Registered Number 2154540

# Post Office Limited

# Annual Report & Consolidated Financial Statements 2019/20



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

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# Contents

# Strategic Report

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

## Chairman's Foreword

The Post Office's performance in 2019/20 reflected the benefits of our focus to get the business into better shape and an increased awareness of the essential nature of the services we offer in each of our 11,500 branches. The outbreak of the COVID-19 pandemic has also shown how critical Post Office is to communities across the length and breadth of the country.

To the extent that profitability is a measure of success then the business recorded some genuine progress in the 2019/20 financial year. Revenue reduced by £21 million to £951 million amid Brexit uncertainty and the initial impact of the pandemic. Nevertheless, trading profit grew by £26 million to £86 million. This enabled us to better fund investment and support Postmasters as well as make progress towards commercial sustainability.

However, we know that in every business, but perhaps particularly one with a proud history of public service like ours, trading profit is but one measure of success. We realise it is an important measure but that it should also be complemented by others, not least the remuneration of our Postmasters which has increased. This positive trend in remuneration in part is thanks to the successful renegotiation of the agreement with all the UK's major banks that has enabled us to improve services to our joint customers and reflect better the significant value Post Office brings. We also continued to innovate in mails and parcels, for example with increased 'drop and go' services.

As a Board, we accept that this period has also been an extraordinarily painful one, as we have had to face up to the shortcomings of the business in its dealings with some Postmasters in preceding years. On behalf of the Post Office, I would again like to express my sincere apology to those affected.

We will, of course, honour the commitments we have made in settling the litigation. We have established an Historical Matter Business Unit to focus on ensuring that the affected Postmasters receive redress. We understand the need for the Post Office to go much further in addressing the underlying flaws and imbalances, and to make sure that our systems are fit for purpose.

The Board has confidence that our new management team, with Nick Read's leadership, will put it right for the future. I am also delighted that Zarin Patel and Lisa Harrington have joined the Board. In 2021/22 we will welcome two serving Postmasters to the Board. I am sure they will bring an important perspective to influence the strategy of the business as we help Postmasters to thrive.

There could be no better outcome, no better legacy, for those who have rightly pointed out the shortcomings of the past, than the Post Office to emerge as a business founded on a real and genuine partnership with Postmasters.

There is little doubt in my mind that the Post Office, and the services it provides, remains an essential feature of our national landscape. We will work hard to fulfil this vital role and to earn the trust and respect of Postmasters for the benefit of the public, who rely on the services we provide.

The pandemic has reminded us all how important Postmasters are to local communities across the country. The Board would like to thank them, and all Post Office colleagues, for all that they do.

Tim Parker

**Tim Parker**

*Chairman*

22 March 2021

# Chief Executive Statement

I have mixed emotions as I write my first review to the annual report since joining the business in September 2019. Naturally, I am pleased to be the new Chief Executive of a business with the customer trust, social relevance, and commercial promise which the Post Office has in abundance. However, this sense of excitement is tempered by the group litigation between some Postmasters and Post Office Limited which was still continuing as I joined. The litigation needed addressing, and with the support of our shareholder, in December 2019, we were pleased to be able to reach a joint settlement with the Justice For Subpostmasters Alliance. Apologising publicly to the Postmasters affected and to enable the redress they deserve is as important as the settlement.

That redress continued with the launch of the Historical Shortfall Scheme ("HSS") in May 2020. Together with funds from Post Office Limited, Government will provide sufficient financial support to Post Office Limited to ensure that this scheme can proceed, based on current expectations of potential cost. Post Office Limited has recognised a provision of £153 million in respect of expected payments from the scheme, which has resulted in Post Office having net liabilities for the first time since 2012. However, with Government support Post Office remains a going concern, able to provide essential services across the UK-wide network.

My reflection from the two civil judgments in the litigation and, more directly from meeting many Postmasters and colleagues, is that there is a cultural dissonance within Post Office. There is, and has been, a divide in the way the business operates, borne of a misunderstanding of the relationship between Post Office Limited and Postmasters.

To be a successful franchise we need to ensure that the interests of franchisor and franchisee are aligned and mutually beneficial. Maximising the potential of Postmasters should be the priority and we should behave accordingly. Sadly, this has not always been the case.

For historical reasons, safeguarding and promoting the interests of our Postmasters was not given enough priority. The urgent task is to emerge from this scandal with clarity that Postmasters are at the heart of this business.

The Post Office does not have a business without those working hard in branches every day, serving communities across the United Kingdom. We need to reshape the business to prioritise the support and the service we provide to that front line so customers and clients can be served even better.

This is our priority, and all the more so since the COVID-19 pandemic led to the first lockdown as this reporting year ended in March 2020. Our Postmasters and those who work for them, are key workers who have been providing essential services throughout the pandemic. Throughout the pandemic the proportion of the network that remained open at any given time was maintained at over 94% of pre pandemic levels, helping customers to send parcels, pay their bills and withdraw and deposit cash. Postmasters are so often unsung heroes and I pay tribute to them, as have Government Ministers, for their resilience and exceptional service in difficult and changing circumstances.

We have started on the long journey to reset our relationship with Postmasters and change our culture. We are making progress. Every Postmaster now has direct support from an Area Manager and we have invested in training initiatives to support them. Remuneration for Postmasters has increased by £19 million in 2019/20. We are also reviewing all our processes and systems to ensure they comply with the judgements made by Mr Justice Fraser.

Postmasters should also be able to influence the strategy and direction of the business. That's why two serving Postmasters will be appointed as Non-Executive Directors to the Board in 2021/22.

The Financial and Business review for 2019/20 shows there have been notable performances across our product range. This proves that the business clearly does provide important services for which there is sustained and growing demand notably mails and cash & banking.

My conclusion is that the business is not sufficiently focused on its core offering and is spread too thinly across too wide a range of products. The relatively modest contributions from other products and services will need to be weighed against the complexity, and therefore cost, they bring to the business.

A review into the Post Office's commercial offer at the end of 2019 confirmed that we urgently need to rediscover the virtue of doing fewer things but doing them better than anyone else. Therefore, we will double down on our core offer in mails and parcels, cash and banking, bill payments and travel products as the cornerstones of our offer. That is why in February 2021 we agreed to sell our telecoms business to Shell Energy Retail.

Our network numbers performance remains strong which is vital to maintaining accessibility across the UK. Those numbers have been stable now at 11,500 for some ten years.

Part of my job is to identify and secure those services of the future which, even in a predominantly digital and online age, require or benefit from the face-to-face experience which so many of our customers prefer and, in some cases, depend upon. That's why we have restated our purpose: "We're here, in person, for the people that rely on us."

My final observation is that whilst our annual headline trading profit figure is impressive, I have always found it instructive to consider the context. Genuine value, for a business such as the Post Office, and one with an overarching social and public purpose, should not solely be represented by its ability to generate profit, important though that is.

The key question is whether that profit is genuinely sustainable over the medium to long term while keeping services available. In my judgment, while the business is more financially robust than at the point of separation from Royal Mail in 2012, it has some way to go before it can assume the funding of the loss-making parts of the network. As an organisation, we must understand that commercial sustainability is not solely driven or best interpreted by the trading profit of Post Office Limited.

The real test is whether the business model enables our Postmasters to thrive – on that metric, we have more to do. That relationship must be reset. We must recast it into one where Post Office Limited equips Postmasters for success. To be successful, we must see this as a partnership above all else – one in which we are preoccupied only by what helps our Postmasters thrive. Our understanding and interpretation of the business model needs to be turned on its head.

I began my career in the army where I learnt that 'to serve is to lead'. We owe our Postmasters the same commitment and I thank them, and the colleagues that support them, for all they do for their communities each and every day.

Our purpose now, and for the years to come, is to serve.

Nick Read

**Nick Read**

Chief Executive Officer

22 March 2021

# Financial and Business Review

## Summary results

As disclosed in the consolidated income statement of the financial statements on page 52, we have split the results of the group of companies headed by Post Office Limited ("the Group", "Post Office") between trading and investments. Together these combine to present the results of the Group. This format allows us to clearly separate the underlying performance of the business within the trading column, including the exceptional items accounted for in year, from the change activity recognised in the investment column. Change activity is undertaken to ensure the future commercial sustainability of Post Office. This separation is maintained in the commentary below.

## Overview

Overall Post Office increased its trading profit to £86 million whilst supporting an important increase in Postmaster remuneration of £19 million.

We recognised an overall trading column loss of £228 million, see table on page 9. This includes litigation costs of £74 million which includes the settlement of the Group Litigation Order ("Group Litigation Order", "Group Litigation", "GLO"), a £153 million provision for the costs of the Historical Shortfall Scheme ("HSS") and £130 million of depreciation and amortisation.

Investment costs exceeded in-year Government investment funding by £77 million, as funding fell to £42 million in accordance with the agreed funding arrangements for the 2018/19 to 2020/21 period. Impairment costs included a £17 million impairment of the carrying value of goodwill within our Insurance business, recognising the impact of COVID-19 on the travel and wider insurance market. Overall, we therefore recorded a statutory loss of £305 million.

Recognising the provision for HSS has resulted in the Group having net liabilities for the first time since 2012. An asset recognising Government funding for the majority of the HSS settlement costs will be considered in the 2020/21 accounts in line with accounting standards.

After the agreement of new Government funding for 2021/22, Post Office is considered a going concern. Given the possible crystallisation of future contingent liabilities, we have set out in some detail the uncertainties we face within the going concern assessment in note 1 of the financial statements. While Government funding is formalised for specific time periods and requests, we believe that Government support remains extremely strong and we are therefore confident that we can continue to provide our national services for the foreseeable future.

| | **2020 £m** | 2019 £m | Variance £m |
|---|---|---|---|
| Revenue | **951** | 972 | (21) |
| Adjusted EBITDA (Operating profit before depreciation, amortisation, exceptional items and investments) (note 24)* | **136** | 120 | 16 |
| Trading profit (Operating profit before depreciation, amortisation, exceptional items, investments and Network Subsidy Payment) (note 24)* | **86** | 60 | 26 |
| (Loss)/profit for the financial year | **(305)** | 40 | (345) |

* Non-statutory measures which are explained further in note 24 of the financial statements

## Trading profit

| | 2020 £m | 2019 £m | Variance £m | Variance % |
|---|---|---|---|---|
| Revenue | **951** | 972 | (21) | (2) |
| Costs | **(912)** | (959) | 47 | (5) |
| Other income | **19** | 14 | 5 | 36 |
| Share of profit from joint venture | **28** | 33 | (5) | (15) |
| **Trading profit** | **86** | 60 | 26 | 43 |

Trading profit for the Group increased in the year by £26 million to £86 million (2019: £60 million), resulting in a fourth consecutive year of profitable trading. £9 million of the increase relates to the implementation of IFRS 16 in the year, including a reduction in lease costs through trading profit and an increase in depreciation and finance costs.

## Revenue

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

| | | 2020 £m | 2019 £m | Variance £m | Variance % |
|---|---|---|---|---|---|
| **Retail** | | | | | |
| | Mails | **347** | 350 | (3) | (1) |
| | Retail & Lottery | **38** | 42 | (4) | (10) |
| | Payment Services | **31** | 27 | 4 | 15 |
| | Cash & Banking Services | **187** | 161 | 26 | 16 |
| **Financial Services & Telecoms** | | | | | |
| | Financial Services | **104** | 113 | (9) | (8) |
| | Telecoms | **144** | 153 | (9) | (6) |
| **Insurance** | | **48** | 55 | (7) | (13) |
| **Identity** | | **38** | 58 | (20) | (34) |
| **Other*** | | **14** | 13 | 1 | 8 |
| **Revenue** | | **951** | 972 | (21) | (2) |

* Principally relates to Supply Chain income (£10 million) predominantly for warehousing of Royal Mail stock, transport of high value mails and release of Bank of Ireland deferred income (£3 million). The remaining £1 million is made up of immaterial revenue balances.

## Retail

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

### Mails

Mails includes the sale of parcels and other mails products provided by Royal Mail and Parcelforce. Underlying mails trading remained broadly flat with a reduction of £3 million to £347 million (2019: £350 million) which was a reduction of less than 1%. Growth in variable revenue from home shopping returns and click and collect was partially offset by the continuing decline in stamps sales. In addition, there were planned reductions in the fixed fee element of the contract with the Royal Mail Group plc of £2 million and a reduction from fewer locations undertaking mail work of £2 million.

### Retail & Lottery

Revenue has decreased by £4 million to £38 million (2019: 42 million), with anticipated lottery decline partially offset by big jackpot draws boosting performance.

### Payment Services
Payment Services includes bill payment transactions. Revenue has increased to £31 million (2019: £27 million) with £3 million of this resulting from a full year's worth of Payzone revenue in 2019/20, of which £1 million related to the British Gas contract win.

### Cash & Banking Services
Cash & Banking Services comprise of Post Office Card Account ("POCA"), Banking and ATM services. Revenue has increased by £26 million to £187 million (2019: £161 million). ATM services revenue has remained stable despite the market decline. POCA revenue has decreased in line with account migration expectation, in line with withdrawal by Department of Work and Pensions. This has been offset by the impact in banking services, with significant banking service growth being seen in the year. A revised Banking Framework was agreed in year, with 28 banks choosing to join, allowing their customers to access basic banking services via a Post Office. This version of the Framework will run for three years ending 31 December 2022.

## Financial Services & Telecoms

### Financial Services
Our Financial Services products include mortgages, credit cards, savings and travel money, in addition to Postal Orders. Revenue decreased by £9 million to £104 million (2019: £113 million).

The majority of the decrease is due to Bank of Ireland products, down £13 million to £32 million (2019: £45 million), resulting from difficult market conditions with low interest rates and rising high street competition. Underlying travel money revenue declined by £2 million due to the weaker pound during the year as a result of uncertainty over the Brexit outcome and COVID-19 impacts, which were offset by an additional £5 million of fixed commissions. Similarly, MoneyGram revenue declined by £1 million despite an additional £1 million of fixed commissions.

### Telecoms
Telecoms includes Post Office HomePhone & Broadband and Fibre services.

Telecoms revenue of £144 million decreased by £9 million (2019: £153 million) as customer behaviour switched to making fewer calls out of package, this has been partially offset by an increased customer base, closing at 530,000 subscribers. Subsequent to yearend, the Group has sold the trade and assets of the Telecoms business unit. See the Post Balance Sheet Events section, note 25, for further details.

## Insurance

Post Office Insurance provides Travel, Life and General Insurance policy cover. Insurance revenue has declined by £7 million to £48 million (2019: £55 million). The decrease was driven mainly by reduced Over 50s Life Insurance. Travel Insurance revenue had grown by £2 million, with growth from both online and web channels. This growth was despite the sale of Travel Insurance being paused at the end of 2019/20 due to COVID-19. Subsequent trading has been significantly impacted by COVID-19 having a downturn on the insurance market overall. This has impacted the carrying value of assets held within this business unit, with an impairment recognised, see note 9 for more details.

## Identity

Identity provides Home Office, DVLA and Verify services. Identity revenue has fallen by £20 million to £38 million (2019: £58 million) due to the new pricing arrangement with the Government Digital Service, impacting the full year, and reduced Passport market share.

## Joint venture

Post Office Limited has a joint venture with the Bank of Ireland with each party holding 50% of First Rate Exchange Services Holdings Limited ("FRESH"), whose principal activity is the supply of foreign currency exchange in the UK to the Post Office and others. Post Office's share of operating profit from the joint venture was £28 million (2019: £33 million), a slight reduction due to uncertainty over the Brexit outcome, as well as COVID-19 impacts.

## Costs

Trading costs decreased by £47 million to £912 million (2019: £959 million). See note 3 for the breakdown of these costs.

People costs of £172 million decreased by £21 million (2019: £193 million) reflecting efficiency savings following organisational effectiveness activities during the year.

Average headcount reduced from 4,700 in 2018/19 to 4,027 in 2019/20 reflecting the above efficiency savings and the effect of the Network and Directly Managed Branch (DMB) transformation programmes. Closing headcount for the year was 3,663 (2019: 4,391).

Other operating costs decreased by £26 million to £740 million (2019: £766 million), despite an increase of £19 million in Postmaster remuneration from higher banking services sales. The decrease was driven by a fall in property costs, due to reduced portfolio size, and IT costs through negotiating lower license fees.

## Other trading column items

| | **2020** | 2019 | Variance | Variance |
|---|---|---|---|---|
| | **£m** | £m | £m | % |
| **Trading profit** | **86** | 60 | 26 | 43 |
| Add: Network Subsidy Payment | **50** | 60 | (10) | (17) |
| **Adjusted EBITDA (Operating profit before depreciation, amortisation, exceptional items and investments)** | **136** | 120 | 16 | 13 |
| Depreciation and amortisation | **(130)** | (94) | (36) | 38 |
| Exceptional items | **(232)** | (20) | (212) | 1,060 |
| Finance costs | **(10)** | (8) | (2) | 25 |
| Taxation | **8** | 9 | (1) | (11) |
| **(Loss)/profit before investments** | **(228)** | 7 | (235) | (3,357) |

The Network Subsidy Payment decreased by £10 million to £50 million (2019: £60 million) in line with pre-agreed levels.

Depreciation and amortisation have increased by £36 million to £130 million (2019: £94 million). This was driven by capital spend resulting in an increased asset base on which depreciation and amortisation are charged, as well as £9 million of increased depreciation due to assets added to the balance sheet as a result of IFRS 16 implementation.

Finance costs remained relatively flat and, in line with previous years, the Group received a taxation credit.

## Exceptional items

Exceptional costs are significant, one off items which require disclosure on their own in the income statement due to their material size and nature. Exceptional costs of £232 million (2019: £20 million) were recognised in year. We have recognised a provision in respect of the HSS of £153 million but there remains much uncertainty in the final cost, which is explained in the critical accounting estimates section in note 1 of the financial statements. We had agreed to set up the scheme during 2019/20 and it is therefore appropriate to recognise the provision in the accounts as at 29 March 2020. Government has agreed to fund much of the settlement cost. However, this decision was made in 2020/21 and any resultant asset would be recognised in that year's accounts, in line with accounting standards.

## Group Litigation Order

On 11 April 2016 a High Court claim was issued on behalf of a number of Postmasters against Post Office in relation to various legal, technical and operational matters (the "Group Litigation Order", "Group Litigation", "GLO").

On 10 December 2019 the parties reached a comprehensive resolution of the Group Litigation. This included a settlement payment of £52 million which was recognised within exceptional items in year, in addition to a payment of £6 million made for claimant legal costs and disbursements in June 2019, which was recognised in exceptional items in 2018/19.

Post Office also incurred £20 million of costs in year as a result of defending the Group Litigation (2019: £20 million). The total amount recognised within exceptional items in respect of the Group Litigation is £72 million (2019: £20 million). These costs were funded by Post Office through operational cashflows.

## Historical Shortfall Scheme

As part of the settlement reached with the claimants in the Post Office Group Litigation (see above), Post Office agreed to establish a remediation scheme open to Postmasters who had not participated in the group litigation but who had experienced similar issues relating to shortfalls indicated by the Horizon system, known as the HSS. The agreement to establish this scheme in December 2019 was deemed to be a triggering event on which to recognise a provision.

The HSS launched on 1 May 2020 and officially closed for applications on 14 August 2020 (although late applications have been accepted in exceptional circumstances). As of late-February 2021, the HSS had received a total of 2,478 applications from current and former Postmasters. Of these, 1,948 are either partially or wholly unquantified claims. HSS is now closed to new applications.

A provision of £153 million was recognised within exceptional costs in the year. This represents management's best estimate of the potential future payments associated with the claims received. The provision requires a number of significant estimates and assumptions by management, with the level of estimation risk increased as a result of the volume and range of claims received and the early stage of the assessment process.

The HSS payments will be partially funded by Government, with Government agreeing to provide sufficient financial support to Post Office to ensure that the scheme can proceed. An asset has not been recognised in respect of Government funding, as assurances were not formally in place at the balance sheet date and thus the accounting requirements for asset recognition were not met.

Further details regarding the HSS and the estimates made by management in deriving the provision value are included in the critical accounting estimates section in note 1 of the financial statements.

## Other

The remaining exceptional costs relate to the recognition of an onerous contract and costs associated with defending an Employment Tribunal claim, for which a contingent liability has been disclosed, see note 20 for further details.

*Funding the litigation costs*

During this period the costs of managing the litigation and paying the GLO settlement were funded out of operational cashflows as follows:

| | **2020 £m** |
|---|---|
| Trading profit from profitable branches | **158** |
| Trading loss from loss-making branches | **(72)** |
| **Trading profit** | **86** |
| Network Subsidy Payment for loss making branches | **50** |
| **Operating profit** | **136** |
| Settlement of GLO | **(52)** |
| Litigation costs | **(22)** |
| **Net operational funding position** | **62** |

## Investments and capital spend

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

| | **2020 £m** | 2019 £m |
|---|---|---|
| **Investment funding** | **42** | 168 |
| Restructuring: | | |
| Business transformation | **(16)** | (14) |
| Network programmes | **(66)** | (68) |
| IT transformation | **(2)** | (13) |
| Severance | **(7)** | (39) |
| **Total restructuring costs** | **(91)** | (134) |
| Impairment | **(27)** | - |
| Unwinding of discount on provisions | **(1)** | (1) |
| **Total investment (charge)/income** | **(77)** | 33 |

Government investment funding of £42 million was received in year and represented the final instalment of the three-year funding agreement with Government which ran from 2018/19 to 2020/21. This was used to fund transformational activities and is therefore recognised in the investment column.

Total restructuring costs reduced from £134 million to £91 million, with the majority of spend being in relation to network programmes, which represent a multi-year initiative designed to simplify the retailer proposition.

Other costs include £27 million (2019: £nil) of asset impairments, £10 million of which was required as a result of strategic decision making impacting the future benefits of some software assets held and £17 million as a result of the COVID-19 impact on the insurance business, with goodwill held in the Insurance business impaired.

In addition, we have incurred £90 million (2019: £139 million) of capital spend, primarily on IT transformation projects, as disclosed in notes 9 and 10.

## Total profit and loss

The trading and investment results combine to give a loss after tax of £305 million (2019: profit of £40 million).

Full results are set out on page 52 and further commentary on key aspects are outlined below.

## Net (liabilities) / assets

The Group ended the year with net liabilities of £57 million (2019: net assets of £244 million). This £301 million reduction in net assets was driven primarily by investment costs exceeding the investment funding received by £77 million and recognition of the £153 million HSS provision. The impact of being in a net liabilities position has been assessed and considered as part of the going concern review in note 1 of the financial statements.

## Cash flow and net debt

Cash and cash equivalents amounted to £462 million (2019: £572 million) at the year-end. There was a net cash outflow during the year of £110 million (2019: £83 million).

Operating activities resulted in a net cash outflow of £63 million (2019: inflow of £123 million) which was driven by significant payments for investment related costs which were offset marginally by favourable working capital movements and recognition of provisions.

Net debt (excluding cash in the Post Office network) increased by £67 million year on year as shown in the table below. Fundamentally, this reflects the costs of managing the litigation.

| | | **2020 £m** | | 2019 £m |
|---|---|---|---|---|
| BEIS loan at the start of the year | | **(565)** | | (623) |
| Investment funding | **42** | | 168 | |
| Restructuring costs | **(158)** | | (121) | |
| Litigation Costs | **(69)** | | - | |
| Other cash inflows from operating activities | **122** | | 76 | |
| Net cash (outflow)/inflow from operating activities | | **(63)** | | 123 |
| Dividends received from joint ventures | **27** | | 33 | |
| Acquisition of businesses | **-** | | (17) | |
| Proceeds from the sale of property, plant and equipment | **-** | | 4 | |
| Purchase of tangible and intangible non-current assets | **(103)** | | (160) | |
| Net cash outflow from investing activities | | **(76)** | | (140) |
| Net cash outflow from financing activities | | **(23)** | | (8) |
| Decrease in cash and cash equivalents | | **110** | | 83 |
| BEIS loan at the end of the year | | **(617)** | | (565) |
| Cash (excluding cash in the Post Office Network) | | **8** | | 23 |
| **Total net debt carried forward at the end of the year** | | **(609)** | | (542) |

Post Office Limited seeks to minimise the amount drawn down on the loan from BEIS in order to reduce its interest cost. The facility is limited to a maximum of £950 million, the unused facility at the end of the year was £333 million (2019: £385 million). The maximum drawn down under the facility during the year was £748 million on 23 September 2019.

A covenant, known as security headroom, exists within the facility. This covenant is in place to ensure there is sufficient collateral in the form of cash and other assets to cover the borrowings under the facility. At year-end headroom sat at £64 million, which was an impact of reduced trading activity in the latter weeks of the year as result of COVID-19, resulting in a decline in cash transactions. No breaches in headroom occurred.

The facility had an end date of 31 March 2021 and was available at two days' notice. The facility has been renewed in 2021, with a 3-year term to 31 March 2024 being agreed. This renewed facility will be available at one days' notice.

Post Office Limited's borrowing facility from Government limits the purposes for which the facility can be used and, together with borrowing limits contained in the Articles of Association, imposes constraints on the availability of external borrowing.

## The Bank of England Note Circulation Scheme

The continued participation in the Note Circulation Scheme ("NCS") assures that Post Office Limited has an adequate supply of banknotes to meet customer demand across its network and provides a mechanism which enables Post Office Limited to hold Bank of England owned notes. At the end of the year £276 million (2019: £227 million) of Bank of England owned notes were held. See note 23 of the financial statements for further details on the NCS.

