' architecture. This is to be scoped within 6/2019 which will improve the RAG rating.
 - PCI Compliance (Benefits, Delivery, and Risk 'red' RAG): A separate paper provides an update on this programme.

6.1

What are the emerging risks we face in both the short and medium term and what are we doing to address these?

13. There have been significant people changes in critical roles and further organisational design changes are planned. A paper on succession planning is being presented to the Board in May to consider capacity required from GE-1 to step into such roles. We will further consider whether there are any wider risks from the changes, particularly from a governance perspective.
14. In terms of the political landscape, Brexit continues to create uncertainty and the possibility of a General Election is still being discussed. The Communication Workers Union and Democracy Collaborative presented a report to the Labour Party around developing a new public Banking Ecosystem'. This report has been reviewed to identify the risks this may create to Post Office and its strategy. Those which would most significantly impact our strategy and operating model include:
 - creation of Post Bank to provide a full range of retail banking services through the Branch Network (PO products would be transferred to Post Bank); and
 - Post Bank would be separate legal entity that will pay an annual access payment to Post Office for use of assets.
15. In April, Treasury launched a consultation outlining how ministers will introduce a £95k redundancy cap on pay outs for public sector workers. Post Office are taking part in the consultation and are lobbying to be excluded from these arrangements.

6.1

What are key compliance issues and what is the business doing to address these?
Telecoms Compliance Text Relay

16. Ofcom has now issued a formal information request notice to support its investigation into the text relay issue and we are working with Fujitsu to ensure we meet Ofcom's requirements. Ofcom has recognised the actions we have already taken to fix the text relay calls issue, our commitment to reimbursing impacted customers and that we have self-reported, which is anticipated to help reduce any penalty the regulator may seek to impose. Further reductions may be offered through a possible early settlement agreement. We have made a £200k provision based on Legal advice and comparison with penalties Ofcom has imposed on other firms.
17. We will be compensating customers. Fujitsu is producing the data extract to enable us to identify impacted customers.

Telecoms Complaints

18. The customer complaints data for Q3 18/19 was published by Ofcom in mid-April and shows that Post Office continues to be under the industry average for both landline and broadband.
19. Ofcom has published its Comparing Service Quality Report, which shows that Post Office has one of the shortest call waiting times in the industry. However, it has also reported that Post Office landline customers are most likely to have reasons to complain but this is based on data from December 2017 and does not reflect the improvements made: Between Q4 2017 and

Q4 2018, we have seen our Ofcom complaints for our Landline service drop by 62%, bringing us below the industry average.

Data Protection

20. At the end of 2018 we were alerted by the National Cyber Security Centre (NCSC) to 50 Post Office accounts being available through an Iranian state exploit of multiple companies. On notification all 50 accounts were all locked down. They had very weak passwords, which we have now strengthened. The NCSC has advised it is satisfied that there was no evidence of a further hack and is satisfied with our protection measures against a repeat event.
21. In February Verizon Cyber Risk Program advised Post Office that a collection of 29 billion stolen users' credentials (usernames and passwords) had been published in the Dark Web in January. 40 appeared to be from Post Office. Sky News reported this, highlighting that Post Office (and other companies) were affected. However, there has been no noticeable increase in requests as a result.

6.1

Information Protection Assurance Compliance

22. We are preparing for our next ISO27001 audit due in June, to be conducted by Lloyds Register. We do not anticipate any issues will be raised at this audit.¹

Compliance with Money Laundering Regulations

23. Between 25th February and 23rd April 2019, 68 new Bureau de Change non-conformance cases were identified. During the same period 81 open cases were resolved, of which 24 related to customers who had purchased in excess of €15k in 90 days, which breached the regulatory limit and mitigating actions have been taken.
24. At the beginning of April, the Data Centre of Excellence provided resource to resolve the outstanding issues with the Bureau de Change transaction monitoring system and to develop the additional reports agreed with HMRC. Good progress has already been made with some minor issues rectified and some of the new reports built and tested.

Anti-Bribery and Corruption ("ABC")

25. ABC training completion is at 98%. Monitoring continues around the reporting of Gifts and Hospitality and errors and non-conformance are still being identified. A further communication has been issued about not accepting cash. The Financial Crime team will commence monitoring the Selenity expenses report in Q1 to help identify any further potential discrepancies.

¹ The ISO27001: 2013 is an international standard for Information Security enabling Post Office to demonstrate ongoing commitment to information and cyber security. It is an operational requirement to be certified the UKVI service.

Whistleblowing

26. No material issues to report. Analysis of February's Whistleblowing survey has been undertaken and we are now working with HR and a newly formed Ethic's Code of Business Task Force on how to promote the key messages and improve the service.

Fit and Proper (F&P)

27. MI on our data gathering progress is being collected weekly and shared regularly with HMRC. As a result, HMRC has agreed to an extension to September 2019 should we need it. However we are still working to achieve the June target.
28. The Commercial Partners have continued to assist in obtaining complete returns. For returns for Non-Commercial Partner, a Chesterfield team (13 FTE) has cleared a backlog of c.1000 responses and are focusing on outbound phone contact with Agents who have submitted partial responses, or raised queries. Network Area Managers are also providing support.
29. Reminders have been sent to non-responders, although those now constitute a small proportion of the at-risk income, compared to the partial responses. Efforts remain prioritised on those Agents with the highest at-risk income.
30. Alongside the data gathering, a bulk revoke and reinstate solution for branches is in development. The technical solution will be supported by governance and processes will be in place to decide whether services will be revoked and how changes will be communicated (i.e. data supply to the correct stakeholders, communications to affected Agents and briefing to and preparation for impacted POL business areas - e.g. NSBC).
31. Even though progress with returns may support deferring the deadline for revoking branches' Travel Money capability, the project team is working to prepare the revoke and reinstate functionality and the supporting process model so that it is ready ahead of the June HMRC report production cycle.
32. We wrote to HMRC in March setting out our legal view in relation to the F&P requirements for Officers in Charge/Agent Branch Managers (a requirement that would have given rise to significant additional cost). HMRC has now replied, accepting our view but has reserved the right to review the position regarding staff undertaking branch management roles as part of any future compliance activity and may require us, in specific instances, to submit their details as part of the agent list.

6.1

Financial Crime Regulation

33. We have received confirmation from HMRC on 4 April that branch registration fees are increasing from £300 per annum from 1 May 19 (150% increase). The payment for this year increases to £3,194,700 from £1.4m in 18/19. Corporate Affairs has already reached out to BEIS and ongoing discussions continue internally between the Legal and the Travel Money teams to consider whether we have a right to appeal and next steps.

34. HMT has published the consultation paper on the transposition of 5MLD into UK law. We have until 10 June to respond and are engaging with product teams including Travel Money, Moneygram, Insurance, e-Money, Giftcards and eKYC for Identity.

Financial Crime External Threats

35. A meeting was held with Santander's MLRO to discuss the ongoing concerns with the continuing high levels of Financial Crime investigations predominately relating to business cash deposits. Santander advised that they are currently testing whether they can restrict the daily amount their customers can deposit over Post Office counter which should reduce the risk to POL.

Financial Crime Internal Threats

36. Financial Crime risk assessments and re-assessments have been completed for 30 products and services. No major internal threats have been identified, and the outcomes have been shared with the Central Risk team to ensure that any risks are identified and reflected in functional RACMs. The Partner Banking Framework Services reassessment is expected to be completed by the end of May.

6.1

Supply Chain Compliance

37. 4 audits were completed in the three months to April. 14 Improvement Needs were identified, with a combined audit score of 28, averaging 3.5 Improvement Needs and an audit score of 7, which is fractionally higher than the rolling average for all Supply Chain sites keeping them in the Satisfactory category for both measures. No significant or recurring issues.

Notification of Approved Person for Financial Services

38. Following his appointment as Interim Chief Executive; Al Cameron has agreed to be the FCA Approved Person in respect of the Appointed Representative Function (CF3 Chief Executive AR) for BoI and POMS. A briefing in respect of the duties and responsibilities of an Approved Person was provided by the Compliance team. The requisite notifications for approval will be made to the FCA via our two Principals who will also meet Al Cameron for separate briefing(s).

Credit Cards

39. We continue to work with our legal advisors, product teams and the new potential Principal on an Appointed Representative Agreement (ARA) with Cap One. This will also entail changes to the existing ARAs with BoI and POMS. As well as a new Multi Principal Agreement (MPA) between all the Principals. The MPA is to ensure that boundaries of regulatory responsibility are clear between Principals and are largely dividing responsibility along product lines.
40. Any new Principal agreement needs to be consistent with the approach taken with our existing regulatory Principals to ensure consistency of application and purpose. Following the agreement on the ARA we will need to put in place a Regulatory Guidance Manual with Cap One that outlines the key responsibilities PO has to put in place to maintain compliance.

Current Account withdrawal

41. The PO Money current account was withdrawn from sale in March and the existing 21,500 customers have been written to confirming that BoI is closing their account with closure aimed at 11th September 2019.
42. The communications plans for the withdrawal of sale of current accounts were agreed by the Compliance team. All 39 branches offering current accounts received a personal visit from a senior manager to explain the change and Horizon screens were updated to effect the withdrawal. So far we are unaware of any spikes in complaints related to this closure but it is early days.

Conduct Risk Mystery Shopping

43. Both video mystery shopping for Customer Relationship Managers and Counter mystery shops (non-video) are trending within appetite.

6.1

Network management changes

44. We are working with the Network and Network Operations teams on the changes they are making to their branch management approach, including CRMs. The aim being to maintain appropriate oversight and conduct management but reduce the burden on the network teams.

Vulnerable Customers

45. A series of 'One' communications have been being issued to raise awareness and flag sources of external support. The PO graduates are working on a branch check list initiative working with the Alzheimer's Society to help provide guidance to make Post Offices more dementia friendly. This was presented together with the Alzheimer's Society at the NFSP conference.
46. An external accessibility expert Kate Nash Associates is currently reviewing the PO Vulnerable Customer Policy for completeness. We hope this work will extend to gain an independent view on Post Office's vulnerability approach and how we can improve.
47. The new Vulnerable Customer e-learning Module and test was launched on 20th May. This will include communications and Team Talks for those that do not have access to Success Factors. The Alzheimer's Society has praised the work done "as a great example of Dementia Friends within an e-learning module".

Citizens' Advice (CA) Super Complaint to Competition and Markets Authority (CMA) relating to the 'loyalty penalty'

48. CA raised concerns in November 2018 about long term customers paying more for goods and services, which it refers to as 'the loyalty penalty'. CA had identified five key markets where it has concerns about the loyalty penalty: broadband, mortgages, cash savings, insurance, and mobile. The CMA has strongly supported the CA complaint and is pursuing actions via the different regulators.

Telecoms/Broadband

49. Ofcom had already planned to introduce end of contract notifications and annual best tariff reminders for customers who are out of contract. At the same time of the CMA announcement in December, Ofcom also announced that it is reviewing the pricing differential. Ofcom has expressed concerns about vulnerable customers who are out of contract and being charged high prices, with a particular focus on over 65s. We met with Ofcom in February as part of our on-going relationship and expressed concerns. Ofcom agreed that it shouldn't use such a broad brush to define vulnerability.
50. The Telecoms team has reviewed its pricing strategy and analysed competitors' responses. The current decision is to maintain the current approach until the direction of travel from Ofcom becomes clearer.
51. On 15 May Ofcom "invited" all telecoms companies to sign up to a voluntary commitment to a charter of 6 principles of "fairness" to customers, ahead of a launch event on 3rd June. The Telecoms and Compliance teams are reviewing our current position and what small changes may be needed to be fully compliant. We have also been made aware through an industry association we are members of (UCKTA) that the Vulnerable Customer commitments, which Ofcom has not yet published, may be challenging/inappropriate. As a result, we attended an Ofcom workshop on 17th May to understand what these are so that we can fully assess before we commit.

6.1

Mortgages, Cash Savings & General Insurance

52. There has been one development in this area since the last report: The FCA has issued new proposed rules to be in force by the end of 2019 on the "mortgage prisoners" challenge (customers that are up to date with their mortgage payments but cannot re-mortgage because they would fail FCA rules on eligibility). We will work with BoI to assess approach/impact of new eligibility rules and any new opportunities these may present.

What is the forward-looking regulatory agenda?

