BIS (Postal Services Act 2011) Company Limited

Annual Report and Financial Statements 2018-19

(For the year ended 31 March 2019)

Company Number: 07941521

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Strategic report

The business, its objective and strategy

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

Cash and cash equivalents realised by the company through the disposal of assets are ultimately transferred to the Department for Business, Energy and Industrial Strategy.

The company's residual investment activities are principally managed by Beach Point Capital Management LP, 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

At 31 March 2019, the company had net assets of £422.6 million as shown in the Statement of Financial Position (31 March 2018: £494.4 million).

The total cash inflows arising from operating activities in 2018-19 amounted to £129.8 million (2017-18: £162.2 million).

The net profit attributable to equity holders of the company in 2018-19 was £59.3 million, as shown in the Statement of Comprehensive Income and Expenditure (2017-18: £75.1 million).

The company will continue to keep the realisation strategy of the retained assets under review, with consideration given to holding the assets for an extended period where this is likely to deliver value for money for the taxpayer.

Principal risks and uncertainties

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

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

Signed on behalf of the board by:

Niall Mackenzie
Accounting officer and director

17th December 2019

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.

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 company was incorporated and established to hold certain assets transferred from the RMPP Trustees to the Government. The ultimate controlling party for the company is the Secretary of State for Business, Energy and Industrial Strategy ("**BEIS**").

Key performance indicators (KPIs)

BIS (Postal Services Act 2011) Company Limited is a wholly owned subsidiary of BEIS. As a result, both the management and reporting of risk and key performance indicators are undertaken at the Departmental level. However, in keeping with the company's realisation strategy, the directors monitor key metrics including the performance of each of the investment portfolios as part of an annual review.

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. Directors are not remunerated by the company in any form.

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 company's Articles of Association, a total cash distribution of £131.0 million was made to BEIS during the reporting year (31 March 2018: £162.0 million). This amount has been recognised in the Statement of Changes in Equity for the year ended 31 March 2019.

Events after the reporting date

No material events have occurred since the end of the financial year 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 year. In accordance with the requirements of the Companies Act, the directors have prepared the 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 the company and of the profit or loss of the company for that year. 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Under Section 454 of the Companies Act 2006, on a voluntary basis, the directors can subsequently amend these financial statements if they did not comply with the Companies Act 2006.

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 company'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 company'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:

Niall Mackenzie
Accounting officer and director
17th December 2019

Governance statement

Introduction

The principal objective of the company 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 company is ultimately owned and controlled by the Secretary of State for Business, Energy and Industrial Strategy ("**BEIS**") 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 company during the year to 31 March 2019.

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'. Up to 31 March 2019 the board delegated the day-to-day operation of the business, in accordance with appropriate risk parameters, to UK Government Investments ("**UKGI**"), a company wholly owned by HM Treasury. 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 year ended 31 March 2019, the board considered a wide range of issues, including:

- the progress of the asset realisation exercise;
- the financial position of the company;
- the long-term plan for the company;
- approving full-year results;
- considering opportunities for the realisation of assets; and
- discussing risk management and controls within the company.

Board structure from 1 April 2018 to 31 March 2019

Directors
Niall Mackenzie, accounting officer (appointed 28 June 2017)
David Long
Jonathan Sell (appointed 16 August 2017, resigned 31 March 2019)

David Sandford was appointed as a Director on 8 April 2019.

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 2 scheduled meetings in the year ended 31 March 2019. 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 in advance of the meeting. Following the meeting any director not present is briefed 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 year ended 31 March 2019 was as follows:

Directors	Number of possible meetings attended	Actual meetings attended
Niall Mackenzie	2	2
David Long	2	2
Jonathan Sell	2	0

Responsibility of the principal accounting officer of BEIS

The principal accounting officer of BEIS is responsible for approving the 'Realisation Plan' of the company 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, management will report to the board and the principal accounting officer as necessary. The directors and specifically the accounting officer of the company, who was designated by the principal accounting officer of BEIS, have certain responsibilities. The primary responsibilities (in addition to those defined in the Companies Act 2006) 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 company. The directors and the accounting officer also ensure that it is 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 accounting officer

Written updates on the progress of the asset realisation exercise were provided by management to the board, including the chair who is the accounting officer, as part of the annual review in September 2018. The board considers that the written updates provided by the management team during the financial year were relevant, sufficient and timely to satisfy its purpose.