During the year, Post Office also had an arrangement in Scotland with a commercial banking partner whereby surplus Scottish notes are sold to the partner overnight for repurchase the next day. At the end of the year a total of £11 million (2019: £3 million) was outstanding under this arrangement. This arrangement came to an end in December 2020.

## Pensions

Post Office Limited is the principal employer of the Post Office Section of the Royal Mail Pension Plan (RMPP), which is independent of the Royal Mail section of the RMPP. Royal Mail Group Limited is the principal employer of the Royal Mail Senior Executives Pension Plan ("RMSEPP") and Post Office Limited is a participating employer within RMSEPP. RMPP and RMSEPP are both defined benefit plans. The Post Office operates a defined contribution scheme – the Post Office Pension Plan.

Both defined benefit plans are closed to new members and closed to future accrual. The history of these schemes can be found in note 18.

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

| | **2020** | 2019 |
|---|---|---|
| | **£m** | £m |
| Regular pension contributions | **(19)** | (20) |
| Funding of the pension deficit – RMSEPP | **-** | - |
| Payments relating to redundancy | **-** | (1) |
| **Net cash payments** | **(19)** | (21) |

The income statement charge to trading for the year was £12 million (2019: £13 million) in relation to the defined contribution scheme. The income statement charge to investments for the year was £1 million (2019: £nil) in relation to the defined benefit schemes. Further detail on Post Office's pension schemes can be found in note 18 of the financial statements.

## Section 172 Statement

The disclosure of the S172 statement is included within the Governance section on pages 21 and 22.

A Cameron

**Alisdair Cameron**

Group Chief Financial Officer

22 March 2021

# Governance

## Corporate Governance

### Legal Ownership and Structure

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

BEIS does not have day-to-day involvement in the running of the Company but monitors performance, particularly the Company's compliance with the minimum network access criteria and the provision of specified services, through UK Government Investments (UKGI).

The Framework Document introduced in April 2020 describes certain parameters within which Post Office is expected to operate, certain obligations with which Post Office is expected to comply, and certain aspects of the relationship between the Special Shareholder, the Shareholder's Representative (UKGI) and Post Office and how it is expected that these parties will interact with each other.

### Corporate Governance Overview 2019/20

The Company maintains standards of corporate governance appropriate for our ownership structure, commitment to social purpose and strategy to achieve commercial sustainability. We review our corporate governance arrangements to ensure they remain appropriate for our developing business needs and relevant legal and regulatory advances. Our Shareholder expects us to demonstrate high standards in corporate governance and we seek to comply with the requirements of the 2018 UK Corporate Governance Code and the Corporate Governance Code for Central Government Departments, where this is relevant to us as a limited company with a Government owner. The departures from either Code are where the provision does not apply to Post Office Limited because it is not a listed company and it is not a central Government department or an arms' length body and it does not sensibly apply to it, for example the annual re-election of Directors, whose appointments are approved by our Shareholder. In addition, our Shareholder appoints a Non-Executive Director to the Post Office Limited Board who also serves as a member of the Audit, Risk and Compliance Committee and the Remuneration Committee but is not an independent Non-Executive Director. Since Post Office Limited has a single shareholder, the involvement of the Shareholder Representative on the Board and its principal Committees is seen as important to the provision of assurance to our Shareholder and therefore we have elected not to comply with provision 24. and 32. of the 2018 UK Corporate Governance Code which stipulate that only independent Non-Executive Directors should be members of the Audit and Remuneration Committees respectively.

## Board of Directors

The Board is responsible for setting the business' strategic aims, putting in place the leadership to deliver them, maintaining appropriate oversight of the management of the business, reporting to the Shareholder and determining the Company's vision, values and organisational culture.

During 2019/20 the Board comprised a Non-Executive Chairman, the Group Chief Executive Officer (including an interim from 5 April 2019 to 16 September 2019), the Group Chief Finance Officer, the shareholder appointed Non-Executive Director and four independent Non-Executive Directors (one of whom is designated the Senior Independent Director). Non-Executive Directors are not employees of Post Office Limited but provide services under the terms of an individual letter of appointment, signed at the commencement of their directorship. Board members during the year ended 29 March 2020 and up to the point of signing are shown on the next page.

**Tim Parker**

Independent Chairman, Chairman of the Nominations Committee and member of the Remuneration Committee

*Joined the Board 1 October 2015*

**Ken McCall**

Senior Independent Director, Chairman of the Remuneration Committee and member of the Audit, Risk and Compliance and Nominations Committees

*Joined the Board 21 January 2016*

**Tom Cooper**

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

*Joined the Board 27 March 2018*

**Carla Stent**

Non-Executive Director and Chair of the Audit, Risk and Compliance Committee

*Joined the Board 21 January 2016*

**Zarin Patel**

Non-Executive Director and member of the Audit Risk and Compliance Committee.

*Joined the Board 26 November 2019*

**Lisa Harrington**

Non-Executive Director and member of the Remuneration and Nominations Committees.

*Joined the Board 8 April 2020*

**Nick Read**

Group Chief Executive Officer

*Joined the Board 16 September 2019*

**Alisdair Cameron**

Group Chief Finance Officer

*(Interim Group Chief Executive Officer from 5 April 2019 to 15 September 2019)*

*Joined the Board 28 January 2015*

**Veronica Branton**

Company Secretary

*Appointed as Company Secretary 26 July 2019*

**Paula Vennells**

Group Chief Executive Officer,

*Joined the Board 18 October 2010*

*Stood down from the Board 30 April 2019*

**Shirine Khoury-Haq**

Non-Executive Director and member of the Nominations and Remuneration Committee

*Joined the Board 24 May 2018*

*Stood down from the Board 18 July 2019*

**Tim Franklin**

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

*Joined the Board 19 September 2012*

*Stood down from the POL Board 31 December 2019, although remains Chair of the Post Office Management Services Board*

**Jane Macleod**

Company Secretary and Group Director of Legal, Risk and Governance

*Appointed as Company Secretary 31 August 2017*

*Resigned 31 May 2019*

Non-Executive Directors are usually appointed for an initial term of three years with the scope to renew for a second term, subject to Board approval and the approval of BEIS. Zarin Patel was appointed to the Board on 26 November 2019. Lisa Harrington was appointed to the Board on 8 April 2020. As the Board representative of UKGI, Tom Cooper's appointment period is determined by the Secretary of State for BEIS.

Biographies of all current members of the Board can be found on the Post Office Limited website.

# Board

## Role and responsibilities

The Board is accountable to BEIS, as the sole shareholder, for the performance of the Company and is required to seek consent for certain matters, as included in the Articles of Association. The Shareholder is briefed regularly on the performance of the business and the progress made towards delivering the strategy. A Shareholder Relationship Framework Document sets out the responsibilities of each party.

The Board is also responsible for oversight of legal and regulatory compliance, delivery of the strategy, providing constructive challenge to the Group Executive and communicating with all stakeholders. The Board has a schedule of matters reserved for its decision and has approved Terms of Reference for its committees, which are available on the Post Office website.

The Board annually reviews the strategy, approves the annual budget and business plan required to deliver the strategic objectives for that year. The Board regularly reviews reports on performance against that plan and receives periodic business reports from senior management. Directors are briefed on matters to be discussed at Board and Committee meetings by papers distributed in advance of meetings, as well as management presentations.

In setting the risk appetite for Post Office Limited the Board has established a framework to manage and mitigate risk. The Board takes guidance from its Audit, Risk and Compliance Committee, and has oversight of risk management. This Committee receives reports from the Compliance Director, the Head of Risk and the Legal Director as well from operational management and the Internal and External Audit teams. Further detailed information on the Management of Risk within Post Office Limited, together with identification of enterprise risks, their impacts and mitigation can be found in the Management of Risk section on pages 37 to 41.

## Key focus and developments in 2019/20

During the year to 29 March 2020, the Board continued to oversee the Post Office Limited's strategic plan to deliver and develop services across its network, meet its access criteria and promote commercial sustainability.

The Board discussed and agreed strategic developments for its financial services, insurance, digital identity and telecoms businesses. This included plans to sell the telecoms business, which subsequently took place post year-end, in line with the strategy to focus on core product offerings. A revised Banking Framework was agreed with 28 banks choosing to join, allowing their customers to access basic banking services via a Post Office. This version of the Framework will run for three years ending 31 December 2022. The Board approved the signing of a new contract with the Bank of Ireland for our partnership in the provision of financial services products including mortgages and loans and a deal with Capital One for the provision of new credit cards.

Changes were approved to the Articles of Association introducing a group matters reserved section, and a Shareholder Relationship Framework Document was agreed that sets out the responsibilities and obligations of each party.

The Board had a particular focus on Postmaster engagement and support, deciding in July 2020 to recruit two Postmasters as Non-Executive Directors. Further investment was approved for initiatives such as Branch Hub, which improves the information available to branches, as well as access to help and support in the Network. Increases in Postmaster remuneration were approved, seeking in particular for Postmasters to benefit from the improved transaction rates negotiated in the latest Banking Framework agreement.

At the end of the financial year, the impacts of COVID-19 started to emerge and the Board oversaw Post Office's response in two workstreams, focussed on initial response (protecting the work force and Postmasters, serving our elderly and vulnerable customers, keeping branches open and the supply chain moving) and on the longer term response to ensure Post Office's future resilience.

## Conflicts of Interest and Independence

In accordance with the Companies Act 2006, the Articles of Association give the Directors power to authorise conflicts of interest. During the period, none of the Directors had a material interest in any contract of significance with Post Office Limited or any of its subsidiaries. Shirine Khoury-Haq stood down as a Non-Executive Director on the Post Office Limited Board in July 2019 having accepted the role of CFO of the Co-operative Group.

At all times during the periods of their appointments in 2019/20, the independent Non-Executive Directors met the criteria for independence set by the Board.

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

Tim Parker, Chairman of Post Office Limited was independent at appointment. Ken McCall, Carla Stent, Zarin Patel and Lisa Harrington are considered Independent Non-Executive Directors. Tom Cooper is not an independent Non-Executive Director as he is a shareholder representative. Nick Read and Alisdair Cameron held executive roles throughout the financial year, and as such were not independent Directors.

## Board Meetings

During 2019/20 the Board met 13 times (including additional meetings held either in person or by telephone). A record of Directors' attendance (attended/eligible to attend) at the Board and its Committees is set out in the table below:

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

To note:

Tim Franklin stepped down as a Non-Executive Director on 31 December 2019.

Shirine Khoury-Haq stepped down as a Non-Executive Director on 18 July 2019.

Nick Read was appointed as CEO on 16 September 2019.

Zarin Patel was appointed as a Non-Executive Director on 26 November 2019.

All Board and Committee meetings were quorate and with a majority of independent Non-Executives. There were two meetings of the Nominations Committee during the year with a membership of two Directors while the appointment process for new Non-Executive Directors was ongoing. These meetings were focussed on standard corporate governance issues while a panel, including an independent assessor, was established by the Nominations Committee to conduct the Non-Executive Director interviews.

## Committees

To assist in the execution of its corporate governance responsibilities, the Board has established three committees which deal with specific topics requiring independent oversight. The Audit, Risk and Compliance; Nominations; and Remuneration Committees are each chaired by an independent Non-Executive Director.

The Board retains overall oversight but delegates responsibilities and authorities to its committees to operate within the Terms of Reference approved by the Board. The Terms of Reference for all committees are reviewed annually to assess that each Committee discharged its duties effectively in accordance with the Terms of Reference. The reviews conducted in February and May 2020 raised no material issues.

Terms of Reference for the committees are available on the Post Office Limited website.

## Nominations Committee

### Role and Membership

The duties and responsibilities of the Nominations Committee are included in the Terms of Reference, which are available on the Post Office Limited website.

The Committee is chaired by Tim Parker, Chairman, and the other members during the year were Shirine Khoury-Haq, Non-Executive Director, and Ken McCall, Senior Independent Director. Lisa Harrington, Non-Executive Director, was appointed to the Committee on 8 April 2020.

The Group Chief Executive Officer (CEO) and Group Chief People Officer also attend meetings at the invitation of the Committee Chairman.

### Work of the Committee in 2019/20

During the year the Committee recommended the appointment of a new CEO to the Shareholder and the Board and Nick Read joined Post Office Limited on 16 September 2019. The Committee also considered the skills, knowledge and experience required of two new Non-Executive Directors and worked with Russell Reynolds Associates (search consultants) on the proposed appointments. The Committee recommended the appointment of Zarin Patel and Lisa Harrington as Non-Executive Directors to the Shareholder and the Board. Zarin Patel joined the Board on 26 November 2019 and Lisa Harrington joined the Board on 8 April 2020. The appointments followed the public appointments process which draws to candidates' attention the guidelines and expectations with regard to conduct, behaviour and actions governed by the principles of public life. The appointment process advertises openly, includes an independent assessor on the interview panel and ensures that a diverse pool of candidates is considered when shortlisting for interview.

The Nominations Committee approved the process for the evaluation of the Board and its Committees and the annual appraisal of the Chairman and a number of appointments to subsidiary boards. The Committee also considered developments in corporate governance and how these should apply to the Company.

The Board as a whole considered succession planning in April 2019.

## Remuneration Committee

### Role and Membership

The duties and responsibilities of the Remuneration Committee are included in the Terms of Reference which are available on the Post Office Limited website.

The Committee is chaired by Ken McCall, Senior Independent Director, and the other members during the year were Tom Cooper, Non-Executive Director, Shirine Khoury-Haq, Non-Executive Director, and Tim Parker, Chairman. Lisa Harrington, Non-Executive Director, joined the Committee on 8 April 2020.

In accordance with the Terms of Reference, the CEO may attend meetings, at the invitation of the Committee Chairman, to discuss matters relating to the remuneration of the Group Chief Executive Officer (CFO) and other members of the Group Executive. However, the Committee recognises the need to manage any potential conflicts of interest and upholds the principle that no individual may be involved in discussions concerning their own remuneration. The Shareholder approves the remuneration of the Executive Directors and determines fees for Non-Executive Directors. The Group Chief People Officer also attends the Remuneration Committee meetings.

### Work of the Committee in 2019/20

During the year the Committee reviewed benchmarking comparators for Executive Directors and considered the comparator group; considered the targets for incentive plans for Post Office Limited and Post Office Insurance; made recommendations to the Shareholder on incentive payments for Executive Directors and approved payments for other members of the Group Executive and for senior executives on subsidiary boards; reviewed the scheme rules for the long-term incentive plan and the short-term incentive plan; reviewed the objectives for the interim CEO and approved remuneration packages at appointment for new members of the Group Executive.

The Committee also considered the results of the equal pay audit, reporting on gender pay, approved the tender process for the appointment of remuneration advisers to replace the current advisers and reviewed pay and leaver arrangements for Executive Directors and those who report directly to the CEO.

Ken McCall, the Chairman of the Committee and the Senior Independent Director, became the designated Non-Executive Director for workforce engagement. Before the COVID-19 pandemic, he attended two employee, including Postmasters, engagement events during the year, to understand employee concerns and feedback to the Committee and to the Board, particularly on opportunities for strengthening company-wide communications.

## Audit, Risk and Compliance Committee

### Role and Membership

The duties and responsibilities of the Audit, Risk and Compliance Committee are included in the Terms of Reference which are available on the Post Office Limited website.

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

The Board considers that the Committee's members have broad commercial knowledge and extensive business leadership experience, in addition to which Carla Stent, Tom Cooper and Zarin Patel are qualified chartered accountants which it believes constitutes an appropriate mix of business and financial experience and expertise.

The CEO, CFO, Director of Compliance, the Director of Risk or the Head of Risk and Head of Internal Audit attended all of the meetings of the Committee and also met the Committee Chairman, independently and regularly, throughout the year. The external auditor was invited to, and attended, all meetings of the Committee.

Further detailed information on the management of risk within Post Office Limited, together with identification of principal risks, their impacts and mitigation, can be found in the Management of Risk section on pages 37 to 41.

### Work of the Committee in 2019/20

During the year, the Committee reviewed the Annual Report and Financial Statements for 2018/19, including consideration of the principal and strategic risks, and recommended Board approval.

The Committee approved the annual audit plans for the internal and external auditors.

The Committee reviewed the risk management framework for the Company, including its appetite for risk, self-assessment of the control framework and areas of specific risk highlighted by the Executive Risk and Compliance Committee. It reviewed and approved relevant policies, such as financial crime and protecting personal data, business continuity, anti-bribery and corruption, whistleblowing, contract management and the vulnerable customer policy, as part of an annual review cycle. It approved the Modern Slavery Statement for recommendation to the Board. It reviewed and approved the annual tax strategy and the renewal of the insurance policies. It also approved the procurement policy, received reports on procurement compliance and oversaw the development of a contracts management framework.

Reports were provided at each of its scheduled meetings on compliance, risk, IT, change and security programmes, such as cyber security and disaster recovery testing. A separate annual report was received on legal risks.

The Committee receives a report from the Chair of the Post Office Management Services Limited Audit and Risk Committee at each meeting as well as annual reports from each of the main commercial divisions of the Post Office.

The Committee undertook a number of deep dives during the year on issues such as financial services sales and financial and human resource related controls.

With the onset of the COVID-19 pandemic, the Committee agreed a re-prioritised internal audit plan in May 2020, which focussed on the areas of greatest risk reflecting the new ways of working. It also considered Post Office's changed risk profile in light of COVID-19, recognising the immediate financial, commercial and people risks. Updates were also received from Post Office Management Services Limited, including on its decision to suspend the sale of travel insurance in March 2020 and refunds for existing customers.

In the lead up to signing the 2019/20 Annual Report and Accounts (ARA), the Committee maintained oversight over critical accounting estimates and judgements and finalisation of the ARA.

## Board and Committee Effectiveness Evaluations

The Board recognises that an effective Board is vital to the success of the Company and the business. Ken McCall, Senior Independent Director, led an internal Board effectiveness evaluation in March 2020 which included a formal evaluation of the performance of the Board and its Committees. The Senior Independent Director also led the annual performance evaluation of the Chairman.

The Board evaluation for 2019/20 was conducted by internal questionnaire. The Nominations Committee deferred running an externally facilitated review until 2020/21 because a new CEO and two new Non-Executive Directors had joined the Board during the year and had attended a limited number of Board and Committee meetings by the review date. Following a review of the results, and a review of how the previous year's actions had been implemented, the evaluation report recommendations were presented to the 8 April 2020 Board meeting. The feedback and scores were broadly positive with recommendations from the report including the Board's wish to drive and support the cultural change evidenced in operational and process improvements, continuing to strengthen Postmaster and customer engagement and ensuring that external perspectives and data inform our decision-making. The Board also agreed to include more briefing sessions on IT, digital and innovation topics.

As part of the Board review process, each Board Committee undertook a review of its effectiveness. The feedback and scores were broadly positive. Each Committee considered the feedback from the evaluation and agreed actions in May 2020. The proposed recommendations for the Nominations Committee were to schedule a further succession planning discussion, for the Remuneration Committee to have a fuller discussion on the forward plan to consider engagement with employees and Postmasters further, and for the Audit, Risk and Compliance Committee to review its forward plan to include additional items proposed through the evaluation.

# S172(1) Statement

Directors' statutory duties are set out in the Companies Act 2006. The primary duty of the Directors is to promote the success of the Company for the benefit of its Government shareholder and the wider stakeholder community.

The Board has sought to pay regard to its key stakeholders and to promoting the long-term success of the Company when taking decisions, as required under S172 of the Companies Act 2006. The Company is owned by Government and strives to be commercially sustainable while delivering a social purpose. It seeks to do this formally through meeting a number of measures agreed with the Shareholder, including the provision of core services across the network such as access to cash and mails.

The Shareholder has appointed a Non-Executive Director as the Shareholder Representative on the Board. The Chairman and CEO meet regularly with the Minister who has responsibility for the Post Office and with senior officials at BEIS and UKGI. The Senior Independent Director is also the designated Non-Executive Director for employee engagement and has attended employee engagement events and reported to the Board on employee views during the year. Other Directors have also attended employee events to support initiatives such as Women in Leadership. A number of Board Directors have made branch visits during the year to meet Postmasters and our multiple partners to seek their views and gain insight into the day-to-day running of post offices which helps inform the debate around the Board table. The Chairman and CEO meet with our partners and suppliers and with other stakeholders, such as Members of Parliament, who have an interest in the services provided by the Post Office. The Board receives information on customer satisfaction metrics and from consumer focus groups, including Post Office customers, which have informed the development of strategy.

Board debates are informed by structured papers which consider the stakeholder impact and potential risks associated with proposals recommended to the Board. The Board has taken a number of significant decisions during the year which have been fundamentally driven by stakeholder considerations. In December 2019, Post Office Limited reached a settlement in the Group Litigation in Bates v Post Office. A joint statement was issued with the claimants and our CEO commented that "Our business needs to take on board some important lessons about the way we work with Postmasters and I am determined we will do so".

Post Office had already embarked on a range of network developments and operational improvements at this point. These include additional support to Postmasters through area manager visits to all branches, holding regular engagement sessions and the delivery of a hothousing programme to provide training and support to Postmasters who wish to develop their retail business. The review and improvement of processes underway were expanded following the Common Issues and Horizon judgments to make sure these findings are addressed.

Post Office has made wide ranging changes to its policies (all significant Group policies are reviewed by the Audit, Risk and Compliance Committee) and procedures, particularly in relation to the investigation and resolution of discrepancies in branch accounting. A new Loss Prevention function has been created and embedded to support branches with investigations into discrepancies with a focus on early identification and resolution of issues. As a result of this earlier identification and resolution, Post Office has significantly reduced the number of branch suspensions and terminations it carries out and has been able to offer greater support to Postmasters in resolving any discrepancies that arise during trading.

There is recognition that there needs to be the right culture as well as the right processes and support. This provided the context for the Board's commitment to strengthening engagement with Postmasters further and making sure that Post Office is Postmaster and customer focussed. The Board approved increases in Postmaster remuneration so that they would benefit from, for example, the increases in transaction fees from the banking framework. In July 2020, it was also announced that two Postmasters would be recruited as Non-Executives Directors. Funding was approved for the development of Branch Hub through which Postmasters can access information and support. The Historical Shortfalls Claims Scheme was announced on 1 May 2020 in follow up to the December 2019 settlement agreement. See the critical accounting estimated section in note 1 of the financial statements for more detail. The Historical Matters Business Unit was set up in July 2020 to support the management of this scheme and properly address other historical issues, including making sure that all the findings from the Common Issues and Horizon Issues judgments were being addressed.

The implications of COVID-19 were becoming apparent as we reached the end of the 2019/20 financial year and in April 2020 Postmasters' variable income was guaranteed at 100% for April 2020 and at 90% for May 2020. In June 2020 Postmasters received a 15% top-up of variable remuneration, generated by May's trading. Steps were taken to keep Post Office services running while protecting colleagues and customers through additional hygiene measures, the supply of personal protective equipment, social distancing in branches and alteration to some branch opening hours. Post Office also set up additional services to allow more vulnerable or self-isolating customers who could not collect cash in branch to nominate a friend to do so, as well as providing a special home delivery service supporting Department of Work & Pensions benefit payments direct to their customers.

# Remuneration Committee Chairman's Statement

This report has been prepared taking into account, where practicable to do so, the Directors' Remuneration Reporting Regulations and the 2018 UK Corporate Governance Code which apply to listed companies of similar size and complexity to Post Office, along with best practice disclosure for unlisted companies.

This Directors' Remuneration Report for 2019/20 outlines the remuneration framework we have followed over the past financial year and are following during 2020/21.

During the year, the Remuneration Committee the Committee has focused on managing remuneration decisions in the context of the group litigation and COVID-19, and balancing this with fair reward decisions in a year of significant change while we implement our business strategy.

This Remuneration Report is presented in three sections:

1. The statement by the Chair of the Remuneration Committee;
2. Summary of Directors' remuneration policy; and
3. The annual report on remuneration.

The report also sets out the activities of the Committee for the year ended 29 March 2020. It discloses the remuneration policy and remuneration details for the Executive and Non-Executive Directors of the Post Office. The Committee oversees all aspects of pay for the Executive Directors of Post Office, and the details of remuneration packages for the Executive team. The Committee's recommendations and decisions in 2019/20 reflect its remuneration policy, which is designed to enable Post Office to attract, motivate and retain high-calibre staff by offering both fixed and variable pay to reward commercial outcomes, whilst being sensitive to Post Office's position as a Government-owned business.

**New CEO appointment**

In September 2019, Nick Read began his role as the new CEO of Post Office. Prior to this, our former CEO, Paula Vennells, stepped down at the end of April 2019 after 7 years in role. From April to September 2019 the CFO, Alisdair Cameron, assumed the position of CEO on an interim basis whilst the recruitment of a new CEO was undertaken.

Nick's appointment provided the Committee with an opportunity to review the approach to CEO remuneration to be more in line with Government remuneration guidance for senior employees.

Nick was appointed on a base salary that takes into account the absence of market-typical benefits, including pension allowance, and a lower variable pay opportunity compared to the previous CEO. The new CEO package has been reconstructed, to include the value of a number of benefits previously provided, which therefore produces a higher ratio of fixed to variable pay than previously. This will be the model followed for future Executive remuneration packages. More detail is given in the outline of the remuneration policy on page 24.

