BIS (Postal Services Act 2011) Company Limited

Annual Report and Financial Statements 2012-13

(For the fourteen month period ended 31 March 2013)

Company Number. 07941521

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Directors' report

Introduction

On 8 February 2012, BIS (Postal Services Act 2011) Company Limited (the "**company**") was incorporated and registered as a private limited company in England and Wales under the Companies Act 2006 The company is the sole shareholder of BIS (Postal Services Act 2011) B Company Limited ("**company B**") (together, the "**group**")

With effect from 1 April 2012 and by way of the provisions of the Postal Services Act 2011 which received Royal Assent on 13 June 2011, the Government assumed responsibility for both the Royal Mail Pension Plan ("**RMPP**") deficit and the majority of the plan's assets The Government removed RMPP's defined benefit pension deficit by transferring certain historic liabilities to a new unfunded statutory pension scheme – the Royal Mail Statutory Pension Scheme ("**RMSPS**") In conjunction with this, certain assets were also transferred out of Royal Mail Pensions Trustees Limited ("**RMPP Trustees**") under the Postal Services Act 2011 (Transfer of Assets) Order 2012 (the "Assets Transfer Order) The RMPP was left fully funded as at the transfer date

The group was incorporated and established to hold certain assets transferred from the RMPP Trustees to the Government The ultimate controlling party for the group is the Secretary of State for the Department for Business, Innovation and Skills ("**BIS**")

The business, its objective and strategy

The principal activity of the group is to hold and dispose of the assets transferred in accordance with the 'Realisation Plan', as adopted by the shareholders in Part 2 of the company's Articles of Association

The principal objective of the group is to dispose of the assets in a measured fashion within the context of protecting value for the tax payer, while paying due regard to issues of transparency (where this would not prejudice the commercial interests of the group) and minimising market distortion In general, the group seeks to realise liquid assets into cash and cash equivalents as quickly as possible to minimise any significant exposure to risk

Cash and cash equivalents realised by the group through the disposal of assets is ultimately transferred to BIS

The group's residual investment activities are principally managed by Beach Point Capital Management LP, BlackRock Advisors (UK) Limited, LaSalle Investment Management, Pathway Capital Management LP, Bridgepoint Advisers II Limited, Hamilton Lane COPTL LP and Pantheon Ventures (UK) LLP (the "Investment Managers"), with the global custody arrangements delegated to JPMorgan Chase Bank N A , London Branch

Operating and financial review

As shown in the consolidated statement of income and expenditure, £28 6 billion of assets were transferred from the RMPP Trustees to the group This has been classified as an exceptional item and further information is shown in note 7 to these financial statements

The group has actively sought to dispose of its investments in liquid assets, including listed equities, corporate bonds, equity futures, inflation swaps and interest rate swaps The disposals were completed in line with the objectives of the 'Realisation Plan', with the aim of achieving value for money for the taxpayer

As a result of the Assets Transfer Order, the group held UK government gilts ("gilts") under the direction of HM Treasury from 1 April 2012 The gilts had maturity dates ranging from 2013 to 2062 In November 2012, the gilts were transferred to the Debt Management Account ("**DMA**"), within the Debt Management Office ("**DMO**"), for £nil consideration and sold to the National Loans Fund (for cancellation) at market value as required by the National Loans Act 1968 The gilts had a market value of £11 010 billion, including accrued income of £35 58 million, at the date of transfer to the DMA This resulted in a total exceptional loss of £11 010 billion being recognised in the consolidated statement of income and expenditure in the period to 31 March 2013

For the remaining assets on the consolidated statement of financial position that are less liquid in nature, including direct investments in properties, investments in property funds, private equity investments and high yield fixed income bonds, due consideration was given to holding the assets for an extended period of time, including to maturity, where this was likely to provide a better value for money outcome for the taxpayer

At 31 March 2013, the group had a net asset position of £3 59 billion as shown in the consolidated statement of financial position

For the fourteen month period ended 31 March 2013, the total cash inflows arising from operating activities amounted to £12 8 billion

The net profit (before exceptional items) attributable to equity holders of the group for the fourteen month period to 31 March 2013 was £136 2 million, as shown in the consolidated statement of comprehensive income and expenditure

Principal risks and uncertainties

The principal risks and uncertainties of the group relate to the exposure to financial risks arising from holding its financial assets The group's overall risk management strategy seeks to minimise on-going exposure to financial risks by disposing of assets as promptly as is reasonably practicable, whilst achieving value for money for the taxpayer

Further disclosure in respect of the group's exposure to financial risks, including market risk, credit risk and liquidity risk, is included in the notes to these financial statements

Key performance indicators (KPIs)

BIS (Postal Services Act 2011) Company Limited is a wholly-owned subsidiary of the Secretary of State for the Department for Business, Innovation and Skills As a result, both the management and reporting of risk and key performance indicators are undertaken at the Departmental level For this reason, the group's directors believe that analysis using key performance indicators for the group is not necessary or appropriate for an understanding of the development, performance or position of the business of the group

Details of directors

Details of the board of directors, including information about the board's composition, its attendance records and coverage of its work, can be found in the Governance Statement on page 7

Dividends and payments to the ultimate controlling party

In accordance with Article 14, *'Remittance of Cash Proceeds to the Consolidated Fund'*, and Article 12, *'Retention of Cash'*, of the group's Articles of Association, a total cash remittance of £14 3 billion was made to BIS during the reporting period This amount has been recognised in the consolidated statement of changes in equity for the fourteen month period ended 31 March 2013

On 27 June 2013, the directors of BIS (Postal Services Act 2011) B Company Limited declared and paid a final dividend of £6 53m to its immediate parent company BIS (Postal Services Act 2011) Company Limited

Events after the reporting date

Other than the post year end declaration and payment of dividend no material events have occurred since the end of the financial period that may significantly affect the financial performance or position of the reporting entity

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial period In accordance with the requirements of the Companies Act, the directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union 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 the company and of the profit or loss of the group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRS as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the International Accounting Standards (IAS) Regulation They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Directors' statement of disclosure of information to auditors.