Review of board's effectiveness

The board is currently comprised of 3 directors all of whom are senior officials within Government Departments or other public sector bodies. One director is employed by UKGI, one by BEIS and one by HM Treasury. It is considered that the size and experience of the board is appropriate given the nature of the company's operations.

During the year ended 31 March 2019, no formal evaluation of the board's effectiveness has been carried out, however, the board met 2 times in the year and believes that its structure and monitoring framework are functioning effectively to enable the objectives of the company 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 year. Where the provisions have not been complied with, companies must provide an explanation for this.

BIS (Postal Services Act 2011) Company Limited is a private limited company that is ultimately owned by BEIS. As the company is not listed in the UK, compliance with the code is not required.

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

Risk management and internal control

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

These include on-going controls and review procedures in place to monitor the performance of the investment managers that continue to manage investments on behalf of the company.

Given the specific nature of the company, its principal risks and uncertainties reside with the exposure to financial risks arising from its holdings of financial assets.

Signed on behalf of the board by:

Niall Mackenzie
Accounting officer and director

17th December 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIS (POSTAL SERVICES ACT 2011) COMPANY LIMITED

Opinion on financial statements

I have audited the financial statements of the BIS (Postal Services Act 2011) Company Limited for the year ended 31 March 2019 which comprise the company's Statement of Comprehensive Income and Expenditure, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of the net profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the BIS (Postal Services Act 2011) Company Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BIS (Postal Services Act 2011) Company Limited's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the directors for the financial statements

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.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

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. 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.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BIS (Postal Services Act 2011) Company Limited's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and
- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

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 returns adequate for my audit have not been received from branches not visited by my staff; 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.

Greg Wilson (Senior Statutory Auditor)

Date: 18 December 2019

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Statement of Comprehensive Income and Expenditure

for the year ended 31 March 2019

	Note	For the year ended 31 March 2019 £'000	For the year ended 31 March 2018 £'000
Revenue			
Net changes in fair value on financial assets held at fair value through profit or loss	9	(57,750)	45
Net realised gains arising from the sale of financial assets	2	664	78,840
Finance income	3	119,394	1,019
Other income	4	184	586
Foreign exchange gains/(losses)	6	96	(1,512)
Expenses			
Operating expenses	5	(3,308)	(3,848)
Net profit for the year/period		**59,280**	**75,130**
Other comprehensive income:			
Available-for-sale reserve:			
Net changes in fair value of available-for-sale financial assets	9	-	(26,341)
Reclassification adjustments for gains of available-for-sale financial assets included in Statement of Comprehensive Income and Expenditure		-	(30,392)
Total comprehensive income for the year		**59,280**	**18,397**

The notes on pages 17 to 30 form part of these financial statements.

Statement of Financial Position
as at 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Assets			
Non-current assets			
Financial assets:			
Assets held at fair value through profit or loss	9	275,338	–
Available-for-sale assets	9	–	345,130
Total non-current assets		**275,338**	**345,130**
Current assets			
Trade and other receivables	8	470	1,609
Assets held at fair value through profit or loss		–	1,230
Cash and cash equivalents	10	147,176	148,418
Total current assets		**147,646**	**151,257**
Total assets		**422,984**	**496,387**
Current liabilities			
Trade and other payables	11	(353)	(2,036)
Total current liabilities		**(353)**	**(2,036)**
Net assets		**422,631**	**494,351**
Capital and reserves			
Available-for-sale reserves		–	64,501
Retained earnings		422,631	429,850
Total equity		**422,631**	**494,351**

The notes on pages 17 to 30 form part of these financial statements.