**Governance context**

Whilst not a legal requirement for Post Office, we committed last year to carefully consider the application of the 2018 Corporate Governance Code and Directors' remuneration reporting requirements that apply to listed companies to our future policy and disclosures, to the extent that it is relevant and practicable to do so. In this year's report, we include additional information to cover the updated requirements for Directors Remuneration Reporting regulations. Given the change in CEO during the year, the CEO pay ratio will first be included in the 2020/21 Directors' remuneration report once Nick has been CEO for a full financial year.

### 2019/20 pay outcomes

The performance criteria used to determine both short-term and long-term incentives for the 2019/20 financial year were similar to previous years. The short-term incentive plan ("STIP") is based on a balanced scorecard of measures that ensures continued alignment with our business strategy. The performance measures for the long-term incentive plan ("LTIP") continue to focus on Post Office becoming a commercially sustainable business over time, measured predominantly by financial results. Targets set, level of performance achieved, and incentive outcomes are summarised on pages 29 and 30, under the Annual Remuneration Report. Taking into account the organisational context, including the impact of the group litigation, COVID-19 and projected trading, as well as both external and internal considerations, the Remuneration Committee exercised its discretion to reduce the CEO and CFO 2019/20 STIP payments by 50%. A 20% reduction was applied to the rest of the Group Executive and the wider senior leadership team.

### Shareholder engagement

The Committee works proactively with UKGI on behalf of our shareholder, BEIS. Tom Cooper, of UKGI, is a member of the Committee. The Committee work closely with BEIS on developments of the remuneration aspects of corporate governance generally, and any changes to the Company's executive pay arrangements. All remuneration for the Executive Directors, and the Non-Executive Directors, requires BEIS approval.

### Implementation of remuneration policy in 2020/21

During 2020/21, we intend to operate our policy as we have in previous years noting the lower incentive opportunity for the CEO. The Committee will continue to ensure that the policy and any payments support the business strategy whilst considering the wider organisational context.

## Directors' Remuneration Policy

### Summary of Remuneration Policy

The Committee is responsible for setting the remuneration packages for the CEO, CFO and senior management team as well as providing oversight of all employee reward, for example the annual bonus scheme, reviews, cascade and alignment of reward throughout the organisation.

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

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

## How Directors' Remuneration Policy aligns with the Code provisions

| | |
|---|---|
| **Clarity** | We are committed to providing a transparent approach to the disclosure of pay and have worked to ensure this report is a comprehensive record of the Committee's decisions over the year and their remit. We also maintain an extensive and continuous dialogue with the Shareholder on all matters related to the remuneration of our Executive Directors. |
| **Simplicity** | The remuneration structure is simple to understand for both participants and external stakeholders and is aligned to the strategic priorities of the business. |
| **Risk** | Executive Directors are subject to malus and clawback charges in the STIP and LTIP rules, which provide for the reduction or return of all or parts of bonus payments in the event of misstatement of the accounts, error or gross misconduct on the part of an Executive Director. From 2020 the rules have been strengthened to provide for reduction or clawback of bonuses where the executive has contributed to serious reputational damage of the company, a material corporate failure or some other exceptional event. In addition to malus and clawback, the Remuneration Committee shall have the absolute discretion to make adjustments, including a downward adjustment, to any bonus payment due under the STIP and LTIP schemes if it considers such adjustment to be appropriate having taken into account all relevant factors. The package for the new CEO has a reduced maximum bonus opportunity, which is in line with the overall reconstruction of the CEO's total remuneration package. |
| **Predictability** | The range of possible values of rewards to individual executive Directors and are set out in the scenario charts on page 27. As we are not able to pay in shares, there is no risk of excessive gains within our incentives. |
| **Proportionality** | A significant part of an Executive's reward is linked to performance. Short-and long-term incentive plans reward the delivery of the business strategy and performance ambition. |
| **Alignment to Culture** | Our remuneration framework overall, and our approach to Executive Remuneration in particular, remains focused on our aim of becoming a commercially sustainable business with a strong public purpose. We aim to reinforce a culture of partnership. |

## Executive Directors: Key elements of the remuneration policy

The following table sets out the key elements of the Remuneration Policy for Executive Directors (the CEO and CFO). The remuneration framework for the Executive Directors requires consent from BEIS each year.

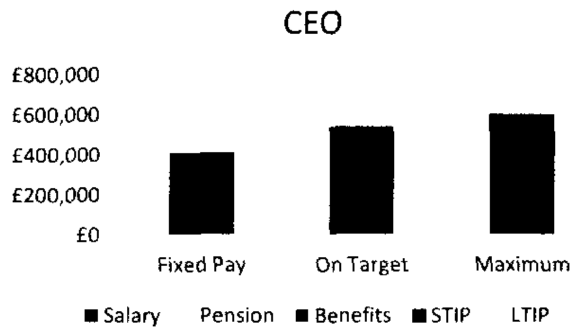
| Element and link to strategy | Operation | Potential |
|---|---|---|
| **Base Salary**<br><br>**To recruit and reward individuals based on their skills and for the responsibilities required.** | Salaries are normally reviewed on an annual basis, in July.<br><br>When determining base salary increases, consideration is given to (i) pay and employment conditions elsewhere in the Post Office and (ii) market data on comparable roles. | There is no formal cap set on salaries.<br><br>Any increase in Executive Directors' salaries will typically be no more than that applied to the wider workforce. |
| **Benefits**<br><br>**To provide market competitive benefits to enable the recruitment and retention of high-calibre individuals.** | Participation in benefits such as cars, life insurance and health cover schemes are part of Post Office wide benefit programmes and are grade / level dependent.<br><br>Any new Executive appointment from September 2019 will not be offered benefits as part of their remuneration package. | Historically, all Executives had the opportunity to be participants in benefit schemes. However, now the CFO is the only remaining Executive participating in benefits schemes.<br><br>Introduced from 2019 as a new policy item, all new General Executive appointments from September 2019 will not be offered benefits as part of their remuneration package. |
| **Pension** | Historically, Executive Directors received a 25% salary supplement in lieu of pension. | The pension offering for new General Executive appointments |

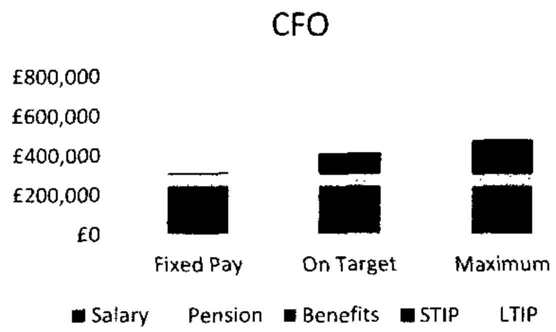
| Element and link to strategy | Operation | Potential |
|---|---|---|
| **To provide market competitive pensions packages.** | Any new Executive appointment from September 2019 has not been offered salary supplement in lieu of pension but remain entitled to participate in the Post Office Pension Scheme at the same levels of contribution as the wider workforce. | is in line with the wider workforce.<br><br>For 2019 / 2020 the CEO has opted out of the Post Office Pension Scheme. |
| **Short-Term Incentive Plan (STIP)**<br><br>**A discretionary payment to reinforce and reward improved in-year financial, operational and personal performance.** | The metrics and target ranges are agreed annually with the Board and BEIS as part of the annual business and budget planning cycle.<br><br>80% of the target STIP award is based on a business scorecard and 20% is based on individual performance objectives which are agreed with the Board and require approval by BEIS.<br><br>The business scorecard is set annually to include a mix of financial and non-financial measures. | Maximum opportunity under STIP as % of salary for different levels of performance are as follows:<br><br>CEO:<br>Threshold: 24%<br>Target: 30% (reduced from 48% in comparison with the previous CEO package)<br>Maximum: 45% (reduced from 80% in comparison with the previous CEO package)<br><br>CFO:<br>Threshold: 32%<br>Target: 40%<br>Maximum: 67% |
| **Long-Term Incentive Plan (LTIP)**<br><br>**To reward and retain key executives and senior managers on the achievement of strategic longer-term targets linked to the development and growth of a sustainable business.** | LTIP awards are made annually and are cash settled.<br><br>Performance measures for the LTIP are drawn from the Post Office Strategic Plan agreed with BEIS.<br><br>The performance targets are agreed with BEIS in advance of each grant and will be described annually in the Report on Remuneration. | Maximum opportunity under LTIP as % of salary for different levels of performance are as follows:<br><br>CEO:<br>Threshold: 24%<br>Target: 30% (reduced from 70% in comparison with the previous CEO package)<br>Maximum: 43% (reduced from 98% in comparison with the previous CEO package)<br><br>CFO:<br>Threshold: 40%<br>Target: 50%<br>Maximum: 70% |

### Illustrations of application of remuneration policy

The charts below show the quantum and composition of the current remuneration policy for the two Executive Directors under three performance scenarios.

These are scenarios showing potential remuneration assuming there is no STIP or LTIP payout (fixed pay only), on-target performance (STIP and LTIP paying out at a target level), and maximum (full payout of STIP and LTIP).




### Policy on payment for loss of office

| Item | Policy |
|---|---|
| Fixed pay | Payments in lieu of notice of salary only. Payments in lieu of notice are not pensionable. |
| STIP | The Committee may, at its discretion, approve payment under the STIP to an Executive Director, pro rata for the period they were in office. The Committee will take into account the reason for leaving and the contribution made to the performance of the business. |
| LTIP | Under the LTIP, the default treatment is that any outstanding awards will lapse on termination of employment. However, in certain prescribed 'good leaver' circumstances, the awards remain subject to performance conditions measured to, and paid after, the end of the performance period, and reduced pro rata to reflect the portion of the period they were employed. The definition of good leaver status is set out in the scheme rules. |
| Change of control | There are no enhanced provisions on a change of control. |

### Approach to recruitment remuneration

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

Nick Read has been appointed as CEO since changes have been made to the policy. Alisdair Cameron remains as CFO on pre-existing terms.

| Item | Policy |
|---|---|
| Salary, Benefits and Pension | From September 2019 the approach to remuneration has changed and the overall total remuneration package is unchanged from the previous incumbent, however the value of benefits and some of the previous variable pay opportunity is now consolidated into basic salary resulting in more competitive base salary levels and reduced benefits, in line with Government remuneration guidance for senior employees. |
| STIP | Maximum annual participation will be set in line with the company's policy for existing Executive Directors and will not exceed 45% of salary for CEO and 67% of salary for CFO. |

| Item | Policy |
|---|---|
| LTIP | Maximum annual participation will be set in line with the company's policy for existing Executive Directors and will not exceed 43% of salary for CEO and 70% of salary for CFO. |
| Buyout of incentives forfeited on cessation of employment | Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the nature, performance conditions and time horizon attaching to award forgone and will be tailored to the individual.<br>Any such award would require approval by BEIS. |
| Internal appointment | Any variable pay element awarded in respect of their previous role will be allowed to payout according to the terms on which it was originally granted. Adjustments may be made to the award, as relevant, to take into account their new role. |

**Non-Executive Directors: Key elements of the remuneration policy**

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

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

| Element and link to strategy | Operation | Opportunity |
|---|---|---|
| **Fees**<br>**To attract and retain a high calibre Chairman and Non-Executive Directors.** | The Chairman is paid a single fee to cover all duties. The Non-Executive Directors are paid a basic fee together with additional fees for chairing Board Sub-Committees or the role of Senior Independent Director.<br>Non-Executive Directors do not participate in any variable remuneration or receive any other benefits.<br>The current fees payable to the Chairman and NEDs are shown on page 32. | The fees for the Chairman are reviewed by the Committee and approved by BEIS. The fees of the Non-Executive Directors are reviewed and approved by BEIS. |

The fees for Non-Executive Director roles are set out in the table below:

| | 2019 fees | 2020 fees | % change |
|---|---|---|---|
| Chairman | £19,300 | £19,300 | 0% |
| Senior Independent NED (including Chair of Remuneration Committee) | £50,000 | £50,000 | 0% |
| Non-Executive Directors base fee | £35,000 | £35,000 | 0% |
| Chair of Audit, Risk and Compliance Committee fee | £10,000 | £10,000 | 0% |
| Chair of Nominations Committee fee | N/A | N/A | 0% |

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

## Annual Remuneration Report

### Single total figure of remuneration

| | Nick Read CEO (note 1) | Paula Vennells CEO (note 2) | | Alisdair Cameron CFO (note 3) | |
|---|---|---|---|---|---|
| Financial year | 2019/20 | 2019/20 | 2018/19 | 2019/20 | 2018/19 |
| | £000 | £000 | £000 | £000 | £000 |
| Annualised salary | 415 | 255 | 255 | 245 | 245 |
| Actual salary | 225 | 21 | 255 | 250 | 245 |
| Benefits | - | 1 | 10 | 10 | 10 |
| Cash in lieu of pension | - | 5 | 63 | 62 | 61 |
| **Fixed remuneration** | **225** | **27** | **328** | **322** | **316** |
| Retention bonus | - | - | - | 50 | - |
| STIP Note 4 | 32 | - | 144 | 48 | 115 |
| LTIP | - | - | 245 | 148 | 168 |
| **Variable remuneration** | **32** | **-** | **389** | **246** | **283** |
| **Total remuneration** | **257** | **27** | **717** | **568** | **599** |

Note 1: Appointed as CEO on 16 September 2019 and therefore actual salary and bonus payments are apportioned

Note 2: Resigned as CEO on 30 April 2019. Received one month of salary and benefits in 2019/20 financial year

Note 3: Appointed as interim CEO from 1 April 2019 until 30 September 2019. In recognition of the additional responsibilities his salary was temporarily increased to £255,000 and he was awarded a retention bonus for successfully completing the role on an interim basis and for a successful handover to Nick Read. The 2018 benefits figure for Alisdair Cameron includes £6,500 company contributions to a Defined Contribution pension

Note 4: the STIP Executive Directors was subject to a 50% reduction for 2019/20, and the reduced figure is shown here for both CEO and CFO

### Base salaries

Salaries for individual Executive Directors are reviewed annually by the Committee and normally take effect from July. The Committee considered the Executive Directors' pay review in July 2019 in light of pay review budgets across the Group and no increases were awarded to existing Executive Directors in post at that time.

### STIP award in relation to performance in 2019/20

The table below shows the outcome of the STIP award for the performance period ending 31 March 2020. STIP performance is measured over a single financial year against a range of financial and non-financial targets and against personal objectives. The table below shows a summary of the metrics and targets which were used to determine the STIP outcomes.

| | Performance | Weighting (% of award) | Outcome achieved (% of award) |
|---|---|---|---|
| Trading profit | 97% | 64% | 62% |
| Change objective | 48% | 16% | 8% |
| Personal objectives | Per Individual Performance Ratings | 20% | CEO: Exceeds rating<br>CFO: Exceeds rating |

### LTIP awards vesting in relation to performance in 2019/20

The table below shows the outcome of LTIP awards which for the performance period ending 31 March 2020. LTIP awards granted at the beginning of the 3 year period and are paid as cash via PAYE on meeting the performance condition. All payments are subject to normal deductions for tax and National Insurance contributions

| | **Salary at date of award** (*£'000*) | **Value of award** (*% of salary*) | **Performance achieved against target** (*Trading profit target set in April 2017*) | **Value of resultant award** (*£'000*) | (*% of salary*) | **Performance Period** | **Date of Payment** |
|---|---|---|---|---|---|---|---|
| CEO[1] | 255 | 70% on-target<br>98% at maximum | 123% | 0 | 0 | April 2017 – March 2020 | NA |
| CFO | 240 | 50% on-target<br>70% at maximum | 123% | 148 | 62% | April 2017 – March 2020 | March 2021 |

Note 1 The award for Paula Vennells (who held the role of CEO at the beginning of the performance period, April 2017) lapsed and no payment was made in line with the scheme rules as she was not in role as of 31 March 2020.

As CEO, Nick Read, was appointed in September 2019, he was not eligible to participate in the April 2017 – March 2020 scheme.

The Performance conditions were as follows:

| | **Performance (based on target set in 2017)** | **Weighting (% of award)** | **Outcome achieved (% of award)** |
|---|---|---|---|
| Network Access Criteria | Met | Gateway | Passed |
| Trading profit | Partial Stretch | 100% | 123% |

### Outstanding interests in LTIP

Under the remuneration policy, LTIP awards are granted annually. The CEO and CFO have the following outstanding awards:

| | **Target award** | **Stretch award** | **Performance period** |
|---|---|---|---|
| CEO | 35% | 43% | 2019 – 2022* |
| CFO | 50% | 70% | 2019 – 2022 |
| CFO | 50% | 70% | 2018 - 2021 |

*CEO award is pro-rated from his start date (30 months)

### Total pension entitlements

Any new General Executive appointment from September 2019 are not offered salary supplement in lieu of pension but remain entitled to participate in the Post Office Pension Scheme at the same levels of contribution as the wider workforce. This applies to the CEO. The CEO has chosen not to participate in the scheme in 2019/20.

Historically, Executive Directors received a 25% salary supplement in lieu of pension. This still applies to the CFO.

## Remuneration of the CEO over time

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

| | 2012 £000 | 2013 £000 | 2014 £000 | 2015 £000 | 2016 £000 | 2017 £000 | 2018 £000 | 2019 £000 | 2020 £000 |
|---|---|---|---|---|---|---|---|---|---|
| Total Remuneration | 456 | 696 | 544 | 522 | 619 | 671 | 718 | 717 | 475 |
| Salary | 250 | 250 | 250 | 250 | 250 | 250 | 255 | 255 | 415 |
| STIP (% of maximum) | 86% | 79% | 38% | 48% | 77% | 99% | 96% | 71% | 32% |
| LTIP (% of maximum) | - | 89% | 59% | 45% | 59% | 62% | 80% | 100% | N/A |

From 2012-2019 the CEO remuneration data relates to Paula Vennells;

The 2020 figure is an annualised figure relating to Nick Read for comparison purposes. Nick worked 54% of the year due to starting on 16 September 2019

## Membership of the Remuneration Committee

During 2019/20, the Remuneration Committee comprised of Ken McCall, Tim Parker, Tom Cooper and Shirine Khoury-Haq (until her resignation in July 2019).

The Committee determines, on behalf of the Board, the Company's policy on the remuneration of Executive Directors, other members of the Group Executive and the Chairman of the Board. The Committee determines the total remuneration packages and contractual terms and conditions for these individuals. The policy framework for remunerating all Senior Executive Managers is consistent with the approach taken for Executive Directors. The Committee also provides oversight of all employee reward, for example the annual bonus scheme, reviews, cascade and alignment of reward throughout the organisation. For this report the December 2018 Terms of Reference applied. The Remuneration Committee Terms of Reference were updated in April 2020. The members of the Committee are listed in the table below. All are independent Non-Executive Directors, with the exception of the Company Chairman who was independent on his appointment and Tom Cooper who is an employee of UKGI. During the year ended 29 March 2020, the Committee met six times to discuss key remuneration issues arising, the review and operation of the Company's Remuneration Policy and market updates by its advisers.

| | **Meetings attended in 2019/20** |
|---|---|
| Ken McCall (Remuneration Committee Chairman) | 6/6 |
| Tim Parker | 6/6 |
| Tom Cooper | 6/6 |
| Shirine Khoury-Haq (note 1) | 1/1 |

Note 1: Resigned due to accepting a new role which would have resulted in a conflict of interest. Therefore, only attended one meeting during the financial year.

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

**Single Figure for Non-Executive Directors**

The table below shows the remuneration of Non-Executive Directors for the year ended 29 March 2020 and the comparative figures for the year ended 31 March 2019.

| Name | Annualised fees 2020 (note 1) £ | Actual fees 2020 £ | Total 2020 £ | Total 2019 £ |
|---|---|---|---|---|
| Tom Cooper (note 2) | - | - | - | - |
| Tim Franklin (note3) | 40,000 | 30,000 | 30,000 | 39,800 |
| Virginia Holmes (note 4) | - | - | - | 300 |
| Shirine Khoury-Haq (note 5) | 35,000 | 11,700 | 11,700 | 30,000 |
| Ken McCall | 50,000 | 50,000 | 50,000 | 49,800 |
| Tim Parker (note 6) | 19,300 | 19,300 | 19,300 | 19,300 |
| Carla Stent | 45,000 | 45,000 | 45,000 | 44,800 |
| Zarin Patel (note 7) | 35,000 | 12,200 | 12,200 | - |

Note 1: The annualised fees are shown as at 29 March 2020 or at the date of leaving.
Note 2: Tom Cooper is an employee of UK Government Investments Limited (UKGI).
Note 3: Stood down as Non-Executive Director on 31 December 2019.
Note 4: Stood down as Non-Executive Director on 27 March 2018.
Note 5: Stood down as Non-Executive Director on 18 July 2019.
Note 6: Donates the after-tax value of his Board fees to charity.
Note 7: Appointed as a Non-Executive Director on 26 November 2019 therefore fees are apportioned.

**Service Contracts**

Each of the Executive Directors has a signed contract within Post Office. Service contracts normally continue until the Executive Director's agreed retirement date or such other date as the parties agree. The service contracts contain provisions for early termination.

| | Date of service contract | Notice period |
|---|---|---|
| **CEO** | 16 September 2019 | 6 months |
| **CFO** | 28 January 2015 | 12 months |

The Chairman and Non-Executive Directors have letters of appointment. Dates of the Directors' letters of appointment are set out below:

| Name | Date of joining the board | Notice period |
|---|---|---|
| Ken McCall (Remuneration Committee Chairman) | 21 January 2016 | 6 months |
| Tim Parker | 1 October 2015 | 6 months |
| Tom Cooper | 27 March 2018 | N/A |
| Carla Stent | 21 January 2016 | 6 months |

Copies of the service contracts of the Executive Directors and the letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office.

### External appointments

Tim Parker is Chairman of Samsonite International S.A, National Trust, and HM Courts & Tribunal Service. He is a Director of The Grange Festival and The Brand Foundation as well as Director and Owner of the British Pathé Film Archive. He is also a Member of the Governing Body of the Royal Academy of Music.

Carla Stent is a Director of MCS Advisory Limited, JP Morgan Elect PLC, and Tilney Smith & Williamson Group, where she chairs the Risk and Audit Committee and is a member of both the Remuneration and Nomination Committees. She is Chair of Marex Spectron Group, Vice Chair of Power to Change Trustee Limited and also chairs several early stage businesses.

Zarin Patel is on the board of Anglian Water Services Limited and Chairs their Audit and Risk Committee. She is also an Independent Director at Anglian Water Services Financing Plc, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited. She sits on the Board of Trustees of the National Trust and chairs its Audit & Risk Committee. She is also an Independent Member of the Audit & Risk Committees of both HM Treasury and John Lewis Partnership PLC.

Ken McCall is a Non-Executive Director of Brambles Ltd. He is also a Member of the Audit and Risk Committee.

Lisa Harrington is a consultant at Kinloch Services Limited and part of the Executive Team of Hyperoptic Ltd. She is also an Independent Director at Calisen PLC and Digital 9 Infrastructure PLC.

Tom Cooper is a Director at UKGI. He ceased to be a Director at East West Railway Company Limited on 8 October 2019. He is a Director of TKGC Consulting Limited and OneWeb Holdings Limited.

Alisdair Cameron is a Non-Executive Director of Dover Harbour Board.

Prior to leaving the Company on 30 April 2019, Paula Vennells was a Non-Executive Director of Wm Morrison Supermarkets PLC and the Cabinet Office. She was also previously a Director at Hymns Ancient and Modern Limited.

No external appointments have been declared by the remaining Executive and Non-Executive Directors for this financial year.

### Malus and Clawback provisions

Executive Directors are subject to malus and clawback clauses in the STIP and LTIP rules, which provide for the reduction or return of all parts of bonus payments in the event of misstatement of the accounts, error or gross misconduct on the part of an Executive Director. From 2020 the rules have been strengthened to provide for reduction or clawback of bonuses where the executive has contributed to serious reputational damage of the company, a material corporate failure or some other exceptional event. In addition to malus and clawback, the Remuneration Committee shall have the absolute discretion to make adjustments, including a downward adjustment, to any bonus payment due under the STIP and LTIP schemes if it considers such adjustment to be appropriate having taken into account all relevant factors.

### Consideration of shareholder's views

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

### Payments to past Directors

Former CEO, Paula Vennells left the Company on the 30 April 2019. Paula received one month's salary for April 2019 which amounted to £21,250 and benefit payments amounting £6,137. In August 2019, Paula Vennells received an LTIP payment of £245,000 and an STIP Bonus payment of £143,820 for the performance year of 2018/19. No further payments are due to Paula Vennells.

### Payments for loss of office

No payments were made for loss of office in 2019/20 to Executive Directors, and at the balance sheet date there were no provisions made for compensation payable for early termination of contracts or loss of office to Executive Directors.

### External advisors

Since PwC are also the Group auditors, they have stood down as Executive Remuneration advisors to mitigate the risk of potential independence conflicts. During 2019/20 PwC only provided two low value pieces of advice, one relating to benchmarking data and another to clarify which remuneration legislation applies to Post Office Limited. The Committee has appointed Willis Towers Watson as external advisors who will commence services in relation to the 2020/21 performance year.

## Fairness, diversity and wider workforce considerations

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

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

### Engagement with the wider workforce

Employee engagement continues to be a focus for Post Office. The overall engagement score rose again in 2019 by 5% to 56% which is in line with the UK average benchmark. The Retail division reported an 8% improvement to 58%. The overall response rate for 2019 remained strong at 92% which displays a representative set of results.