The directors in office at the date of this annual report and financial statements have each confirmed that, so far as they are aware, there is no relevant information (as defined by section 418 of the Companies Act 2006) of which the group's auditors are unaware, and each of the directors has taken all the steps he/she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the group's auditors are aware of that information This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

Signed on behalf of the board by

M F. Russell

Mark Russell

Chairman and accounting officer

Date 12 July 2013

Governance statement

Introduction

This is the first governance statement for BIS (Postal Services Act 2011) Company Limited and its subsidiary (together, the "**group**") The principal objective of the group is to hold and dispose of assets in accordance with the 'Realisation Plan' adopted by the shareholders in Part 2 of the Articles of Association The group is ultimately owned and controlled by the Secretary of State for the Department for Business, Innovation and Skills ("**BIS**") and is operated by the directors

This statement sets out the governance structure, risk management and internal control procedures that have been operated within the group during the fourteen month period to 31 March 2013

The Governance Structure

Board responsibilities

The board provides the general oversight of the realisation exercise and ensures that it is managed in accordance with the 'Realisation Plan' The board delegates to management (a separate 'project implementation team' led by the Shareholder Executive, an executive group within BIS) the day-to-day operation of the business, in accordance with appropriate risk parameters The board monitors compliance with policy and achievement against objectives, by holding management accountable for its activities through regular updates In addition, management is required to update the board on a regular basis, giving the board the opportunity to understand and explore issues in depth as appropriate

During the financial period ended 31 March 2013, the board considered a wide range of issues, including

- the progress of the asset realisation exercise,
- the financial position of the group,
- the long-term plan for the group,
- approving interim and full-period results,
- discussing and approving group strategy,
- considering opportunities for the disposal of assets, and
- discussing risk management and controls within the group

Board structure

Directors
Mark Russell, Chairman (Date of appointment 8 February 2012)
Polly Payne (Date of appointment 8 February 2012 , Date of resignation 4 April 2012)
Ruth Hannant (Date of appointment 8 February 2012 , Date of resignation 22 March 2012)
Ruth Elliot (Date of appointment 8 February 2012)
Conrad Smewing (Date of appointment 25 May 2012)

All directors are subject to retirement, and election or re-election, in accordance with the company's Articles of Association

Board attendance

The board held seven scheduled meetings in the fourteen month period ended 31 March 2013, monthly meetings during the first three months of the financial period, and ad hoc meetings throughout the remainder of the period Directors are expected to attend scheduled board meetings, unless they are prevented from doing so by prior commitments Where directors are unable to attend meetings, they receive the papers scheduled for discussion in the relevant meetings, giving them the opportunity to raise any issues and give any comments to the chairman in advance of the meeting Following the meeting the chairman briefs any member not present on the discussions and any decisions taken at the meeting Directors leave the meeting where matters relating to them, or which may constitute a conflict of interest for them, are being discussed

The attendance of directors at board meetings held during the fourteen month period ended 31 March 2013 was as follows

directors	Number of possible meetings attended	Actual meetings attended
Mark Russell, Chairman	7	7
Polly Payne	2	2
Ruth Hannant	1	0
Ruth Elliot	7	7
Conrad Smewing	5	5

Responsibility of the principal accounting officer of BIS

The principal accounting officer of BIS is responsible for approving the 'Realisation Plan' of the group and provides the oversight, in addition to the board, to ensure that the realisation of the assets represents value for money to the taxpayer as a whole Where the realisation exercise deviates from the 'Realisation Plan', or where it is considered necessary to amend the original plan, the management will report to the board and the principal accounting officer as necessary The directors and specifically the accounting officer of the group, who was designated by the principal accounting officer of BIS, have certain responsibilities The primary responsibilities are to adhere to chapter three of Managing Public Money, being responsible for safeguarding the public funds, for ensuring propriety and regularity in the handling of public funds, and for day to day operations and management of the group The directors and the the accounting officer of the group also ensure that the group are run on the basis of the standards, in terms of governance , decision making and financial management that are detailed in Chapter 3 1 of Managing Public Money

Information received by the board and principal accounting officer

Written updates on the progress of the asset realisation exercise were provided by the management to the board on a weekly basis for the first six weeks of the reporting period, on a fortnightly basis to the end of October 2012 and on an ad hoc basis thereafter The board considers that the written updates provided by the management team during the financial period were relevant, sufficient and timely to satisfy its purpose In addition, written updates were provided to the principal accounting officer of BIS at the end of April, May and August with ad hoc updates provided as appropriate thereafter

Review of board's effectiveness

The composition of the board currently comprises a chairman and two directors The chairman represents the Shareholder Executive within BIS, with one director each representing BIS Finance and HM Treasury It is considered that the size and experience of the board is appropriate given that nature of the group's operations

During the financial period ended 31 March 2013, no formal evaluation of the board's effectiveness has been carried out However, the board met seven times in the period and believes that its structure and monitoring framework are functioning effectively to enable the objectives of the group to be met

Compliance with Corporate Governance Code

The UK Corporate Governance Code (the 'code') sets out the main principles and specific provisions on how companies should be directed and controlled to follow good governance practice The rules of the Financial Conduct Authority (the 'FCA') require companies listed in the UK to disclose, in relation to the Code, how they have applied those principles and whether they have complied with the provisions throughout the financial period Where the provisions have not been complied with, companies must provide an explanation for this

The directors also follow and comply with the principles detailed in the "Corporate governance in central government departments" in so far as they are applicable to a company limited by shares incorporated under the Companies Act 2006

BIS (Postal Services Act 2011) Company Limited is a private limited company that is ultimately owned by the Secretary of State for the Department for Business, Innovation and Skills As a result, compliance with this code is not required

Risk management and internal control

The board attaches considerable importance to, and acknowledges its responsibility for, the group's systems of internal control and risk management The board's policy is to have systems in place which optimise the group's ability to manage risk in an effective and appropriate manner The board has delegated, to officials of the department, the principal responsibilities for identifying, evaluating and monitoring risks facing the group and for deciding how these are to be managed

There are ongoing controls and review procedures in place to monitor the performance of the investment transition managers and also the investments managers that continue to manage investments on behalf of the group

Given the specific nature of the group, its principal risks and uncertainties reside with the exposure to financial risks arising from its holdings of financial assets A formal risk register for the purpose of risk assessment is not considered necessary As part of the 'Realisation Plan', an internal control and monitoring mechanism has been put in place to define appropriate financial and non-financial triggers, against liquid asset classes, for which an operational decision must be escalated to the board and the principal accounting officer of BIS for their full consideration and approval

Signed on behalf of the board by

M. F. Russell

Mark Russell

Chairman and accounting officer

Date 12 July 2013

Independent auditor's report to the shareholders of BIS (Postal Services Act 2011) Company Limited

I have audited the financial statements of BIS (Postal Services Act 2011) Company Limited for the period ended 31 March 2013 which comprise the Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them

Opinion on financial statements

In my opinion

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2013 and of the group's profit for the period then ended,
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union, and

- the financial statements have been prepared in accordance with the Companies Act 2006

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them

Opinion on other matter prescribed by the Companies Act 2006

In my opinion the information given in the Directors' Report and Governance Statement for the financial period for which the financial statements are prepared is consistent with the financial statements

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion

- adequate accounting records have not been kept, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- I have not received all of the information and explanations I require for my audit

12 July 2013

Bryan Ingleby (Senior Statutory Auditor)

For and on behalf of the Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

Consolidated statement of comprehensive income and expenditure for the fourteen month period ended 31 March 2013