The financial statements were approved by the board of directors and signed on its behalf by:

Niall Mackenzie
Accounting officer and director

07 December 2019

Company number: 0794152

Statement of Changes in Equity

for the year ended 31 March 2019

		Attributable to equity holders of the Company			
		Ordinary Share capital	**Available-for-sale reserve**	**Profit and Loss account**	**Total**
	Note	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2017		**–**	**121,234**	**516,720**	**637,954**
Net profit	SoCIE	–	–	75,130	**75,130**
Revaluations in other comprehensive income	9	–	(26,341)	–	**(26,341)**
Available-for-sale reserves released to Statement of Comprehensive Income and Expenditure	SoCIE	–	(30,392)	–	**(30,392)**
Payment made to BEIS		–	–	(162,000)	**(162,000)**
Balance at 31 March 2018		**–**	**64,501**	**429,850**	**494,351**
IFRS 9 transfer of AFS reserve to P&L account		–	(64,501)	64,501	–
Balance at 1 April 2018		**–**	**–**	**494,351**	**494,351**
Net profit	SoCIE	–	–	59,280	**59,280**
Payment made to BEIS		–	–	(131,000)	**(131,000)**
Balance at 31 March 2019		**–**	**–**	**422,631**	**422,631**

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 payment of £131.0 million (2017-18: £162.0 million) was made to BEIS during the reporting year.

The notes on pages 17 to 30 form part of these financial statements.

Statement of Cash Flows

for the year ended 31 March 2019

	Note	For the year ended 31 March 2019	For the year ended 31 March 2018
		£'000	£'000
Cash flows from operating activities			
Net profit	SoCIE	59,280	75,130
Bad debts written off/(written back)	5	–	(136)
Net changes in fair value on financial assets at fair value through profit or loss	9	57,750	(45)
Net gain arising from the sale of financial assets	2	(664)	(78,840)
Unrealised foreign exchange (gains)/losses	6	–	563
(Increase)/decrease in trade and other receivables before bad debt provision	8	1,139	308
Decrease in trade and other payables	11	(1,683)	(299)
Proceeds from the sale of financial assets	2, 9	20,124	171,619
Purchases of financial assets	9	–	(6,111)
IFRS 9 adoption opening balance adjustments to financial assets	9	(6,188)	–
Net cash flow from purchase and sale of foreign currency forward contracts		–	5
Net cash flows from operating activities		**129,758**	**162,194**
Cash flows from financing activities			
Payment made to BEIS		(131,000)	(162,000)
Net cash used in financing activities		**(131,000)**	**(162,000)**
Net increase/(decrease) in cash and cash equivalents		**(1,242)**	**194**
Cash and cash equivalents at the beginning of the year	10	148,418	148,787
Foreign exchange gains on cash and cash equivalents during the year	6	–	(563)
Cash and cash equivalents at the end of the year	10	**147,176**	**148,418**

The notes on pages 17 to 30 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).

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 company.

The principal activity of the company is to hold and realise assets in accordance with the Realisation Plan adopted by the shareholders in Part 2 of the company's Articles of Association. The company's residual investment activities are principally managed by Beach Point Capital Management LP, 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 company is ultimately owned and controlled by the Secretary of State for Business, Energy and Industrial Strategy ("**BEIS**").

Statement of accounting policies

Basis of preparation

The 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 company's accounting policies.

The financial statements are prepared in accordance with IFRS and Interpretations in force at the reporting date. The company 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. See notes 1.1 and 1.2 for further details.

These financial statements have been prepared for the year ended 31 March 2019.

Accounting convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities.

These financial statements have been prepared on a going concern basis. The directors have considered the going concern status of the company and feel that the preparation of the financial statements on a going concern basis is reasonable. The directors are of the opinion that the company will continue as a going concern for at least 12 months from the signing of the financial statements for the year ended 31 March 2019.