The Chairman of the Remuneration Committee joined our engagement champions at two separate events during 2019. These events consisted of circa 100 colleagues from across the business who asked a wide range of range of questions which included both strategic and operational themes.

As part of our wider work on people, strategy and growth, Post Office undertook an organisational health survey in November 2019. This data coupled with the engagement survey results will be used to inform our Culture as Post Office adopts its new strategy including a response to the group litigation and to COVID-19.

During the COVID-19 pandemic the business ran pulse surveys to assess how employees were coping during challenging times and adopting to new ways of working. The information gathered will be used to provide relevant and timely information and support to our employees. It is important that employees are well supported, stay connected and maintain their wellbeing especially during times of crisis and uncertainty.

The role of the line manager remains a key area of focus, we plan to review our personal development review process to ensure our employees are well supported with regular performance reviews, coaching and development.

### Diversity and Inclusion Policy

Our diversity and inclusion agenda has continued to be a significant focus for us over the past year. Diversity at the Post Office is not only about meeting the minimum legal requirement; it is about providing an environment that encourages difference of thought, experience and background. Employment decisions – whether related to recruitment, promotions, transfers or terminations – are based on merit and fairness.

In the prior year we improved our reporting of diversity data which has enabled us to have a clearer picture of where we stand with regards to the diversity of [i] our workforce as a whole, [ii] our leadership team and [iii] our promotion appointments. We continue to work on increasing the disclosure rate of our diversity data, including sexual orientation and disability, through engagement and via our diversity network groups.

We have gender diversity and ethnic diversity targets on our business scorecard relating to representation at Senior Management level. Both targets are stretching and aim to have a leadership team that is reflective of the customers and communities we serve by 2024. This includes 50% female representation and 14% BAME (Black, Asian and Minority Ethnic colleagues) representation. These targets will be reviewed again to reflect the 2021 census result. Having these targets sends a clear message to our leaders and colleagues in the business that diversity is not just a HR issue, but a business imperative and helps to keep this issue on the agenda.

Our gender diversity target is still a key part of our business scorecard, to reinforce our commitment to having more female senior leaders. Our original aim was to have 40% of senior management roles filled by women by the end of 2018. We exceeded this target and had 43% in March 2019 and have remained at 44% as of March 2020. We are working on our plans to see what else we can do to help us reach our stretch target of 50% by 2024. This is something our senior leaders have overall accountability for.

During 2019/20 Post Office has made good progress towards our diversity targets including moving from 1 female Group Executive member in 2019 to 3 in 2020 (30%) and female representation in the Senior Leadership Team has increased from 33% in 2019 to 45% in 2020. Post Office is currently tracking at 21% BAME representation overall, 12% at Senior Manager level (target is 14% for all levels) and we are committed to working on BAME representation in the Leadership Team, where representation is 2%. Post Office continues to work towards gender, BAME and LGBTQ+ diversity targets.

**Gender Pay gap reporting**

The gender pay gap relates to the difference between the gross hourly pay of all men and the gross hourly pay of all women across the organisation. At Post Office we recognise that more needs to be done to reduce the gender pay gap and we are committed to doing so.

The difference between gender pay and equal pay is important to understand as you can have a gender pay gap without having equal pay issues. Equal pay is about ensuring men and women are paid the same for work of equal value, as set out in the Equality Act 2010. At Post Office we support equal pay through a robust job evaluation process that is free from gender bias.

The following results are based on data taken as at 29 March 2020, the date of our latest published report. Our median gender pay gap was 10% and our mean gender pay gap was 15%. The mean gender pay gap is the difference between the average hourly pay rate of men and women, expressed as a percentage of men's pay. The median gender pay gap is the difference between the mid-point hourly pay rates of men and women, expressed as a percentage of men's pay. The main reason for the gap at Post Office is the lower proportion of women in senior roles relative to men.

Our median pay gap has increased by 2% to 10% (2018/19: 8%), however our mean gender pay gap has decreased by 2% to 15% (2018/19: 17%). These results are better than the UK average but there is still more work to do.

More recently, we have seen our gender ratio (proportion of colleague population which is female) decrease by 3 percentage points from 57% at that start of April 2019, to 54% percent at the end of March 2020. A decrease of 3 percentage points at operational level is due to continued franchising of directly managed branches, where roles are predominantly filled by females.

We continue to focus on tailored development plans for high potential colleagues to support the development of internal talent, which we are pleased to see has made an encouraging difference to the size of our internal female talent pipeline. Since our last report, 56% of internal promotions to Senior Management level roles have been filled by females. The uptake in females for our early career schemes has also followed suit, with our graduate scheme at 66% and our apprenticeship schemes at 50% for the intake in 2019.

We are continuously reviewing our diversity and inclusion initiatives with focus on ensuring we have diverse talent pipelines to support progression to Senior Leadership roles. As we continue to drive our Diversity and Inclusion Strategy, we will improve our diversity data to allow us to set functional targets and measure the success of our initiatives. We'll also be involving our colleagues in shaping our future values and behaviours as we identify our cultural ambition following the launch of our new Post Office Purpose in September 2020, "We're here, in person, for the people who rely on us". These values and behaviours will be embedded into our HR processes to ensure we actively identify and eliminate unconscious bias and encourage diversity through ensuring fairness in reward and recognition. The action plan from the most recent Gender Pay Gap Report, alongside our Diversity and Inclusion Strategy, will enable us to drive improvements to ensure we are doing the right thing for our people and the future of Post Office.

**Gender Diversity Target:**

We have made strides in gender equality over the last few years, particularly at management levels. Our original aim was to have 40% of senior roles filled by women by the end of 2018; we exceeded this target and in March 2019, 43% of our management roles were filled by women. In 2020 our middle and Senior Management female representation was 46% and 44% respectively. Our aspiration is that we will have 50% gender representation at all levels by 2024. Gender equality is a business imperative. We are confident we will continue to make great progress.

Other actions we have taken include:

- **Working to create an inclusive culture**. Diversity and inclusion is recognised as a strategic priority by the business from the very top level. We reinforce the importance of diversity and inclusion to all our people through profiling diverse role models; celebrating the diversity of our people and marking awareness days; growing the number and impact of our employee led diversity networks; and educating our people on the business impact of having diverse and inclusive teams through learning events and workshops.

- **Improved diversity reporting.** A Diversity Dashboard has been developed and is shared with the Senior Leadership Team every month, this provides the basis for diversity and inclusion discussions at leadership team meetings. The dashboard highlights the gender and other diversity targets and highlights where work still needs to be done. Step 2 of this process is to arm our leaders with the tools, including process, objectives and KPIs to ensure that these diversity targets can be met.

- **Placing greater emphasis on diverse talent pipelines for senior and executive roles.** Our Talent, Diversity and Inclusion Director is working with each Group Executive member to identify their top talent and challenge where this is not a diverse list. As a result, we have seen an increase in the number of women promoted internally with 55% of our upward promotions at all levels, and 30% at Senior Leadership level, in the last year being women, and 15% of our upwards transfers being BAME colleagues.

- **Training**: 'People Manager Fundamentals' training programme is mandatory for all people managers which educates them on how to manage their teams in line with Post Office values and behaviours. This includes a module underpinned by diversity and inclusion: 'Knowing our People'. Before hiring new team members, line managers must undertake unconscious bias training to reduce instances of bias in the recruitment process. They are also responsible for ensuring that our Code of Conduct is made available to all colleagues - this outlines what colleagues can expect when working at the Post Office, and has a dedicated section on diversity and inclusion. Line managers are also asked to actively support and promote a number of people focused networks in the business (e.g. Employee Representative Groups, Diversity and Inclusion).

**Further commitments to the Race at Work charter**

Race and ethnicity has been given additional focus as part of this strategy in an effort to significantly develop our work in this area. This doesn't mean that we will be reducing our work for other groups at all, in fact quite the opposite, many of the actions will benefit all of our diversity groups and plan on developing and improving our diversity networks through the life of this strategy.

**Ken McCall**

Chair of the Remuneration Committee

22 March 2021

# Management of Risk

## Our Approach to Risk

As a commercial business with a social purpose, the Post Office must balance the need to provide essential services to our customers with maintaining and enhancing profitability. The Post Office is, and will continue to be, exposed to many sources of risk as a result of its various activities and the external environment in which we operate.

The Post Office adopts an enterprise-wide approach to the management of the risks. This involves; (i) the identification and evaluation of significant risks, (ii) assignment of ownership, and (iii) the completion and monitoring of mitigating actions to manage these risks within our risk appetite. This enterprise risk approach seeks to improve efficiency and the delivery of our services, improve allocation of resources to business improvement and enhance risk reporting to our shareholder.

## Our Risk Management Framework

The Post Office's risk management framework is designed to support the consistent and robust identification and management of opportunities and risks across the organisation. It is based on the principles that risk management is:

- Fundamental to how we are directed, managed and controlled at all levels;
- An integral part of all our organisational activities which support decision-making in achieving objectives; and
- Collaborative and informed by the best available information and expertise and processes include risk:
  - Identification and assessment to determine how our risks should be managed;
  - Treatment options that manage our risks to an acceptable level;
  - Monitoring options; and
  - Reporting to enhance the quality of decision-making and to support management oversight.

In line with industry best practice our Framework is made up of three inter-related components: governance, strategy and protocols.

# Risk Management Governance

The Post Office's Risk Management Governance arrangements are concerned with how we manage and communicate risks in the organisation, underpinned by a risk reporting structure. The Board (along with operational management), Risk and Compliance Committee (RCC) and Audit and Risk Committee (ARC) are the three lines of defence for risk management.

The Board, informed and advised by the ARC, lead on the assessment and management of risk, taking a strategic view of the risks faced by the Post Office. The Board ensures there are clear accountabilities for managing risks (and the associated internal controls) and our staff are equipped with the relevant skills and guidance to perform their assigned roles effectively and efficiently. The Board also ensure roles and responsibilities are clear to support effective governance and decision-making at each level with appropriate rules around escalation, aggregation and delegation.

In providing such oversight the Board assesses the nature and extent of the existing and emerging enterprise risks being encountered, as the Post Office aims to achieve its objectives. The Board agrees the frequency and scope of its risk discussions and ensures processes are in place to bring significant issues to its attention. It also examines potential long-term threats, risks, emerging issues and opportunities to assure itself on the effectiveness of our risk management framework.

The ARC supports the Board in its assessment and management of risks. In doing so the ARC ensures the Board understand the business strategy, operating environment and the associated risks. The ARC reviews the Post Office's policy, risk appetite and attitude to risk to ensure these are appropriately defined and communicated so that parameters and expectations are understood. They regularly and critically challenge and review our risk management framework to evaluate how well the arrangements are working. In doing so they also review the adequacy and effectiveness of our internal control framework.

We follow the industry standard "Three Lines of Defence" assurance model in managing the risks across our organisational tiers as it provides a simple and effective way to delegate and coordinate risk management roles and responsibilities.

In this structure the 1st Line function is performed by Post Office operational management (including the Board) who identify, assess, own and manage the risks. They are also accountable for the design, implementation and maintenance of the associated internal control measures.

The Central Risk team perform the 2nd Line function. It oversees our corporate approach to risk management. This involves defining and implementing risk standards, policies, procedures and guidance. They also assist the 1st Line function in developing controls in line with good practice as well as monitor compliance and effectiveness. Furthermore, they are accountable for identifying and alerting the Board, the Group Executive and the ARC to emerging issues and changing risk scenarios.

Internal Audit, who operate independently of 1st and 2nd Line functions, are the 3rd Line of defence. They provide an independent evaluation of the adequacy and effectiveness of the Post Office's framework of governance, risk management and control.

All Post Office risks are monitored, reviewed and recorded regularly to determine whether, or not, the corporate risk profile has changed and to gain assurance that corporate risk management rules and procedures are effective.

## Risk Management Strategy

The Post Office's Risk Management Strategy is concerned with our specific risk policies and framework, our appetite and attitude to risk, the techniques by which we assess risks as well as the key priorities in any given year.

## Risk Management Protocols

The Post Office Risk Management Protocols are the guidelines provided to the organisation for the management of risk. These include detailed rules and procedures, how we classify risks, as well as the risk management methodologies, tools and techniques we use.

## Our Control Framework

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

# What has changed since last year?

## Risk Policy

During 2019/20 we undertook a comprehensive review of our Corporate Risk Policy which was formally approved by ARC in November 2019 and again, subsequent to year-end, in December 2020.

The refreshed policy is based on a number of key principles which are consistent with ISO31000 (Risk Management – Principles and Guidelines) and supportive of the UK Corporate Governance Code (Guidance on Risk Management, Internal Control and Related Financial and Business Reporting). It was updated with additional sections on core principles, application, roles and responsibilities, as well as referencing key risk management processes and related supporting policies.

The Policy is based on a number of key principles, namely:

- Risk is embedded in all activities and the underlying risk culture and approach is key to effective decision-making;
- All material risks are identified, measured, monitored, managed and reported on a continuous basis at an individual and aggregate level;

- Risk management processes are aligned with, and support, the delivery of the Post Office strategy, ambitions and management objectives;
- Risk management processes are integrated with business strategy, project management, process and decision-making to promote an enterprise wide approach;
- Risk management follows a consistent and transparent methodology;
- There is proactive recognition of external factors, opportunities, and uncertainties;
- Risk reporting supports effective review, challenge and monitoring of risk levels against Post Office's risk appetite and inform decision-making activities; and
- Governance of risk is achieved through adhering to the industry standard Three Lines of Defence assurance model that ensures appropriate segregation of duties.

## Central Risk Function

Following the in-year Post Office re-structure (and a refocus of our strategic objectives) we have enhanced our 2nd Line Central Risk function to provide greater consistency and co-ordination in the management of our enterprise and key business risks. This work is designed around a series of interrelated themes and builds on our existing risk management activities.

Work has focused initially on enterprise risks with the 2020/21 focus on designing and implementing enhanced Key Risk Indicators and Risk Appetite Statements.

## Governance, Risk & Compliance ("GRC") framework

During 2020/21 we have formalised a GRC corporate governance body to oversee the Post Office's GRC Strategy and supporting framework.

Our GRC framework and tool is made up of 5 components:

1. Governance and Compliance: To ensure the Post Office's governance framework, including policies, laws and regulations, and best practices are in a centralised system, and mapped to associated controls. It will provide for the identification of relevant business, risk and IT owners (and systems).
2. Risk Management: To identify and manage existing and emerging risks in the centralised system and record the accuracy of the associated controls.
3. Implement real-time monitoring: To identify non-compliant controls, using Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs) augmented by automated data validation and evidence gathering.
4. Vendor Assessment: To assess vendor risk and provide the ability to manage and assess vendors in a consolidated manner.
5. Reporting: GRC will also support the Post Office in providing both qualitative and quantitative assessment scores, informed by service performance data. This will allow us to more accurately gauge and report our risk exposure in real time.

## Enterprise Risks Review

As part of our review of the Central Risk function we reviewed our key enterprise risks along with the key associated business risks, ensuring they are grouped under a series of enterprise drivers consistent with those advocated by HM Government's 'Orange Book'. This ensures our mitigation plans address more than one linked risk, resulting in a more efficient and effective enterprise risk management process.

We also undertook work, in the latter part of the year, to identify all key COVID-19 related operational risks. This was undertaken in two phases. Phase 1 was an industry-wide and sectoral analysis (international and domestic) of the typical COVID-19 emerging risks we were likely to encounter. Phase 2 confirmed the relevance, or otherwise, of these typical risks with the business tailoring and assessing their respective impact, likelihood and proximity. The work resulted in the identification of a number of risks, and as at the point of signing these financial statements there is one single overarching COVID-19 enterprise risk, 14 intermediate thematic risks (operational, strategy, legal, financial etc.) and 92 specific low level risks.

The COVID-19 risk work has had a significant impact on our non-COVID-19 risk activity given the former's pervasive influence across all business areas. We have therefore fully integrated these so that risk assessments and associated mitigating actions are fully aligned.

The table below outlines seven key enterprise risks which could have had a material impact on our results, condition and prospects in 2019/20.

## Enhanced Risk Management Governance

Up to the point of signing, work has been undertaken to enhance the respective roles of the Board and the ARC with regard to risk management. This has resulted in confirmation that the Board should continue to provide oversight of (and provide direction to) the management of the key strategic business risks that could threaten the delivery of the Post Office's strategic objectives. These risks will be of Post Office-wide importance and likely to require the action of multiple stakeholders and corporate change to mitigate. Typical examples include risks around an adverse macro-economic environment, new commercial arrangements, financial outcomes and forecasts, Postmaster relationships, funding and the operation of the Historical Matters Business Unit.

In this context ARC will be responsible for advising the Board on the key strategic risks it should have regard to, providing broad assurance of the overall Post Office risk profile, overseeing the 'three lines of defence' risk structure to ensure assurance is aligned and oversee the application of (and the degree of compliance with) the Post Office's risk policy (and supporting risk management framework).

## Post Office enterprise risks 2019/20

| THEME | ENTERPRISE RISK | MITIGATIONS |
|---|---|---|
| Commercial | Risk around the Post Office's management of commercial partnerships, supply chains and contractual requirements | • Post Office review medium-term and long-term operating models as well as regularly reviewing the strength of 3rd party relationships. |
| Legal | Risks around Post Office having an ineffective corporate, compliance & control environment, ineffectively managing its contract & transaction management obligations, being non-compliant with its statutory & regulatory requirements (including Employment Law and Pension obligations), encountering adversarial Disputes & Litigation and misuse of Brand. | • Proactive in-year compliance programme (including mandatory training on key products and services, mystery shopping, horizon scanning etc.).<br>• Post-Group Litigation works including the design and delivery of relevant schemes, overseen by the Board and Shareholder.<br>• The Board has sought and obtained extensive external professional legal advice throughout the year. |
| Operational | Risks that Post Office has potentially inadequate, poorly designed or ineffective/inefficient internal processes resulting in fraud, error, impaired customer service (quality and/or quantity of service), non-compliance and/or poor value for money. A key focus is around whether the Post Office are being sufficiently supportive of Postmasters. | • The Board and ARC have led the review of high priority internal processes.<br>• Detailed reviews of all Postmaster related processes are underway with in year changes made to Postmaster remuneration packages. |
| Financial | Risks that Post Office is potentially unable to manage finances in accordance with requirements and financial constraints. | • Identification and agreement of plausible alternate scenarios in which the impact of Post Office financial decisions can be assessed. This is typically a 4 year rolling plan, approved annually by the Board and presented to the Shareholder. |
| Technology | Risk that Post Office is too heavily reliant on key 3rd IT parties (with limited ability to influence the relationship), has an ageing IT infrastructure and is unable to deliver enhancements timeously.<br><br>An ineffective Disaster Recovery regime is an additional risk. | • Ensure End of Life hardware components are prioritised.<br>• Undertake Review of Contract Terms and Conditions with key service providers.<br>• Conduct regular Disaster Recovery scenarios including fail overs and roll backs. |

| | | |
|---|---|---|
| COVID-19 | Risk that Post Office business, employees and Postmasters are adversely impacted by the spread of COVID-19 and its wider associated socio-economic activity. | • Undertaking analysis to understand the COVID-19 impact on Post Office long-term business model.<br>• Establishing and reviewing COVID-19 funding, governance, decision-making and communication arrangements.<br>• Reviewing relevant Post Office policies to reflect COVID-19 adjustments. |
| People | Risk that due to the prolonged home-working arrangements during the COVID-19 pandemic, there could be an adverse impact on the well-being of Post Office employees. | • A COVID-19 rapid response team has been in place since March 2020 to oversee the corporate response to the pandemic resulting in the launch of refreshed set of HR policies, the promotion of a range of well-being initiatives and ongoing assessments of employee homework arrangements. |

# Streamlined Energy & Carbon Reporting

Under the new Streamlined Energy & Carbon Reporting (SECR) legislation we are mandated to include energy consumption, emissions, intensity metrics and all energy efficiency improvements implemented in the financial year. The report below summarises the energy usage, associated emissions, energy efficiency actions and energy performance for Post Office Limited for the financial year 1 April 2019 to 29 March 2020, as implemented by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

The methodologies utilised for all Energy & Carbon reporting calculations are defined within the relevant sections.

The organisational boundary for the reporting has been set to relate to Post Office Limited only, as the only organisation within the Group meeting the SECR qualification criteria.

## Consumption (kWh) and Greenhouse Gas emissions (tCO2e) Totals

The following figures make up the baseline reporting for The Post Office Limited, as this is the first year we are required to report this information. The requirements only include electricity usage, natural gas usage and transport.

Natural gas and transportation consumption and corresponding emissions relate to direct combustion of natural gas, and fuels utilised for transportation operations, such as company vehicle fleets and grey fleet (personal vehicles which are used for business purposes).
Electricity consumption and emissions relate to indirect emissions from the consumption of purchased electricity in day to day business operations.

The total consumption (kWh) figures for energy supplies reportable by Post Office Limited are as follows.

| Utility and Scope | 2019/20 Consumption (kWh) |
|---|---|
| Grid-Supplied Electricity | 13,825,748 |
| Natural Gas | 12,677,318 |
| Transportation | 15,916,759 |
| **Total** | **42,419,825** |

The total Greenhouse Gas (GHG) emission figures (tCO2e) for energy supplies reportable by The Post Office Limited are as follows. Conversion factors utilised in these calculations are detailed below the table.

| Utility and Scope | 2019/20 Consumption (tCO2e) |
|---|---|
| Grid-Supplied Electricity | 3,534.03 |
| Natural Gas | 2,330.83 |
| Transportation | 3,868.54 |
| **Total** | **9,733.40** |

Electricity, natural gas and transport consumption and the corresponding CO2e emission data has been calculated in line with the 2019 UK Government environmental reporting guidance. The following Emission Factor Databases consistent with the 2019 UK Government environmental reporting guidance have been used: Database 2019, Version 1.01.

Estimations undertaken to cover missing billing periods were calculated on a kWh/day pro-rata basis at meter level. Where data was not available for the entirety of the reporting period, an average of similar meter classes and properties with similar operations were taken and applied to the properties with no available data. These estimates equated to 4.1% of the reported consumption.

## Intensity Metric

An intensity metric of tCO2e per full time employee (FTE) has been applied for the annual total consumption and emissions of Post Office Limited. The methodology of the intensity metric calculations is detailed below, and results of this analysis are as follows:

| Intensity Metric | 2019/20 Intensity Metric |
|---|---|
| tCO2e / FTE | 2.50 |

Intensity metrics have been calculated utilising the UK 2019/20 average employee number of 3,897 FTE (Post Office Limited company only). TCO2e for both individual sources and total emissions were then divided by this figure to determine the tCO2e per FTE.

## Energy Efficiency Improvements

The Post Office is committed to year on year improvements in our operational energy efficiency. As such, a register of energy efficiency measures available to the Post Office Limited has been compiled, with a view to implementing these measures in the next 5 years.

# Measures ongoing and undertaken through 2019/20

### Introduction of telemetry

Telemetry equipment has been installed to the entirety of the cash in transit fleet vehicles. This has been an ongoing scheme since April 2018, with year on year improvements to fuel consumption throughout the fleet since installation. Year on year fuel consumption has decreased since 2018/19 by 6% to 10,957,146kWh.

### Vehicle replacement policy

A policy regarding vehicle replacement has been implemented through 2019/20, and is set for continuation into the new 2020/21 financial year. 30% of the most inefficient vehicles in the vehicle fleet were replaced during the 2019/20 financial year, with all new vehicles purchased meeting the Euro 6 emissions standard, demonstrating an increase of almost 100% in fuel efficiency. Approximately 25% of the Cash in Transit vehicle fleet is now of a Euro 6 standard, with plans to increase this further through 2020/21.

### Installation of Building Energy Management Systems (BEMS)

BEMs were installed at major cash distribution sites in the portfolio, to ensure that the buildings perform as efficiently as possible at all times.

### Lighting replacement policy

A comprehensive replacement policy for lighting has been implemented throughout the portfolio. This ensures that when lighting is replaced throughout the portfolio, the replacements are of an energy efficient LED standard.

### Recycling policy

Policies relating to recycling and waste have been implemented throughout the operations of Post Office Limited, resulting in re-use and recycling figures of above 99% for the business.

## Priority for implementation in 2020/21

### Incentive programme for driver behaviour

Programmes relating to rewarding good driving behaviour, with objectives set across regional areas, are planned for release across Post Office Limited vehicle operations. Where staff achieve or exceed these objectives, they will be eligible for rewards for their efforts to reduce the carbon emissions of the business fleet operations.

# Directors' Report

The Directors present the Group Annual Report and Financial Statements and Company Financial Statements for the year ended 29 March 2020.

## Expected future developments

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

## Stakeholder Engagement

Details of stakeholder engagement is included in the Remuneration Committee Chairman's Statement which is included on page 24.

## Results and dividends

The loss after taxation for the year was £305 million (2019: profit of £40 million). The Directors do not recommend the payment of a dividend (2019: £nil).

## Political contributions

No political contributions were made in the year (2019: £nil).

## Research and development

No claim for research and development was submitted during the year. Our first research and development claim was submitted during 2018/19 in respect of 2017/18 and 2016/17. The claim related to IT transformation projects.

## Directors and their interests

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

T C Parker

A C J Cameron

T K G Cooper

T A Franklin *(resigned 31 December 2019)*

L C Harrington *(appointed 8 April 2020)*

S Khoury-Haq *(resigned 18 July 2019)*

K S McCall

Z H Patel *(appointed 26 November2019)*

N J Read (appointed 16 September 2019)

C R Stent

P A Vennells *(resigned 30 April 2019)*

No Director has a beneficial interest in the share capital of Post Office Limited. The emoluments of Directors are set out in the Remuneration Committee Chairman's Statement on pages 28 to 32.