	Note	Group For the fourteen month period ended 31 March 2013
		£'000
Revenue		
Net gains arising from the sale of financial assets	2	160,724
Finance income	3	197,500
Other income	4	60 263
Gain on revaluation of investment properties	8	7,210
Expenses		
Operating expenses	5	(52,508)
Net changes in fair value on financial assets held at fair value through profit or loss	14	(205,963)
Loss arising from the disposal of investment properties	8	(1 724)
Share of profits/losses from joint ventures	11	-
Foreign exchange (losses)	6	(29,266)
Net profit before exceptional items		**136,236**
Exceptional items		
- Exceptional gain arising from the transfer of assets	7	28 626,547
- Exceptional loss arising from the cancellation of gilts	7	(10,974,865)
Exceptional loss arising from the cancellation of accrued income	7	(35,580)
Profit before tax and after exceptional items		**17,752,338**
Income tax expense	18	-
Net profit for the period		**17,752,338**
Other comprehensive income		
Available-for-sale reserve		
- Net changes in fair value of available-for-sale financial assets	10	173 143
- Reclassification adjustments for gains of available-for-sale financial assets included in statement of comprehensive income and expenditure	10	(16 556)
Available-for-sale reserve at 31 March 2013	10	**156,587**
Total comprehensive income for the period		**17,908,925**

The notes on pages 18 to 39 form part of these financial statements

Consolidated statement of financial position as at 31 March 2013

		Group	Company
	Note	**At 31 March 2013**	**At 31 March 2013**
Assets		**£'000**	**£'000**
Non-current assets			
Investment properties	8	322,796	322,796
Investment in subsidiary undertakings	9	-	-
Available-for-sale financial assets	10	2,339,786	2,339,786
Investment in joint ventures	11	-	-
Total non-current assets		**2,662,582**	**2,662,582**
Current assets			
Trade and other receivables	12	67,437	67,437
Derivative financial instruments	13	3,939	3,939
Financial assets at fair value through profit or loss	14	525,693	525,693
Cash and cash equivalents	15	340,756	340,756
Total current assets		**937,825**	**937,825**
Total assets		**3,600,407**	**3,600,407**
Current liabilities			
Trade and other payables	16	(14,482)	(21,017)
Total current liabilities		**(14,482)**	**(21,017)**
Net assets		**3,585,925**	**3,579,390**
Capital and reserves			
Ordinary share capital	19	-	-
Available-for-sale reserves	10	156,587	156,587
Retained earnings		3,429,338	3,422,803
Total equity		**3,585,925**	**3,579,390**

The notes on pages 18 to 39 form part of these financial statements

The financial statements were approved by the board of directors and authorised for issue and signed on its behalf by

M. F. Russell

Mark Russell

Chairman and accounting officer

Date 12 July 2013

Company number 07941521

Consolidated statement of changes in equity for the fourteen month period ended 31 March 2013

	Attributable to equity holders of the group				Attributable to equity holders of the company			
	Ordinary share capital	Available-for-sale reserve	Profit and loss account	Total	Ordinary share capital	Available-for-sale reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Share capital issued	-	-	-	-	-	-	-	-
Net profit for the period	-	-	17,752,338	**17,752,338**	-	-	17,745,803	**17,745,803**
Revaluations in other comprehensive income for the period	-	173,143	-	173,143	-	173,470	-	**173,470**
Available-for-sale reserves released to statement of consolidated income and expenditure	-	(16,556)	-	**(16,556)**	-	(16,883)	-	**(16,883)**
Payment made to BIS	-	-	(14,323,000)	**(14,323,000)**	-	-	(14,323,000)	**(14,323,000)**
Balance at 31 March 2013	**-**	**156,587**	**3,429,338**	**3,585,925**	**-**	**156,587**	**3,422,803**	**3,579,390**

In accordance with Article 14, *'Remittance of Cash Proceeds to the Consolidated Fund'*, and Article 12, *'Retention of Cash'*, of the company's Articles of Association, a total cash remittance of £14 3 billion was made to BIS during the reporting period

The notes on pages 18 to 39 form part of these financial statements

Consolidated statement of cash flows for the fourteen month period ended 31 March 2013

	Note	Group	Company
		Period to 31 March 2013	Period to 31 March 2013
		£'000	£'000
Cash flows from operating activities			
Net profit		17,752,338	**17,745,803**
Exceptional item Loss arising from the cancellation of gilts	7	10,974,865	10,974,865
Exceptional item Gain arising from the assets transfer	7	(28,626,547)	(28,619,385)
Exceptional item Loss arising from the cancellation of accrued income	7	35,580	35,580
Finance income written off		(35,580)	(35,580)
Debtors transferred in received during the period	12	133,512	133,512
Creditors transferred in paid during the period	16	(12,997)	(12,325)
Share of profits/losses of investments in joint ventures	11	-	-
Provision for bad debts	12	338	338
Gain on revaluation of investment properties	8	(7,210)	(7,210)
Loss arising from the disposal of investment properties	8	1,724	1,724
Net changes in fair value on financial assets at fair value through profit or loss	14	205,963	205,963
Net gain arising from the sale of financial assets	2	(160,724)	(161,331)
Foreign exchange losses	6	29,266	29,266
(Increase) in trade and other receivables before bad debt provision and unrealised gains	12	(67,695)	(67,695)
Increase in trade and other payables	16	14,482	21,017
Proceeds from the sale of financial assets		12,580,559	12,573,332
Proceeds from the sale of investment properties		361,235	361,235
Purchases of financial assets	10,14	(347,230)	(347,230)
Purchases of investment properties	8	(4,768)	(4,768)
Net cash flow from purchase and sale of foreign currency forward contracts	13	(33,722)	(33,722)
Net cash flows from operating activities		**12,793,389**	**12,793,389**
Cash flows from financing activities			
Payment made to BIS		(14,323,000)	(14,323,000)
Net cash used in financing activities		**(14,323,000)**	**(14,323,000)**

Net decrease in cash and cash equivalents		**(1,529,611)**	**(1,529,611)**
Cash and cash equivalents at 1 April 2012		-	-
Cash and cash equivalents transferred in during the period		1,869,929	1,869,929
Foreign exchange gains on cash and cash equivalents during the period	6	438	438
Cash and cash equivalents at 31 March 2013	**15**	**340,756**	**340,756**

The notes on pages 18 to 39 form part of these financial statements

Notes to the financial statements

Entity information

On 8 February 2012, BIS (Postal Services Act 2011) Company Limited (the "**company**") was incorporated as a private limited company in England and Wales under the Companies Act 2006 (company Number 07941521) The company is the sole shareholder of BIS (Postal Services Act 2011) B Company Limited ("**company B**") (company Number 07970529) (together, the "**group**") The registered office of these companies is Masters House, 107 Hammersmith Road, London, W14 0QH

With effect from 1 April 2012, a provision was made under the Postal Services Act 2011 (Transfer of Assets) Order 2012 (the "**Assets Transfer Order**") to transfer certain assets previously held by the Royal Mail Pensions Trustees Limited (the "**RMPP Trustees**") into the group

The principal activity of the group is to hold and dispose of assets in accordance with the Realisation Plan adopted by the shareholders in Part 2 of the company's Articles of Association The group's residual investment activities are principally managed by Beach Point Capital Management LP, BlackRock Advisors (UK) Limited, LaSalle Investment Management, Pathway Capital Management LP, Bridgepoint Advisers II Limited, Hamilton Lane COPTL LP and Pantheon Ventures (UK) LLP (the "**Investment Managers**"), with the global custody arrangements delegated to JPMorgan Chase Bank N A , London Branch