Presentational currency

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

1 Accounting policies

1.1 Changes in accounting policy

IFRS 9 was adopted from 1 April 2018 and the impact of this is considered in notes 1.2 and 1.4.

IFRS 15 Revenue Contracts with Customers was adopted from 1 April 2018 however as the company has no revenue contracts with customers, there has been no impact.

IFRS 16 Leases is due to be adopted on 1 April 2019 however as the company has no leases, no impact is anticipated.

1.2 Changes to IFRS

These financial statements apply EU-adopted IFRS and Interpretations - the company has reviewed the potential effects of new accounting standards on its financial statements and no material impact is expected other than the items noted below.

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement as of 1 April 2018, simplifying the classification and measurement of financial assets as well as amending when and how impairments are calculated and reported, moving from an incurred loss to an expected loss model.

IFRS 9 is applied retrospectively, however entities have the option to either restate prior year comparative information or recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period following the date of adoption of IFRS 9 as an opening balance adjustment in retained earnings. The company has chosen to recognise the difference on adoption of IFRS 9 as an adjustment in retained earnings, disclosed in the Statement of Changes in Equity.

Prior to the adoption of IFRS 9 on 1 April 2018 the company's financial assets were classified in to one of the following categories per IAS 39, which was determined at initial recognition:

- Financial assets at fair value through profit or loss (FVTPL)
- Available-for-sale financial assets (AFS)
- Loans and receivables
- Held-to-maturity investments

IFRS 9 was adopted by the company on 1 April 2018 and accordingly the financial assets have been classified into one of the following categories from that date:

- Amortised Cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)

The company holds a significant portfolio of equity investment fund and investment property fund assets through holdings in Limited Partnerships (investment funds) that have been assessed against the requirements of IFRS 9. These assets have been classified as financial assets held at fair value through profit or loss (FVTPL) where the majority were previously held as available-for-sale financial assets (AFS) under IAS 39. Accordingly, the recycling of historic revaluations through other comprehensive income has ceased and an opening balance adjustment has been made to the AFS reserve in the Statement of Changes in Equity that transfers the historic revaluations balance to the profit or loss account. Movements in the fair value of these assets are now recognised in the Statement of Comprehensive Income and Expenditure before net profit or loss for the year – they were previously recognised in other comprehensive income in keeping with IAS 39.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on 1 April 2018:

		Reconciliation		Carrying amount under IFRS 9 at 1 April 2018	
	Carrying amount under IAS 39 at 31 March 2018	Transfer between categories	**Carrying amount under IFRS 9 at 1 April 2018**	Amortised cost	Fair value through profit or loss
	£'000	£'000	£'000	£'000	£'000
Loans and Receivables					
Cash and cash equivalents	148,418	(4,896)	143,522	143,522	
Trade and other receivables	1,609	(1,471)	138	138	
Available-for-sale					
Available-for-sale assets	345,130	6,188	351,318		**351,318**
Fair value through profit of loss					
Assets held at fair value through profit or loss	1,230	-	1,230		1,230
Total financial assets	**496,387**	-	**496,208**	**143,660**	**352,548**
Trade and other payables	(2,026)	179	(1,847)	(1,847)	-
Total financial liabilities	**(2,036)**	-	**(1,847)**	**(1,847)**	-

1.3 Revenue recognition

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

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

1.4 Financial instruments

The company recognises and measures financial instruments in accordance with IFRS 9 Financial Instruments from 1 April 2018. Prior to this, financial instruments were recognised and measured in accordance with IAS 39.

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 company becomes a party to the contractual provisions of an instrument.

The fair value of financial instruments is reported to us by our fund managers – this value 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. Because of the inherent uncertainty in valuing investments in investment partnerships for which no active, public market exists, or where the net realisable value may be significantly affected by a lack of liquidity or other market conditions, the fair values reported to us by our fund managers are estimates and could differ significantly from the value that could be ultimately realised. Sensitivity analysis is disclosed in note 12.1 for changes in key assumptions and drivers used in the valuations.