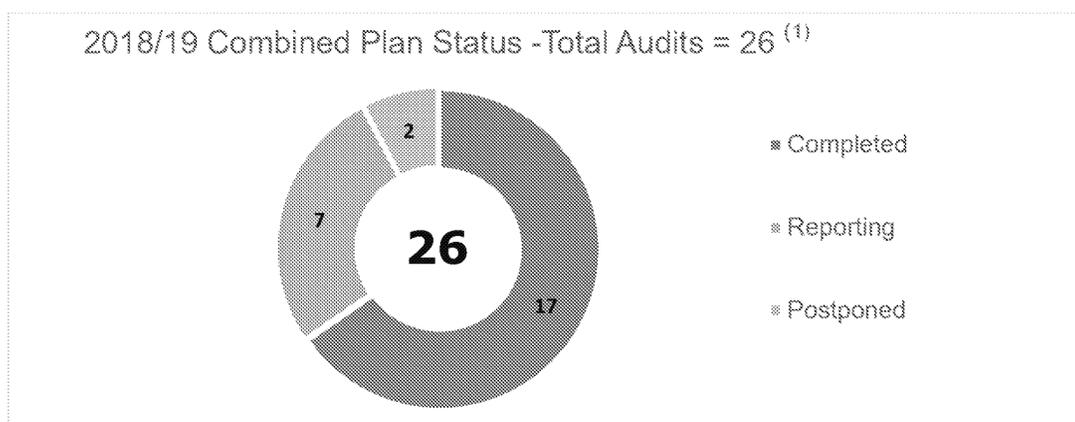
53. See appendix 4.

Internal Audit

What progress has been made with the internal audit plan and what key messages have been reported?

Progress against plan (2018/19):

- 54. We have made good progress clearing the backlog of audits, following the delays experienced in 2018. We will deliver 24 of the 26 reviews on plan. The remaining two reviews are change assurance reviews, which were delayed due to the change portfolio being reprioritised. These two programmes have been included in the 2019/20 change assurance plan.
- 55. Seven reviews have been finalised since the March ARC, with summaries included after paragraph 64. Current delivery progress is as follows:



6.1

⁽¹⁾ARC approved baseline plan for 2018/19 (16 core internal audit reviews & 10 change assurance reviews). A full summary of the 2018/19 audit plan status is included in the reading room.

- 56. The following seven reviews from the 2018/19 plan are still being finalised:

	Review	Status
1	Contract Management (IT)	Final draft with GE for comment
2	IT Control Framework	Final draft with GE for comment
3	Payroll	Final report being cleared by RCC
4	Payzone Integration (Panther)	Final report being cleared by RCC
5	Change Excellence (Follow-up)	Final report being cleared by RCC
6	P2C Belfast Exit	Final report being cleared by RCC
7	FS Training & Competence	Draft report

Progress against plan (2019/20):

- 57. The following reviews are being planned for Q1. A full summary of the 2019/20 audit plan status is included in the reading room):

	Review	Status	Timing
1	Pensions Process (Follow-up)	Fieldwork	07/05 – 24/05
2	Procure to Pay	Planning	03/06 – 28/06
3	Telco Billing Process	Planning	10/06 – 28/06
4	Payment Technology Upgrade (PCI Compliance) (Change Assurance)	Planning	Tbc (scope being re-defined)
5	Digitising Mails (Change Assurance)	Planning	17/06 – 05/07
6	POI – Change Capacity	Planning	17/06 – 05/07
7	POI – AR Oversight (Operating Effectiveness)	Planning	17/06 – 05/07

Changes to plan since March ARC meeting:

58. 2018/19 Plan: As advised at the March ARC meeting, two change assurance reviews have been delayed to 2019/20 due to the reprioritisation of the change portfolio (Digitising Mails & Payment Technology Upgrade (PCI)). Both are being planned for delivery in Q1.
59. 2019/20 Plan: There were no changes made to the 2019/20 audit plan, which was approved at the March ARC meeting (see reading room).

POI Audit Plan

60. POL Internal Audit is also responsible for delivery of the audit plan for Post Office Insurance (POI) with all audits being reported at the POI ARC. Progress with the 2018/19 audit plan is as follows:

Audit title	Status and Rating
Insurance Distribution Directive (IDD)	Complete - Needs Improvement
Oversight of Appointed Representatives	Phase 1: Complete - Needs Improvement Phase 2: Moved to Q1 2019/20
Product Lifecycle	Draft report
Nemesis (Programme assurance review)	Complete – Not rated
MI Key Interfaces	In progress

6.1

Status of Audit Actions:

61. Audit actions are generally being completed on time. As at 22 May 2019 there were 21 open actions, none of which were overdue.

Audit Action Status:

Open (not yet due)	21
Overdue (<60 days)	0
Overdue (>60 days)	0
Total	21

Reporting on Control Themes:

62. Given the high number of reports that are still being finalised, it is not yet possible to produce a meaningful mapping of audit findings against internal control themes. We will endeavour to report this information at the ARC meeting in July to provide coverage of the full annual cycle, with comparative results for the previous year.

Internal audit reviews completed

63. Since the March ARC meeting we have finalised the following seven reviews:
- Network Reporting
 - Financial Controls Framework
 - Cyber Security Maturity Assessment
 - Agent Remuneration
 - Client Settlements Process
 - Branch Hub / Agents Portal (Change Programme)
 - Digital Identity (Change Programme)

Our findings and observations from these reviews are summarised below, with the full reports included in the reading room:

Network Reporting (Ref. 2018/19-23)									
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; width: fit-content; margin: 0 auto;">Needs Improvement</div> <p>Sponsor: <i>Debbie Smith</i></p> <p>Audit actions:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr><td>P1</td><td style="text-align: center;">0</td></tr> <tr><td>P2</td><td style="text-align: center;">3</td></tr> <tr><td>P3</td><td style="text-align: center;">1</td></tr> <tr><td>Total</td><td style="text-align: center;">4</td></tr> </table>	P1	0	P2	3	P3	1	Total	4	<p>Post Office received a Network Subsidy Payment of [IRRELEVANT] in 2017/18, with £50m expected for 2018/19. Under the Funding Agreement, Post Office reports annually to the Secretary of State that it fulfilled its obligations around network numbers and delivery of services of general economic interest (SGEI).</p> <p>Internal Audit was asked by the Board to provide assurance over the process by which it produces its annual report to the Secretary of State. We reviewed the controls in place to ensure accuracy of the 2019 report as well as the proposed methodology change (to take effect from April 2019).</p> <p>The audit concluded that the process to calculate the reported numbers and the report itself are established and the audit did not identify any errors. The new methodology has been run in parallel with the current and management are satisfied that the intended improvements will be realised from April 2019.</p> <p>We have rated this report Needs Improvement as there are some process and control weaknesses that, if not addressed, may result in inaccurate reporting in future. These include deficiencies in the completeness of process documentation and audit trail retention, which management have agreed to remediate.</p> <p><u>Management Comment provided by Tom Moran</u> "Management are both in agreement with, and supportive of, the findings of the audit. During a time of change your recommendations to develop more robust documentation of the process is an important step and will be completed as a matter of urgency over the coming weeks. Overall, the process has been very helpful in identifying areas of improvement."</p>
P1	0								
P2	3								
P3	1								
Total	4								

6.1

Financial Controls Framework (Ref. 2018/19-21)									
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; width: fit-content; margin: 0 auto;">Needs Improvement</div> <p>Sponsor: <i>Al Cameron</i></p> <p>Audit actions:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr><td>P1</td><td style="text-align: center;">0</td></tr> <tr><td>P2</td><td style="text-align: center;">6</td></tr> <tr><td>P3</td><td style="text-align: center;">1</td></tr> <tr><td>Total</td><td style="text-align: center;">7</td></tr> </table>	P1	0	P2	6	P3	1	Total	7	<p>This audit covered 12 of the 17 financial processes in the Financial Controls Framework, with the remaining 5 processes being covered through separate deep dive reviews. The audit also assessed the effectiveness of the control self-assessment process through the TrAction system.</p> <p>We concluded that the controls within the framework continued to operate effectively for the most part. However, limitations with the TrAction system had impacted the effectiveness of some controls. In addition, preparation for the Back Office Transformation (BOT) programme impacted resource availability, which in turn, temporarily reduced the effectiveness of the 2nd line oversight and resulted in a lower controls maturity compared to previous years (71.8% controls were effective, vs. 78.8% the previous year).</p> <p><u>Management Comment provided by Michael Passmore</u> "The report is fair and representative of the system limitation issues experienced, which was highlighted at the time the system was chosen. The system limitations have caused significant manual workarounds to ensure accurate monitoring and reporting, and we are now investigating alternative solutions. Until such time we will focus on the issues we can address, increase manual workarounds and continue the education process to the business."</p>
P1	0								
P2	6								
P3	1								
Total	7								

Cyber Security Maturity Assessment (Ref. 2018/19-22)																			
<div style="border: 1px solid black; padding: 5px; display: inline-block; margin-bottom: 10px;">Not Rated</div> <p>Sponsor: <i>Rob Houghton</i></p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p style="text-align: center;">Average Cyber Maturity</p> <table border="1" style="margin: 5px auto;"> <caption>AVERAGE SCORE</caption> <thead> <tr> <th>Category</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>PO current</td> <td>2.15</td> </tr> <tr> <td>PO target</td> <td>2.6</td> </tr> <tr> <td>Retail sector</td> <td>2.45</td> </tr> <tr> <td>FS sector</td> <td>2.55</td> </tr> </tbody> </table> <p style="font-size: small;"> PO current PO target Retail sector FS sector </p> </div> <p>Audit actions:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="text-align: center;">P1</td> <td style="text-align: center;">10</td> </tr> <tr> <td style="text-align: center;">P2</td> <td style="text-align: center;">0</td> </tr> <tr> <td style="text-align: center;">P3</td> <td style="text-align: center;">0</td> </tr> <tr> <td style="text-align: center;">Total</td> <td style="text-align: center;">10</td> </tr> </tbody> </table>	Category	Score	PO current	2.15	PO target	2.6	Retail sector	2.45	FS sector	2.55	P1	10	P2	0	P3	0	Total	10	<p>In December 2018, the POL Board commissioned Deloitte to assess the maturity of Post Office’s Cyber Security capabilities. The review was carried out in two phases. Phase one enabled rapid reporting of provisional maturity scores to the ARC in January 2019. Phase two involved an in-depth validation of maturity, the development of detailed recommendations for each area and allowed POL to select maturity targets through discussions with Deloitte. The review covered 34 cyber capabilities across 4 top level domains:</p> <ul style="list-style-type: none"> • Governance - how the organisation is set up to address cyber security. • Secure - what proactive protection is in place to defend against cyber threats. • Vigilant - how the organisation detects malicious, unknown or unauthorised activity. • Resilient - whether the organisation can respond quickly and appropriately when a risk materialises. <p>Deloitte leveraged their Cyber Security Framework (CSF) and supporting tool to provide an objective and repeatable assessment of cyber maturity. Deloitte concluded that Post Office has made significant progress over the last 12 months in developing its IT and information security capabilities. Increases in maturity scores between phases one and two of this review confirmed progress made in the first 3 months of 2019. Nevertheless, a total of 224 recommendations were identified across 34 cyber domains – these are currently being analysed to identify any maturity gaps that are not yet addressed by the IT Security Transformation Programme (ITSTP). It is encouraging that actions to address 76% of the capabilities, where a maturity shortfall was identified, are already in progress or included within the ITSTP. We note that the top three areas of concern are actively being addressed by the ITSTP. These are:</p> <ul style="list-style-type: none"> • Phishing (clicking on malicious links and installing unauthorised software) • Password management (use of weak passwords) • Third party suppliers (implementing security and responding to incidents effectively) <p>Implementation of the 10 overarching actions, combined with a focus on addressing high priority actions as part of the ITSTP, will allow POL to make significant progress in reaching its target maturity levels. Follow-up maturity assessments will enable the business to track progress against targets and to address changes in the cyber security landscape.</p> <p><u>Management Comment provided by Mick Mitchell</u> “We accept the findings of this assessment. We also welcome the benchmarking and targets that have been set to judge IT Security maturity going forwards. This assessment gives a repeatable process and a clear and measurable focus for the future. It is also reassuring that the ITSTP already has a large section of the actions needed included. However, we will review this report and ensure we take further actions to progress towards the targets set.”</p>
Category	Score																		
PO current	2.15																		
PO target	2.6																		
Retail sector	2.45																		
FS sector	2.55																		
P1	10																		
P2	0																		
P3	0																		
Total	10																		