The group is ultimately owned and controlled by the Secretary of State for the Department for Business, Innovation and Skills ("**BIS**")

Statement of accounting policies

Basis of preparation

The consolidated financial statements of BIS (Postal Services Act 2011) Company Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU), IFRIC Interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS The financial statements are prepared in accordance with the disclosure and accounting requirements contained in the Financial Reporting Manual (FReM) where these do not conflict with the Companies Act and the requirements of IFRS The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the group's accounting policies

The financial statements are prepared in accordance with IFRS and Interpretations in force at the reporting date The group has not adopted any Standards or Interpretations in advance of the required implementation dates It is not expected that adoption of Standards or Interpretations which have been issued by the International Accounting Standards board but have not been adopted will have a material impact on the financial statements

These financial statements have been prepared for the fourteen month period ended 31 March 2013

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) and the measurement of investment properties at fair value

These financial statements have been prepared on a going concern basis The directors have considered the going concern status of the group and feel that the preparation of the financial statements on a going concern basis is not unreasonable The directors' are of the opinion that the group will continue as a going concern for at least 12 months from the signing of the financial statements for the period ended 31 March 2013

Presentational currency

The financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pound The functional currency of the group is pounds sterling

Basis of consolidation

Subsidiaries are all entities over which the company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the company They are de-consolidated from the date that control ceases Inter-group transactions, balances and unrealised gains and losses arising on transactions between the companies are eliminated

The company has taken advantage of the exemption contained within 408 of the Companies Act 2006 not to present its own statement of comprehensive income

The total net profit after exceptional items, for the fourteen month period to 31 March 2013, in the financial statements of the company was £17 75 billion

1. Accounting policies

1.1 Revenue recognition

Revenue comprises the realised gains on the disposal of investments generated in the ordinary course of the group's activities Revenue is shown net of value-added tax

The group recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity

1.2 Rental income

Rental income from investment properties is recognised as revenue on a straight-line basis over the term of the lease Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease

1.3 Exceptional items

Exceptional items are those items that in the directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the group's financial performance

1.4 Investment Properties

In accordance with IAS 40 Investment Properties, any investment property recognised is held only for the purpose of earning rental income or for capital appreciation The fair value model has been adopted for the valuation of these properties The fair value, which is open market value, is updated annually by external qualified independent valuers Changes in fair values are recognised in the consolidated statement of comprehensive income and expenditure

1.5 Investment in subsidiary undertakings

Investment in subsidiary undertakings as stated in the company's balance sheet and in note 9 are held at cost

1.6 Investment in joint ventures

The group accounts for its interests in joint ventures under the equity method of accounting Under the equity method of accounting, upon initial recognition investments in joint ventures are recognised at cost and subsequently, post acquisition, the operating results, assets and liabilities of joint ventures are reflected in the consolidated financial statements in accordance with IAS 31

1.7 Financial instruments

The group recognises and measures financial instruments in accordance with IAS 39 Financial Instruments Recognition and Measurement as interpreted by the FReM

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity Financial assets and financial liabilities are recognised in the statement of financial position when the group becomes a party to the contractual provisions of an instrument

The fair value of financial instruments is determined by reference to quoted market prices where an active market exists for the trade of these instruments The fair value of financial instruments which are not traded in an active market is determined using generally accepted valuation techniques

Financial assets are derecognised when the rights to receive future cash flows have expired or are transferred and the group has transferred substantially all the risks and rewards of ownership Financial liabilities are derecognised when the obligation is discharged, cancelled or expires

Financial assets

The group's financial assets have been classified into the following categories, which are determined at initial recognition

- Loans and receivables
- Held at fair value through profit or loss
- Available-for-sale assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date The fair value of financial assets traded in active markets (such as publicly traded debt and equity securities) are based on quoted market bid prices at the close of trading on the nearest trading day

Loans and receivables

Loans and receivables principally comprise accrued income and short-term receivables Given the short-term nature of these assets, they are carried at transaction cost

Cash and cash equivalents

Cash and cash equivalents comprise current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value The carrying amount of these assets approximates their fair value

Held at fair value through profit or loss

The group classifies its investments in equity securities, gilts, holdings in a qualifying investment fund ("QIF") and derivatives, as financial assets at fair value through profit or loss

Investments held at fair value through profit or loss are initially recognised at fair value Any consequent movement in the valuation of the investment is recognised in the consolidated statement of comprehensive income and expenditure This category has two sub-categories financial assets held for trading, and those designated at fair value through profit or loss at inception

(i) Financial assets held for trading
A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking

(ii) Financial assets designated at fair value through profit or loss at inception
Financial assets designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the group's investment policy

The group classifies gilts as financial assets held at fair value through profit or loss and measures the fair value based on the daily closing market bid prices until the point of disposal Where gilts are cancelled and the company receives no consideration, the transaction is treated as an exceptional loss on disposal in the consolidated statement of comprehensive income and expenditure

The purchases and sales of investments are recognised on the trade date, which is the date on which the group commits to purchase or sell the investment Financial assets at fair value through profit or loss are initially recognised at fair value Transaction costs are expensed as incurred in the consolidated statement of comprehensive income and expenditure

Subsequent to initial recognition, all financial assets held at fair value through profit or loss are measured at fair value Gains and losses arising from changes in the fair value of these assets are presented in the consolidated statement of comprehensive income and expenditure' in the period in which they arise

Available-for-sale assets

Available-for-sale (AFS) investments are non-derivative financial assets intended to be held for an indefinite period of time and that may be sold in response to liquidity requirements or changes in market prices AFS investments are initially recognised at fair value After initial recognition, these financial assets are carried at fair value Gains and losses arising from changes in the fair value are recognised in other comprehensive income When securities classified as AFS are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated statement of comprehensive income and expenditure AFS assets, held by the group, principally comprise of a number of equity investment vehicles, investments in property funds and debt securities

The unlisted securities within the private equity investment vehicles are not traded in an active market The fair value is determined using the latest available valuation provided by the investment managers or at cost less any provisions for impairment when the group is unable to obtain a reliable estimate of fair value from the investment managers Where a valuation is not available at the reporting date, the most recent valuation from the private equity manager is used, adjusted for cash flows between the most recent valuation and the balance sheet date

The fair value of the private equity investments are estimated based on a variety of valuation techniques, adopted by the investment managers, that complies with the International Private Equity and Venture Capital (PEVC) Valuation Guidelines or the valuation guidelines produced by the British Venture Capital Association (BVCA) Valuation techniques used by the private equity investment managers include the use of earning multiple, discounted cash flow analysis, net asset value and other valuation techniques commonly adopted by market participants

Impairments and derecognition of financial assets

The group assesses at the end of each reporting period whether there is objective evidence that available-for-sale assets are impaired Evidence of impairment arises where there is observable data indicating that there is a measurable decrease in the estimated future cash flows from holding financial assets

Gains and losses on AFS assets are recognised as a separate component of equity until the investment is deemed to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of comprehensive income and expenditure

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the group has transferred substantially all risks and rewards of ownership