## People

Our people are critical to our success to meet our organisational purpose and to allow our Postmasters to serve the communities in which we operate by attracting, motivating and developing our people. To do this we:

- Conduct regular employee surveys and use the feedback to make improvements.
- Provide internal and external mentoring opportunities.
- Regularly provide information on Company performance, policies and organisational developments through our weekly CEO presentations, intranet, briefing sessions and company-wide emails.
- Operate our Learning Academy to provide high quality learning for all employees and Postmasters, aiming to ensure that everyone is supported into reaching their full potential.
- Invest in developing the best talent to support our business, including graduate recruitment and active participation in the apprenticeship programme, available for new and existing colleagues.
- Are committed to providing a safe working environment that promotes the health, safety and wellbeing of employees. A range of services is provided to help all employees stay mentally and physically healthy, including trained mental health first-aiders.
- Promote diversity and inclusion and celebrate the diversity of the workforce and communities we serve. We have a number of active employee network groups such as: Women in Leadership, to support and nurture female talent; Prism, which supports and celebrates our LGBTQ+ community; Post Office Ethnic Minorities ("POEM") which supports Black, Asian and Minority Ethnic colleagues, and Disability Confidence (supporting colleagues with a disability).
- Proactively communicate that we are a Disability Confident Leader and actively try to attract talented people to Post Office from diverse backgrounds. We do this through our corporate careers page and recruitment agencies.
- Set diversity and inclusion targets including 50% equal gender representation and 14% BAME representation through all levels of the Post Office by 2024. See page 34 to 36 for more detail.
- Ask all applicants to inform us of any reasonable adjustments we can make to ensure they are not disadvantaged due to a particular disability during the selection process and throughout their employment.
- Before hiring new team members, line managers must undertake unconscious bias training to reduce instances of bias in the recruitment process.
- Do not tolerate any form of bullying, harassment, victimisation or discrimination whether written, verbal, visual or physical. We are committed to taking the necessary action to ensure that they do not occur, or where they do occur that they are dealt with quickly and eliminated, by following a consistent, fair and robust Bullying and Harassment Policy and Procedure. All managers are required to complete Dignity at Work training to ensure they understand their responsibilities and that they demonstrate the correct behaviours and treat everyone with dignity and respect at all time.

## Disabled employees

As noted above, Post Office Limited has been recognised as a Disability Confident Leader. We have a Disability Confidence networking group called 'Be You'. This group provides support and advice and helps the business to do the best it can for employees with disabilities. We also make necessary adjustments for colleagues who are disabled or become disabled during the course of their employment to allow them to carry out their role and fulfil their potential, including any specific training needs.

## Gender pay gap

Gender pay gap is detailed in the Remuneration Committee Chairman's Statement on page 35.

## Post balance sheet events

The Directors would like to draw attention to three post balance sheet event items:

- Network Subsidy Payments received in 2020/21;
- Sale of the Telecoms business unit to Shell Energy Retail Limited, which completed on 15 March 2021; and
- Historical criminal cases reviews and the potential impact on the Group.

Further details are provided on page 103.

## Going concern

After careful consideration of the plans for the coming years, factoring in the impact of COVID-19 and the continuing support of Government, we remain confident that the Group (being the Group of companies headed by Post Office Limited) will be able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. The going concern period assessed by management is the 18-month period to the end of September 2022. The continued support of Government has always been an important aspect of the going concern assessment, with Government providing investment funding and subsidy payments historically, enabling the Group to grow and become profitable at a trading level, whilst also providing funding facilities to assist with liquidity.

With the launch of the HSS, the ongoing Employment Tribunal (see note 20) and the review of historical criminal cases as referred by the Criminal Cases Review Commission, all of which could result in significant cash outflows for the Group, the continued support of Government has become critical in the Directors decision making process around the Group's going concern position.

The Directors have received written assurances from BEIS that they place a high priority on Post Office's ability to continue delivering vital public services and as such will continue to support Post Office.

These assurances are supported by recently agreed funding arrangements provided by Government. In addition to the £50 million Network Subsidy Payment previously agreed for 2020/21, the funding agreed for April 2021 onwards constitutes: £177 million investment funding made up of a £125 million equity injection and a £52 million loan in 2021/22; £50 million Network Subsidy Payment for 2021/22; and the renewal of the £950 million working capital facility and £50 million same-day liquidity facility, both to 31 March 2024. Government have also agreed to provide sufficient financial support to Post Office to ensure that the HSS can proceed, based on current expectations of the potential cost. These funding commitments provide evidence of continued support from Government. Further assurances related to unquantified potential cash outflows, such as those associated with the overturning of historical criminal cases, cannot be given as it is not the nature of Government's budget process to provide guarantees for unquantifiable potential liabilities.

The changes in the Government spending review cycle brought about in 2020/21, reducing the cycle from a 3 year period to 1 year, have resulted in an inability of our Shareholder to guarantee funding beyond 31 March 2022. This change in funding cycle reduces the period of funding certainty to 12 months, excluding the HSS funding and working capital facility as stated above.

The Group traded profitably in 2019/20, showing year on year growth. However, primarily as a result of the recognition of a provision for the HSS, the Group entered a net liabilities position in March 2020. An impact assessment has been performed, which concluded that this will not have a significant impact on the going concern position of the Group. The Group was in a net liabilities position prior to 2013 without any adverse impact on trading as a result of Government support.

Management has performed a cashflow assessment for a period of 18 months to end of September 2022, factoring in no further funding beyond that agreed above, whilst assuming any cash outflows arising as a result of historical criminal cases or the Employment Tribunal will be funded by Government. This assessment supports the Directors' view that the Group can continue to meet its liabilities as they fall due for the period under review.

However, the assumption of continued Government support without guaranteed Government funding in relation to potentially material future cash outflows, which may or may not arise in respect of HSS settlements in excess of amounts already guaranteed by Government, civil claims for compensation to be made following the potential over-turning of historical criminal convictions, and the outcome of the Employment Tribunal over the potential worker status of certain postmasters, and which could occur during the going concern period, represents a material uncertainty which may cast a significant doubt on the Group's and Company's ability to continue as a going concern. The financial statements do not include adjustments that would result if the Group and Company were unable to continue as a going concern.

As noted above, we believe that Government support will be available when there is clear evidence that it is required. If that situation changes, our shareholder has assured the Board that it will be informed, and the focus of the Board will shift to protecting its creditors. That is not the case today.

Further details regarding the going concern assessment and the associated significant judgements are included in note 1 of the financial statements.

## Financial instrument risk

The exposure of the Group to market risk, credit risk and liquidity risk has been disclosed in note 17 of the financial statements on pages 86 to 88.

## Audit information

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

## Independent Auditor

The Board reappointed the auditors, PricewaterhouseCoopers LLP, for financial year 2020/21 on 18 March 2021.

# Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial 52 week period. Under that law the Directors have prepared the Group financial statements in accordance with international accounting standards, in conformity with the requirements of the Companies Act 2006, and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). In preparing the Group financial statements, the Directors have also elected to comply with international accounting standards, issued by the International Accounting Standards Board (IASB). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

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

## Directors' confirmations

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

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

By order of the Board

Veronica Branton

**Veronica Branton**

Company Secretary, Post Office Limited (Company Number 2154540)

Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ

22 March 2021

# Financial Statements

## Independent Auditors' Report to the members of Post Office Limited

### Report on the audit of the financial statements

#### Opinion

In our opinion:

- Post Office Limited's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 29 March 2020 and of the group's loss and cash flows for the 52 week period (the "period") then ended;
- The Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- The Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Consolidated Financial Statements (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 29 March 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and Company statements of changes in equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### Basis for opinion

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

*Independence*

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

#### Material uncertainty related to going concern – Group and Company

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's and company's ability to continue as a going concern.

The group's cash flow forecasts that cover the going concern assessment period to 30 September 2022 contain assumptions regarding i) the amounts and timing of payments that may be required in respect of the Historical Shortfall Scheme ("HSS"); ii) the amounts and timing of payments that may be required in respect of any civil claims for compensation in the event that historical criminal convictions are overturned; and iii) the amounts and timing of payments that may be required dependent on the outcome of an Employment Tribunal relating to the potential worker status of certain postmasters. In certain downside scenarios, amounts to be paid during the going concern assessment period could exceed the aggregate of the available cash resources of the Group and funding currently guaranteed by Government. In such a scenario, further funding would need to be sought from Government. Whilst the directors have received assurances from The Department for Business, Energy and Industrial Strategy that it is Government's intention to continue to provide support to the Post Office, given the nature of Government funding protocols this support does not constitute a financial guarantee of Government funding.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 29 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

## Responsibilities for the financial statements and the audit

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Directors' Responsibilities Statement set out on page 47, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

### *Use of this report*

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

# Other required reporting

## Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

APaynter

**Andrew Paynter (Senior Statutory Auditor)**

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

22 March 2021

# Consolidated Income Statement

for the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

| | | **2020 £m** | | | 2019 £m | | |
|---|---|---|---|---|---|---|---|
| | Note | Trading | Investments | Total | Trading | Investments | Total |
| Revenue from contracts with customers | 2 | **951** | **-** | **951** | 972 | - | 972 |
| Costs | 3,5 | **(912)** | **(91)** | **(1,003)** | (959) | (134) | (1,093) |
| Costs – exceptional items | 4 | **(232)** | **-** | **(232)** | (20) | - | (20) |
| Total costs | | **(1,144)** | **(91)** | **(1,235)** | (979) | (134) | (1,113) |
| Other operating income | | **19** | **-** | **19** | 14 | - | 14 |
| Investment funding | 5 | **-** | **42** | **42** | - | 168 | 168 |
| Network Subsidy Payment | | **50** | **-** | **50** | 60 | - | 60 |
| Depreciation, amortisation and impairment | 5,9,10 | **(130)** | **(27)** | **(157)** | (94) | - | (94) |
| Share of post-tax profit from joint venture | 11 | **28** | **-** | **28** | 33 | - | 33 |
| Operating (loss) / profit | 4 | **(226)** | **(76)** | **(302)** | 6 | 34 | 40 |
| Operating profit / (loss) before exceptional items | | **6** | **(76)** | **(70)** | 26 | 34 | 60 |
| Finance costs | 7 | **(10)** | **(1)** | **(11)** | (8) | (1) | (9) |
| (Loss) / profit before taxation | 4 | **(236)** | **(77)** | **(313)** | (2) | 33 | 31 |
| Taxation credit | 8 | **8** | **-** | **8** | 9 | - | 9 |
| **(Loss) / profit for the financial year** | | **(228)** | **(77)** | **(305)** | 7 | 33 | 40 |

For the year ended 29 March 2020 trading profit was £86 million (2019: £60 million).

Trading profit is one of the Group's key financial measures and is calculated as operating profit/(loss) before exceptional items, depreciation, amortisation, investment funding and Network Subsidy Payment. Further detail is given in note 24 – alternative performance measures.

All amounts relate to continuing operations.

# Consolidated Statement of Comprehensive Income

for the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

| | Note | **2020 £m** | 2019 £m |
|---|---|---|---|
| **(Loss) / profit for the financial year** | | **(305)** | 40 |
| ***Items that may be reclassified to profit or loss*** | | | |
| (Loss) / gain on cash flow hedge | 17 | **(1)** | 3 |
| ***Items that will not be reclassified to profit or loss*** | | | |
| Re-measurements on defined benefit surpluses | 18 | **1** | (3) |
| Tax effect | 18 | **-** | 1 |
| **Total other comprehensive income** | | **-** | 1 |
| **Total comprehensive income for the year** | | **(305)** | 41 |

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

# Consolidated Statement of Cash Flows

for the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

| | Note | **2020 £m** | 2019 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit (before exceptional items and investments) | | **6** | 26 |
| **Total profit before investments** | | **6** | 26 |
| Adjustment for: | | | |
| Share of profit from joint venture | 11 | **(28)** | (33) |
| Depreciation and amortisation | 9,10 | **130** | 94 |
| Pension operating costs | 18 | **12** | 13 |
| Other gains and losses | | **13** | 7 |
| Working capital movements: | | **-** | 2 |
| Decrease/(increase) in trade and other receivables | | **59** | (5) |
| Decrease in contract assets | | **6** | 5 |
| Decrease in trade and other payables | | **(66)** | - |
| Decrease in inventories | | **1** | 1 |
| Increase in provisions | | **-** | 3 |
| Decrease in provisions for discontinued operations | | **-** | (2) |
| Pension costs paid | | **(19)** | (21) |
| Net (payment)/receipt in respect of investments and exceptional items: | | **(185)** | 27 |
| Investment funding | | **42** | 168 |
| Restructuring costs | | **(158)** | (121) |
| Litigation costs - GLO | | **(69)** | (20) |
| Surrender of tax losses to joint venture | | **8** | 8 |
| **Net cash (outflow)/inflow from operating activities** | | **(63)** | 123 |
| **Cash flows from investing activities** | | | |
| Dividends received from joint ventures | 11 | **27** | 33 |
| Acquisition of businesses (net of cash acquired) | 21 | **-** | (17) |
| Proceeds from the sale of property, plant and equipment | | **-** | 4 |
| Purchase of tangible and intangible non-current assets | 9,10 | **(103)** | (160) |
| **Net cash outflow from investing activities** | | **(76)** | (140) |
| **Cash outflow before financing activities** | | **(139)** | (17) |
| **Cash flows from financing activities** | | | |
| Finance costs paid | | **(8)** | (8) |
| Finance lease payments | | **(15)** | - |
| Net proceeds/(repayments) of borrowings from BEIS | 15 | **52** | (58) |
| **Net cash inflow/(outflow) from financing activities** | | **29** | (66) |
| **Net decrease in cash and cash equivalents** | | **(110)** | (83) |
| Cash and cash equivalents at the beginning of the year | 13 | **572** | 655 |
| **Cash and cash equivalents at the end of the year** | 13 | **462** | 572 |

# Consolidated Balance Sheet

at 29 March 2020 and 31 March 2019

| | Note | **2020 £m** | 2019 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 9 | **247** | 291 |
| Property, plant and equipment | 10 | **199** | 176 |
| Investments in joint venture | 11 | **67** | 66 |
| Retirement benefit surplus | 18 | **1** | 1 |
| Trade and other receivables | 12 | **7** | 6 |
| **Total non-current assets** | | **521** | 540 |
| **Current assets** | | | |
| Inventories | | **1** | 2 |
| Trade and other receivables | 12 | **283** | 345 |
| Cash and cash equivalents | 13, 17 | **462** | 572 |
| **Total current assets** | | **746** | 919 |
| **Total assets** | | **1,267** | 1,459 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **(408)** | (544) |
| Financial liabilities - interest bearing loans and borrowings | 15 | **(617)** | (565) |
| Provisions | 16 | **(31)** | (52) |
| **Total current liabilities** | | **(1,056)** | (1,161) |
| **Non-current liabilities** | | | |
| Other payables | 14 | **(70)** | (14) |
| Provisions | 16 | **(198)** | (40) |
| **Total non-current liabilities** | | **(268)** | (54) |
| **Net (liabilities) / assets** | | **(57)** | 244 |
| **Equity** | | | |
| Share capital | 19 | **-** | - |
| Share premium | 19 | **465** | 465 |
| Accumulated losses | | **(526)** | (226) |
| Other reserves | 19 | **4** | 5 |
| **Total equity** | | **(57)** | 244 |

The notes on pages 57 to 104 form an integral part of the consolidated financial statements.

The financial statements on pages 52 to 104 were approved by the Board of Directors on 22 March 2021 and signed on its behalf by:

N Read

Chief Executive Officer

# Consolidated Statement of Changes in Equity

for the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

| | Note | Share capital £m | Share premium £m | Accumulated losses £m | Other reserves £m | **Total equity £m** |
|---|---|---|---|---|---|---|
| At 1 April 2019 | | - | **465** | **(226)** | **5** | **244** |
| Changes in accounting standards | 1 | - | - | **4** | - | **4** |
| Restated at 1 April 2019 | | - | **465** | **(222)** | **5** | **248** |
| Loss for the year | | - | - | **(305)** | - | **(305)** |
| Other comprehensive expense | | - | - | - | **(1)** | **(1)** |
| Re-measurements on defined benefit surplus | | - | - | **1** | - | **1** |
| **At 29 March 2020** | | - | **465** | **(526)** | **4** | **(57)** |

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

# Notes to the financial statements

## 1. Accounting Policies

### Financial year

The financial year ends on the last Sunday in March and for this reason these financial statements are made up for the 52 weeks ended 29 March 2020 (2019: 53 weeks ended 31 March 2019).

### Basis of preparation

The Group financial statements on pages 52 to 104 have been prepared in accordance with international accounting standards in conformity with requirements of the Companies Act 2006. Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention.

The financial statements have been prepared on a going concern basis. This basis is predicated on the assumption that Government will continue to provide support to the Group as required. A material uncertainty has been identified in respect of this assumption, specifically in relation to several potentially material future cash outflows which may or may not arise and for which government funding is not at this point guaranteed. Further details can be found in the going concern assessment on pages 58 to 62.

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

The Company is incorporated and domiciled in the United Kingdom. The Group consolidated financial statements are presented in sterling and all values are rounded to the nearest £ million except where otherwise indicated. The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

The income statement presents the results of the Group in a columnar format – in total and split between trading and investments. The trading column represents the underlying performance of the business, with exceptional one-off items recognised separately within this column, see note 24 for further details on alternative performance measures. Investment funding from Government, restructuring, impairment and transformation costs are separately disclosed in the investments column.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings as at 29 March 2020. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases. A separate set of financial statements has been prepared for both Post Office Management Services Limited (subsidiary, registered address: Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ) and Payzone Bill Payments Limited (subsidiary, registered address: Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ) for the 52 weeks ended 29 March 2020.

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

### New and amended standards adopted by the Group

#### IFRS 16 Leases

The Group had to change its accounting policies as a result of adopting IFRS 16 *Leases*. The Group applied the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019. The amount recognised in the Statement of Changes in Equity is £4 million.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments. Right-of-use assets were measured at the amount of the lease liability on adoption (adjusted for any existing onerous and vacant lease provisions).

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review.
- Applying the new guidance only to contracts entered into (or that have been changed) after the date of initial application and applied this consistently to all contracts.
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

The Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

A reconciliation between the prior year IAS 17 operating lease commitments note and the opening lease liabilities note has been provided below:

| | **£m** |
|---|---|
| IAS 17 operating lease commitments based on gross cash flows disclosed as at 31 March 2019 | **55** |
| Add: service/non-lease components of lease contracts | **38** |
| Add: adjustments due to different treatment of extension and termination options | **9** |
| Less: irrecoverable VAT included in operating lease commitment at 31 March 2019 | **(3)** |
| Less: discounting to present value | **(16)** |
| **IFRS 16 lease liability as at 1 April 2019** | **83** |

The Group's activities as a lessor are not material. The only impact of the adoption of IFRS 16 has been to reclassify rental income derived from sub-leasing from costs to other income in the income statement.

## Basis of preparation – going concern

After careful consideration of our plans and market uncertainties, we remain confident that the Group will be able to meet its liabilities as they fall due for a period of at least 12 months from date of approval of these financial statements. As such, the financial statements have been prepared on a going concern basis. The going concern period assessed by management is the 18-month period to end of September 2022.

This judgement is predicated on the assumption that Government will continue to provide financial support when it is needed. The assumption of continued Government support without guaranteed Government funding in relation to potentially material future cash outflows, which may or may not arise in respect of HSS settlements in excess of amounts already guaranteed by Government, civil claims for compensation to be made following potential over-turning of historical criminal convictions, and the outcome of the Employment Tribunal over the potential worker status of certain Postmasters, and which could occur during the going concern period, represents a material uncertainty which may cast a significant doubt on the Group's ability to continue as a going concern. The financial statements do not include adjustments that would result if the Group was unable to continue as a going concern.

In addition to providing funding for investments and to subsidise the loss-making branches, what we might term "traditional" funding, we are facing significant contingent liabilities and uncertainties:

- We have established the HSS. Government has agreed to provide sufficient financial support to Post Office to ensure that the scheme can proceed, based on current expectations of the potential cost. A provision of £153 million has been recognised and Post Office will fund a portion of this before drawing down on Government funding. As outlined in the critical accounting estimates section on page 62, significant estimation uncertainty around this provision balance remains, however we believe the level of funding agreed should be adequate.
- We are defending an Employment Tribunal over the potential worker status of some Postmasters, as disclosed in note 20.
- We expect civil claims for compensation to be made following potential over-turning of historical Postmaster criminal convictions, as disclosed in note 25. No such claims have yet been made.

Government has continued to be a whole-hearted supporter of the Post Office. Nonetheless, significant funding uncertainty remains:

- The nature of our funding, all of which is essentially provided by Government, is that it is provided when needed;
- Commitments to future funding have either to be part of a wider departmental spending review or be based on a specific, quantified case;
- Departmental spending commitments and our funding contract with BEIS last until March 2022, although our working capital facility with BEIS has been extended to March 2024;
- We are not in a position to quantify the future financial implications of either the Employment Tribunal or the civil claims which may be made as a result of the historical criminal convictions being overturned, as explained further in notes 20 and 25 respectively; and
- It is clear that Government can, if it believes it is in the public interest, change its mind and stop funding Post Office or the HSS.

Nonetheless, traditional funding has been provided and funding for HSS has been committed. Our shareholder has provided letters of support. Every indication has been given that Government considers the work of Post Office to be vital and our underlying commercial progress valued. We have been assured that if Government support were to come into question, we would be told promptly.

Taking this shareholder support into account, considering a going concern period of 18 months to the end of September 2022, the Board has concluded that the Group is a going concern and can continue to settle its liabilities as they fall due. As part of this assessment, the Board considered the net liability position of the Group, created by the recognition of the HSS provision.

*Funding - traditional*

The Group's activities are funded by Government. This traditional funding has been in different forms:

- Investment funding: Funding received for transformational activities. The funding, which is combined with the Group's own funds derived from trading, is used to fund transformational projects which are assessed via a formal business case review process. Monitoring and review activities are undertaken, with routine reporting to our shareholder.

- Network Subsidy: Payment received to partially subsidise the gross losses incurred by Post Office as a result of making available the network of public Post Offices that the Secretary of State for BEIS considers appropriate. If the subsidy were to exceed the cost of making the network available, the excess would be repaid to Government.
- Financing facilities: £950 million working capital facility, £50 million same day facility and membership of the Bank of England ("BOE") Note Circulation Scheme ("NCS"). The working capital facility exists to provide liquidity to the Group, with forecasting, monitoring and reporting of security headroom occurring. Security headroom is a covenant which ensures there is sufficient collateral in the form of cash and other assets to cover the borrowings under the facility. The same-day facility has not been used but is in place to provide short term liquidity should an operational need arise in the period between requesting the appropriate balance on the working capital facility and this balance being provided, currently 48 hours. The continued participation in the NCS ensures that Post Office has an adequate supply of notes to meet customer demand across its network, see note 23 for further details.

The continued availability of this funding, or a suitable alternative, is necessary to allow the Group to continue to be assessed as a going concern.

In respect of these items, and therefore playing a crucial part in the going concern assessment, is the status and availability of each of these over the 18-month going concern period being assessed.

The funding agreed for this period constitutes: £177 million investment funding made up of a £125 million equity injection and a £52 million loan in 2021/22; £50 million Network Subsidy Payment for 2021/22; and the renewal of the £950 million working capital facility and £50 million same-day liquidity facility, both to 31 March 2024.

The equity injection and loan are a substitute for what has previously been received as investment funding. The remaining items remain consistent with what was made available in 2019/20 and 2020/21. The continued inclusion in the BOE NCS is assumed, given the role Post Office plays in ensuring the distribution of notes across the UK.

When comparing with the forecasted future cashflows of the Group and considering severe but plausible downside trading scenarios, including the ongoing impact of COVID-19, the level of funding available to support regular operations and continued development of the organisation is deemed adequate. From the perspective of traditional funding, the Group can therefore be considered a going concern.

*Funding – exceptional and contingent*

There are three items which have the potential to result in significant cash outflows in the going concern period and beyond, for which the traditional funding could be insufficient. These include:

- HSS: Payments due to be made to claimants as part of the HSS. A £153 million provision has been recognised in these financial statements in respect of the potential payments. There is a significant level of management estimate included in the provision calculation, which is explained further within the critical accounting estimates section on page 62. As such, the quantum and timing of potential cash outflows could vary materially from this estimate. Government has agreed to provide sufficient financial support to Post Office to ensure that the scheme can proceed, based on current expectations of the potential cost, with Post Office funding a portion of payments prior to drawing down on Government funding.
- Historical criminal cases review: Liabilities arising from any future civil claims or requests for compensation arising out of the Appeals related to historical criminal cases. Management are unable to determine the quantum or timing of potential liabilities arising however the impact of these could be material and may, at least in part, fall within the going concern period.

- Employment Tribunal: Potential liabilities which may arise as a result of the unlikely event that Employment Tribunal proceedings brought about by a number of Postmasters lead to worker status being determined. Management is unable to determine the quantum or timing of potential liabilities arising. The impact of these could fall within the going concern period. See note 20 for further details.