6.1

Agent Remuneration (Ref. 2018/19-19)									
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; width: fit-content; margin: 0 auto;">Needs Improvement</div> <p>Sponsor: <i>Debbie Smith</i></p> <p>Audit actions:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr><td>P1</td><td style="text-align: center;">0</td></tr> <tr><td>P2</td><td style="text-align: center;">4</td></tr> <tr><td>lastP3</td><td style="text-align: center;">5</td></tr> <tr><td>Total</td><td style="text-align: center;">9</td></tr> </table>	P1	0	P2	4	lastP3	5	Total	9	<p>The objective of this internal audit was to assess the design and operating effectiveness of controls in place over payments made to Post Office agents. Post Office has spent £365m on agent remuneration in 2018/19. Agent remuneration data was migrated from the SAP system to the Core Finance System (CFS) in February 2018 as part of the Back Office Transformation Programme. Agent details are maintained in and agent remuneration payments made through CFS. Agent remuneration is calculated monthly, based on rates stated in agent contracts. Controls over the payment of agent remuneration were found to be well established and generally effective, although some control weaknesses were identified and areas for improvement have been highlighted. Specifically the audit identified that:</p> <ul style="list-style-type: none"> • Balance sheet reconciliations had not been completed for October 2018 during a time of significant changes to the relevant teams and limitations in TrAction to transfer this control to the new owner (TrAction issues reported below in FCF audit). The control has since been reinstated. • Requests to change agents' bank account details were not always independently validated as the control was not designed effectively. • Inputs to the agent remuneration process come from several teams in different locations and there are opportunities to improve the collaboration between them. • There is an opportunity to systemise the majority of the underlying agent records (joiners, movers and leavers documentation) as considerable reliance is currently placed upon paper based records to provide a full audit trail.
P1	0								
P2	4								
lastP3	5								
Total	9								
<p><u>Management Comment provided by Tom Moran</u> "I am grateful to the IA team for conducting this audit and delighted to see such a positive assessment of Agent Remuneration, which is a direct reflection of the hard work of those responsible. I agree with and support the prompt implementation of the activities identified in the actions."</p>									

6.1

Client Settlements (Ref. 2018/19-20)									
<div style="background-color: #cccccc; border: 1px solid black; border-radius: 10px; padding: 5px; width: fit-content; margin: 0 auto;">Satisfactory</div> <p>Sponsor: <i>Al Cameron</i></p> <p>Audit actions:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr><td>P1</td><td style="text-align: center;">0</td></tr> <tr><td>P2</td><td style="text-align: center;">3</td></tr> <tr><td>P3</td><td style="text-align: center;">1</td></tr> <tr><td>Total</td><td style="text-align: center;">4</td></tr> </table>	P1	0	P2	3	P3	1	Total	4	<p>The Client Settlements process has changed significantly as a result of the Back Office Transformation Programme. The Client Settlements team currently services 220 clients, with payments to them totaling an average of £460m per week.</p> <p>We conclude that the implementation of BOT Systems went well and the controls over Client Settlements, both before and after BOT, were found to be well established and generally effective with particular emphasis on strong user access controls and segregation of duties. Although some areas for improvement have been highlighted, we have found the control environment to be acceptable and therefore we have rated this report 'Satisfactory'.</p>
P1	0								
P2	3								
P3	1								
Total	4								
<p><u>Management Comment provided by Michael Passmore</u> "I am pleased to see that we continue to maintain a strong controls environment and we will, of course, look to act on the recommended changes identified."</p>									

Branch Hub (Change Assurance) (Ref. 2018/19-15)									
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; width: fit-content; margin: 0 auto;">Needs Improvement</div> <p>Sponsor: <i>Rob Houghton & Debbie Smith</i></p> <p>Audit actions:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr><td>P1</td><td style="text-align: center;">0</td></tr> <tr><td>P2</td><td style="text-align: center;">6</td></tr> <tr><td>P3</td><td style="text-align: center;">4</td></tr> <tr><td>Total</td><td style="text-align: center;">10</td></tr> </table>	P1	0	P2	6	P3	4	Total	10	<p>Branch Hub aims to deliver a new digital channel enabling Agents 24/7 access to fundamental services. The programme aimed to deliver a Minimum Viable Product (MVP) to a subset of agents in October 2018, however, it experienced delays, re-prioritised deliverables and released a limited 'Alpha' pilot in Nov. 2018. The key contributor of the delay was the late agreement of the underlying solution architecture, impacted by the delayed agreement of Post Office's wider cloud strategy with Fujitsu. This change assurance review, adapted its focus and timeline to accommodate the re-plan, focused on programme initiation, requirements assessment, plan delivery of MVP and Alpha pilot.</p> <p>While we observed significant progress improving on the learning of previous digital deliveries, with an overall adequate governance and programme management, our review still highlighted weaknesses in programme benefit assessment, risk management, requirement capture and documentation, clarity over roles and responsibilities and lack of resources in the PM/PMO space. The scoped also needed to be reassessed and committed to.</p> <p>We have rated this report 'Needs Improvement' emphasising the ambition to drive immediate improvements as observed following the review. At January 2019 IC additional funding approval, a clearer roadmap of planned features and Agent adoption targets was submitted and the plan to address key noted deficiencies is well underway.</p> <p>We have also been working closely with SPO as the mitigation of issues would benefit from central guidance and procedures. Therefore some actions were elevated to portfolio level and are now part of the deliverables under Change Excellence.</p> <p><u>Management Comment provided by Andy Garner (Product Manager for Branch Hub)</u> "Branch Hub Digital Delivery team agree good progress is being made in embedding agile delivery methodology. It is recognised that the low level of Fujitsu agile maturity has held up our mobilisation of features however this and delivery performance is improving. It is accepted that the controls and processes need to be tighter around e.g. benefits management and risk management."</p> <p><u>Management Comment provided by Kevin McKay (Delivery Performance Manager, SPO)</u> "SPO recognise the need to drive improvements in agile adoption and use, and to provide tools and standard approaches to facilitate this. Whilst one action was already in progress and will be completed shortly, the other has been added to the backlog for P14 which runs from April to June 2019."</p>
P1	0								
P2	6								
P3	4								
Total	10								

6.1

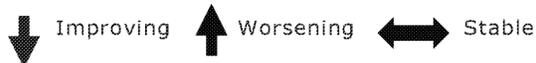
Digital Identity – Change Assurance Review (Ref. 2018/19-25)									
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; display: inline-block;">Needs Improvement</div> Sponsor: <i>Martin Edwards</i> Audit actions: <table border="1" style="margin-left: 20px;"> <tr><td>P1</td><td style="text-align: center;">0</td></tr> <tr><td>P2</td><td style="text-align: center;">8</td></tr> <tr><td>P3</td><td style="text-align: center;">1</td></tr> <tr><td>Total</td><td style="text-align: center;">9</td></tr> </table>	P1	0	P2	8	P3	1	Total	9	<p>Digital Identity is set to deliver a core digital identity platform allowing customers to set-up and maintain re-useable digital identities and query identity-related information via APIs, enabling a GOV.UK Verify market share increase; solutions for passport and employment vetting; and further developments of the digital business beyond 2019/20.</p> <p>The review assessed at an early stage of the programme, the effectiveness of the controls, focusing on initiation, requirements assessment and planned delivery of the core identity platform.</p> <p>We noted the programme was broadly being set up for success and we have observed multiple instances of good practice, however, we highlight that the programme was operating at risk as at the time of fieldwork it had not executed agreements with its key delivery partner Digidentity (Digi) (contract signed on the 29 April 2019). Furthermore, there is a risk the cost estimates of integrating the new HR Vetting and Passport Renewals service offerings with the wider Post Office’s systems being underestimated as they were based on a high level solution designs.</p> <p>Also, although piloting elements of Post Office’s revised Change methodology and following Agile delivery methods, it must factor into its ambitious delivery timescales, the limitations of solution providers and the wider Post Office in not completely adhering to Agile and not been able to operate at the same pace. Furthermore, it is currently relying heavily on contractors and needs to better plan for knowledge transfer and retention.</p>
P1	0								
P2	8								
P3	1								
Total	9								
<p><u>Management Comment provided by Martin Edwards</u></p> <p>"I welcome the conclusions of this Change Assurance Report, which as expected from an early stage review have highlighted both instances of good practice and some specific issues which need to be addressed. On the latter I can confirm that actions have either already been completed (such as signing the development contract with Digidentity) or are now underway (such as regularly reviewing resources, benefits projections and key indicators). The early stages of the programme were hampered by some specific resourcing challenges for key roles (both the programme manager and solution architect had to be replaced for differing reasons), but the core team is now in place enabling us to address the remaining issues highlighted by the report.</p> <p>More generally, the report highlights the tensions of attempting to run an Agile product development process when some of our external suppliers and internal approaches are still more aligned to traditional Waterfall approaches. We will continue to work with SPO to ensure the broader learnings from this experience are captured."</p>									

6.1

Appendix 1. Risk Heatmap

Principal Risks	Trend / Risk Green Status Expected Date	Retail	FS&T, Identity and POI	Finance (CFO)	Operations (COO)	Legal, Risk and Governance	IT	HR (incl. H&S)	COMM	ALL	May-'19 Comments	
Operational	Mar-'19						↑			n/a	Red – No high concerns reported in this area. There is one new key risk for Banking Services related to LINK Disaggregation, where LINK will stop supporting settlement by 1st July 2019. Options are currently being discussed to mitigate this risk.	
	May-'19	↑				↓	↔			n/a	Key Amber points – The Safety Compliance Top Risk remains 'Amber' as improvements to H&S training and compliance are ongoing. For Network Operations, work continues on creating a Branch Support Centre in Chesterfield to replace the current NBSC helpdesk model.	
Information Security	Mar-'19									n/a	Red – Whilst Info Security is not called out red, Cyber Threat will remain a focus area and forms part of our top-risk profile.	
	May-'19									n/a	Key Amber points – The Deloitte Cyber Report has now been published and remediation activities will continue throughout the year. The risk profile will remain 'Amber' until material changes in the remediation programme have been approved by Audit.	
Technology	Mar-'19									n/a	Red – No business area is currently reporting high concerns in this area. Retail continues to hold a key risk around the failure of IT infrastructure in branch, reflecting the importance to ensuring branches can continue to trade.	
	May-'19		↑				↑			n/a	Key Amber points – For FS&T, Identity and POI, the overall risk status has moved to 'Amber'. This is predominately to do with our legacy IT systems e.g. Horizon. Alongside this, the development of the Digital & Identity strategic plans are currently underway. For IT, CC have advised that the current version of software which connects service for branch and admin users is currently out of date. Priority to upgrade the critical services will be discussed at the architect review which is scheduled to take place this week.	
Third Party	Mar-'19	New risk subcategory to be assessed for RCC in May 2019.										Key Amber points – For FS&T there is one key risk over Telco Third party exposure. We are reliant on Fujitsu's guarantee that they are compliant with Regulations and Law. We are now in contractual negotiations and plan to start a tendering process. In IT, currently 3 contracts are out of support that could potentially impact the speed of resolution for incidents impacting Finance Operations (Credence/MDM application IBM support, Credence/MDM application Oracle support and SAP Business Objects). Remediation plans are under review.
	May-'19						↑			n/a		
Legal & Regulatory	Mar-'19	Re. PCI ↑	↑			Re. PCI ↑	Re. PCI ↑			n/a	Red - The risk score for PCI has remained the same. 80% of the data discovery is complete and is due to end by June 19. POL's current position is that there are two linked areas for the ROC; payments and banking. A plan to achieve both PCI Compliance has been communicated as November 2020, but work is underway to identify a more aggressive timeline. For Banking Services, there is one new key risk related to a non-conformance in cash withdrawal card transactions without advising or requesting the customer for approval. It helps the PM avoid a POS Merchant charge and instead creates a remuneration increase. A technical solution has been requested to Fujitsu/ATOS to eliminate the issue. FS&T Regulation remains a concern for Telco and this has moved the risk profile from Amber to Red, due to a key person dependency.	
	May-'19	Re. PCI ↑	↑			Re. PCI ↑	Re. PCI ↑			n/a	Key Amber points – For HR, 'Employment Practices' remains 'Amber', ER training will be piloted at the end of May and will roll out in June which should mitigate this risk. Will be unlikely to see actual risk benefits in the immediate term.	
	Risk Green Status Expected Date	Nov-20					Nov-20	Nov-20				
Financial	Mar-'19		↑							n/a	Key Amber points – In FS&T there is a key risk over O'com pricing differential review that remains a concern for Telco. Telco compliance manager met with O'com in March to lobby from Post Office point of view. Now awaiting consultation before commencing further lobbying. One key risk has been closed in respect of inadequate financial controls for FS&T. For IT, FY18/19 results closed at £91.8m, (£2.4m off budget). The cost challenges were due to delays in Project Everest Belfast Exit, savings expected through contract negotiations fell short of target and savings from networks migration lower than anticipate.	
	May-'19		↔							n/a		
Strategic	Mar-'19									Brexit	Red - 3 POL Top Risks (Retail) Proposition, (FS&T) Market Developments and Brexit implications. Work continues on developing the Retail Proposition to provide greater access to Post Office products and services. The Corporate & Market Developments risk remains Red. Projects and negotiations underway with BOI, RMG and development continues with digitisation for PO. Brexit - Confidence increasing into how we would manage contingency in the event of a 'No Deal', but political uncertainty remains.	
	Risk Green Status Expected Date	31-Oct-19	31-Oct-19							31-Oct-19		
People	Mar-'19		↔							n/a	Key Amber points – For the Digital Competency Risk, work is underway to support the Digital Workplace Programme (delivered by IT), whereby HR focus on development of Talent Acquisition and Development Programmes. Further review is required on the scope of this activity and feedback from a recent review by McKinsey being considered. In FS&T and Identity the impact classification has moved to 'worsening', due to the recent loss of colleagues across various businesses.	
	May-'19		↑	↓						n/a		
Change	Mar-'19									n/a	Key Amber points – In IT change portfolio prioritisation and execution continue the process of assessing the change agenda and determine IT priorities. Change portfolio tracking remains 'Amber' primarily because 18/19 secured benefits were 6.7% below plan and 18/19 investment was above original budget. 7 out of 37 'Platinum' and 'Gold' programme/projects reporting Red RAGs. These are Fit & Proper, Back Office Transformation, Data Analytics, Future of POCa, Digital Identity, Legal Entity Optimisation and PCI Compliance. Top 3 remain Portfolio performance, change work/force and business ownership. Significant independent ongoing review of programme risks logs – demonstrates broad compliance with standards but improvement required in specific areas.	
	May-'19									n/a		