When an asset is deemed to be impaired or derecognised, the associated gains and losses are recognised in the statement of comprehensive income and expenditure

Derivative assets and liabilities

The group does not designate any derivatives as hedge instruments in a hedging relationship for the application of cash flow hedge accounting under IAS 39 As a result, all derivatives have been classified as financial assets or liabilities, held for trading, at fair value through profit or loss in accordance with IAS 39

Derivative assets and financial liabilities are initially measured at fair value Subsequent to initial recognition, all derivative assets and liabilities are measured at fair value Gains and losses arising from changes in the fair value of these assets and liabilities are presented in the consolidated statement of comprehensive income and expenditure in the period in which they arise

Financial liabilities

The group's financial liabilities have been classified as other financial liabilities at initial recognition These comprise trade and other payables Since these balances are expected to be settled within twelve months of the reporting date, there is no material difference between fair value, amortised cost and historical cost All other financial liabilities are measured at amortised cost, after initial recognition

1.8 Foreign exchange

Transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used Monetary assets and liabilities denominated in foreign currencies at the date of the statement of financial position are retranslated at the rates of exchange ruling at that date These translation differences are recognised in the consolidated statement of comprehensive income and expenditure

1.9 Corporation tax

BIS (Postal Services Act 2011) Company Limited, with a registered number of 07941521, is exempt from UK corporation tax for any accounting period that begins and ends before 1 April 2015, as set out in The Postal Services Act 2011 (Taxation) Regulations 2012

1.10 Significant accounting estimates and judgements

Other than the accounting estimates and judgements as disclosed in the accounting policies there are no other significant accounting estimates or judgements applied by management

1.11 Dividends

Dividends are accounted for in the group's financial statements in the period in which they are approved by the group's shareholders

1.12 Changes in accounting policy

Changes to IFRS

The group provides disclosure that it has not yet applied a new accounting standard and known or reasonably estimable information relevant to assessing the possible impact that initial application of the new standard will have on the financial statements

The following new standards will be adopted by the group in full, when they are adopted by the FReM, unless the requirements are interpreted or adapted by the FReM

- IAS 12 Income Taxes has been amended to provide guidance on the measurement of deferred tax liabilities arising on the revaluation of investment properties The amended standard is effective from 31 December 2012, and was endorsed by the EU for annual periods beginning on 1 January 2013 Application of the revised standard is not expected to have a material effect on the group financial statements
- IAS 27 Separate Financial Statements requires that when a body prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled bodies are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements Adoption is still uncertain as the amendment has not been endorsed by the EU but is expected to be effective for periods beginning on or after 1 January 2014 The application of this amendment is not expected to have a material impact on the group financial statements
- IFRS 7 Financial Instruments Disclosures, has been amended with respect to netting arrangements, is due to come into effect in 2013-14 These changes are not expected to have a material impact on the group financial statements
- IFRS 9 Financial Instruments, will replace IAS 39 Financial Instruments Recognition and Measurement in its entirety when complete IFRS 9 is expected to improve and simplify the reporting of financial instruments The new standard will be effective for accounting periods beginning on or after 1 January 2015 subject to EU endorsement The standard is part of a wider project to replace IAS 39 and it is not clear what the impact of the introduction of this standard will have on the group
- IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements cover the definition of and the accounting treatment required for subsidiaries and jointly controlled arrangements Both standards are currently subject to EU endorsement and are expected to be effective for periods beginning on or after 1 January 2014 The application of these standards is not expected to have a material impact on the group financial statements
- IFRS 13 Fair Value Measurement sets out an IFRS framework for measuring fair value This standard was endorsed by the EU for annual periods beginning on or after 1 January 2013 The standard will increase the disclosures required for non-financial items held at fair value, such as property, plant and equipment As the group's most material category of assets held at fair value is in relation to financial instruments and the guidance on fair value measurement for such assets is already clearly defined, the application of IFRS 13 is not expected to have a material impact on the group financial statements

Note 2 Net realised gains arising from the sale of financial assets

The table below sets out the gains arising from the sale of financial assets by category under IAS 39

	Group
	For the fourteen month period to 31 March 2013
	£'000
Realised gains arising from	
- the sale of financial assets at fair value through profit or loss	124,347
- the sale of available-for-sale financial assets	36,377
Total	**160,724**

Note 3 Finance income

	Group
	For the fourteen month period to 31 March 2013
	£'000
Finance income	
- Dividend income	8,982
- Interest income arising from financial assets	188,518
Finance income	**197,500**

Interest income relates to receipts arising from the group's investment holdings in bank deposits, gilts and corporate bonds

Note 4 Other income

	Group
	For the fourteen month period to 31 March 2013
	£'000
Other income	
- Rental income from investment properties	38,202
- Investment income derived from available-for-sale property funds	22,061
Other income	**60,263**

Note 5a Operating expenses

	Group
	For the fourteen month period to 31 March 2013
	£'000
Investment management fees and custodian fees	43,303
Investment property maintenance costs	5,628
Provision for bad debts	338
Miscellaneous expenses – See Note 5b	3,239
Total other costs	**52,508**

Note 5b Auditors remuneration

The figure of £3 24 million within Note 5a includes auditor's remuneration as detailed below During the fourteen month period to 31 March 2013 the group obtained the following services from the group's auditor and its subsidiary undertakings

	Group	Company
	For the fourteen month period to 31 March 2013	For the fourteen month period to 31 March 2013
	£'000	£'000
Audit fees payable by the company and group to the company's auditor in respect of the audit of the consolidated and company financial statements	48	48
Audit fees payable by the subsidiary company to the auditor in respect of the audit of the subsidiary company's financial statements	12	-

Note 5c Employees and directors

The directors do not receive remuneration for their services to the group The group has no employees and does not incur any expenses in respect of the services of its directors

Note 6 Foreign exchange (gains) / losses

The exchange differences charged to the statement of comprehensive income and expenditure are included as follows

	Group
	For the fourteen month period to 31 March 2013
	£'000
Other net loss	
• Realised foreign exchange losses	34,283
• Unrealised foreign exchange gains	(5,017)
Total	**29,266**

Included in the unrealised foreign exchange gains of £5 02m is £0 44m of unrealised foreign exchange gains in respect of cash and cash equivalents

Note 7 Exceptional items

Exceptional items are those items that in the directors' view are required to be disclosed separately by virtue of their size or incidence to enable a full understanding of the group's financial performance Exceptional items comprised the following

	Group
	For the fourteen month period to 31 March 2013
	£'000
Exceptional items	
- Exceptional gain arising from the assets transfer	(28,626,547)
- Exceptional loss arising from the cancellation of gilts	10,974,865
- Exceptional loss arising from the cancellation of accrued income	35,580
Exceptional items	**(17,616,102)**

An exceptional gain of £28 63 billion arose following the transfer of assets from the RMPP Trustees into the group under the Assets Transfer Order