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

Financial assets

Classification and measurement of financial assets:

IFRS 9 contains three principal classification categories for financial assets: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which financial asset is managed and its contractual cash flow characterises:

- *Amortised cost* are financial assets whose cash flows are solely payments of principal and interests where the related business model is to hold them for collecting contractual cash flows only. They are initially recognised at fair value and thereafter at amortised cost using the effective interest method less any impairment. The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period.

  The only amortised cost assets the company holds are receivables, principally comprised of accrued income and short-term trade receivables. Given the short-term nature of these assets, they are carried at invoice price.

- *Fair value through Other Comprehensive Income (FVOCI) are either:*

  (i) debt instruments whose cash flows are solely payments of principal and interests where the related business model is to hold for both collecting contractual cash flows and selling.

  (ii) equity instruments that are neither held for trading nor contingent consideration recognised in a business combination, and where the option to irrevocably designate as FVOCI has been taken

  After initial recognition, these assets are subsequently carried at fair value. Gains and losses in fair value are recognised directly in equity. On de-recognition, the cumulative gain or loss previously recognised in equity is recognised in Net expenditure for the year for debt instruments and transferred to General Fund for equity instruments.

  The company does not hold any FVOCI assets.

- *Fair value through profit or loss (FVTPL)* are any financial assets that are not measured at amortised cost or FVOCI. Transaction costs and any subsequent movements in the valuation of the asset are recognised in the Statement of Comprehensive Income and Expenditure.

  The majority of the company's assets are holdings in Limited Partnerships (investment funds) who themselves hold private equity and investment property fund assets. None of the cash flows to the company from these holdings are solely payments of principle and interest on amounts outstanding, and therefore it is inappropriate for them to be classified as amortised cost. The company assessed that under IFRS 9 the option to irrevocably designate these holdings as FVOCI was available, however it has decided not to make that designation. On this basis, from 1 April 2018 these holdings are classified as FVTPL. Prior to this, the holdings in these investment funds were classified as AFS and the investments in equity securities as FVTPL under IAS 39. Fair value is based on the net asset value of the investment funds, adjusted only if the Directors do not consider the net asset value to reflect fair value.

Under IFRS 12 *Disclosure of Interest in Other Entities,* the holdings in investment funds qualify as structured entities as the company does not have substantive voting or similar rights.

Financial liabilities

The company's financial liabilities comprise trade and other payables and accrued expenses – they are not held for trading, derivatives or otherwise designated, so do not meet the criteria to be classified as FVTPL. They are therefore classified as amortised cost and since these balances are expected to be settled within twelve months of the reporting date, there is no material difference between amortised cost and historical cost.

1.5 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 year is used. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the rates of exchange ruling at that date. These translation differences are recognised in the Statement of Comprehensive Income and Expenditure.

1.6 Corporation tax

BIS (Postal Services Act 2011) Company Limited, with a registered number of 07941521, is exempt from UK corporation tax for any accounting year in which it is wholly owned by the Crown, by virtue of The Postal Services Act 2011 (Taxation) (Amendment) Regulations 2016.

1.7 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.

Valuations of the holdings in equity and property investment funds and investments in equity securities are provided by fund managers on a monthly or quarterly basis. Valuations at 31 December of the reporting year are audited – these values are rolled forward in the final quarter of the year and adjusted for cash movements to produce an unaudited valuation for the 31 March reporting date.

1.8 Cash and cash equivalents and cash distributions

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. .

Cash distributions are accounted for in the company's financial statements in the year in which they are approved by the company's directors.

2 Net realised gains arising from the sale of financial assets

The table below sets out the realised gains or losses arising from the sale of financial assets by category under IFRS 9 (for the year ended 31 March 2018 these were recognised according to IAS 39).