6.1



Appendix 2: Compliance Heatmap

Sector	Current Assessment	Previous Assessment	Comment/Action
Telecoms Compliance			Ofcom has confirmed it is to investigate the Text Relay issue and we are supporting it with its information requests. We have signalled that we are open to exploring an early settlement, which was proposed by the regulator may be offered
Information Protection & Assurance			The data incidents previously reported have closed with little impact to Post Office. The DPO has returned to full time work following a long-term illness
AML/CTF			We have received confirmation from HMRC that branch registration fees are increasing from £130 to £300 per annum with effect from 1st May 19. This will have a significant impact on our annual renewal fees which are due on 1st June. HMRC has agreed our position on Officers in Charge and is comfortable with an extension up to beginning September for registering agents for fit and proper
Whistleblowing			No material issues to report. Analysis of February's Whistleblowing survey has been undertaken and we are now working with HR and a newly formed Ethic's Code of Business Task Force on how to promote the key messages and improve the service.
Anti-Bribery and Corruption			Starting in Q1, the Financial Crime team will monitor the Selenity expenses report quarterly and compare these against the quarterly Gifts & Hospitality report to identify any potential discrepancies
Supply Chain Compliance			14 improvement needs from 4 audits in the 3 months to April. No material issues - satisfactory overall
Financial Services Compliance and Conduct Risk			Within appetite overall, however, we are working with FS on strategic product change initiatives for credit card new providers and current account closure. This includes new Appointed Representative agreement and management of new regulatory Principal.
Vulnerable Customers			Alternative format literature provision-we are currently at the final stage of contract negotiation with an external provider. When complete this metric should move to green (expected end May)

6.1

KEY:

-  Material items of concern that require focussed remediation to ensure we stay within our risk appetite
-  Some items of concern that could breach appetite if they crystallise or are not managed
-  Within overall appetite

Appendix 3: Change Portfolio: Gold & Platinum programme/projects dashboard²

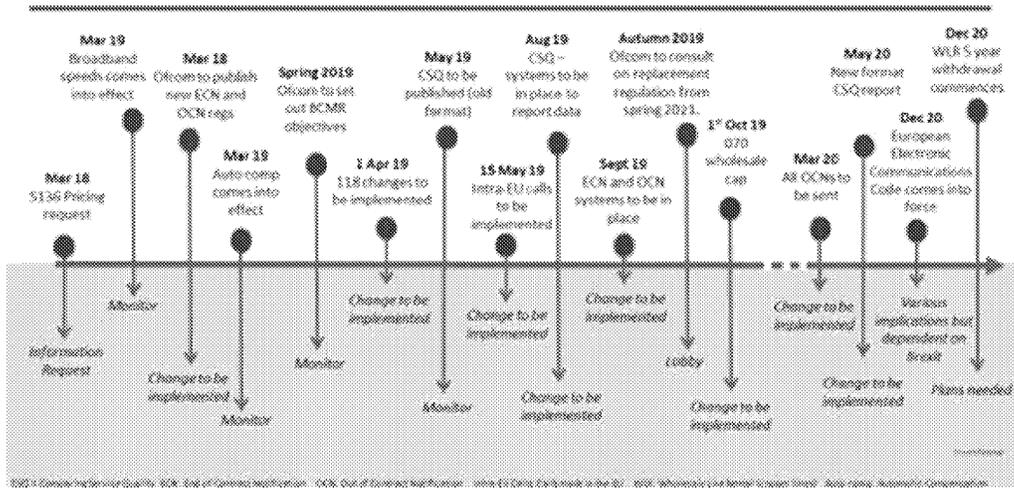
Business Unit	Project Name	Investment Type	RAG status				
			Cost	Benefits	Delivery	Risk	Overall
F&O	Process & Contact Centre	Cost Reduction	Amber	Green	Green	Amber	Green
F&O	Project Arrow -Data & Analytics	Strategic Enabler	Amber	Red	Amber	Red	Amber
F&O	Source to Settle	Cost Reduction	Green	Green	Green	Green	Green
F&O	Safe Haven Exit	Cost Reduction	Green	Green	Amber	Green	Amber
F&O	Future of Stock	Cost Reduction	Green	Green	Green	Amber	Green
F&O	Back Office Transformation	Cost Reduction	Red	Red	Amber	Red	Red
F&O	Branch Hub	Cost Reduction	Green	Amber	Amber	Amber	Amber
F&O	Agent On boarding	End-User experience	Green	Green	Green	Amber	Amber
F&O	Common Services	Strategic Enabler	Amber	Green	Amber	Amber	Amber
FS&T	Home Phone & Nuance	Cost Avoidance	Green	Green	Amber	Green	Amber
HR	Success Factors - Phase 2	Strategic Enabler	Green	Green	Amber	Amber	Green
HR	Blueprint	Cost Reduction	Green	Green	Green	Green	Green
Identity	Digital Identity	Strategic Enabler	Green	Green	Red	Amber	Amber
IT	PCI Compliance	Cost Avoidance	Amber	Red	Red	Red	Red
IT	Project Everest	Legal & Regulatory	Green	Green	Green	Green	Green
IT	Belfast Exit	Cost Reduction	Green	Green	Amber	Green	Amber
IT	Security Operations Centre	Strategic Enabler	Green	Green	Green	Green	Green
LRG	Legal Entity Optimisation	Strategic Enabler	Red	Amber	Red	Red	Red
LRG	Fit & Proper	Legal & Regulatory	Green	Amber	Amber	Red	Amber
LRG	General Data Protection Regulation	Legal & Regulatory	Amber	Green	Amber	Green	Amber
Insurance	Nemesis (Home)	Strategic Enabler	Green	Green	Amber	Amber	Amber
Insurance	Morpheus (Pricing / CVM)	Strategic Enabler	Green	Green	Green	Amber	Amber
Retail	POCA Implementation	Service Sustaining	Green	Green	Amber	Green	Amber
Retail	Horizon Integration Hub	Strategic Enabler	Green	Green	Green	Amber	Amber
Retail	Enhanced User Management	Legal & Regulatory	Green	Green	Green	Green	Green
Retail	SSK Trial	Strategic Enabler	Green	Green	Green	Green	Green
Retail	Network Development	Service Sustaining	Green	Green	Green	Amber	Green
Retail	Network Transformation	Service Sustaining	Green	Green	Green	Green	Green
Retail	Future of POCa	Revenue Generating	Green	Green	Red	Green	Red
Retail	Cheque Imaging	Legal & Regulatory	Green	Green	Amber	Amber	Amber
Retail	Crown Network Shape	Cost Reduction	Green	Green	Green	Green	Green
Retail	DMB Strategy	Cost Reduction	Green	Green	Green	Green	Green
Retail	Mails Multi-Channel	Revenue Protection	Amber	Amber	Amber	Amber	Amber
Retail	SSK Simplification	End-User Experience	Green	Green	Amber	Amber	Amber
Retail	Parcel Shop	Revenue-Generating	Green	Green	Amber	Green	Amber
Retail	Automated Locals	Revenue-Generating	Green	Green	Green	Green	Green
Retail	SSK Procurement	Cost Avoidance	Green	Green	Green	Amber	Green

6.1

² Data taken from Strategic Portfolio Office Change Monthly Executive Summary (P12) - April 2019

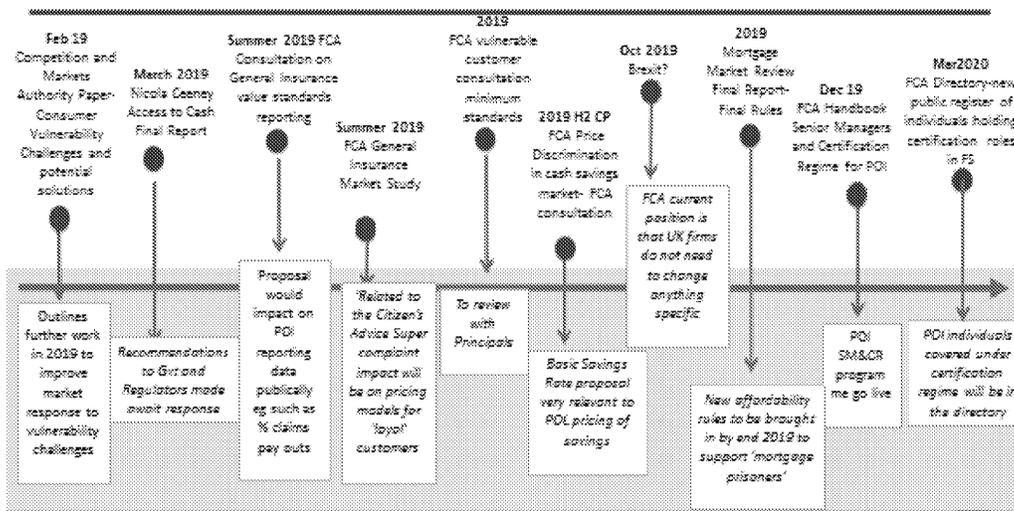
Appendix 4: Forward Looking Compliance Agenda

Post Office Telecoms Regulatory Calendar



6.1

Post Office Financial Services Regulatory Calendar



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ARC 29 May 2019

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AUDIT, RISK AND COMPLIANCE COMMITTEE

INFORMATION PAPER

Annual Report and Accounts 2018/19

Top Risks, Executive Declaration, and Risk Management Section for ARA

Author: Deana Herley

Sponsor: Jenny Ellwood

Meeting date: 29 May 2019

Executive Summary

Context

The purpose of this paper is to review and agree the draft principal risks in the Annual Report and Accounts (ARA) 2018/19. Updates have been made following a review of the Top Risks and Executive Declaration results. The Top Risks is a summary based on feedback from all GE members and is a consolidated view across the Post Office business. The Executive Declaration process enables members to consider (and attest annually) as a part of year-end procedures, if any additional disclosures are required to the principal risks to be included in our ARA.

6.2

Questions addressed in this report

- What is the current profile of our Top Risks in appendix 1?
- What are the outcomes of the Executive Declaration in appendix 2?
- Are the proposed Principal Risks as set out in appendix 4 the correct risks for inclusion in the ARA?