As a result of the Assets Transfer Order, the group held UK government gilts ("gilts") under the direction of HM Treasury from 1 April 2012 The gilts had maturity dates ranging from 2013 to 2062 In November 2012, the gilts were transferred to the Debt Management Account (**"DMA"**), within the Debt Management Office (**"DMO"**), for £nil consideration and sold to the National Loans Fund (for cancellation) at market value as required by the National Loans Act 1968 The gilts had a market value of £11 010 billion, including accrued income of £35 58 million, at the date of transfer to the DMA This resulted in a total exceptional loss of £11 010 billion being recognised in the consolidated statement of income and expenditure in the period to 31 March 2013

Prior to the transfer to the DMA, there was a fair value impairment of £172 38 million

As part of the cancellation of the gilts, income that had accrued up to the date of the transfer was also cancelled This resulted in a bad debt write-off of £35 58 million

Note 8 – Investment properties

	Group	Company
	£'000	£'000
At the beginning of the period		
Transfers in	673,777	673,777
Additions	4,768	4,768
Disposals	(362,959)	(362,959)
Net gain arising from fair value adjustments	7,210	7,210
At 31 March 2013	**322,796**	**322,796**

The group's investment properties are formally valued on an annual basis by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and categories of the investment properties

Since 1 April 2012, the net unrealised gain arising from fair value adjustments recognised in the consolidated statement of comprehensive income and expenditure was £7 21 million

During the reporting period, total income of £38 20 million was generated from the investment properties and total expenses of £8 74 million in respect of the investment properties was recognised in the consolidated statement of comprehensive income and expenditure

During the period, investment properties with a net book value of £362 96 million were disposed of, generating a loss on disposal of £1 72million

One of these properties, which was valued at £46 million as at 31 March 2013 did not generate any rental income in the reporting period

Note 9 Investment in subsidiary undertaking

Details of the company's subsidiary at 31 March 2013 is as follows

Name of subsidiary	Place of incorporation	Proportion of ownership interest	Principal activity
BIS (Postal Services Act 2011) B Company Limited	United Kingdom	100%	Manage and hold general partner interests in limited partnerships

Note 10 – Available-for-sale financial assets

The group has determined that the investments in high yield debt securities, private equity investments and property funds are to be classified as 'available for sale financial assets' and measured at fair value in accordance with IAS 39

	Group	Company
	At 31 March 2013	At 31 March 2013
	£'000	£'000
Available-for-sale financial assets		
- Corporate bonds (at fair value)	1,029,067	1,029,067
- Private equity investments (at fair value)	847,518	847,518
- Property funds (at fair value)	463,201	463,201
Total available-for-sale financial assets	**2,339,786**	**2,339,786**

	Group	Company
	At 31 March 2013	At 31 March 2013
	£'000	£'000
At the beginning of the period		
Transfers in	6,801,017	6,793,184
Additions	137,397	137,397
Disposals	(4,755,215)	(4,747,382)
Fair value adjustments	156,587	156,587
At 31 March 2013	2,339,786	**2,339,786**

During the reporting period, £173 14 million of total gains due to the fair value adjustments of available-for-sale financial assets were recognised in other comprehensive income, of which £16 56 million of fair value gains were subsequently reclassified, on derecognition, from equity to the consolidated statement of comprehensive income and expenditure This resulted in a net cumulative fair value gain of £156 59 million in other comprehensive income at the end of the reporting period

Note 11 Investment in joint ventures

	Group	Company
	At 31 March 2013	At 31 March 2013
	£'000	£'000
At the beginning of the period	-	-
Transfers in	-	-
Additions	-	-
Share of profit	-	-
At 31 March 2013	-	-

	Group			Company		
Name of undertaking	**Percentage Interest %**	**Share of Net Assets 31 March 2013 £'000**	**Share of Profit/ (Loss) 2012 -13 £'000**	**Percentage Interest %**	**Share of Net Assets 31 December 2012 £'000**	**Share of Profit/ (Loss) 2012 -13 £'000**
Hermes Factory Outlets GP Limited – See *	50 0	-	-	-	-	-
Talke General Partner Limited – See **	50 0	-	-	-	-	-
Total		-	-	-	-	-

* The latest available financial information being 31 December 2011
** The latest available financial information being 31 December 2011

The group has joint venture undertakings in Hermes Factory Outlets GP Limited and Talke General Partner Limited Both companies are incorporated in England and Wales

Hermes Factory Outlets GP Limited principal activity is to hold and manage the property investments in Hermes Factory Outlets Limited Partnership Talke General Partner Limited principal activity is to safeguard and manage the property investments of Talke (Jersey) Limited Partnership

Hermes Factory Outlets GP Limited and Talke General Partner Limited both have a cost of £1 each Neither Hermes Factory Outlets GP Limited nor Talke General Partner Limited has generated a profit or loss for the period Therefore, no adjustment has been made to the carrying value of the investments in joint ventures and these remain at £1 each at 31 March 2013

Note 12 Trade and other receivables

	Group	Company
	At 31 March 2013	At 31 March 2013
	£'000	£'000
Amounts falling due within one year		
Trade receivables	10,475	10,475
Bad debt provision	(338)	(338)
Unrealised movement on trade receivables	80	80
Accrued income	56,933	56,933
Prepayments and other receivables	287	287
Total	**67,437**	**67,437**

Trade receivables of £133 51 million were transferred to the group by RMPP These were received in full during the period

Accrued income primarily relates to accrued interest arising from the investments in corporate bonds

Note 13 Derivative financial instruments

The group held certain foreign exchange derivatives within its residual investments portfolio These derivatives were originally entered into for the purpose of hedging the underlying foreign exchange risks of the investments against USD at the portfolio level These hedges were not formally designated as hedge instruments in a hedging relationship for the application of cash flow hedge accounting under IAS 39 Therefore, all derivatives have been classified as financial assets or financial liabilities, held for trading, at fair value through profit or loss in accordance with IAS 39

The fair values of derivative financial instruments have been disclosed in the consolidated statement of financial position as follows

	Group			Company		
	At 31 March 2013			At 31 March 2013		
	Assets	Liabilities	Net Assets	Assets	Liabilities	Net Assets
	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
	£'000	£'000	£'000	£'000	£'000	£'000
Current	3,939	-	3,939	3,939	-	3,939
Non-current	-	-	-	-	-	-
Held for trading financial assets or liabilities at fair value through profit or loss	**3,939**	**-**	**3,939**	**3,939**	**-**	**3,939**
Financial assets or liabilities designated as such upon initial recognition	-	-	-	-	-	-

At the reporting date, the derivatives held by the group comprise 25 individual foreign currency forward contracts which will reach settlement between 2 April and 17 October 2013 A net derivatives asset position of £3 94 million is recognised at 31 March 2013 in respect of these forward contracts As a result, a net fair value gain of £3 94 million is recognised in the consolidated statement of comprehensive income and expenditure in the period to 31 March 2013 The unrealised movement in the consolidated statement of comprehensive income and expenditure is included in note 6

Liquidity risk

The group settles the foreign currency forward contracts on a net cash flow basis in which it pays or receives the fair values of the forward contracts, equating to the mark-to-market valuation of these contracts, at the date of maturity The total net cash outflow for foreign currency forward contracts in the fourteen month period to 31 March 2013 was £33 72 million