To date, the costs of managing the Postmaster litigation, including the civil settlement of the GLO, have been funded by Post Office out of trading cash flows. On an ongoing basis, the costs of managing the HSS, other litigation costs and an element of the HSS settlement costs will be funded by Post Office, with the remaining HSS settlement costs funded by Government. The funding of other potential liabilities, as outlined above, is for future decision. However, it is clear that Post Office does not have the resources to fund material, new claims.

The nature of Government's budget process does not typically enable Government to give uncapped guarantees or future funding commitments that sit outside Government spending review timelines. As such, Government funding cannot be assured in respect of the historical criminal cases review or the Employment Tribunal.

This lack of guaranteed funding for what could be material cash outflows is a source of material uncertainty impacting the going concern assumption. BEIS has provided written assurances that its present intention is to continue providing support to Post Office. This does not constitute a financial guarantee.

Management has made the assessment that support from Government will continue to be made available, as recently evidenced by the renewed traditional funding arrangements and the agreement to fund HSS. In management's view, the inability of Government to guarantee funding for what are unquantifiable items and items outside the spending review timetable is a result of the nature of Government decision-making process and not evidence of a lack of support.

As such, the basis of preparation of these financial statements on a going concern basis is predicated on the assumption that should additional funding be required for the significant items highlighted above, it will be provided by Government.

*COVID-19*

The impact of COVID-19 on the Group was first seen in the final weeks of 2019/20 and has continued throughout 2020/21. The most significant impact of this has been a sizable reduction in commercial activity in some revenue streams, particularly during the first lockdown beginning in March 2020. The Group has continued to generate a trading profit over this period but at a lower level than in 2019/20. The impact of this and the expected rate of recovery has been factored into the cashflow forecasts used in the going concern assessment.

An impact of reduced trading activity has been a decline in cash transactions leading to significant reduction in security headroom. At year-end, headroom sat at £64 million and subsequently fell to a low of £28 million. A waiver from BEIS in relation to security headroom was obtained for the period 30 April 2020 through to 28 June 2020. Although ultimately the waiver has not been required it has provided management with comfort that should short-term headroom breaches be forecast the funding facilities should still be available, subject to further waivers being granted. At its lowest point, the headroom on the £950 million facility reduced to £292 million (£658 million drawn) in April 2020.

As a result of the decline in trading activity, the carrying values of assets have been reassessed. In one case, Post Office Insurance, we have seen such a decline in trading, associated with the broader travel industry, that we have recognised some uncertainty in recovery and impaired the carrying value of relevant assets by £17 million. Impairment does not directly impact going concern, but it does provide an indication of uncertainty which management have considered and assessed whilst looking at cashflow forecasts associated with the going concern review.

*Performance and position*

Historically Post Office has been considered a going concern. Post Office's current financial position is not dissimilar to that seen historically, being in a net liability position and reliant on Government funding. Given the expectation of necessary Government support, the net liability position is not deemed to have an adverse impact on the going concern position.

The underlying trading performance of the Group has improved significantly over recent years, as seen by the trading profit of £86 million in 2019/20. Continued profitable trading is expected to be achieved going forward, albeit at a reduced level for a period as a result of COVID-19. The underlying trading performance of the Group and its ability to therefore generate cash is not deemed to be an area of concern.

The notable difference from previous years is the existence of potentially material future cash outflows associated with the historical criminal cases review and the Employment Tribunal, for which funding has not yet been requested and is not guaranteed. As noted above, we believe that Government support will be available when there is clear evidence that it is required. If that situation changes, our shareholder has assured the Board that it will be informed and the focus of the Board will shift to protecting its creditors. That is not the case today.

## Critical accounting estimates and judgements in applying accounting policies

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

In addition, the Group has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements. The most significant areas where judgements and estimates are made are discussed below.

***Critical accounting estimates:***

*Historical Shortfall Scheme*

In December 2019, Post Office reached an out-of-court settlement with the claimants in the High Court proceedings which were being conducted under a group litigation order dated 22 March 2017 (the "Post Office Group Litigation"). As part of the settlement reached with the claimants in the Post Office Group Litigation, Post Office agreed to establish a remediation scheme open to Postmasters who had not participated in the group litigation but who had experienced similar issues relating to shortfalls indicated by the Horizon system, known as the Historical Shortfall Scheme ("HSS"). The agreement to establish this scheme was deemed to be a triggering event on which to recognise a provision in the 2019/20 accounts.

The HSS launched on 1 May 2020 and is now closed to applications.

Under the framework for the operation of the HSS, eligible applications will be investigated by Post Office before being presented to an Independent Advisory Panel (the "Panel") by case assessors from Post Office's legal advisers, Herbert Smith Freehills LLP. The Panel comprises independent experts in the fields of law, forensic accounting and retail. The Panel will independently assess each claim that is presented to it and formulate a recommended offer based on its understanding of the relevant legal principles to be applied and guided by broad considerations of fairness. Following assessment of a claim by the Panel, Post Office will write to the individual applicant setting out the outcome of their application, including the terms of any offer. There is a dispute resolution mechanism available to applicants if they are dissatisfied with the outcome of their application. This includes a mediation stage to be conducted under the auspices of Wandsworth Mediation Services, a charitable organisation. In the event that claims are not resolved through the dispute resolution mechanism, disputes will be referred to be resolved by the County Court (for smaller disputes) or through arbitration (for disputes in excess of £10,000).

As of late-January 2021, the HSS had received a total of 2,478 applications from current and former Postmasters. Of these, 1,948 are either partially or wholly unquantified claims.

Post Office anticipates that it will begin making offers to applicants in 2020/21. Due to the total number of applications that have been made, it is extremely difficult to predict at this stage the date when the HSS will close (particularly since there is a very wide range of claims being made with differing levels of complexity). The time taken to investigate and assess each claim will be heavily dependent on the circumstances of each claim, the number of applicants to the HSS and the volume of documentation involved.

A provision of £153 million was recognised within exceptional costs in the year. This represents management's best estimate of the potential future payments associated with the claims. The provision requires a number of significant estimates and assumptions by management, with the level of estimation risk increased as a result of the volume and range of claims received and the early stage of the assessment process.

As a result of the early stage of the HSS, with no trends or patterns currently arising out of the Panel's assessments on which management can base its estimates, many of the assumptions are subjective. As a result, the eventual outcome of the HSS could vary significantly to that which has been estimated.

Analysis performed over the assumptions used indicates a wide range of possible outcomes, with the upper range indicating that the cost of payments could double when compared with that recognised as a provision, to in excess of £300 million. If the estimated average payment value per claim increased/decreased by 10%, as compared to the average value assumed in arriving at the provision calculation, the provision would increase/decrease by £15 million and could have a further highly material impact on the financial statements.

Government has confirmed it will provide sufficient financial support to Post Office to ensure that the scheme can proceed, based on current expectations of the potential cost. As outlined above, significant uncertainty around the provision balance remains, however we believe the level of funding agreed should be adequate. An asset has not been recognised in respect of Government funding, as assurances were not formally in place at the balance sheet date and thus the accounting requirements for asset recognition were not met.

*Key assumptions used in impairment tests for non-current assets*

The Group assesses whether there are any indicators of impairment for all non-current assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Factors considered important that could trigger an impairment review include the following:

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

Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset or cash generating unit (CGU) exceeds its recoverable amount. The recoverable amount is determined based on value in use calculations which require the use of assumptions. The calculations use cash flow projections based on financial forecasts approved by management, factoring in current economic circumstances and challenges such as the impact of COVID-19. Where applicable, cash flows beyond this period are extrapolated using estimated growth rates. Refer to notes 9 and 10 for the results of the latest impairment tests, including sensitivity analysis where relevant.

*Actuarial assumptions*

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

The pension figures are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary and in accordance with published statistics and experience. Refer to note 18 for details of the key assumptions and sensitivity analysis performed.

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

*Property provisions*

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

***Critical accounting judgements:***

*Pension schemes*

Post Office participates in two defined benefit pension schemes. The Group recognises only the Post Office section of the Royal Mail Pension Plan and a 7% share of the Royal Mail Senior Executives Pension Plan. These key judgements are based on the sectionalised nature of the schemes as well as contractual arrangements and existing funding contribution agreements.

*Network Programmes*

The Group recognises provisions for payments due to Postmasters in relation to the major network transformation programme. A key judgement is required as to whether payments are expected to be made beyond the current contractual period for which the associated agreements relate.

*Historical Criminal Cases Review*

The triggering event for recognition of a contingent liability was judged to be the date at which Post Office advised they would not be opposing certain historical prosecution cases referred for appeal. This occurred after the balance sheet date (29 March 2020) and as such this is deemed a non-adjusting post balance sheet event, see note 25.

*Going concern assumption*

A key judgement is required as to whether support will be provided by Government, to a level which allows the Group to settle its liabilities as they fall due, incorporating potential future cash outflows in respect of significant one off items which may or may not occur. The judgement that support will be provided has been made by management, as outlined within the going concern section, from page 58 to 62, and fundamentally impacts the going concern decision made.

## Revenue from contracts with customers

### Retail

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

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

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

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

### Identity Services

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

### Financial Services & Telecoms

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

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

### Insurance

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

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

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

### Accrued and deferred income

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

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

## Other income

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

Other income also includes commission income relating to Government Services. This income, along with the Network Subsidy Payment, was previously presented within revenue; however they do not fall within the scope of IFRS 15.

## Investments column in the income statement

Income statement items are presented in the investments column when they are significant in size or nature, and either they do not form part of the underlying trading of the business or their separate presentation enhances understanding of the financial performance of the Group.

Investment funding from Government, restructuring costs, transformation costs and impairment are separately disclosed in the investments column. Investment funding is recognised at the point of receipt and is received for transformational activities. Investment spend and impairments are presented within the investment column to correspond with the investment funding, current and historical, to which they relate. Refer to note 5 for further detail.

## Exceptional items

Exceptional items are significant, one off items which management consider require separate disclosure within the financial statements in order to enhance understanding of the financial performance of the Group.

## Leases

The Group leases various offices, depots, branches, equipment and vehicles.

Until 31 March 2019, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease.

From 1 April 2019, and as explained in the new standards adopted by the Group section above, the Group has changed its accounting policy for leases where the Group is the lessee, in accordance with IFRS 16.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable.
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date.
- Amounts expected to be payable by the Group under residual value guarantees.
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option.
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted to their present value. In accordance with the terms of the lease contract, the Group may exercise extension or termination options as part of ordinary business operations.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability.
- Any lease payments made at or before the commencement date less any lease incentives received.
- Any initial direct costs.
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Testing for impairment on right-of-use assets is done on a CGU basis.

## Taxation

The amount charged or credited as current income tax is based on the results for the year adjusted for items which are not taxed or are disallowed. It is calculated using tax rates in legislation that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- On the initial recognition of goodwill.
- On the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.
- On the taxable temporary differences associated with investments in subsidiaries and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Current and deferred tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income, or directly to equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

## Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Under IAS 7 section 2b, proceeds and repayments are shown as net in the Statement of Cash Flows.

## Investments in joint ventures

Investments in joint ventures within the Group's financial statements are accounted for under the equity method of accounting. Under this method the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture less any impairment in value. The income statement reflects the Group's share of post-tax profits from the joint venture. The joint venture is an integral part of the Group's operations.

## Business combinations

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

## Property, plant and equipment

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

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

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

*Freehold property, long leasehold property and land:*

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

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

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

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

*Leased assets*
Long leasehold, short leasehold and motor vehicles categories include right-of-uses assets. Further detail is included in note 20.

## Intangible assets

*Goodwill:*

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

*Software:*

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

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- There is an ability to use or sell the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- The expenditure attributable to the software during its development can be reliably measured.

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

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

*Research and development:*

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

*Intangible assets with a finite useful life:*

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

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

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

## Inventories

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

## Trade receivables

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

## Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and on hand, including cash in the Post Office network and short-term deposits (cash equivalents) with an original maturity date of three months or less. Cash equivalents are classified as loans and receivable financial instruments.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

The subsidiaries Post Office Management Services Limited and Payzone Bill Payments Limited hold some fiduciary cash balances, these are held on trust on behalf of third parties, see note 13 for details.

## Pensions and other post-retirement benefits

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

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

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

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

Full actuarial funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed. When the calculation at the balance sheet date results in net assets to the Group, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling). As noted above, the RMPP Plan has been closed and no future refunds will be made to the Group.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income. As the Group has no right to a future surplus in the RMPP, an equal and opposite adjustment to the asset ceiling is recognised in other comprehensive income. There is no effect on the net assets position of the Group.

For defined contribution schemes, the Group's contributions are charged to operating profit, as part of staff costs, in the period to which the contributions relate.

## Foreign currencies

The functional and presentational currency of the Group is sterling (£).

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss.

## Provisions

Provisions are recognised when; the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Due to the nature of provisions the future amount settled may be different from the amount that has been provided. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate.

## Financial instruments

*Initial measurement of financial instruments*

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

*Subsequent measurement of financial assets*

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

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

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

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

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

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

## Derivatives and hedging activities

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

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

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

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 17. Movements in the hedging reserve are shown within other reserves in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

*Cash flow hedges that qualify for hedge accounting*

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

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

## 2. Revenue

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines, all Group sales occur in the UK:

| Revenue segments: | 2020 £m | 2019 £m |
|---|---|---|
| Retail | **603** | 580 |
| Financial Services & Telecoms | **248** | 266 |
| Insurance | **48** | 55 |
| Identity | **38** | 58 |
| Other* | **14** | 13 |
| Total Revenue | **951** | 972 |

*Principally relates to Supply Chain income (£10 million) predominantly for warehousing of Royal Mail stock, transport of high value mails and release of Bank of Ireland deferred income (£3 million). The remaining £1 million is made up of immaterial revenue balances.

## 3. Staff costs and numbers

Employment and related costs were as follows:

| People costs within trading: | 2020 £m | 2019 £m |
|---|---|---|
| Wages and salaries | **144** | 162 |
| Social security costs | **16** | 18 |
| Other pension costs (note 18) | **12** | 13 |
| Total people costs within trading | **172** | 193 |
| Other operating costs within trading | **740** | 766 |
| Total trading costs | **912** | 959 |

*People costs within investments relate to severance costs as part of restructuring and are disclosed within note 5.*

Period end and average monthly employee numbers were as follows:

| | Period end employees | | Average monthly employees | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| *Total employees* | **3,663** | 4,391 | **4,027** | 4,700 |

Total employee numbers at period end can be categorised as follows:

| | Period end employees | | Average monthly employees | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Administration | **1,090** | 1,202 | **1,146** | 1,204 |
| Directly managed branches (DMB) | **1,592** | 2,047 | **1,820** | 2,376 |
| Supply Chain | **814** | 853 | **833** | 851 |
| Network programmes | **32** | 164 | **98** | 189 |
| Post Office Insurance | **43** | 57 | **50** | 53 |
| Payzone Bill Payments | **92** | 68 | **80** | 27 |
| **Total** | **3,663** | 4,391 | **4,027** | 4,700 |

## 4. Operating profit

The following items are included within operating profit:

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Postmasters' remuneration | **384** | 365 |
| Depreciation and amortisation (notes 9 and 10) | **130** | 94 |
| Cost of inventories recognised as an expense | **-** | 1 |
| Loss on disposal of fixed assets | **4** | 5 |
| Operating lease charges – Land and buildings | **-** | 13 |
| Operating lease charges – Motor vehicles | **-** | 1 |
| Impairment (note 9) | **27** | - |
| *Exceptional items:* | | |
| - Historical Shortfall Scheme | **153** | - |
| - Group Litigation Order | **72** | 20 |
| - Other | **7** | - |
| Fees payable to the Group's auditor for audit and other services: | **£000** | £000 |
| - *parent Company and Group audit* | **590** | 567 |
| - audit of subsidiaries | **110** | 115 |
| - other assurance services | **86** | 110 |
| - other non-audit services | **49** | 712 |

In 2018/19 the value of non-audit services contracted and delivered by PwC amounted to £712k. On 13 February 2019 EY formally resigned, with PwC subsequently accepting appointment as auditors on 25 February 2019. All non-audit services delivered by PwC in 2019/20 were contracted prior to formal appointment in February 2019, of which £19k was delivered in the subsequent period to March 2019.

Of the £712k non-audit services delivered by PwC in 2018/19, £229k related to Internal Audit co-source service, £387k for accounting support, £32k for remuneration committee benchmarking and £64k for other services. £54k was delivered between the announcement to appoint in July 2018 and the actual appointment in February 2019.

Fees for non-audit services provided by the auditor in 2019/20 were £49k. These related principally to £32k for remuneration committee support and £17k for other services.

Exceptional costs of £232 million (2019: £20 million) were recognised in the year. This includes the HSS provision of £153 million, which is explained in the critical accounting estimates section in note 1, Group Litigation Order costs of £72 million and other costs of £7 million which are explained on page 10 and 11 respectively.

## 5. Investments

| | **2020 £m** | 2019 £m |
|---|---|---|
| Investment funding | **42** | 168 |
| *Restructuring:* | | |
| Business transformation | **(16)** | (14) |
| Network programmes | **(66)** | (68) |
| IT transformation | **(2)** | (13) |
| Severance | **(7)** | (39) |
| Total restructuring costs | **(91)** | (134) |
| Impairment of intangible assets (note 9) | **(27)** | - |
| Unwinding of discounts on provisions | **(1)** | (1) |
| **Total investments (charge)/income** | **(77)** | 33 |

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

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

**Impairment:** See note 9.

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

## 6. Directors' emoluments

| Directors accruing pension entitlements during the period under: | **2020 Number** | 2019 Number |
|---|---|---|
| Defined contribution schemes | - | 1 |

Disclosures required by the Companies Act 2006 in relation to Directors' emoluments are provided on pages 29 to 30.

## 7. Finance costs

| | **2020 £m** | 2019 £m |
|---|---|---|
| *Trading:* | | |
| Interest payable on loans | **(7)** | (6) |
| Finance charges | **(3)** | (2) |
| Total – trading | **(10)** | (8) |
| *Investments:* | | |
| Unwinding of discounts on provisions | **(1)** | (1) |
| Total – investments | **(1)** | (1) |
| **Total – net finance costs** | **(11)** | (9) |

# 8. Taxation credit

## (a) Taxation recognised in the year

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

| | **2020** | 2019 |
|---|---|---|
| | **£m** | £m |
| *Current income tax:* | | |
| Corporation tax credit for year | **(7)** | (9) |
| *Deferred income tax:* | | |
| Deferred tax income relating to the utilisation of losses brought forward | **(1)** | - |
| **Taxation credit** | **(8)** | (9) |

The current income tax credit recognised in the income statement is £7 million (2019: £9 million) and mostly relates to the surrender of tax losses to the joint venture. The deferred income tax charge recognised in the income statement is £1 million (2019: £nil) and arises as a consequence of the acquisition of intangible assets as part of a business combination. It corresponds to the deferred tax liability recognised in the business combination.

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

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

## (b) Factors affecting current tax credit on profit

As in 2019, the tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

| | **2020** | 2019 |
|---|---|---|
| | **£m** | £m |
| (Loss) / profit before taxation | **(313)** | 31 |
| (Loss) / profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%) | **(59)** | 6 |
| Effect of unutilised losses carried forward | **55** | 20 |
| Increase / (decrease) in tax charge as a result of change in unrecognised deferred tax assets | **7** | (21) |
| Surrender of tax losses to joint venture | **(6)** | (8) |
| Tax effect of share of results of joint venture | **(5)** | (6) |
| **Taxation credit** | **(8)** | (9) |

## (c) Deferred tax

Deferred tax relates to the following:

| | Consolidated balance sheet | | Consolidated income statement | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **£m** | £m | **£m** | £m |
| Acquired intangible assets | **(1)** | (2) | **(1)** | - |
| Tax losses | **1** | 2 | **-** | - |
| **Deferred tax asset / (liability)** | **-** | - | **-** | - |
| **Deferred tax (expense) / income** | **-** | - | **(1)** | - |

In the current year a deferred tax liability of £1 million (2019: £2 million) has been recognised on the acquisition of intangible assets as part of a business combination, with a corresponding deferred tax asset of £1 million (2019: £2 million) recognised for the value losses up to the same liability.

The Group has significant tax losses which are available indefinitely for offsetting against future taxable profits. As at the balance sheet date no deferred tax asset has been recognised in relation to these tax losses (2019: £nil).

## (d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £253 million (2019: £183 million), comprising £218 million (2019: £150 million) relating to tax losses that are available to offset against future taxable profits, £33 million (2019: £32 million) relating to fixed asset timings, £1 million (2019: £1 million) relating to temporary differences on provisions, and £1 million (2019: £nil) relating to temporary differences on pension relief.

The Group has rolled over capital gains of £2 million (2019: £2 million); no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

*The main rate of corporation tax in the UK was to reduce to 17% with effect from 1 April 2020* however the Finance Bill 2019/20 amended this such that the main rate of corporation tax is to remain at 19%.

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

# 9. Intangible assets

| | Software | Goodwill | Other intangibles | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Cost** | | | | |
| At 26 March 2018 | 446 | 45 | 6 | 497 |
| Reclassification | (29) | - | - | (29) |
| Additions | 101 | - | - | 101 |
| Added on acquisition | 1 | 8 | 7 | 16 |
| Disposals | (17) | - | - | (17) |
| At 31 March 2019 | 502 | 53 | 13 | 568 |
| Additions | 64 | - | - | 64 |
| **At 29 March 2020** | **566** | **53** | **13** | **632** |
| **Accumulated amortisation** | | | | |
| At 26 March 2018 | 233 | - | - | 233 |
| Added on acquisition | 1 | - | - | 1 |
| Amortisation | 55 | - | 3 | 58 |
| Disposals | (15) | - | - | (15) |
| At 31 March 2019 | 274 | - | 3 | 277 |
| Amortisation | 80 | - | 1 | 81 |
| Impairment | 10 | 17 | - | 27 |
| **At 29 March 2020** | **364** | **17** | **4** | **385** |
| **Net book value** | | | | |
| **At 29 March 2020** | **202** | **36** | **9** | **247** |
| At 31 March 2019 | 228 | 53 | 10 | 291 |

Included within the above table are assets under construction of £63 million (2019: £59 million).

Other intangibles includes customer relationships, merchant relationships and brands.

During the prior year, a review of property, plant and equipment and intangible assets took place, no reclassifications between categories were required.

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

*Goodwill and intangible assets are tested for impairment annually or more frequently if events or* changes in circumstances indicate that the carrying value may not be recoverable. Management determined that in relation to software assets, an impairment charge of £10 million (2019: £nil) was required as a result of strategic decision making, impacting the future benefits of some assets held. Goodwill held within Post Office Management Services Limited in respect of a former insurance contractual arrangement with the Bank of Ireland, totalling £44 million, was assessed for impairment. As a result of the anticipated short to medium term impact of COVID-19 on the insurance market an impairment of £17 million was recognised. If the discount rate used in the Goodwill impairment assessment increased by 1% the impairment would increase by £6m. The remaining goodwill balance was not considered to be impaired at the date of the last review. Refer to note 10 for details of impairment reviews performed during the year over cash generating units.

Amortisation rates are disclosed on page 69 within the accounting policies note.

## 10. Property, plant and equipment

| | Land and Buildings | | | | | | |
|---|---|---|---|---|---|---|---|
| | Freehold £m | Long leasehold £m | Short leasehold £m | Motor vehicles £m | Plant and machinery £m | Fixtures and equipment £m | Total £m |
| **Cost** | | | | | | | |
| At 26 March 2018 | 40 | 39 | 22 | 25 | 1 | 805 | 932 |
| Reclassification | 2 | - | - | - | - | 27 | 29 |
| Additions | 1 | 1 | 1 | - | - | 35 | 38 |
| Added on acquisition | - | - | - | - | - | 4 | 4 |
| Disposals | (4) | (1) | (2) | - | - | (22) | (29) |
| *At 31 March 2019* | 39 | 39 | 21 | 25 | 1 | 849 | 974 |
| Additions | 1 | 6 | 1 | 1 | - | 15 | 24 |
| Right-of-use on transition | - | 23 | 37 | 2 | 1 | - | 63 |
| Right-of-use additions | - | - | 1 | 1 | - | - | 2 |
| Disposals | (7) | (4) | (2) | (1) | - | (21) | (35) |
| Right-of-use disposals | - | (4) | (2) | - | - | - | (6) |
| **At 29 March 2020** | **33** | **60** | **56** | **28** | **2** | **843** | **1,022** |
| **Accumulated depreciation** | | | | | | | |
| At 26 March 2018 | 29 | 16 | 21 | 24 | 1 | 693 | 784 |
| Depreciation | 1 | 2 | - | - | - | 33 | 36 |
| Disposals | (2) | (1) | (2) | - | - | (17) | (22) |
| At 31 March 2019 | 28 | 17 | 19 | 24 | 1 | 709 | 798 |
| Depreciation | 1 | 2 | - | - | 1 | 36 | 40 |
| Right-of-use depreciation | - | - | 8 | 1 | - | - | 9 |
| Disposals | (5) | (2) | (2) | (1) | - | (14) | (24) |
| **At 29 March 2020** | **24** | **17** | **25** | **24** | **2** | **731** | **823** |
| **Net book value** | | | | | | | |
| **At 29 March 2020** | **9** | **43** | **31** | **4** | **-** | **112** | **199** |
| At 31 March 2019 | 11 | 22 | 2 | 1 | - | 140 | 176 |

*Included within the above table are assets under construction of £14 million (2019: £9 million).*

Depreciation rates are disclosed on page 68 within the accounting policies note. No depreciation is provided on freehold land, which represents £2 million (2019: £2 million) of the total cost of freehold land and buildings as included in the table above.