Conclusion

1. We have performed a robust and systematic review of our risks that we believe could have a material impact on the results, condition and prospects of Post Office. The proposed principal risks set out in appendix 4 are those which will appear in the ARA and have been drafted based on the position of Top Risks (appendix 1) and are supported by the Executives' Declaration results (appendix 2). We show the alignment of items to our priorities.

Input Sought

The Committee is asked to review the information provided in appendices 1-4:

- Agree proposed changes to our Top Risks;
- Note the Executive Declaration outcomes;
- Confirm the approach to ARA disclosure as set out in this paper; and
- Consider whether there are any other matters that should be included and reported against.

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The Report

What is the current profile of our Top Risks in appendix 1?

1. Since March ARC meeting, marginal changes have been made to the top risk profile (see appendix 1) which include the following:
 - We have 12 top risks. 1 risk has slightly increased relating to Technology and Business Interruption (Computer Centre automatic failover) has increased in impact (5-2 from 3-3) as a result of being unable to automatically failover to the 2nd datacentre. Manual failover is possible however, and as there have been few historic events which have led to a failure so probability reduced but impact increased. The likelihood of the Group Litigation risk has increased to a 3 (possible) from a 2 (unlikely), impact remains as a 5 (5-3). All other risks (10) have no changes to impact and probability scores.
 - Top Risks considered as key are disclosed generically in the Risk Note section of the ARA, as summarised in appendix 4.

6.2

What are the outcomes of the Executive Declaration?

2. The Executive Declaration returns have been reviewed for materiality and consistency against Internal Audit and wider Business Assurance reviews, resulting in 17 items being disclosed with 8 items of materiality (29 items disclosed and 14 of materiality last year) being summarised in appendix 2 including:
 - 1 item of material significance that will be disclosed as a contingent liability re – Post Office Group Litigation.
 - 7 items are to be disclosed generically in the Risk Note section of the ARA.
 - Outputs (7 items) requiring an accounting judgement to determine the need for any adjustment have been reviewed by the Finance Director.
 - 2 items were also considered by the GE owner, but were determined as being not material or sufficiently addressed by other generic disclosures.
3. There has been a direct correlation in the number of items reported with the maturity of our risk reporting processes (Incident Reporting, Exceptions, Complaints, and Risk Registers, including identification and reporting).

Are the proposed Principal Risks as mapped in appendix 4 the correct risks for inclusion in the ARA?

4. The proposed wording around the 'Management of Risk' which will be included in the ARA is set out in appendix 3 and principal risks (appendix 4) proposed for ARA inclusion and have been drafted based on the position of Top Risks (appendix 1) and are supported by the Executive Declaration outcomes (appendix 2). The arrows indicate risk movement.

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Appendix 3: 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 better managing 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 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 GE. The RCC reviews the effectiveness of the risk management framework and management of principal risks. The outputs reported as necessary to the ARC.

6.2

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 GE 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 risk 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 overtime, as we progress with the North Star strategy and business plan, 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. Litigation is also new, due to the change in posture. The level of risk has increased for the Economic and Political

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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 this principle risk is improving. 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.

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Appendix 4: 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		
<p>Dependency on Strategic Relationships</p> <p>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.</p> <p>We work with our partners to align our direction and interests to enable us to meet evolving customer and market requirements and any misalignment.</p>	<p>Not achieving our strategic ambitions, losing revenue and market share.</p>	<ul style="list-style-type: none"> • 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.
<p>Retail Proposition</p> <p>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.</p> <p>We continue to review and develop our proposition to enable us to continue to successfully deliver our social purpose, which addresses the impact of:</p> <ul style="list-style-type: none"> • increased high street costs; • ongoing move to online; and • a decline in traditional income streams. 	<p>Inability to meet our network commitment, and consequent adverse impact on delivery of our social purpose and consequential financial impacts.</p>	<ul style="list-style-type: none"> • We are continuing to open branch locations where there is a customer need, adding 328 '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 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. • We are developing 15 pilot locations for Post Office Parcel Shop and are continuing to develop automated locals, with the first proof of concept branch.

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<p>Economic and Political Environment</p> <p>Current uncertainties in the external political, economic and social environment could have a detrimental impact our strategy and operating model significantly:</p> <p>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 aspect 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 will change in favour of a Labour agenda, with significant implications for the business.</p> <p>Examples include the implementation of Labour’s proposals for the renationalisation of Royal Mail Group, and the creations of a Post Bank.</p>		<p>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.</p> <p>Disruption to operations (customs labels in branch, accessibility issues for supply chain)</p> <p>Financial resilience of our postmasters and suppliers.</p> <p>Retention of skilled labour and recruitment.</p> <p>New income streams failing to grow.</p>	<ul style="list-style-type: none"> • 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’.
<p>OPERATIONAL AND FINANCIAL RISKS</p>			
<p>Health and Safety</p> <p>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.</p> <p>A health and safety incident or failure could result in serious injury, ill health or loss of life.</p>	<p>NEW</p>	<p>Exposure to significant costs for reimbursement for damages and remediation, operational disruption, prosecution and reputational damage.</p>	<ul style="list-style-type: none"> • 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 monitoring of 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.

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			<ul style="list-style-type: none"> 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.
TECHNOLOGY AND INFORMATION SECURITY RISKS			
<p>Technology, Business Interruption and Cyber</p> <p>Post Office is dependent on the continued effectiveness, availability, integrity and security of its information systems and associated infrastructure.</p> <p>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.</p>		<p>Direct impact on our network availability and reliability resulting in adverse customer service and financial performance and/or reputation.</p> <p>A cyber-attack could threaten the confidentiality, integrity and availability of our systems.</p>	<ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> increasing capability within our security operations; and cultural awareness around data protection.
LEGAL & REGULATORY RISKS			
<p>Group Litigation</p> <p>Post Office Limited is the defendant in <i>Bates & Others v. Post Office Limited</i>, Claim Nos.HQ16X01238, HQ17X02637 & HQ17X04248</p>	NEW	<p>Legal findings and court orders which have an adverse impact on financial performance and/or reputation.</p>	<ul style="list-style-type: none"> Post Office has instructed specialist legal advisors to advise on and conduct its defence of the litigation, subject to senior management oversight.

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<p>in the High Court of Justice, Queen’s Bench Division (“The Post Office Group Litigation”).</p>			
<p>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.</p>		<p>Fines, penalties, litigation and a resulting adverse impact on financial performance and/or reputation.</p>	<ul style="list-style-type: none"> • 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.

6.2

Appendix 1

POST OFFICE

GROUP RISK PROFILE - May 2019

Post Office Top Risks

Business Area	Principal Risk	GE Risk Owner	#	Risk Description	Inherent Risk Score (I/L)	Key Controls in place	Controls Effectiveness Score	Residual Risk Score (I/L)		Movement	Rationale for Movement / Mitigation Plan
								Mar-19	May-19		
IT	Information Protection & Regulatory Compliance	RH	6	<p>PCIDSS The 2017 PCI Audit identified a number of Audit Actions across 3rd party IT suppliers which are "not yet compliant". Failure by Post Office to address these findings and provide a robust plan to resolve the actions (within an estimated timescale of 12 – 24 months) may result in challenges during external audits, operating restrictions or financial penalties from partners, require remediation activities and attract unbudgeted remediation costs.</p>	5 - 3	<p>IT Project in place to address the requirements for certification.</p> <p>Formation of PCI Steering</p> <p>Stop, Start, Continue assessment has been completed to identify forward plan</p> <p>Potential plans to certification have been reviewed.</p> <p>Gap Analysis has been completed to identify a potential reduction in scope and deliver a Mediated RoC</p>		4 - 4	4 - 4	➔	<p>Rationale for Movement The risk position has not changed since our last report, and it remains as 'High, 16'. From a risk perspective, we can report that 80% of the data discovery is complete and is due to complete by June 19. Positively, there have been minimal instances of card data held across the network. The conclusion of the discovery will define PO's PCI scope. The current position is that there are two linked areas for the ROC, payments and banking. Both require remediation to become PCI Compliant. A plan to achieve both has been communicated as November 2020, but work is underway to identify a more aggressive timeline.</p> <p>Mitigation Plan 1) Principle design 2) Customer transactions being remediated - Retail transactions – for payment transactions via credit card 3) Customer transactions being remediated - Banking transactions – for cash withdrawals, balance enquiries, pin changes and deposits 4) Customer transactions being remediated - Bill payments and non-chip and pin transactions – for transactions where a customer wishes to pay a utility bill for example, the barcode on the bill is scanned and this often includes the PAN number for use in transaction execution 5) Deployment has commenced and pin-pads will be shipped back to the supplier, Ingenico. The PCI compliant software will be installed and the devices redeployed back to all our branches over a period of 7 months. 6) Eliminate PAN data from Post Office back end systems 7) PCI Card Data Scan 8) Pre-Pay and Post Office Branded Cards 9) External Client and Branch Communications</p>
Retail	Competitiveness, Market and Customer Relevance	DS	7	<p>Retail Proposition Post Office's retail value proposition becomes insufficiently attractive to retailers which results in shrinkage to our branch network and breach government commitments. This is potentially compounded by increased costs associated with Brexit.</p>	5 - 4	<p>The Retail Strategy presented to the Board in June contains three pillars of activity, particularly better franchise relationships, which will address this point. Also close account management of government relationship through regular updates on network numbers and trends.</p>		5 - 3	5 - 3	➔	<p>Rationale for Movement No change in the risk score this quarter.</p> <p>Mitigation Plan Work continues on developing a new segmented proposition tailored to Agents and provide greater access to Post Office products and services through a range of devices owned and operated by retailers, customers and the Post Office. A technical proposition tailored to our multiple partners is due to be rolled out this quarter to enable Lottery sales on retailers' tills. Other developments in this quarter include 15 pilot locations for Post Office Parcel Shop due to go live in June 2019. Work also continues on automated locals, with the first proof of concept branch expected to go live in June 2019.</p>

Post Office Top Risks											
Business Area	Principal Risk	GE Risk Owner	#	Risk Description	Inherent Risk Score (I/L)	Key Controls in place	Controls Effectiveness Score	Residual Risk Score (I/L)		Movement	Rationale for Movement / Mitigation Plan
								Mar-19	May-19		
LCG	Litigation	TBC	1	P.O Group Litigation Adverse outcome from current Group litigation.	5-3	- PO has in place a Steering Group with attendees from across the business with appropriate level of seniority to ensure that the resource, decisions, materials and documentation necessary for PO to be able to robustly defend its position are available to it; - External Legal Team (including Senior Counsel) keeps PO's position in the litigation under constant review; - A Board Sub Committee has also been established to oversee the litigation and respond to its risks; - Contingency Planning work is also undertaken to respond to the litigation risks.	5	4-3	5-3		Rationale for Movement / Mitigation Plan Judgment on the first 'common issues' trial was given on 15 March 2019, and made findings adverse to Post Office's interests and business as usual operations. Therefore the risk score has moved to 5x3 this refresh. Mitigation Plan Post Office has instructed specialist legal advisors to advise on and conduct its defence of the litigation, subject to senior management oversight.
IT/LCG	IT Security / Information Protection & Regulatory Compliance	RH	4	Cyber Threat We have critical IT Security exposures highlighted by a third party (Deloitte) review across our security infrastructure. These relate to firewalls, pen testing and out of date infrastructure. We have mobilised a Security Transformation programme to mitigate this risk. Failure to adequately deploy and effectively manage data protection policies, standards and controls within the business and our partners/ suppliers, results in a breach of company data (colleague/ customer).	5-5	Internal - eLearning Module. - Information Security Governance. - Information Security Culture Campaign. - Engagement initiatives and targeted learning sessions in design and communications planned. External - IT Security polices have been refreshed and communicated - SOC Programme underway - Supplier Security meetings - Digital Shadows deployment providing cyber intelligence	3	4-3	4-3		Rationale for Movement No change in the risk score this quarter. In December 2018, Deloitte began the Cyber Maturity Audit. This has delivered a maturity report and recommendations for improvement over 34 domains. It is important to note that approximately 76% of the recommendations were already in the IT Security Improvement Plan for 19/20. Activities to resolve the recommendations have already commenced and are being tracked by Risk and Audit. IT have confirmed that the new CISO will start in May. Mitigation Plan 1) Increase the capability and cultural awareness around data protection 2) Improve the management and assurance of our third party suppliers 3) Extend the coverage and capability within our security operations 4) Continue to extend Cyber security operations to ensure we have the necessary defence mechanisms in place to protect and react to any Cyber security exposures 5) Password strength tool implemented 6) Address and remediate all Deloitte security findings
Operation (COO)	BCP (excl ITDR)	RH	1	DR / BCP plans Limited DR/BCP plans, largely untested increase the impact of systems and site loss.	4-4	High level plans in place for Chesterfield and Bolton. Work area recovery tests for both Chesterfield and Bolton in April 2018 partially successful.	4	4-3	4-3		Rationale for Movement No changes to the risk rating, work remains ongoing, awaiting confirmation of contingency plans. Mitigation Plan The risk of business interruption due to inadequate BCP arrangements is unchanged from Q4 (4x3) reflecting incomplete DR testing at Chesterfield and Bolton and the need to install IT infrastructure in Swansea before Swindon can be tested.