	For the year ended 31 March 2019	For the year ended 31 March 2018
	£'000	£'000
Realised gains/(losses) arising from:		
- the sale of financial assets at fair value through profit or loss	664	(344)
- the sale of available-for-sale financial assets	–	79,184
Total net realised gains	**664**	**78,840**

3 Finance income

The income below relates to receipts arising from the company's holdings in investments funds and interest income arising from bank deposits.

	For the year ended 31 March 2019	For the year ended 31 March 2018
	£'000	£'000
Distributions from investment funds and dividend income	119,285	400
Interest income arising from financial assets	109	619
Total finance income	**119,394**	**1,019**

4 Other income

	For the year ended 31 March 2019	For the year ended 31 March 2018
	£'000	£'000
Investment income derived from property funds	184	586
Total other income	**184**	**586**

5 Operating expenses

	For the year ended 31 March 2019	For the year ended 31 March 2018
	£'000	£'000
Investment management fees and custodian fees	3,228	3,430
Bad debts written off/(written back)	–	(136)
Other expenses – See Note 5.1	80	554
Total operating expenditure	**3,308**	**3,848**

Other expenses are predominantly made up of fund manager consultancy fees, audit fees and foreign tax.

5.1 Audit fees

The "Other expenses" figure of £0.1 million (2017-18: £0.6 million) within note 5 includes auditor's remuneration as detailed in the following table. During the year to 31 March 2019 the company obtained the following services from the company's auditor:

	For the year ended 31 March 2019	For the year ended 31 March 2018
	£'000	£'000
Audit fees in respect of the audit of the company financial statements	41	41
Total auditors' remuneration	**41**	**41**

5.2 Employees and directors

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

6 Foreign exchange gains/(losses)

The foreign exchange gains/(losses) charged to the Statement of Comprehensive Income and Expenditure are included as follows:

	For the year ended 31 March 2019	For the year ended 31 March 2018
	£'000	£'000
Realised foreign exchange gains/(losses)	96	(949)
Unrealised foreign exchange gains/(losses)	-	(563)
Other income	**96**	**(1,512)**

All of the unrealised foreign exchange gains of £nil (2017-18: £0.6 million losses) are in respect of cash and cash equivalents.

7 Available-for-sale financial assets

The company has applied IFRS 9 from 1 April 2018 and has categorised the financial assets previously held as available-for-sale under IAS 39 as fair value through profit or loss (FVTPL) under IFRS 9. See notes 1.4 and 1.2 for further details on the application of IFRS 9 and note 9 for further detail on the value and movements of the assets as well as comparative figures.

8 Trade and other receivables

	31 March 2019	31 March 2018
	£'000	£'000
Amounts falling due within one year		
Trade receivables	135	1,585
Accrued income	11	10
VAT receivable	15	10
Prepayments and other receivables	309	4
Total	**470**	**1,609**

9 Financial assets at fair value through profit or loss

The financial assets held at fair value through profit or loss include equity shares and are classified in accordance with IFRS 9. The comparative figures presented include assets held at fair value through profit or loss and available-for-sale assets as classified under IAS 39.

	31 March 2019			31 March 2018
	Assets held at fair value through profit or loss (IFRS 9)	Assets held at fair value through profit or loss (IAS 39)	Available-for-sale assets (IAS 39)	**Total (IAS 39)**
	£'000	£'000	£'000	**£'000**
Financial assets				
Opening balance	**346,360**	2,121	487,595	**489,716**
Adjustment upon adoption of IFRS 9	6,188	–	–	**–**
Adjusted opening balance	**352,548**	2,121	487,595	**489,716**
Additions	–	–	6,111	6,111
Disposals	(19,460)	(936)	(122,235)	(123,171)
Fair value adjustments	(57,750)	45	(26,341)	(26,296)
Total financial assets	**275,338**	1,230	345,130	**346,360**

10 Cash and cash equivalents

	31 March 2019	31 March 2018
	£'000	£'000
Cash and cash equivalents held by the Government Banking Service (GBS)	146,538	143,026
Cash and cash equivalents held at commercial banks	638	5,392
Total	**147,176**	**148,418**

At 31 March 2019 the majority of cash held by the company is denominated and transacted in GBP and therefore its cash exposure to foreign currency exchange rate movements is not significant.