A maturity analysis is presented below to show the remaining contractual maturities of the financial assets or liabilities arising from the foreign currency forward contracts at the reporting date

			Group			Company
			At 31 March 2013			At 31 March 2013
	Assets (Receiving)	Liabilities (Paying)	Net	Assets (Receiving)	Liabilities (Paying)	Net
	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
	£'000	£'000	£'000	£'000	£'000	£'000
1 – 30 days	2,539	-	2,539	2,539	-	2,539
More than 120 days	1,400	-	1,400	1,400	-	1,400
Total	**3,939**	-	**3,939**	**3,939**	-	**3,939**

The liquidity risk is monitored on an ongoing basis by management to ensure that there are sufficient resources available to meet any ongoing liabilities The board of directors is satisfied that the group is a Government-backed entity and that it has sufficient certainty over future cash inflows from investments held and was not therefore exposed to any significant liquidity risk in respect of the settlement of the derivative contracts

Credit risk

The maximum exposure in respect of derivative contracts at the reporting date is £3 94 million, which is equal to the carrying amount of the derivative assets

Note 14 Financial assets at fair value through profit or loss

The financial assets held at fair value through profit or loss include equity shares and investments held within a qualifying investment fund (QIF) All of these financial instruments are classified as financial assets held for trading In accordance with IAS 39, all financial assets held at fair value through profit or loss were classified as held for trading on transfer in

	Group and Company
	At 31 March 2013
	Classified as held for trading
Financial assets	**£'000**
At the beginning of the period	-
Transfers in	7,970,184
Additions	209,833
Disposals	(7,448,361)
Fair value adjustments	(205,963)
At 31 March 2013	525,693

The net loss due to fair value adjustments of these financial assets of £205 96 million was recognised in the consolidated statement of comprehensive income and expenditure in the period to 31 March 2013

Note 15 Cash and cash equivalents

	Group	Company
	At 31 March 2013	At 31 March 2013
	£'000	£'000
Cash and cash equivalents held at commercial banks	44,846	44,846
Cash and cash equivalents held by the Government Banking Service (GBS)	295,910	295,910
Total	**340,756**	**340,756**

At 31 March 2013, £16 55 million of cash and cash equivalents held by the group is denominated in USD Since the group uses GBP as its reporting currency, it is exposed to foreign currency exchange rate movement Management estimates that a shift of +/-5% in the USD/GBP foreign exchange rate would not be deemed unreasonable and would result in an unrealised foreign exchange gain or loss of £0 83 million being recognised in the consolidated statement of income and expenditure

At 31 March 2013, £16 01 million of cash and cash equivalents held by the group is denominated in EUR Since the group uses GBP as its reporting currency, it is exposed to foreign currency exchange rate movement Management estimates that a shift of +/-5% in the EUR/GBP foreign exchange rate would not be deemed unreasonable and would result in an unrealised foreign exchange gain or loss of £0 80 million being recognised in the consolidated statement of income and expenditure

Note 16 Trade and other payables

	Group	Company
	At 31 March 2013	At 31 March 2013
	£'000	£'000
Amounts falling due within one year		
Trade payables	4,291	4,291
Amounts payable to subsidiary undertakings	-	6,547
Accrued expenses and deferred income	9,465	9,453
VAT payable	726	726
Total	**14,482**	**21,017**

Trade payables of £12 99 million were transferred to the group by RMPP These were paid in full during the period

Note 17 Financial instruments

Note 17(a) Financial risk factors

Financial risk management

The group's activities expose it to a variety of financial risks The group's overall risk management programme seeks to minimise on-going exposure to financial risks by disposing of assets as promptly as reasonably practicable whilst achieving value for money for the taxpayer

The day-to-day management of financial risks is carried out by the investment managers under policies approved by the group's management team The management team provides written principles for overall risk management, as well as specific instructions covering the manner in which different classes of assets should be realised to meet its objectives

Market risk

The group is exposed to market risk, primarily related to foreign currency exchange rates, interest rates and price risks To manage the exposure to market risk, the group actively seeks to dispose of any liquid and volatile assets as promptly as reasonably practicable whilst achieving value for money for the taxpayer

i Foreign exchange risk

The group uses GBP as its reporting currency As a result, the group is exposed to foreign currency exchange rate movements The primary foreign exchange risks are USD and EUR due to its holdings in foreign currency denominated fixed income instruments and its investments in various private equity investment vehicles that have exposure to European and North American regions The sterling value of the group's balance sheet can be affected by movements in exchange rates

The table below summarises the sensitivity of the group's monetary assets to changes in foreign exchange movements at 31 March 2013 The analysis is based on the assumption that the relevant foreign exchange rate increased/decreased against GBP by the percentage disclosed in the table below with all other variables held constant Management estimates that a movement in the foreign exchange rates of +/- 5% would not be unreasonable, having regards to the historical volatility of those rates The increase or decrease in the net assets arises primarily from a change in the fair value of USD and EUR denominated unquoted equity of the private equity portfolio and fixed interest securities that are classified as available-for-sale financial assets

Group	Reasonable movement in rate	Impact on net assets
	At 31 March 2013	At 31 March 2013
Currency	%	£'000
US dollar denominated monetary assets	+/- 5%	+/- 65,770
Euro denominated monetary assets	+/- 5%	+/- 26,982

ii Price risk

The group's strategy for managing price risk principally focuses on the disposal of highly volatile and liquid assets as promptly as possible whilst realising value for money for the taxpayer During the first few months of the financial period, the group actively sought to dispose of its investments in more liquid investments, including listed equities, corporate bonds, equity futures and inflation and interest rate swaps to minimise its on-going exposure to price risk The residual investments at 31 March 2013 were predominantly comprised of less liquid and highly diversified investments, including the investments in private equity investment vehicles, high yield debt securities and property funds

The sensitivity analysis below has been determined based on the exposure to each material price risk at the reporting date

The group's private equity portfolio is primarily composed of investments in European and North American unquoted shares During the year the group recognised a market value gain on its private equity portfolio of £45 95 million If the valuation had been 5% higher/lower, the total value would have increased/decreased by £1 02 million, with the movement being recognised in other comprehensive income

The fair value movement of debt securities is driven by the fluctuations in market interest rates The fair value interest risk is further discussed below The price risk on the investments in property funds is not expected to be material

The performance of investments held by the group is monitored by management on a monthly basis

iii Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and future cash flows The group holds fixed interest securities that expose the group to fair value interest rate risk The group also holds floating rate securities that are exposed to cash flow interest rate risk

The group's principle risk management strategy is to manage the fair value risk by holding the high yield debt securities until maturity At 31 March 2013, the high yield debt securities were valued at £1 03 billion Of this 75% are fixed interest debt securities The remaining 25% are floating interest debt securities For the floating interest debt securities, if the interest rate had been 50 basis points higher/lower, with all other things being constant, the interest income earned would be £0 33 million higher/lower and the fair value recognised would have been £0 32 million higher/lower

Interest rate risk is not expected to have a significant impact on cash flows

The group have no short or long term borrowings and is not therefore exposed to risk in respect of variable interest rate payments