Post Office Top Risks											
Business Area	Principal Risk	GE Risk Owner	#	Risk Description	Inherent Risk Score (I/L)	Key Controls in place	Controls Effectiveness Score	Residual Risk Score (I/L)		Movement	Rationale for Movement / Mitigation Plan
								Mar-19	May-19		
HR	Develop, Inspire and Grow	MK	6	<p>Digital Competency Failure to attract, retain and build the appropriate competence to address challenges posed by digital disruption shall lead to loss of customer base, fundamental disruption to the business model and eventual rapid decline of the business.</p>	4 - 4	<p>Providing digital tools in the workplace (Ben Cooke): Digital Workplace Programme</p> <p>Building capability and competency to use digital tools: a) Digital learning strategy in place; b) Providing skills through blended e-learning and F2F sessions across the business; c) SuccessFactors e-learning in place; d) Digital Stars network provides peer support (Yammer/Teams/training sessions).</p> <p>Attracting appropriately skilled talent (Sean): a) Working with CIO to identify additional channels to attract talent; b) Technology Graduate Programme launched.</p>	7	3 - 4	3 - 4	➡	<p>Rationale for Movement No change in the risk score this quarter.</p> <p>Mitigation Plan 1) A review has been undertaken by McKinsey who evaluate the current programme of work and inhouse capability to deliver the digital competency and the output of the review is being discussed. 2) Recruitment is underway for the new Digital and Innovation board (c15 new roles).</p>
FS&T	Competitiveness, Market and Customer Relevance	OW	7	<p>FS&T Market Developments/ Competition Post Office faces both threats and opportunities to income from our competitive market place. Post Office operates under an extensive regulatory environment, covering areas such as financial and post services, telecoms, procurement and competition law and data security. This environment continues to evolve, we need to ensure that changing requirements continue to be identified and met. Failure to implement an effective strategy in response to these emerging markets, new entrants, market agility, business model changes, could result in our customer experience, propositions and channel strategy failing to deliver what customers want.</p> <p>We have difficult and uncertain negotiations with BOI, RM and Fujitsu within the 2018/19. Negotiations with key partners has</p> <p>IRRELEVANT</p> <p>Brexit has made the economic outlook even more uncertain. Low growth and confidence over spending will have negative impacts on our product areas in mortgages, insurance travel, savings and international parcels.</p>	5 - 3	<p>FS & T - Board and GE sign off on strategy agreed and being implemented.</p> <p>PO Money - Negotiations with BOI are ongoing - Head of terms agreed and working on contractual amendments. Digitisation -offer digital services including POGO & Digital Remittances.</p> <p>Telecoms - Agency initiatives to improve remuneration and incentivising them to sell product. Brand and market awareness.</p> <p>POI - Project NIKE currently underway.</p> <p>Strategic relationships and project delivery are key to product offering and growth for instance, Royal Mail Group and Bank of Ireland (UK) plc. Misalignment of strategic direction and focus with a partner could result in products that do not support our growth strategy or meet our customer or market requirements.</p> <p>Innovation - Digitation is changing the way consumers manage their finances and purchases. CHUB now moved into BAU and further development may be considered 2018/19(Mails on hold at present). New Post Office essentials app went live in April 2019.</p>	7	4 - 3	4 - 3	➡	<p>Rationale for Movement No change in the risk score since last review.</p> <p>Mitigation Plan Actions being taken are as follows: 1) PO Money - Negotiations with BOI are ongoing. Head of terms agreed and working on contractual amendments. Digitisation -offer digital services including POGO & Digital Remittances. Diversity of PO Money products through different product providers. 2) Telecoms - Agency initiatives to improve remuneration and incentivising them to sell product. Brand and market awareness. 3) POI - Project NIKE currently underway. 4) Strategic relationships and project delivery are key to product offering and growth for instance, Royal Mail Group and Bank of Ireland (UK) plc. Misalignment of strategic direction and focus with a partner could result in products that do not support our growth strategy or meet our customer or market requirements. 5) Innovation - Digitation is changing the way consumers manage their finances and purchases. CHUB now moved into BAU and further development may be considered 2018/19 (Mails on hold at present). New Post Office essentials app went live in April 2019.</p>

Post Office Top Risks											
Business Area	Principal Risk	GE Risk Owner	#	Risk Description	Inherent Risk Score (I/L)	Key Controls in place	Controls Effectiveness Score	Residual Risk Score (I/L)		Movement	Rationale for Movement / Mitigation Plan
								Mar-19	May-19		
ALL	Strategic	GE	1	<p>Appropriate actions for Brexit risks have not been considered Brexit impacts and opportunities has been considered across PO, and appropriate actions and remediation activities are in development. A risk remains that Brexit could have a detrimental impact to PO's strategy, operations and infrastructure which are more prevalent in a 'no deal' decision.</p>	4-4	<p>Senior Management liaise with Government representatives on a periodic basis to ensure they are aware of the latest developments.</p> <p>POMS staff will liaise with PO staff to ensure that Brexit impacts and opportunities are considered.</p> <p>PO senior stakeholders working group has commenced in Sept 18 to establish the risks & opportunities post March 2019.</p> <p>Since the last review risk assessments have been completed across PO, providing a consolidated risk report of a 'no deal' outcome. Legal have provided a BREXIT questionnaire which has been issued to our key suppliers.</p>		4-3	4-3	➔	<p>Rationale for Movement No change in the risk score this quarter. The risk of a 'No Deal' has been pushed back to 31 October 2019. We are confident in how we would manage a 'No Deal' scenario. That said the extension and the problems faced in agreeing a deal does increase the possibility of a general election or another public vote.</p> <p>Mitigation Plan 1) Work with trade parties, the FCA and our key partners to understand the key risks of Brexit to our business. This work is ongoing. 2) Understand specifically how products will perform under Brexit scenarios e.g. long delays at ports or airports. 3) Understand any capacity issues or ongoing passporting issues within our insurance providers. 4) Look for opportunities as well as threats provided by Brexit. 5) Consider the implications for staff. 6) Consider how POMS will respond under stress scenarios if Brexit leads to a recession via falling pound, increased costs via tariffs or higher frictional costs. 7) Review Bank of Ireland no-deals plan, including availability of contact centres. 8) Review security procedures. 9) Confirm with insurers how they expect travel insurance to operate under No deal scenarios.</p>
LCG / Retail	Litigation	DS	1	<p>Sustainability of business model The undermining of Agency status, as a result of either: CWU legal claims, Taylor review or from regulatory interventions is a new risk to watch given the fundamental impact to the sustainability of our business model.</p>	5-3	<p>Steering Group in place with attendees from across the business with appropriate level of seniority to ensure that the resource, decisions, materials and documentation necessary for PO to be able to robustly defend its position are available to it.</p>		5-3	5-3	➔	<p>Rationale for Movement No change in the risk score this quarter. The business is monitoring the developments closely. The 3rd trial is underway, so no changes are expected until Oct/Nov 2019.</p> <p>Mitigation Plan A successful challenge is made with regard to the employment status of postmasters such that they are categorised as employees or workers and Post Office becomes liable for additional cost. This is being managed by HR with close involvement of our agents' Pay team (Nick Beal). It is also co-ordinated with our Horizon work (Same Leads).</p>
IT	Technology Ops	RH	1	<p>Technology and Business Interruption Post Office's network, and the products and services provided through that, are supported by and reliant upon complex technical architecture. There is a risk of failure of key systems or IT infrastructure reduces the effectiveness, availability, integrity or security of our Network.</p> <p>Direct impact on our network availability and reliability resulting in adverse customer service and financial performance and/or reputation.</p>	5-4	<p>1. Post Office has a Change Management policy that clearly defines what constitutes a change, how changes are raised, classified, prioritised, and how these changes should be processed by suppliers.</p> <p>2. IT have a documented IT Service Continuity policy in place which caters for internal and outsourced business processes and service activities that are critical to the enterprise operations or necessary to meet legal and/or contractual obligations.</p>		5-4	5-4	⬆	<p>Rationale for Movement The risk has been increased to 5x2. Impact has increased slightly as a result of the inability to failover automatically to the CC secondary datacentre. CC have confirmed that there are processes and procedures in place to perform a manual failback in the unlikely event of a major disaster.</p> <p>Mitigation Plan 1) Upgrade to new Vsphere software. 2) Manual processes/procedures in place to perform manual failback. 24 hours to implement. 3) DR failover test to be rescheduled to October 2019.</p>
FS&T	Compliance with laws and regulations	OW	1	<p>FS&T Regulation There is a risk that the on-going increase in regulation in FS (and Telecoms businesses) increases the risk of non-compliance and/or making various business activities unprofitable (e.g., Insurance Distribution Directive and AML requirements). Regulatory risk from Ofcom activity e.g. review of general conditions, complaints, automatic compensation could lead to a drain on resources, increased costs to the business and impact on the change schedule.</p>	3-5	<p>Regulatory Horizon Scanning, Compliance team resource to interpret and drive compliant solutions with different parties e.g., product teams, network, HR, training teams and Principals.</p> <p>Participation in Investment Committee</p> <p>Risk assessment of new initiatives, including completion of Customer Detriment Risk Assessments.</p> <p>Full review of the General Condition was completed for October 2018 to ensure that the changes made to the GCs were implemented. A check was done on existing GCs however there is reliance on Fujitsu. Further work is needed to get Fujitsu to provide evidence of their compliance.</p>		4-5	4-5	➔	<p>Rationale for Movement No change in the risk score since last review.</p> <p>Mitigation Plan 1) We are working with our partners/suppliers and regulatory principals to ensure we have identified new/changes to regulations and have developed effective and affordable solutions on a risk-based approach 2) Part of the Law & Trends forum 3) Joined the CUI working group on regulation. 4) Weekly GC review meeting to discuss progress, expectation of this risk to materialise on the 7th of March 5) Change request is being raised to implement GC changes.</p>