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

An impairment test was performed during the year. Intangible assets and property, plant and equipment were tested for impairment by comparing the carrying amount of each Cash Generating Unit (CGU) with the recoverable amount determined from value in use calculations.

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

The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of the CGU's identified, being Post Office Limited and Post Office Management Services Limited. Value in use is determined using the Group's net cash inflows from the continued use of the assets within each CGU over a four-year period and then continued into perpetuity, with no nominal growth rate assumed outside of this period. Pre-tax discount rates for Post Office Limited of 9.3% (2019: 9.5%) and for Post Office Management Services Limited of 10% (2019: 12%) have been used to discount the forecasted cash flows.

A sensitivity analysis has been performed in assessing the value in use of property, plant and equipment and intangible assets. This was based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to 12% and a reduction in forecasted cashflows to that of a plausible downside scenario factoring in key cashflow variables. The sensitivity analysis showed that no impairment would arise under each scenario assessed.

Management therefore believes that any reasonable possible change in the key assumptions would not cause the carrying amount of any CGU's to exceed their carrying value.

## 11. Investments in joint venture

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

### Joint venture

During the current and prior year, the Group's only joint venture investment was a 50% interest (1000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of foreign currency exchange services. First Rate Exchange Services Holdings Limited (FRESH) is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

The principal activity of FRESH is the supply of foreign currency in the UK, which complements the Group's operations and contributes to achieving the Group's overall strategy. The principal risks of the Group are disclosed on pages 40 to 41.

The financial year-end date of FRESH is 31 March. For the purposes of applying the equity method of accounting, the financial statements of FRESH for the year ended 31 March 2020 have been used; this is considered appropriate given the proximity of this year-end date to the Group's own year-end date of 29 March 2020.

| | **2020 Joint venture £m** | 2019 Joint venture £m |
|---|---|---|
| *Share of net assets* | | |
| Total net investment at 31 March 2019, 26 March 2018 | **66** | 66 |
| Share of post-tax pre dividend profit | **28** | 33 |
| Dividend | **(27)** | (33) |
| **Total net investment at 29 March 2020, 31 March 2019** | **67** | 66 |

| **Share of assets and liabilities:** | **2020 Joint venture £m** | 2019 Joint venture £m |
|---|---|---|
| Receivables | **129** | 193 |
| Cash and cash equivalents | **35** | 22 |
| Non-current assets | **8** | 7 |
| Share of gross assets | **172** | 222 |
| Current liabilities | **(105)** | (156) |
| Share of net assets | **67** | 66 |
| **Share of revenue and profit:** | | |
| Revenue | **78** | 82 |
| Profit after tax | **28** | 33 |

## 12. Trade and other receivables

| | **2020** | 2019 |
|---|---|---|
| | **£m** | £m |
| Current: | | |
| Trade receivables | **88** | 92 |
| Accrued income | **64** | 71 |
| Prepayments | **32** | 25 |
| Client receivables | **78** | 133 |
| Other receivables | **21** | 24 |
| **Total** | **283** | 345 |
| Non-current: | | |
| Accrued income | **3** | 2 |
| Prepayments | **4** | 4 |
| **Total** | **7** | 6 |

The Group receives and disburses cash on behalf of Government agencies and other clients to customers through its branch network. Amounts owed from and to Government agencies and other clients are disclosed separately as client receivables (as above) and client payables (see note 14).

£2 million (2019: £5 million) has been recognised within current prepayments for costs incurred to fulfil contracts. Non-current prepayments constitute costs incurred to fulfil contracts, in both the current and prior year.

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

| **29 March 2020** | Current | >30 days and <60 days past due | >60 days and <120 days past due | >120 days past due | Total |
|---|---|---|---|---|---|
| Expected loss rate - % | - | - | - | 51% | |
| Gross carrying amount - £m | - | - | - | 20 | 20 |
| **Loss allowance - £m** | **-** | **-** | **-** | **20** | **20** |

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

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

The closing loss allowance for trade receivables as at 29 March 2020 reconciles to the opening loss allowance as follows:

| | **2020** **£m** | 2019 £m |
|---|---|---|
| Opening loss allowance | **19** | 19 |
| Increase in loss allowance | **6** | 9 |
| Receivables written off as uncollectible | **(4)** | (7) |
| Unused amounts reversed | **(1)** | (2) |
| **Closing loss allowance** | **20** | 19 |

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

## 13. Cash and cash equivalents

| | **2020** **£m** | 2019 £m |
|---|---|---|
| *Cash in the Post Office Limited network* | **449** | 549 |
| Short-term bank deposits | **9** | 14 |
| Fiduciary cash balances held on behalf of third parties | **4** | 9 |
| **Total cash and cash equivalents** | **462** | 572 |

Cash in the Post Office Limited network represents the note and coin in circulation in branches and cash centres. Refer to note 23 for further detail.

Where interest is earned, it is at a floating or short-term fixed rate. The fair value of cash and cash equivalents is not materially different from the carrying value.

The fiduciary cash balances are held within Post Office Management Services Limited and are held on trust on behalf of third parties and cannot be called upon should either company become insolvent.

## 14. Trade and other payables

| | **2020** **£m** | 2019 £m |
|---|---|---|
| Current: | | |
| Trade payables | **68** | 62 |
| Accruals | **106** | 122 |
| Deferred income | **16** | 20 |
| Social security | **6** | 8 |
| Client payables | **199** | 316 |
| Lease liabilities | **12** | - |
| Capital accruals | **1** | 11 |
| Other payables | **-** | 5 |
| **Total** | **408** | 544 |
| Non-current: | | |
| Lease liabilities | **56** | - |
| Other payables | **14** | 14 |
| **Total** | **70** | 14 |

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

## 15. Financial liabilities – interest bearing loan and borrowings

| | **2020** **£m** | 2019 £m |
|---|---|---|
| Department for Business, Energy and Industrial Strategy | **617** | 565 |

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year-end (2019: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility. At 29 March 2020 the Group had unused Working Capital Facility of £333 million (2019: £385 million). The Working Capital Facility was due to expire in 2021 but has been extended post year-end to 2024. In addition, the Group has a further £50 million facility available from BEIS to provide same-day liquidity. This facility was undrawn at the year-end. The average interest rate on the drawn down loans is 1.1% (2019: 1.1%).

The facility is currently restricted to funding the cash and near cash items held within the Post Office Limited network.

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited (excluding shares in FRESH and lease of any property which Post Office Limited is a tenant) and a negative pledge over cash and near cash items. The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect.

## 16. Provisions

| | Network Programmes £m | Property £m | Severance £m | Legal £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 April 2019 | 15 | 45 | 22 | - | 10 | 92 |
| IFRS 16 adjustments | - | (23) | - | - | - | (23) |
| Restated at 1 April 2019 | 15 | 22 | 22 | - | 10 | 69 |
| *Charged to investments* | **28** | **27** | **27** | **-** | **1** | **83** |
| Charged to trading | **-** | **-** | **-** | **153** | **10** | **163** |
| *Utilisation* | **(15)** | **(19)** | **(31)** | **-** | **(6)** | **(71)** |
| Provisions released in the year – investments | **-** | **-** | **(8)** | **-** | **(2)** | **(10)** |
| Provisions released in the year – trading | **(1)** | **-** | **-** | **-** | **(4)** | **(5)** |
| **At 29 March 2020** | **27** | **30** | **10** | **153** | **9** | **229** |

| | Network Programmes £m | Property £m | Severance £m | Legal £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| **At 29 March 2020** | | | | | | |
| **Current** | **6** | **7** | **10** | **-** | **8** | **31** |
| **Non-current** | **21** | **23** | **-** | **153** | **1** | **198** |
| | **27** | **30** | **10** | **153** | **9** | **229** |
| At 31 March 2019 | | | | | | |
| Current | 9 | 12 | 22 | - | 9 | 52 |
| Non-current | 6 | 33 | - | - | 1 | 40 |
| | 15 | 45 | 22 | - | 10 | 92 |

*The Network Programmes provision relates to payments due to Postmasters in relation to the major* transformation programme. Provisions are recognised when either Postmasters agree to terminate their existing contracts, sign the new format contracts or when there is a legal or constructive *obligation under Network Transformation and Post Office expect a payment to be made.*

Property provisions relate to vacant and onerous contracts and dilapidations. The opening balance of the provision was restated in line with IFRS 16. Vacant contract provisions are recognised on leasehold properties when the unavoidable costs of meeting the obligations of the contract exceed the benefits expected to be received under it. The onerous contracts provision is also recognised on occupied leasehold properties when the unavoidable costs of meeting the contract exceed the benefits. However, in accordance with IFRS 16, this only includes rental & dilapidations costs.

Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date.

The Legal provision relates entirely to the Historical Shortfall Scheme provision which is management's best estimate of future payments to be made to the scheme's claimants. This is subject to significant management estimate, see the critical accounting estimates section in note 1 for further details.

Other provisions of £9 million includes; £5 million for other network related provisions, £1 million for personal injury claims and £3 million which sits within the subsidiary Post Office Management Services Limited and relates to the repayment of commission received in the event of the cancellation of insurance policies.

# 17. Financial assets and liabilities

## a. Financial assets and liabilities by category

The breakdown of the Group's financial instruments at 29 March 2020 and 31 March 2019 is shown below:

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Current £m** | **Non - current £m** | **Total £m** | Current £m | Non - current £m | Total £m |
| **Financial assets** | | | | | | |
| Trade and other receivables | **251** | **3** | **254** | 320 | 2 | 322 |
| *Cash and cash equivalents* | **462** | **-** | **462** | 572 | - | 572 |
| **Financial liabilities** | | | | | | |
| *Trade and other payables* | **(386)** | **-** | **(386)** | (516) | (3) | (519) |
| BEIS loan | **(617)** | **-** | **(617)** | (565) | - | (565) |
| **Net financial liabilities** | **(290)** | **3** | **(287)** | (189) | (1) | (190) |

Except for prepayments, social security and deferred income, which have been excluded from the table above, all of the Group's financial assets and liabilities by nature and classification for measurement purposes are considered loans and receivables.

The fair value of the Group's financial assets and liabilities approximate their carrying value due to the short-term maturities of these instruments. The fair value of financial assets and liabilities is defined as the amount which the Group would expect to receive upon selling an asset or pay to transfer a liability in a transaction between market participants at the measurement date.

All of the Group's financial assets and liabilities are considered to be Level 2 in the fair value hierarchy. The nature of the inputs used in determining the values of the financial assets and liabilities are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The Group has no Level 1 and Level 3 financial instruments and there have been no transfers between the levels of fair value hierarchy during the period.

## b. Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and aims to minimise potential adverse effects on the Group's financial performance.

### Interest rate risk

The Group is exposed to changes in interest rate on floating rate debt, cash deposits, current account balances, and commission income. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been an £2 million favourable impact on the Group's equity and income statement. A 50 basis point decrease would have resulted in a £2 million adverse impact on the Group's equity and income statement.

In 2019/20, to hedge its exposure to the variability of commission income linked to 1-month Libor, the Group entered into a three year amortising interest rate swap which has the effect of fixing a proportion of the interest commission income. The qualifying criteria for hedge accounting were met and in accordance with IFRS 9 the swap was designated as the hedging instrument in a cash flow hedge. At year-end, the hedging instrument had a fair value of £2 million and has been included within trade and other receivables on the balance sheet.

## Foreign currency risk

The Group is exposed to foreign currency risk resulting from balances held to operate foreign currency exchange services.

The currencies in which these transactions are primarily denominated are US dollar and Euro. The Group's foreign currency risk management objective is to minimise the impact on the income statement of fluctuations in the exchange rates. The Group hedges its foreign currency risk principally through external forward foreign currency contracts to cover near-term future revenues with a number of providers including First Rate Exchange Services Holdings Limited.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar and Euro exchange rates, assuming they are unhedged and with all other variables held constant, on profit before tax and equity.

| | Strengthening / (weakening) % Increase / (Decrease) | Effect on profit £m Increase / (Decrease) | Effect on equity £m Increase / (Decrease) | Strengthening / (weakening) in euro rate % Increase / (Decrease) | Effect on profit before tax £m Increase / (Decrease) | Effect on equity £m Increase / (Decrease) |
|---|---|---|---|---|---|---|
| **2020** | **10** | **2** | **2** | **10** | **3** | **3** |
| | **(10)** | **(2)** | **(2)** | **(10)** | **(3)** | **(3)** |
| 2019 | 10 | 1 | 1 | 10 | 2 | 2 |
| | (10) | (1) | (1) | (10) | (2) | (2) |

## Credit risk

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

The Group aims to minimise its financial credit risk through the application of risk management policies approved by the Board. Counterparties are limited to major banks and financial institutions. The policy restricts the exposure to any one counterparty by setting appropriate credit limits. The maximum exposure to credit risk is limited to the carrying value of each class of asset summarised in note 12.

Business credit risk is monitored centrally. The level of bad debt provision is 2% (2019: 2%) of revenue.

## Capital management

The Group's objectives when managing capital (defined as the net of borrowings and cash and cash equivalents excluding cash in the Post Office Network) are to safeguard its ability to continue as a going concern and to maintain an optimal capital structure in order to support the business and maximise stakeholder value. In managing the Group's capital levels the Board and the Group Executive regularly monitor the level of debt in the Group, the working capital requirements and the forecast cash flows. The Board and Group Executive plan accordingly following this review process in order to meet the Group's capital management objectives.

## Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include short term bank deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The Group has adequate cash reserves to meet operating requirements for at least the next 12 months. See going concern disclosures in note 1 for more detail.

At 29 March 2020 the Group has unused facility of £333 million (2019: £385 million). The working capital facility was due to expire in 2021 but has been extended post year-end to 2024.

In addition to the security interest provided to BEIS in connection with the £950 million Working Capital Facility (note 15), Post Office Limited has also created a first floating charge over its assets as security for the payment and discharge of certain liabilities arising in the normal course of its client-related activity. As at the balance sheet date the outstanding liabilities amounted to £32 million (2019: £95 million).

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

| **At 29 March 2020** | **12 Months £m** | **1-2 Years £m** | **Total £m** |
|---|---|---|---|
| **Financial assets** | | | |
| Trade and other receivables | **251** | **3** | **254** |
| Cash and cash equivalents | **462** | **-** | **462** |
| **Financial liabilities** | | | |
| Trade and other payables | **(386)** | **-** | **(386)** |
| Interest bearing loan | **(617)** | **-** | **(617)** |
| **Net financial (liabilities)** | **(290)** | **3** | **(287)** |

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

Prepayments, social security and deferred income have been excluded from the table above. There were no financial assets or liabilities in the current or prior year that were due to mature after two years.

## 18. Retirement benefit surplus

Disclosures in this note reflect the following pension schemes in which Post Office participates:

| Name | *Eligibility* | *Type* |
|---|---|---|
| Post Office Pension Plan (POPP) | UK employees | Defined contribution |
| Royal Mail Pension Plan (RMPP)* | UK employees | Defined benefit |
| Royal Mail Senior Executives Pension Plan (RMSEPP) | UK Senior Executives | Defined benefit |

*The RMPP closed to future accrual on 31 March 2017.

### Defined Contribution

The charge in the income statement for the defined contribution scheme (POPP) was £12 million (2019: £13 million) and the Group contributions to this scheme were £19 million (2019: £20 million) during the year.

### Defined Benefit

There are two defined benefit schemes in which Post Office participates:

- the Post Office section of the Royal Mail Pension Plan (RMPP) which is independent from the Royal Mail section of the RMPP, and
- a 7% share of the Royal Mail Senior Executives Pension Plan (RMSEPP). Royal Mail Group Ltd is the principal employer of RMSEPP and Post Office Limited became a participating employer with effect from 1 April 2012.

A series of changes to RMPP and RMSEPP have taken effect since July 2017.

The changes include the following:

- On 21 March 2017 Post Office executed a Memorandum of Understanding with the Trustee of the RMPP. This clarified the Trustee's powers to distribute surplus without Post Office's agreement and Post Office concluded that it no longer had an unconditional right to refund from the Plan. In light of this, in accordance with IFRIC 14, the RMPP pension surplus was derecognised as at 26 March 2017.
- On 20 July 2017, the Trustee of the RMPP entered into two bulk annuity contracts with Rothesay Life PLC. These contracts are assets of the Post Office Section of the RMPP that provide incomes closely matching the benefit payments from the Plan. The largest of the two contracts is in respect of crystallised benefits and benefits accrued after 31 March 2012. The smaller of the two contracts is in respect of pre-April 2012 for members in Post Office employment at the time of the bulk annuity purchase. The bulk annuities cover the vast majority of the Plan benefits, although uninsured liabilities and costs may arise in relation to increases to the pre-April 2012 benefits arising as a result of certain salary increases in excess of RPI inflation, deflation risk in relation to Section C members (while they remain in Post Office employment, the pre-April 2008 gross benefit revalues with RPI on a year-by-year basis, but revaluation of the deductible is based on cumulative RPI inflation to the date of leaving service), and operational expenses.
- In January 2020 the Trustee of the Plan wrote to members to inform them that it intends to convert the larger of the two policies into individual policies outside of the Plan. This means that each member of the Plan will hold a policy in their own name and the benefits under those policies will no longer be liabilities of the Plan. No additional contributions from Post Office are expected to be required to make this change. The Trustee is continuing to work with Rothesay Life to implement the transfer to individual policies. To facilitate the transfer into individual annuity policies the Trustee is carrying out a data cleanse exercise, which could result in some adjustments to individual member benefits. This is a normal practice when transferring liabilities from a pension scheme to an insurer, and the bulk annuity contracts with Rothesay Life allow for such data cleaning.

The disclosures in this note show the value of the assets and liabilities that have been calculated at the balance sheet date.

Both RMPP and RMSEPP are funded by the payment of contributions to separate Trust administered funds. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans.

The latest full actuarial funding valuation of the RMPP was carried out as at 31 March 2018 using the projected unit method, concluding at a £24 million surplus on a Technical Provisions basis. Valuations are carried out triennially.

RMPP includes sections A, B and C each with different terms and conditions:

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971.
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to Section A members who chose to receive Section B benefits.
- Section C is for members (or beneficiaries of members) who joined after 1 April 1987 and before 1 April 2008.

The latest full actuarial funding valuation for RMSEPP was carried out as at 31 March 2018 using the projected unit method. For 100% of RMSEPP, the valuation concluded at £49 million surplus (31 March 2015 valuation: £17 million surplus) on a Technical Provisions basis.

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

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

The two bulk annuity policies with Rothesay Life provide an income to the Post Office section of the RMPP that matches the vast majority of the required benefit payments; as shown in the following disclosures, the estimated value of those policies (on the IAS 19 assumptions as at 29 March 2020) is £278 million (2019: £292 million), compared to the RMPP defined benefit obligation of £286 million (2019: £300 million). The £8 million difference in these figures is due to small differences between the insured benefits and the actual benefit obligation.

A bulk annuity policy (with Scottish Widows) is also held by the Trustee of the RMSEPP. As shown in the following disclosures, the estimated value of that policy, on the IAS 19 assumptions as at 29 March 2020, is £25 million (2019: £28 million), compared to the RMSEPP defined benefit obligation of £25 million (2019: £29 million).

Therefore, as at 29 March 2020, 97% of the aggregate defined benefit obligation (i.e. £303 million out of the £311 million) is matched by bulk annuities that provide income matching the required benefit payments. As such, the majority of the investment and longevity risk associated with Post Office's obligations in respect of the defined benefit plans has been removed (noting that the bulk annuity policies are subject to protection from insurance regulations, including access to the Financial Services Compensation Scheme, in the event of insurer insolvency). Nevertheless, to the extent that 3% of the defined benefit obligation is not matched by bulk annuities, some risk remains in respect of that 3%, in particular the risk that members with uninsured benefits live for longer than expected, the risk that inflation is higher than expected, leading to higher than expected increases to the uninsured benefits, the risk that the assets in excess of the bulk annuity polices generate poor investment returns, and the risk that administration expenses are higher than anticipated. However, these risks are expected to be mitigated by the surplus assets shown in the disclosures (before allowing for the fact that the RMPP surplus is not recognised on Post Office's balance sheet due to the Memorandum of Understanding described above).

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

## a) Major long-term assumptions

The size of the defined benefit obligation shown in the financial statements is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on this value. The overall income statement charge and past service adjustment in the income statement are also sensitive to the assumptions adopted. However, the majority of any change in the defined benefit obligation due to changes in assumptions, will be matched by a corresponding change in the value in the bulk annuity policies (described above).

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

| | **At 29 March 2020 % pa** | At 31 March 2019 % pa |
|---|---|---|
| Increases to benefits that retain a link to pensionable pay | **2.8** | 3.4 |
| Rate of pension increases – RMPP sections A/B | **2.1** | 2.4 |
| Rate of pension increases – RMPP section C | **2.8** | 3.4 |
| Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP | **2.1** | 2.4 |
| Rate of pension increases – RMSEPP all other members | **2.8** | 3.4 |
| Rate of increase for deferred pensions | **2.1** | 2.4 |
| Discount rate | **2.2** | 2.4 |
| Inflation assumption (RPI) – RMPP & RMSEPP | **2.8** | 3.4 |
| Inflation assumption (CPI) – RMPP & RMSEPP | **2.1** | 2.4 |

The following table shows the potential impact on the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP of changes in key assumptions. As noted above, the bulk annuities held by the arrangements provide an income that matches the vast majority of the RMPP benefit payments, and a significant proportion of the RMSEPP benefit payments. Therefore the following changes in the defined benefit obligation would be largely offset by a corresponding change in the asset values.

| | **2020 £m** | 2019 £m |
|---|---|---|
| Changes in RPI and CPI inflation of +0.1% pa | **(7)** | (8) |
| Changes in discount rate of +0.1% pa | **7** | 8 |
| Changes in CPI assumptions of +0.1% pa | **4** | 3 |
| An additional one year life expectancy | **11** | 11 |

The sensitivity analysis has been prepared using projected benefit cash flows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cash flows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

**Mortality:** The mortality assumptions used to calculate the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP are based on the latest self-administered pension scheme (SAPS "S2" series) mortality tables as shown in the following table:

| Base mortality tables | 2020 | 2019 |
|---|---|---|
| Male members | **100% x S2PMA** | 100% x S2PMA |
| Male dependants | **100% x S2PMA** | 100% x S2PMA |
| Female members | **100% x S2PFA** | 100% x S2PFA |
| Female dependants | **100% x S2DFA** | 100% x S2PFA |
| Future improvements | **CMI 2019 Core Projections with a 1.5% pa long-term trend** | CMI 2018 Core Projections with a 1.5% pa long-term trend |

| Average expected life expectancy from age 60: | 2020 | 2019 |
|---|---|---|
| For a current 60 year old male RMPP member | **27 years** | 27 years |
| For a current 60 year old female RMPP member | **29 years** | 29 years |
| For a current 40 year old male RMPP member | **29 years** | 28 years |
| For a current 40 year old female RMPP member | **31 years** | 31 years |

## b) Plans' assets

The assets in the plans for the Group were:

| **Sectionalised RMPP** | **Market value 2020 £m** | Restated Market value 2019 £m |
|---|---|---|
| Private Equity | **4** | 4 |
| Cash and cash equivalents | **40** | 43 |
| Bond/fixed interest funds | **10** | 9 |
| Other loan/debt funds | **16** | 10 |
| Alternative asset funds | **1** | 4 |
| Bulk annuity policies* | **278** | 292 |
| Fair value of RMPP assets | **349** | 362 |
| Restated present value of RMPP liabilities** | **(286)** | (300) |
| Restated surplus in plan before asset ceiling adjustment | **63** | 62 |
| Restated less effect of asset ceiling | **(63)** | (62) |
| **Surplus in plan after asset ceiling adjustment** | **-** | - |

*As described above, the Post Office section of the RMPP holds two bulk annuity policies with Rothesay Life PLC. The value ascribed to the policies has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.
**Following reassessment of the accounting treatment for the reserve for future administration expenses, it was determined that the reserve should not be recognised as part of the defined benefit obligation under IAS 19.

| **7% Share of RMSEPP** | **Market value 2020 £m** | Market value 2019 £m |
|---|---|---|
| Property | **1** | 1 |
| Bulk annuity policy* | **25** | 28 |
| Fair value of share in plan assets for RMSEPP | **26** | 29 |
| Present value of share in plan liabilities for RMSEPP | **(25)** | (29) |
| Surplus in plan for the share of RMSEPP before tax | **1** | - |
| Tax effect | **-** | 1 |
| **Surplus in plan for share of RMSEPP after tax** | **1** | 1 |

*RMSEPP holds a bulk annuity policy with Scottish Widows. The value ascribed to this policy has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

As described above, no surplus is recognised for RMPP because the Group no longer has an unconditional right to refund from the Plan. A retirement benefit surplus of £1 million is disclosed on the balance sheet, representing the surplus in the RMSEPP only.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. With the exception of the bulk annuity policy described above, all RMPP and RMSEPP assets are securities with a quoted price in an active market.