Credit risk

The group is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation The main concentration to which the group is exposed arises from the group's investments in debt securities

As at 31 March 2013, the group held a mixed quality of debt securities The investments in high yield bonds were initially transferred to the group as part of the Royal Mail Pension Plan's balanced investment portfolio As would be normal in any high yield bond portfolio, the group is exposed to the counterparty credit risk on its high yield debt securities Based on historic rates of market defaults, a 2% to 4% default rate within the existing yield debt securities portfolio would not be unexpected To manage the risk of loss, the investments are broadly diversified There are specific parameters for the holding of the debt securities within particular sectors and also a limit on individual holdings as a percentage of the total portfolio The investment managers also have significant expertise in managing the risk of default

The analysis below summarises the credit quality of the group's high yield debt portfolio as at 31 March 2013

Credit rating	At 31 March 2013 £'000
Group	
Available-for-sale debt securities	
B- rating or higher	490,711
CCC rating or lower	538,989
Total	**1,029,700**

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities The liquidity risk is monitored on an ongoing basis to ensure that there are sufficient resources available to meet any ongoing liabilities The group is a Government-backed entity In addition, the board of directors are satisfied that it has sufficient certainty over future cash inflows from the investments held and that the group was not therefore exposed to any significant liquidity risk

In addition, cash flow is monitored on an ongoing basis to ensure there are sufficient cash balances to pay any ongoing operational costs or commitments in respect of uncalled capital amounts payable to private equity investment managers, as and when they fall due

Note 17(b) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method The different levels have been defined as follows

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The following table presents the group's assets and liabilities that are measured at fair value at 31 March 2013

Group	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Financial assets at fair value through profit or loss				
- Derivatives	-	3,939	-	**3,939**
- Trading securities	39,792	485,901	-	**525,693**
Available-for-sale assets	1,029,700	-	1,310,086	**2,339,786**
Total assets	**1,069,492**	**489,840**	**1,310,086**	**2,869,418**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis The quoted market price used for financial assets held by the group is the current bid price These instruments are included in Level 1 Instruments included in Level 1 comprise primarily listed equity and debt investments classified as trading securities or available for sale

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3

Specific valuation techniques used to value financial instruments include

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments

The following table presents the movement in Level 3 instruments for the period ended 31 March 2013 by class of financial instrument

Group	Private equity investments	Property funds	Total
	£'000	£'000	£'000
At the beginning of the period	-	-	-
Transfers into Level 3	855,029	518,492	1,373,521
Additions	81,104	10,133	91,237
Disposals	(135,495)	(65,752)	(201,247)
Net changes in fair value	46,246	329	46,575
At 31 March 2013	**846,884**	**463,202**	**1,310,086**

Note 17(c) Financial instruments by category

31 March 2013

Group	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale	Total
	£'000	£'000	£'000	£'000
Assets as per balance sheet				
Available-for-sale financial assets	-	-	2,339,786	**2,339,786**
Derivative financial instruments	-	3,939	-	**3,939**
Trade and other receivables	67,437	-	-	**67,437**
Financial assets at fair value through profit or loss	-	525,693	-	**525,693**
Cash and cash equivalents	340,756	-	-	**340,756**
Total	**408,193**	**529,632**	**2,339,786**	**3,277,611**

Note 18 Income tax expense

	For the 14 month period ended 31 March 2013
Profit before tax	**17,752,338**
Tax on profit at 24%	**4,260,561**
Items not chargeable to UK corporation tax	(2,811,316)
Income not taxable	(1,453,224)
Expenses allowable for tax purposes	3,979
Tax expense for the period	**-**

BIS (Postal Services Act 2011) Company Limited is exempt from UK corporation tax for any accounting period that begins and ends before 1 April 2015, as set out in The Postal Services Act 2011 (Taxation) Regulations 2012 BIS (Postal Services Act 2011) B Company Limited is not exempt from UK corporation tax

At 31 March 2013 there is £nil corporation tax payable There are £626,130 of unused tax losses available to carry forward against taxable profits generated from the same trade

Note 19 Share capital

	Group		Company	
	At 31 March 2013		At 31 March 2013	
	Number of shares	Ordinary shares	Number of shares	Ordinary shares
		£'000		£'000
Allotted				
1 allotted, called up and unpaid share of £1	1	-	1	-
At 31 March 2013	**1**	**-**	**1**	**-**

At the date of incorporation, one share was issued at par with a nominal value of £1 The £1 remains unpaid at 31 March 2013

Note 20 Contingent liabilities

The group has no contingent liabilities at the date of the consolidated statement of financial position

Note 21 Commitments

At 31 March 2013, the group and company had contractual obligations in respect of repair, maintenance or enhancement of the investments properties of £4 84m These amounts are due in less than one year

The group and company are required to fulfil capital contributions in respect of the private equity funds classified within the available-for-sale financial instruments At 31 March 2013, the total unfunded commitment was £197 82m which is payable on demand with no set date for repayment

Note 22 Ultimate controlling party

The ultimate controlling party for the group is the Secretary of State for the Department for Business, Innovation and Skills These group financial statements are consolidated within the Department for Business, Innovation and Skills financial statements

Note 23 Related-party transactions

Under Article 14, *'Remittance of Cash Proceeds to the Consolidated Fund'*, and Article 12, *'Retention of Cash'*, of the company's Articles of Association, the company has an obligation to reimburse 'excess cash' to its immediate parent company BIS A total cash remittance of £14 32 billion was paid to BIS during the period to 31 March 2013

During the period, the group reimbursed BIS £0 63 million for costs paid by BIS on behalf of the group At the year end there was £nil owed to/from the group to BIS

During the period, the company paid costs totalling £0 01m on behalf of its subsidiary undertaking, BIS (Postal Services Act 2011) B Company Limited At the period end, the company owed £6 55million to its subsidiary undertaking This primarily relates to any receipts of proceeds or payments of expenses by the company on behalf of the subsidiary undertaking

The following transactions with governmental bodies occurred during the fourteen month period to 31 March 2013 The UK Debt Management Office ("**DMO**") is an executive agency of HM Treasury and is responsible for the management of the Government's debt on its behalf Within the DMO is the Debt Management Account ("**DMA**") which records all the DMO's issuance and trading transactions In agreement with the DMA, the investments in UK government gilts, which were held by the group under the direction of HM Treasury, were transferred to the DMA for £nil consideration and sold to the National Loans Fund (for cancellation) at market value as required by the National Loans Act 1968 The gilts had a market value of £11 01 billion including accrued income of £35 58 million at the date of transfer to the DMA Total interest income of £96 89m, in respect of the gilts, was included in the consolidated statement of comprehensive income and expenditure for the period to 31 March 2013

Note 24 Events after the reporting period

On 27 June 2013, the directors of BIS (Postal Services Act 2011) B Company Limited declared and paid a final dividend of £6 53m to its immediate parent company BIS (Postal Services Act 2011) Company Limited

There were no other material events since the end of the financial period that may significantly affect the financial performance or position of the reporting entity