11 Trade and other payables

	31 March 2019	31 March 2018
	£'000	£'000
Amounts falling due within one year		
Trade payables	–	159
Accrued expenses and deferred income	353	1,877
Total	**353**	**2,036**

12 Financial instruments

12.1 Financial risk factors

Financial risk management

The company's activities expose it to a variety of financial risks. The company'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 company's management team. The management team provides written principles for overall risk management, as well as specific instructions covering the way different classes of assets should be realised to meet its objectives.

Market risk

The company 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 company 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 company uses GBP as its reporting currency - the primary foreign exchange risks are USD and EUR due to its holdings in foreign currency denominated investment funds. As a result, the sterling value of the company's Statement of Financial Position can be affected by movements in exchange rates.

The table below summarises the sensitivity of the company's monetary assets to changes in foreign exchange movements at 31 March 2019. The analysis assumes 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 investment funds that are classified as assets held at fair value through profit or loss.

	Reasonable movement in rate	Impact on net assets	Impact on net assets
		31 March 2019	31 March 2018
Currency	**%**	**£'000**	**£'000**
US dollar denominated monetary assets	+/- 5%	+/- 7,034	+/- 8,412
Euro denominated monetary assets	+/- 5%	+/- 112	+/- 6,279

ii. Price risk

Price risk is principally managed by disposing of assets as promptly as possible whilst realising value for money for the taxpayer. During the financial year, fund managers continued to actively dispose of investments, where practicable, to minimise the company's on-going exposure to price risk. The company's investments at 31 March 2019 were predominantly comprised of holdings in investment funds which held illiquid and highly diversified investments, mainly investments in private equity investment vehicles and property funds.

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

The company has holdings in investment funds which in turn hold private equity portfolios which are primarily composed of investments in European and North American unquoted shares. During the year the company recognised a market value increase on its holding in these partnerships of £54.7 million (2017-18: £26.3 million increase). If the valuation had been 5% higher/lower, the total value would have increased/decreased by a further £2.7 million (2017-18: £1.3 million), with the movement being recognised in the Statement of Comprehensive Income and Expenditure.

The fair value movement of debt securities disposed of in year was driven by fluctuations in market interest rates. The fair value interest risk is further discussed below. The price risk on investment funds invested in property funds is not expected to be material.

The performance of the investment funds and directly owned equity investments held by the company are 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 held within some of the investment funds. The company's exposure to this risk is not considered significant.

Credit risk

The company is not party to any significant credit instruments (assets or liabilities) and is therefore not directly exposed to significant credit risk.

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 on-going basis to ensure that there are sufficient resources available to meet any on-going liabilities. The company 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 company was not therefore exposed to any significant liquidity risk.

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

12.2 Fair value estimation

The following table analyses financial instruments carried at fair value by valuation method, in accordance with IFRS 13. 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 financial instruments that are measured at fair value at 31 March 2019.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Financial assets at fair value through profit or loss				
Trading securities	–	–	1,257	**1,257**
Private equity and investment property funds	–	–	274,081	**274,081**
Total assets	**–**	**–**	**275,338**	**275,338**

The following table presents the group's financial instruments that are measured at fair value at 31 March 2018.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Financial assets at fair value through profit or loss				
Trading securities	1,230	–	–	**1,230**
Available-for-sale assets	–	–	345,130	**345,130**
Total assets	**1,230**	**–**	**345,130**	**346,360**

The following table presents the movement in Level 3 financial instruments for the year ended 31 March 2019 by class of financial instrument:

	Private equity funds	Investment property funds	Total
	£'000	**£'000**	**£'000**
Opening balance	**303,286**	**41,844**	**345,130**
Adjustment upon adoption of IFRS 9	6,188	–	**6,188**
Adjusted opening balance	**309,474**	**41,844**	**351,318**
Transfers into Level 3	1,230	–	**1,230**
Additions	–	–	–
Disposals	–	(19,460)	**(19,460)**
Net changes in fair value	(54,696)	(3,054)	**(57,750)**
Total Level 3 instruments	**256,008**	**19,330**	**275,338**

The following table presents the movement in Level 3 financial instruments for the year ended 31 March 2018 by class of financial instrument:

	Private equity funds	Investment property funds	Total
	£'000	**£'000**	**£'000**
Opening balance	**420,631**	**66,679**	**487,310**
Transfers into Level 3	–	–	–
Additions	6,111	–	**6,111**
Disposals	(99,242)	(22,741)	**(121,983)**
Net changes in fair value	(24,214)	(2,094)	**(26,308)**
Total Level 3 instruments	**303,286**	**41,844**	**345,130**

12.3 Financial instruments by category

				31 March 2019
	Amortised cost (IFRS 9)	Assets held at fair value through profit or loss (IFRS 9)	Available-for-sale assets (IAS 39)	Total
	£'000	£'000	£'000	£'000
Assets as per balance sheet				
Private equity, investment property funds & trading securities	–	275,338	–	**275,338**
Trade and other receivables excluding prepayments	161	–	–	**161**
Cash and cash equivalents	147,176	–	–	**147,176**
Total financial instruments	**147,337**	**275,338**	**–**	**422,675**

				31 March 2018
	Loans and receivables (IAS 39)	Assets held at fair value through profit or loss (IAS 39)	Available-for-sale assets (IAS 39)	Total
	£'000	£'000	£'000	£'000
Assets as per balance sheet				
Private equity, investment property funds & trading securities	–	1,230	345,130	**346,360**
Trade and other receivables excluding prepayments	1,605	–	–	**1,605**
Cash and cash equivalents	148,418	–	–	**148,418**
Total financial instruments	**150,023**	**1,230**	**345,130**	**496,383**

13 Share capital

	31 March 2019		31 March 2018	
	Number of shares	Ordinary shares	Number of shares	Ordinary shares
		£'000		£'000
Allotted				
1 allotted, called up and unpaid share of £1	1	–	1	–
Total	**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 2019.

14 Contingent liabilities

At 31 March 2019 there were no contingent liabilities.

15 Commitments

The company are required to fulfil capital contributions in respect of the investment fund holdings classified within the fair value through profit or loss financial instruments. At 31 March 2019, the total unfunded commitment was £83.5 million (31 March 2018: £84.1 million) which is payable on demand.

16 Ultimate controlling party

The ultimate controlling party for the company is the Secretary of State for Business, Energy and Industrial Strategy ("**BEIS**"). These company financial statements are consolidated within the Department for Business, Energy and Industrial Strategy financial statements.

17 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 BEIS. A total cash remittance of £131.0 million was paid to BEIS during the reporting year (2017-18: £162.0 million).

18 Events after the reporting period

No material events have occurred since the end of the financial year that may significantly affect the financial performance or position of the reporting entity.

19 Disclosure of structured entities

Under IFRS 12 *Disclosure of Interest in Other Entities,* the company is required to make additional disclosures as the investment funds meet the definition of 'structured entities'.

	31 March 2019	31 March 2018
	£'000	£'000
Type of fund		
Private equity	254,750	303,286
Investment property	19,330	41,843
Total	**274,080**	**345,129**

The nature, purpose, activity and how the investment funds are financed is detailed in the strategic report on pages 3 to 4 and note 9 and 15.

The investment funds are shown as investments at fair value through profit or loss in the Statement of Financial Position. Future financial support that the company is committed to provide to the investment funds at the year-end date is shown in note 15. The maximum exposure at the year-end date is considered to be amounts advanced to the investment funds as at the year end.