Post Office Top Risks											
Business Area	Principal Risk	GE Risk Owner	#	Risk Description	Inherent Risk Score (I/U)	Key Controls in place	Controls Effectiveness Score	Residual Risk Score (I/U)		Movement	Rationale for Movement / Mitigation Plan
								Mar-19	May-19		
HR (incl. H&S)	Keep our people, customers and third parties safe	MK	1	<p>Safety Compliance Safety outcomes are not world class and where they are not in line with required legal and regulatory standards, may lead to serious injury.</p>	5 - 4	<p>Training - H&S BPs continue to provide training to DMB, Supply Chain Managers and ANCMs and Training and Audit Managers and workshops for Safety Champions. H&S training has been converted to e-learning with support from the Learning Academy and issued in line with calendars. Additional training to be provided to CWU Reps, H&S Audit - HSL/ HSE have assessed the Safety Management System and reported that the PO SMS is level 4 (very good). A Safety plan identified 30 actions and safety Board monitoring to conclusion by year end. This includes enhanced training, more ownership and monitoring by middle managers and a review of risk assessments across business and evidence of compliance collated centrally. H&S Activity Calendar - H&S team are attending lead team meetings, DMB BDM meetings and wider Network Ops team meetings (ANCMs) to upskill managers in respect of their H&S responsibilities.</p> <p>Property - An independent assessment of high risk building fabric (including signage) is complete, with high and medium remedial works completed.</p> <p>Road Risk - An overarching Road Risk Policy has been developed and a final draft shared with stakeholders. An action plan has been agreed and a number of initiatives are being piloted for our driving communities.</p>	1	4 - 4		<p>Rational for Movement No change in the risk score since last review.</p> <p>Mitigation Plan Training: General H&S module content has been developed for issue in Q4/Q1 to all business except DMB and Supply Chain via Success Factors. Fire Awareness training was issued in November and driver training issued in Q4. There has been a much better uptake of this online training in 2018/19 and gaps are being closed. H&S BPs are attending lead team meetings to raise awareness across Network Ops and Support Teams. External IOSH Managing Safely training has been provided to 21 Safety Champions, H&S Lead for SC is booked on NEBOSH Certificate in March. CWU reps are attending H&S course and workshops to raise competence to ensure quality and consistent inspections. All CWU, Unite and H&S BPs attended joint workshop in February. Review of Supply Chain training will include a plan to deliver more face to face training in Q1 (19/20).</p> <p>Higher risk activities are being reviewed i.e. local Risk Assessments and safe systems of work e.g. use of tall lifts, use of machinery, stackers, loading and unloading. The H&S BPs are auditing and observing to assess risk and are also providing face to face training and coaching to line managers on site in Supply Chain and at high risk DMBs.</p> <p>Compliance: A H&S risk dashboard has been developed to include compliance and performance i.e. fire, training, risk assessments, accidents, across all business areas and shared at Safety Board and Ops Board. Certificates of Compliance are being completed and returned and activities monitored by H&S Team. Gaps are being shared with each 'H&S lead' responsible for compliance in that business area.</p> <p>Road Risk: E-learning training re-issued in Q4, reinforcing mobile phone whilst driving policy and over 500 drivers undertaken by February. We are consulting on the Alcolock COP for Commercial drivers. Working with BRAKE, RMG and possibly 3rd Pillar of Health to assess driving fatigue and distraction and provide advice and guidance to drivers and their line managers.</p> <p>Property: Low risk building fabric actions have been completed. Lozenges are being checked across c3800 local branches. Additional training, recognition, a review of procurement, contractor safety and risk assessment will be undertaken. An independent audit is being procured in Q1 19/20. Fire Risk Assessment remedial actions are 66% lower than previous year and are being closed with help from the H&S team and CBRE.</p> <p>Security: Investment Committee approved additional funding for a range of initiatives to reduce risk of robbery, including fogging at high risk branch counters, IP cameras as well as body cameras, security escorts and alarm upgrades.</p>	

Appendix 2

EXECUTIVE DECLARATION as at May 19

Principal Risk	Statement	Item No	Item	Identified by GE Member	ARA Action
TECH Business Interruption (ITDR)	Material risks to Post Office that are not captured in the Group Risk Profile	1	Trantrack - Application Architecture, Data Integrity and coding practice. There is a current issue with Trantrack CWC, our cash inventory system. Cash movement transactions are recorded correctly in depots leading to a correct depot cash balance (confirmed through physical counts). However due to technical issues these do not all flow through to CFS our financial system. This has led to CFS being significantly understated. The Back Office Transformation project team have worked with finance (and our auditors) to maintain a log of all transactions missing from CFS and are able to evidence an accurate picture. This issue has exposed a risk that the Trantrack CWC application technical architecture is not up to the standard expected. An architectural review is on-going, once complete actions will be agreed with Trantrack's management to reduce the risk of future technical issues.	Rob Houghton	Description of risk around Transack is linked generically through to Risk Note as a part of risk to Technology and Business Interruption
		2	Data centres in Belfast. We have an existing operational risk that loss of both data centres in Belfast is catastrophic to the business as we could not recover Horizon service. This material risk has existed since Horizon was implemented and is considered extremely remote likelihood due to the distance between data centres and the fact that they are on separate infrastructure (power, fuel) and not on any geological/ natural fault lines (i.e. earthquakes, tsunami events). The area has some political unrest but this is not felt to increase the risk unduly.	Rob Houghton	Description of risk around Belfast is linked generically through to Risk Note as a part of risk to Technology and Business Interruption
		3	Group Risk - GLO - Customer confidence in Horizon online system. The case of the Horizon system is currently underway. The outcome of this case may impact the agents and clients confidence in using the system and risk reputational damage. Mitigation plans are being built in response.	Rob Houghton	Description of risk around system confidence is linked through generically to Risk Note as a part of risk to litigation.
		4	Computer Centre inability to perform automatic failover. CC have advised that the current version of software which connects service for branch and admin users is currently out of date. In the extremely unlikely event of a major disaster CC are currently unable to perform automated failover from the primary datacentre to the secondary datacenter, the switch from primary to secondary would require a manual failover. This would result in the service being unavailable within branch and for admin users for period of time until manual failover is complete. Manual fall back processes and procedures are in place to restore service as quickly as possible and best efforts will be made but the service outage risks exceeding RTO. The upgrade of the software has been requested and this is expected to complete in 10 weeks.	Rob Houghton	Description of risk around Computer Centre failover is linked generically through to Risk Note as a part of risk to Technology and Business Interruption
THIRD PARTY Contract Management	Material new contracts or extensions entered into, direct awards and where I have not followed the contract process	5	Non-compliance with PCR. There are a low number of contracts signed or extended which were not procured or extended in line with Public Procurement Regulations 2015. They are generally low risk and with a commercial imperative. New controls have been introduced to record incidents or exceptions going forward. This has brought greater clarity over level of non-compliance with PCR. All non compliant extensions and awards are logged and reported to the RCC on a quarterly basis.	Jane MacLeod	Description of risk around non-compliance with PCR is linked generically through to Risk Note as a part of risk to Legal and Regulatory Breach
LEGAL & REGULATORY Managing losses and Fraud	Material frauds, irregularities or losses that have come to light, whether carried out by our staff, agents, contractors, suppliers or partners	6	Banking cash deposits. Most issues relate to high value Santander Business Banking deposits but as the BFS expands, this is migrating. The annual training was significantly re-written this year to help branches to identify and report issues. A new procedure has also been implemented to identify and report large volumes of Scottish and Irish note deposits from locations remote from the Scottish and Irish borders as these are frequently indicators of criminal street cash laundering. There have been a number of investigations involving high value business cash deposits and, at the request of the MLRO, the Post Office Legal team are currently reviewing the MLR requirements for Post Office in relation to these transactions to ensure that there are no additional regulatory obligations on Post Office, and that customer due diligence and transaction monitoring remain the responsibility of the banks within the Banking Framework Services contract. Financial Crime and Legal are liaising with Pinsent Masons to establish the exact regulatory position/risks and also working with the Santander FIU (Financial Intelligence Unit) to raise our concerns about some of their customers activities.	Jane MacLeod	Description of risks around fraud are linked through generically to Risk Note as a part of risk to Legal and Regulatory Breach
FINANCIAL Reporting results, providing data accurately and effective internal controls	Complex or subjective accounting judgements, estimates and revenue transactions	7	GLO. On 11 April 2016, a High Court claim was issued on behalf of a number of mostly former postmasters against Post Office in relation to various legal, technical and operational matters ("the Post Office Group Litigation"). Per POLs accounting policy for exceptional items and as agreed with EY, the expenditure associated with the Post Office Group Litigation should be accounted for as an exceptional item. Subject to Final Audit, the incurred costs for FY 2018/19 is £13.7m.	Jane MacLeod	To be disclosed
STRATEGY Competitiveness, Market and Customer Relevance	Material risks to Post Office that are not captured in the Group Risk Profile	8	Co-op Group and / regional Co-op Societies. We believe this risk has been partially mitigated through improved stakeholder management with some of the individual Co-Operative societies coupled with a joint working approach with FRTS (the joint buying group for the Co-Operative Group) to complete detailed analysis of the deployment of the PO operating model in the Co-Op.	Debbie Smith	Description of risk around disengagement from Post Office by Co-Op Group (TCG) is linked through generically to Risk Note as a part of risk to Retail Proposition and Network Sustainability

POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE

PAGE 1 OF 1
NOTING PAPER

Audit, Risk & Compliance Committee Terms of Reference Evaluation 2018/19

Author: Elizabeth Hallissey, Senior Assistant Company Secretary Sponsor: Veronica Branton, Head of Secretariat
Meeting date: May 2019

Executive Summary

The Financial Reporting Council's Guidance on Board Effectiveness 2018 refers to the need for "properly structured and appropriate terms of reference."

The Board Committees review their terms of reference (ToR) annually to identify any changes required and to evaluate whether the Committee's responsibilities have been met.

The evaluation of how and when the responsibilities set out in the ToR have been considered during 2018/19 are set out at Appendix 1 and the ToR are at Appendix 2.

The Committee met its responsibilities, excepted for this review taking place within the 2018/19 financial year.

7

Input Sought

1. The Committee is asked to note the terms of reference review and note the responsibilities met by the Committee in 2018/19.

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Appendix 1

Post Office Limited - Audit, Risk & Compliance Terms of Reference Evaluation 2018/19

	Was it complied with?	28 June 2018	31 July 2018	30 October 2018	29 January 2019	25 March 2019
The relevant section(s) of the Terms of Reference are shown in brackets after each item. The Terms of Reference are included at Appendix 2.						
Composition and Terms of Office (3-12)						
All met						
Meetings (13-16)						
All met						
Other Governance Responsibilities						
Review and update its terms of reference annually (17.a)	✘ This review was missed from the agenda in March 2019					
Conduct an annual evaluation of the performance of its duties and responsibilities and of its effectiveness, and discuss the results with the Board of Directors (17.b)	✔				Results of evaluation.	
Prepare an annual report on its activities for inclusion in the Annual Report and shall review and approve on behalf of the Board statements to be included in the Annual Report concerning financial controls, internal control and risk management. (17.c)	✔ Summary included in Annual Report & recommended to Board for approval.					
In the absence of express authority from the Board, the Committee will not, without the concurrence of both management and the auditors, have either the responsibility or authority for altering the financial statements or the accounting procedures of the Company. (17.d)	✔					

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Appendix 1

	Was it complied with?	28 June 2018	31 July 2018	30 October 2018	29 January 2019	25 March 2019
Auditing Services						
Review and recommend to the Board the nomination or discharge of the independent external auditors, the proposed fees (in consultation with management) and the acceptance of the scope and general extent of the engagement. (18.a)	✓		Recommended new auditor.			
Formally review, challenge and approve the agreed annual external audit plans and approach. (18.b)	✓				Audit Strategy reviewed and challenged.	
Periodically review the scope, resourcing and capabilities of the Internal Audit function. (18.c)	✓		Internal audit co-source appointment – Deloitte.			
Review and re-approve the Internal Audit Charter on an annual basis. (18.d)	✓ The Internal Audit Charter for 2018-20 was approved in March 2018.					
Approve each year in advance the Internal Audit plans and review both resources and any proposed amendments that may occur through the following year. The review should include methods employed by the internal auditors to assess risk and to prioritise the various audit proposals identified in the annual plan. (18.e)	✓		Internal audit co-source appointment – Deloitte.			
Assume a primary role in the appointment, assessment and if necessary the discharge of the Head of Internal Audit. (18.f)	N/A					

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Appendix 1

	Was it complied with?	28 June 2018	31 July 2018	30 October 2018	29 January 2019	25 March 2019
Ensure the independence of the external and internal auditors including an annual review of any non-audit services provided by either. (18.g)	This has not been a separate agenda item but independence was considered as part of the appointment of PwC and our new external auditor and Deloitte as our co-source internal audit partner.					
Ensure free and effective communication between the Committee, external auditors and internal auditors and hold separate sessions, or informal meetings and contact as required. These meetings may discuss matters that any of these groups believes should be discussed privately with or without management. (18.h)	✓					
Ensure lines of communication are maintained with the Board. (18.i)	✓ Summary of ARC meetings at Board meetings where Board Members have not attended ARC					
Accounting, Financial Control and Financial Reporting and Disclosure						
Review, discuss and consider with the external auditors their approach to risk assessment and the scope and plan of their audits. (19.a)	✓				Audit Strategy reviewed and challenged.	
Review the annual financial statements which are to be submitted to the Board, including Management's explanatory notes. (19.b)	✓	✓				
The Committee shall review with management any half yearly trading statements or financial reports and the contents of any press release	✓	✓				

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Appendix 1

	Was it complied with?	28 June 2018	31 July 2018	30 October 2018	29 January 2019	25 March 2019
concerning the Company's financial performance or situation, before release to the public or to shareholders. (19.c)						
Risk Management Framework						
Review the overall risk management framework in place for the Company including its appetite for risk. (20.a)	✓					Information security risk appetite.
Oversee the Risk and Compliance Committee activities and receive summary reports as appropriate. (20.b)	✓ Verbal updates and minutes from January 2019 onwards					
Review the Company's overall risk position; regularly review the risk register for the Post Office and its subsidiaries, and periodically invite management to outline risk management strategy and status within their specific business units. (20.c)	✓		Risk Report.	Risk Report.	Risk Report.	Risk Report.
Review management's assessment of the degree of risk the Company prudently incurs in achieving a reasonable balance between the cost of managing risk and control systems and the benefits derived. (20.d)	✓					
Consider and review areas of specific risk as highlighted by the Risk and Compliance committee. (20.e)	✓		Risk Report. IT governance and Risk Management		Ofcom non-compliance with Text Relay	
Review legal, regulatory and any other matters that may have a material impact on the financial statements, related Company compliance	✓		Payment card industry data security standards.	Payment card industry data security standards	Money Laundering Update.	

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Appendix 1

	Was it complied with?	28 June 2018	31 July 2018	30 October 2018	29 January 2019	25 March 2019
policies, and programmes and reports prepared to manage and monitor Company compliance policies. (20.f)						
Consider whether any remuneration policy adopted by either Post Office or its subsidiaries, or the implementation of any such policy is consistent with Post Office risk appetite particularly in relation to conduct risk. (20.g)	N/A					
Consider the impact of any new legislative, regulatory, market or other developments which could materially or adversely affect Post Office and its subsidiaries. (20.h)	✓		Payment card industry data security standards.			Update on payment systems regulators.
Controls & Policies						
The adequacy of the Company's internal controls. (21.a)	✓		Internal Audit Reports.	Internal Audit Reports. Business continuity update.	Internal Audit Reports.	Internal Audit Reports.
Recommendations for the improvement of the Company's internal controls, processes and systems. (21.b)	✓		Internal Audit Reports.	Internal Audit Reports.	Internal Audit Reports.	Internal Audit Reports.
Significant findings (the "management letter" from external auditors) and recommendations together with management's responses. (21.c)	✓	With financial statements.				
Any reportable restrictions experienced regarding scope or access to required information by either external or internal audit. (21.d)	N/A					

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Appendix 1

	Was it complied with?	28 June 2018	31 July 2018	30 October 2018	29 January 2019	25 March 2019
Fraud, Theft and Ethics						
Review with management their fraud assessment, detection measures and their investigation of illegal acts, as appropriate. (22.a)	✓					
Review any summary of frauds, thefts and other irregularities of any size. (22.b)	✓			Fraud on misappropriation of postal orders.		
Review with the internal auditors and the external auditors the results of any review of the compliance with the Company's codes of ethical conduct and similar policies including whistleblowing. (22.c)	✓		Whistleblowing annual report & policy. Gifts and hospitality annual review. Anti-bribery and corruption.	Financial crime, fit and proper policies.	Approved cyber and information security policy. Acceptable use policy. Protecting personal data policy.	Treasury Policy.
Risk Management – Other						
The Committee shall specify from time to time the reports and management information which it requires in order to discharge its responsibilities. The minutes of the POMS ARC will be provided to the Committee for noting. (23)	✓	Group Litigation update. Report from POMS ARC.	POMS ARC.	POMS ARC.	Security strategy. POMS ARC.	POMS ARC.
The Committee shall have the power to conduct or authorise investigations into any company matters within the Committee's scope of responsibilities. The Committee shall be empowered to obtain independent legal advice, and engage counsel, accountants, or others to assist it in the conduct of any investigation. (24)	N/A					

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Appendix 1

	Was it complied with?	28 June 2018	31 July 2018	30 October 2018	29 January 2019	25 March 2019
The Committee shall perform such other functions as may be assigned or delegated to it by the Board, and may review other items of an internal control or risk management nature which may from time to time be brought before the Committee. (25)	N/A					

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TERMS OF REFERENCE OF THE POST OFFICE AUDIT, RISK AND COMPLIANCE COMMITTEE

Purpose

1. The purpose of the Audit, Risk and Compliance Committee ("ARC" or the "Committee") is to assist the Board of Directors in fulfilling its fiduciary responsibilities by:
 - (a) Contributing an independent view on the accounting, financial control and financial reporting practices of the Company;
 - (b) Taking all reasonable steps to ensure accurate and informative corporate financial reporting and disclosures which meet appropriate accounting and corporate governance standards; and
 - (c) Providing oversight of the company's risk management systems, operational controls and key systems.
2. The responsibilities undertaken by the ARC under delegated authority from the Board will be subject always to the powers and duties of the Board, as set out in the Articles of Association

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Composition and Terms of Office

3. The Committee shall serve as a standing committee of the Board. The Chairman and members will be appointed by the Board. It shall consist of at least two independent non-executive directors.
4. Only non-executive directors shall be eligible for membership of the Committee. Members of the Committee will normally serve for a period of three years. Their appointment may be renewed on an annual basis thereafter with the consent of the Chairman of the Committee but no director shall serve for more than six years.
5. The quorum shall be two directors, of whom one will have recent and relevant financial experience.
6. The Committee shall meet as often as required but at least three times per year.¹
7. The Company Chairman and executive directors may be invited to attend any meeting, or any part of any meeting, by the Committee Chairman.
8. The CFO, the General Counsel, the Head of Risk Governance and the Head of Internal Audit (or those holding positions with responsibility for such roles, howsoever named) and the Director, Financial Services will be permanent invitees.
9. The Company Secretary shall act as Secretary to the Committee and shall attend all meetings to keep minutes and record actions.

¹ The Financial Reporting Council recommends a minimum of 3 meetings but suggests that more will be usually required.

ARC TOR approved by the Board on 22nd September 2015.

10. The Committee Chairman will report regularly to the Board. Minutes of each Committee meeting will be circulated to all members of the Committee and, once agreed, to all members of the Board.
11. The External Auditors may attend all or part of any Committee meeting at the invitation of the Committee Chairman. As a minimum the External Auditors will attend to present their external audit plan for approval and to present their reports.
12. The Company will provide current and new Committee members with any training, briefings or induction required. The Company Secretary, Head of Internal Audit and the External Audit Partner will keep members informed of relevant published guidance as necessary.

Meetings

13. Any member of the committee or the Company Secretary may convene a meeting. The External and Internal auditors may request a meeting with or without management present.
14. Meetings may be held in person or by telephone or other electronic means, so long as all participants can contribute to the meeting simultaneously.
15. Notice of each meeting shall be given to all those entitled to participate at least 2 working days before the meeting.
16. Meetings shall be planned in accordance with key reporting and financial planning dates.

7

Other Governance Responsibilities

17. The Committee will:
 - (a) Review and update its terms of reference annually.
 - (b) Conduct an annual evaluation of the performance of its duties and responsibilities and of its effectiveness, and discuss the results with the Board of directors.
 - (c) Prepare an annual report on its activities for inclusion in the Annual Report and shall review and approve on behalf of the Board statements to be included in the Annual Report concerning financial controls, internal control and risk management.
 - (d) In the absence of express authority from the Board, the Committee will not, without the concurrence of both management and the auditors, have either the responsibility or authority for altering the financial statements or the accounting procedures of the Company.

Auditing Services

18. The Committee will:
 - (a) Review and recommend to the Board the nomination or discharge of the independent external auditors, the proposed fees (in consultation

¹ The Financial Reporting Council recommends a minimum of 3 meetings but suggests that more will be usually required.

- with management) and the acceptance of the scope and general extent of the engagement.
- (b) Formally review, challenge and approve the agreed annual external audit plans and approach.
 - (c) Periodically review the scope, resourcing and capabilities of the Internal Audit function.
 - (d) Review and re-approve the Internal Audit Charter on an annual basis.
 - (e) Approve each year in advance the Internal Audit plans and review both resources and any proposed amendments that may occur through the following year. The review should include methods employed by the internal auditors to assess risk and to prioritise the various audit proposals identified in the annual plan.
 - (f) Assume a primary role in the appointment, assessment and if necessary the discharge of the Head of Internal Audit.
 - (g) Ensure the independence of the external and internal auditors including an annual review of any non-audit services provided by either.
 - (h) Ensure free and effective communication between the Committee, external auditors and internal auditors and hold separate sessions, or informal meetings and contact as required. These meetings may discuss matters that any of these groups believes should be discussed privately with or without management.
 - (i) Ensure lines of communication are maintained with the Board.

Accounting, Financial Control and Financial Reporting and Disclosure

19. The Committee will:

- (a) Review, discuss and consider with the external auditors their approach to risk assessment and the scope and plan of their audits.
- (b) Review the annual financial statements which are to be submitted to the Board, including Management's explanatory notes. The review may include:
 - Reports from the external auditors as to the results of their examination to date.
 - Discussion of any problems regarding financial reporting which may need to be reported in the annual report to the shareholders including any disagreements that may have arisen between the auditors and management in any area.
 - Meeting(s) with the senior financial executives who shall outline any problems as to financial policies, financial reporting or matters relating to internal control and any matters in contention with or under consideration by the external or internal auditors.
 - The appropriateness of existing accounting principles being employed and any change in accounting policies or practices which the corporate auditors may refer to in their report to the

¹ The Financial Reporting Council recommends a minimum of 3 meetings but suggests that more will be usually required.

- shareholders, and the impact on the Company's financial statements.
- Any proposed changes in the presentation of the financial statements or accompanying notes which the auditors may recommend.
 - Reviewing the annual report and accounts and advising the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for the Company's shareholders to assess the company's performance, business model and strategy.
 - Other matters related to the conduct of the audit communicated to the Committee under generally accepted accounting standards.
 - The Management Letter.
- (c) The Committee shall review with management any half yearly trading statements or financial reports and the contents of any press release concerning the Company's financial performance or situation, before release to the public or to shareholders.

Risk Management, Operational Controls and Policies

7

Risk Management Framework

20. The Committee will:

- (a) Review the overall risk management framework in place for the Company including its appetite for risk.
- (b) Oversee the Risk and Compliance Committee activities and receive summary reports as appropriate.
- (c) Review the Company's overall risk position; regularly review the risk register for the Post Office and its subsidiaries, and periodically invite management to outline risk management strategy and status within their specific business units.
- (d) Review management's assessment of the degree of risk the Company prudently incurs in achieving a reasonable balance between the cost of managing risk and control systems and the benefits derived.
- (e) Consider and review areas of specific risk as highlighted by the Risk and Compliance committee. This should include, but is not limited to, sufficient coverage of strategic risk, financial risk, operational risk, technology risk and cyber security, risk relating to the investment strategy and funding requirements of existing and new pensions schemes established for the benefit of previous, current and future employees, conduct risks relating to the financial services businesses operated by both Post Office Limited and its subsidiaries and joint ventures, reputation, legal and regulatory risks, major change initiatives and people risks.
- (f) Review legal, regulatory and any other matters that may have a material impact on the financial statements, related Company compliance policies, and programmes and reports prepared to manage and monitor Company compliance policies.

¹ The Financial Reporting Council recommends a minimum of 3 meetings but suggests that more will be usually required.

- (g) Consider whether any remuneration policy adopted by either Post Office or its subsidiaries, or the implementation of any such policy is consistent with Post Office risk appetite particularly in relation to conduct risk.
- (h) Consider the impact of any new legislative, regulatory, market or other developments which could materially or adversely affect Post Office and its subsidiaries.

Controls and Policies

21. The Committee will consider and review with the external auditors and the internal auditors:
- (a) The adequacy of the Company's internal controls.
 - (b) Recommendations for the improvement of the Company's internal controls, processes and systems.
 - (c) Significant findings (the "management letter" from external auditors) and recommendations together with management's responses.
 - (d) Any reportable restrictions experienced regarding scope or access to required information by either external or internal audit.

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Fraud, Theft and Ethics

22. The Committee will:
- (a) Review with management their fraud assessment, detection measures and their investigation of illegal acts, as appropriate.
 - (b) Review any summary of frauds, thefts and other irregularities of any size.
 - (c) Review with the internal auditors and the external auditors the results of any review of the compliance with the Company's codes of ethical conduct and similar policies including whistleblowing.

Risk Management – Other

23. The Committee shall specify from time to time the reports and management information which it requires in order to discharge its responsibilities. The minutes of the POMS ARC will be provided to the Committee for noting.
24. The Committee shall have the power to conduct or authorise investigations into any company matters within the Committee's scope of responsibilities. The Committee shall be empowered to obtain independent legal advice, and engage counsel, accountants, or others to assist it in the conduct of any investigation.
25. The Committee shall perform such other functions as may be assigned or delegated to it by the Board, and may review other items of an internal control or risk management nature which may from time to time be brought before the Committee.

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