## c) Movement in plans' assets and liabilities

Changes in the fair value of the plans' assets are analysed as follows:

| **RMPP Assets** | **Sectionalised RMPP 2020 £m** | Sectionalised RMPP 2019 £m |
|---|---|---|
| Assets in sectionalised RMPP at beginning of period | **362** | 338 |
| Contributions paid | **-** | 1 |
| Finance income | **7** | 7 |
| Actuarial (losses)/gains | **(14)** | 21 |
| Benefits paid to members | **(5)** | (5) |
| Administrative expenses | **(1)** | - |
| **Assets in sectionalised RMPP at end of period** | **349** | 362 |

| **RMSEPP Assets** | **Share of RMSEPP 2020 £m** | Share of RMSEPP 2019 £m |
|---|---|---|
| Share of assets in RMSEPP at beginning of period | **29** | 32 |
| Contributions paid | **-** | - |
| Finance income | **1** | 1 |
| Actuarial losses | **(2)** | (2) |
| Benefits paid to members | **(2)** | (2) |
| ***Share of assets in RMSEPP at end of period*** | **26** | 29 |

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

| **RMPP Liabilities** | **Sectionalised RMPP 2020 £m** | Restated Sectionalised RMPP 2019 £m |
|---|---|---|
| Liabilities in sectionalised RMPP at beginning of period | **(300)** | (298) |
| De-recognition of reserve for future administration expenses* | **-** | 20 |
| Restated liabilities in sectionalised RMPP at beginning of period | **(300)** | (278) |
| Past service cost | **-** | (1) |
| Finance cost | **(7)** | (7) |
| Experience adjustments on liabilities | **2** | (6) |
| Financial assumption changes | **17** | (17) |
| Demographic assumption changes | **(3)** | 4 |
| Benefits paid | **5** | 5 |
| **Liabilities in sectionalised RMPP at end of period** | **(286)** | (300) |

*Following reassessment of the accounting treatment for the reserve for future administration expenses, it was determined that the reserve should not be recognised as part of the defined benefit obligation under IAS 19.

| **RMSEPP Liabilities** | ***Share of* RMSEPP 2020 £m** | *Share of* RMSEPP 2019 £m |
|---|---|---|
| Share of *liabilities* in RMSEPP plans at beginning of period | **(29)** | (27) |
| Finance cost | **(1)** | (1) |
| Experience adjustments on liabilities | **-** | (2) |
| Financial assumption changes | **1** | (2) |
| Demographic assumption changes | **1** | 1 |
| Benefits paid | **3** | 2 |
| **Share of liabilities in RMSEPP at end of period** | **(25)** | (29) |

## d) Recognised charges

An analysis of the separate components of the amounts recognised in the performance statements of the Group is as follows:

| **RMPP** | **Sectionalised RMPP 2020 £m** | Sectionalised RMPP 2019 £m |
|---|---|---|
| **Analysis of amounts recognised in the income statement** | | |
| Analysis of amounts charged to investments: | | |
| Administration expenses incurred | **1** | - |
| Loss due to curtailments | **-** | 1 |
| **Total charge to operating profit** | **1** | 1 |
| Analysis of amounts (credited)/charged to net pensions interest: | | |
| Interest on plan liabilities | **7** | 7 |
| Interest income on plan assets | **(7)** | (7) |
| **Net pensions credit to financing** | **-** | - |
| **Net charge to the income statement** | **1** | 1 |
| **Analysis of amounts recognised in the statement of comprehensive income** | | |
| Actual return on plan assets | **(7)** | 28 |
| Less: expected interest income on plan assets | **(7)** | (7) |
| Actuarial (losses)/gains on assets (all experience adjustments) | **(14)** | 21 |
| Actuarial gains arising from changes in demographic assumptions | **(3)** | 4 |
| Actuarial gains/(losses) arising from changes in financial assumptions | **17** | (17) |
| Actuarial losses arising from experience adjustment | **2** | (6) |
| Actuarial gains/(losses) on liabilities | **16** | (19) |
| Effect of the asset ceiling | **(1)** | (2) |
| **Total *actuarial losses recognised in the statement of* comprehensive income** | **1** | - |

## d) Recognised charges (continued)

| **RMSEPP** | **Share of RMSEPP 2020 £m** | Share of RMSEPP 2019 £m |
|---|---|---|
| **Analysis of amounts recognised in the income statement** | | |
| Analysis of amounts (credited)/charged to net pensions interest: | | |
| Interest on plan liabilities | **1** | 1 |
| Interest income on plan assets | **(1)** | (1) |
| **Net pensions credit to financing** | **-** | - |
| **Net charge to the income statement before deduction for tax** | **-** | - |
| **Analysis of amounts recognised in the statement of comprehensive income** | | |
| Actual return on plan assets | **(1)** | (1) |
| *Less: expected interest income on plan assets* | **(1)** | (1) |
| Actuarial losses on assets (all experience adjustments) | **(2)** | (2) |
| Actuarial gains arising from changes in demographic assumptions | **1** | 1 |
| Actuarial gains/(losses) arising from changes in financial assumptions | **1** | (2) |
| Actuarial gains/(losses) on liabilities | **2** | (1) |
| Total actuarial gains/(losses) recognised in the statement of comprehensive income before tax effect | **-** | (3) |
| Tax effect | **-** | 1 |
| **Total actuarial losses/(gains) recognised in the statement of comprehensive income after tax effect** | **-** | (2) |

## 19. Equity

### Share capital

| | 2020 £ | 2019 £ |
|---|---|---|
| Authorised | | |
| Ordinary shares of £1 each | **51,000** | 51,000 |
| **Total** | **51,000** | 51,000 |
| Allotted and issued and fully paid | | |
| Ordinary shares of £1 each | **50,003** | 50,003 |
| **Total** | **50,003** | 50,003 |

### Share premium

On 7 August 2007 one ordinary share of £1 was issued in return for £313 million cash paid by the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £313 million resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £152 million resulted from this subscription.

### Other reserves

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

## 20. Commitments and contingent liabilities

Capital commitments contracted for but not yet provided in the financial statements amount to £6 million (2019: £9 million).

In the prior year the Group was also committed to the following future aggregate minimum lease payments under non-cancellable operating leases:

| | **Land and buildings** | **Motor vehicles** |
|---|---|---|
| | 2019<br>£m | 2019<br>£m |
| Within one year | 11 | 1 |
| Between one and five years | 24 | 1 |
| Beyond five years | 18 | - |
| **Total** | 53 | 2 |

Lease commitments are now accounted for under IFRS 16 in the section below. The Group applied the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption.

### Leases

### Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

| **Right-of-use assets** | **2020**<br>**£m** |
|---|---|
| Short leasehold buildings | **28** |
| Long leasehold buildings | **19** |
| Equipment | **1** |
| Vehicles | **2** |
| Total | **50** |

| **Lease liabilities** | **2020**<br>**£m** |
|---|---|
| Current | **12** |
| Non-current | **56** |
| Total | **68** |

Additions to right-of-use assets during the 2020 financial year were £2 million and disposals were £6 million. Additions on transition were £63 million. The net value of the right-of-use assets on transition becomes the deemed cost of the asset.

## Amounts recognised in the Consolidated Income Statement

The Consolidated Income Statement shows the following amounts relating to leases:

| | 2020 |
|---|---|
| **Depreciation charge of right-of-use assets** | **£m** |
| Short leasehold buildings | **8** |
| Long leasehold buildings | **-** |
| Equipment | **-** |
| Vehicles | **1** |
| Others | **-** |
| Total | **9** |
| Interest expense (included in finance cost) | **2** |

The total cash outflow for leases in 2020 was £15 million.

Income from sub-leased right-of-use assets was £2 million in the year and has been recognised in other operating income.

## Contingent liabilities

On 14 June 2018, an Employment Tribunal claim was issued on behalf of a number of Postmasters against Post Office in which they seek to establish that they are "workers" of Post Office. The matter has now been listed to be heard over 6 weeks at a trial commencing 7 June 2021. The parties have been through an extensive case management process, which has involved identifying a small group of 10 "sample cases" whose cases will be examined at trial.

In the unlikely event that the Postmasters claimants establish they are workers, they could go on to claim for arrears of holiday pay and secure typical worker rights going forward, such as the right to take and be paid for annual leave. This would likely result in future increased business costs and retrospective claims for compensation. Post Office's position is that the Postmasters claimants are independent contractors in business on their own account, not workers, and this is supported by previous existing appellate level case law.

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

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

## 21. Business combinations

On 24 October 2018, the Group acquired Payzone Bill Payments Limited ("Payzone") for cash consideration of £16 million. Further consideration of £3 million was contingent on the future performance of certain Payzone revenue streams. £1 million has been paid as at 29 March 2020 in respect of the contingent consideration. The acquisition developed the bill payments business and was accounted for under IFRS 3 Business Combinations.

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

| | **2019** |
|---|---|
| | **£m** |
| Property, plant and equipment | **4** |
| Trade and other receivables | **6** |
| Cash and cash equivalents | **1** |
| Trade and other payables | **(6)** |
| **Net assets acquired** | **5** |
| Intangible assets – merchant relationships | **6** |
| Intangible assets – brand | **1** |
| Deferred tax liability on acquired intangible assets | **(1)** |
| Goodwill | **8** |
| **Total consideration** | **19** |
| *Consideration is represented by:* | |
| Cash | **16** |
| Contingent consideration | **3** |
| **Total consideration** | **19** |

The fair value of the assets and liabilities recognised in Payzone are consistent with the prior year.

The goodwill arising from the acquisition represents the opportunity to integrate technology and combine the Group's existing bill payments business with Payzone in order to compete for new and bigger bill payment contracts from a stronger market position. The goodwill arising on acquisition is not deductible for income tax purposes. Goodwill has been reviewed for impairment during the year and the amount is considered to represent fair value. There are no indicators of impairment.

From the date of acquisition to 29 March 2020, the Payzone business has contributed £11 million of revenue and £1 million of trading loss.

## 22. Related party disclosures

### Joint venture

The following Company is a joint venture of the Group:

| *Company* | *Country of incorporation* | *% Holding* | *Principal activities* |
|---|---|---|---|
| First Rate Exchange Services Holdings Limited | United Kingdom | 50 | Foreign currency exchange |

All shareholdings are equity shares. Summarised financial information for the joint venture is included in note 11.

### Related party transactions

During the year the Group entered into transactions with the following related parties. The transactions were in the ordinary course of business. The transactions entered into and the balances outstanding at the financial year-end were as follows:

| | Sales / recharges to related party | | Purchases / recharges from related party | | Amounts owed from related party including outstanding loans | | Amounts owed to related party including outstanding loans | |
|---|---|---|---|---|---|---|---|---|
| | **2020 £m** | 2019 £m | **2020 £m** | 2019 £m | **2020 £m** | 2019 £m | **2020 £m** | 2019 £m |
| First Rate Exchange Services Holdings Limited | **36** | 36 | **105** | 112 | **3** | 2 | **-** | 6 |

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the year-end are unsecured, interest free and settlement is made by cash. First Rate Exchange Services Holdings Limited is a joint venture of the Group.

The Group trades with numerous Government bodies on an arm's length basis, such as the DWP, the DVLA and the Home Office. Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted.

Separately:

- The Group has certain loan facilities of £1,000 million (2019: £1,000 million) with Government (page 60). This is made up of the £950 million working capital facility and the £50 million same day facility.
- The Group has received investment funding from Government of £42 million (2019: £168 million), all of which was recognised through the income statement.
- The Group has received the Network Subsidy Payment of £50 million (2019: £60 million) from Government (page 60).

Key management personnel comprises the Executive and Non-Executive Directors of the Post Office Limited Board at 29 March 2020. The remuneration of the key management personnel of the Post Office Group is disclosed in the Remuneration Committee Chairman's Statement on pages 28 to 32.

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

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

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

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

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

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

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

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

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

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

At the end of the year £276 million (2019: £227 million) of NRF was held in this way.

Post Office also has an arrangement in Scotland with a commercial banking partner whereby surplus Scottish notes are sold to the partner overnight for repurchase the next day. At the end of the year a total of £11 million (2019: £3 million) was outstanding under this arrangement. This arrangement came to an end post yearend, in December 2020.

# 24. Alternative performance measures

An alternative performance measure is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

## Trading profit

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

| | **2020 £m** | 2019 £m |
|---|---|---|
| Operating (loss)/profit | **(302)** | 40 |
| *Adjusted for:* | | |
| Exceptional items (note 4) | **232** | 20 |
| **Operating (loss)/profit before exceptional items** | **(70)** | 60 |
| Depreciation and amortisation | **130** | 94 |
| Investments | **76** | (34) |
| **Trading profit before Network Subsidy Payment** | **136** | 120 |
| Network Subsidy Payment | **(50)** | (60) |
| **Trading profit** | **86** | 60 |

# 25. Post balance sheet events

The Directors would like to draw attention to three post balance sheet event items:

*Network Subsidy Payment:*

In accordance with the funding agreement with Government, Post Office Limited received Network Subsidy Payments totalling £50 million, received in quarterly instalments, in the period from 1 April 2020 to the date of this report. As a result of the COVID-19 impact on Post Office during this period, waivers were obtained from Government in relation to conditions associated with the subsidy.

*Sale of Telecoms business:*

On 1 February 2021 the Group entered into a binding agreement to sell the trade and assets of its Telecoms business to Shell Energy Retail Limited. The transaction completed on 15 March 2021. The net asset value sold is not deemed material to the Group. The sale allows the Group to focus its investment on its core business operations. The business did not meet the criteria under IFRS 5 Non-currents Assets Held for Sale and Discontinued Operations to be classified as held for sale at 29 March 2020.

*Historical Criminal Cases Review:*

In March 2020, following two High Court judgments which were handed down in March 2019 and December 2019, the Criminal Cases Review Commission ("CCRC") announced its decision to refer a number of historical Postmaster convictions back to the courts to decide if these convictions should be overturned on the grounds of abuse of process.

Between 26 March 2020 and 20 January 2021, the CCRC referred a total of 51 convictions to the courts for review (in one the prosecutor was the Department of Work and Pensions, not Post Office): eight were referred to the Crown Court for appeal and 43 were referred to the Court of Appeal Criminal Division ("CACD") (together, the "Appeals"). Post Office is not opposing 46 of the appeals against conviction (although there is an extant question for the CACD to decide as to the basis on which any conviction may be quashed). Post Office is opposing three of the appeals against conviction. There are two more recent appeals in respect of which Post Office's position is under consideration.

In addition to the Appeals, there are a further twenty Postmasters for whom a final CCRC referral decision is awaited (the prosecutor for one of these convictions was the Crown Prosecution Service, not Post Office).

In accordance with its duties under the criminal law, Post Office will be providing post-conviction disclosure to approximately 750 further Postmasters who have historical convictions to enable them to decide whether they wish to seek to appeal their convictions. It is not currently known how many additional Postmasters will seek to appeal their convictions in due course.

On 11 December 2020, the Crown Court overturned six convictions referred to it by the CCRC as a result of Post Office's decision not to offer any evidence in a retrial. The substantive hearing of the 43 convictions referred to the CACD is due to commence on 22 March 2021. No date has yet been set for the hearing of the remaining two referrals to the Crown Court.

Following the Crown Court's acquittal of six appellants on 11 December 2020, Post Office has received correspondence on behalf of individuals intimating their intention to seek civil compensation. However, as at the date of this Annual Report, Post Office has not received any information about the levels of compensation that will be sought or the basis upon which those claims to compensation will be made.

No further claims arising out of historic prosecutions have yet been made but it is reasonable to assume that other Postmasters whose convictions may be overturned may seek to make claims for civil compensation in due course.

In light of the significant uncertainty as to the number of claims for civil compensation that will be made and the values that will be claimed, it is not possible for Post Office/the Directors to give a realistic estimate of any future liability in respect of civil claims or the costs of defending any such claims, at this stage.

Liabilities arising from any future civil claims or requests for compensation arising out of the Appeals represent a possible obligation arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

The triggering event for recognition of a contingent liability is deemed to be the date at which Post Office advised they would not be opposing the referrals. This occurred after the balance sheet date (29 March 2020) and as such this is deemed a non-adjusting post balance sheet event.

While the Directors recognise that an adverse outcome could be material, they are currently unable to determine whether and when such liabilities will arise or whether any that do arise will have a material adverse impact on the consolidated position of the Group, and are unlikely to be able to do so until details or particulars of any civil claims or requests for compensation are received or the remaining Appeals are decided. The Directors continue to keep this under close review.

## 26. Ultimate controlling party

The Secretary of State for BEIS holds a special share in Post Office Limited and the rights attached to that special share are enshrined within Post Office Limited Articles of Association. BEIS, through UK Government Investments Limited ("UKGI"), has no day to day involvement in the operations of Post Office Limited or in the management of its branch network and staff. As such, at 29 March 2020, the Directors regarded Post Office Limited as the immediate and ultimate parent Company. BEIS is the controlling party.

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

# Post Office Limited

# Company Financial Statements 2019/20

# Company balance sheet
at 29 March 2020 and 31 March 2019

| | Note | 2020 £m | 2019 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 3 | **181** | 215 |
| Property, plant and equipment | 4 | **195** | 173 |
| Investment in subsidiaries | 5 | **62** | 74 |
| Investments in joint venture | 6 | **67** | 66 |
| Retirement benefit surplus | 12 | **1** | 1 |
| Trade and other receivables | 7 | **3** | 6 |
| **Total non-current assets** | | **509** | 535 |
| **Current assets** | | | |
| Inventories | | **1** | 2 |
| Trade and other receivables | 7 | **279** | 345 |
| Cash and cash equivalents | 8 | **449** | 553 |
| **Total current assets** | | **729** | 900 |
| **Total assets** | | **1,238** | 1,435 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | **(392)** | (531) |
| Financial liabilities - interest bearing loans and borrowings | 10 | **(617)** | (565) |
| Provisions | 11 | **(29)** | (52) |
| **Total current liabilities** | | **(1,038)** | (1,148) |
| **Non-current liabilities** | | | |
| Other payables | 9 | **(69)** | (14) |
| Provisions | 11 | **(197)** | (39) |
| **Total non-current liabilities** | | **(266)** | (53) |
| **Net (liabilities) / assets** | | **(66)** | 234 |
| **Equity** | | | |
| Share capital | 13 | **-** | - |
| Share premium | 13 | **465** | 465 |
| Accumulated losses | | **(535)** | (236) |
| Other reserves | 13 | **4** | 5 |
| **Total equity** | | **(66)** | 234 |

The notes on pages 108 to 119 form an integral part of the financial statements.

The result dealt with in the financial statements of the Company amounted to a loss after tax of £304 million (2019: profit after tax of £38 million).

The financial statements on pages 106 to 119 were approved by the Board of Directors on 22 March 2021 and signed on its behalf by:

N Read
Chief Executive Officer

# Company statement of changes in equity

for the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

| | Notes | Share Capital £m | Share Premium £m | Accumulated losses £m | Other reserves £m | **Total equity £m** |
|---|---|---|---|---|---|---|
| At 1 April 2019 | | - | **465** | **(236)** | **5** | **234** |
| Changes in accounting standards | | - | - | **4** | - | **4** |
| | | - | **465** | **(232)** | **5** | **238** |
| Loss for the year | | - | - | **(304)** | - | **(304)** |
| Loss on cash flow hedges | | - | - | - | **(1)** | **(1)** |
| Re-measurements on defined benefit surplus | 12 | - | - | **1** | - | **1** |
| Tax effect | 12 | - | - | - | - | - |
| **At 29 March 2020** | | - | **465** | **(535)** | **4** | **(66)** |

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

# Notes to the financial statements

## 1. Accounting Policies

The accounting policies which follow, set out those which apply in preparing the Company financial statements for the 52 week period ended 29 March 2020.

### Financial year

The financial year ends on the last Sunday in March and accordingly, these financial statements are made up to the 52 weeks ended 29 March 2020 (2019: 53 weeks ended 31 March 2019).

### Authorisation of financial statements

The parent Company financial statements of Post Office Limited (the "Company") for the year ended 29 March 2020 were authorised for issue by the Board of Directors on 22 March 2021 and the balance sheet was signed on the Board's behalf by N Read. Post Office Limited is a company limited by share capital, incorporated and domiciled in England and Wales. The address of the registered office is given on page 120.

### Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS" 101). These financial statements are prepared under the historical cost convention. The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

The results of Post Office Limited are included in the consolidated financial statements of Post Office Limited which are available from Companies House.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) The requirements of IFRS 7 'Financial Instruments: Disclosures';

(b) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;

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

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

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

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

(g) The requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

### Basis of preparation – going concern

After careful consideration of the plans for the coming years, factoring in the impact of COVID-19 and the continuing support of Government, we remain confident that the Company (being Post Office Limited) will be able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. The going concern period assessed by management is the 18-month period to the end of September 2022. The continued support of Government has always been an important aspect of the going concern assessment, with Government providing investment funding and subsidy payments historically, enabling the Company to grow and become profitable at a trading level, whilst also providing funding facilities to assist with liquidity.

With the launch of the HSS, the ongoing Employment Tribunal (see note 20 in the Group financial statements) and the review of historical criminal cases as referred by the Criminal Cases Review Commission, all of which could result in significant cash outflows for the Company, the continued support of Government has become critical in the Directors decision making process around the Company's going concern position.

The Directors have received written assurances from BEIS that they place a high priority on Post Office's ability to continue delivering vital public services and as such will continue to support Post Office.

These assurances are supported by recently agreed funding arrangements provided by Government. In addition to the £50 million Network Subsidy Payment previously agreed for 2020/21, the funding agreed for April 2021 onwards constitutes: £177 million investment funding made up of a £125 million equity injection and a £52 million loan in 2021/22; £50 million Network Subsidy Payment for 2021/22; and the renewal of the £950 million working capital facility and £50 million same-day liquidity facility, both to 31 March 2024. Government have also agreed to provide sufficient financial support to Post Office to ensure that the HSS can proceed, based on current expectations of the potential cost. These funding commitments provide evidence of continued support from Government. Further assurances related to unquantified potential cash outflows, such as those associated with the overturning of historical criminal cases, cannot be given as it is not the nature of Government's budget process to provide guarantees for unquantifiable potential liabilities.

The changes in the Government spending review cycle brought about in 2020/21, reducing the cycle from a 3 year period to 1 year, have resulted in an inability of our Shareholder to guarantee funding beyond 31 March 2022. This change in funding cycle reduces the period of funding certainty to 12 months, excluding the HSS funding and working capital facility as stated above.

The Company traded profitably in 2019/20, showing year on year growth. However, primarily as a result of the recognition of a provision for the HSS, the Company entered a net liabilities position in March 2020. An impact assessment has been performed, which concluded that this will not have a significant impact on the going concern position of the Company. The Company was in a net liabilities position prior to 2013 without any adverse impact on trading as a result of Government support.

Management has performed a cashflow assessment for a period of 18 months to end of September 2022, factoring in no further funding beyond that agreed above, whilst assuming any cash outflows arising as a result of historical criminal cases or the Employment Tribunal will be funded by Government. This assessment supports the Directors' view that the Company can continue to meet its liabilities as they fall due for the period under review.

However, the assumption of continued Government support without guaranteed Government funding in relation to potentially material future cash outflows, which may or may not arise in respect of HSS settlements in excess of amounts already guaranteed by Government, civil claims for compensation to be made following the potential over-turning of historical criminal convictions, and the outcome of the Employment Tribunal over the potential worker status of certain postmasters, and which could occur during the going concern period, represents a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern. The financial statements do not include adjustments that would result if the Company was unable to continue as a going concern.

As noted above, we believe that Government support will be available when there is clear evidence that it is required. If that situation changes, our shareholder has assured the Board that it will be informed, and the focus of the Board will shift to protecting its creditors. That is not the case today.

Further details regarding the going concern assessment and the associated significant judgements are included in note 1 of the Group financial statements.

## Accounting policies

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

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

## Auditors' remuneration

The remuneration paid to auditors is disclosed in the Group financial statements (note 4).

## Directors' emoluments

The emoluments paid to Directors are disclosed in the Group financial statements (note 6). Directors for the Company are the same as Group.

## Investment in subsidiaries

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

# 2. Staff costs and numbers

Employment and related costs were as follows:

| **People costs within trading:** | **2020 £m** | 2019 £m |
|---|---|---|
| Wages and salaries | **137** | 157 |
| Social security costs | **15** | 17 |
| Other pension costs (note 12) | **11** | 13 |
| Total people costs within trading | **163** | 187 |
| Other operating costs within trading | **708** | 734 |
| Total trading costs | **871** | 921 |

Period end and average employee numbers were as follows:

| | Period end employees | | Average employees | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Total employees | **3,528** | 4,266 | **3,897** | 4,619 |

Total employee numbers can be categorised as follows:

| | Period end employees | | Average monthly employees | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Administration | **1,090** | 1,202 | **1,146** | 1,204 |
| Directly managed branches (DMB) | **1,592** | 2,047 | **1,820** | 2,375 |
| Supply Chain | **814** | 853 | **833** | 852 |
| Network programmes | **32** | 164 | **98** | 189 |
| **Total** | **3,528** | 4,266 | **3,897** | 4,620 |

# 3. Intangible assets

| | Software | Goodwill | Other Intangibles | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Cost** | | | | |
| At 26 March 2018 | 434 | 1 | 6 | 441 |
| Reclassification | (29) | - | - | (29) |
| Additions | 90 | - | - | 90 |
| Disposals | (17) | - | - | (17) |
| At 1 April 2019 | 478 | 1 | 6 | 485 |
| Additions | 53 | - | - | 53 |
| **At 29 March 2020** | **531** | **1** | **6** | **538** |
| **Accumulated amortisation and impairment** | | | | |
| At 26 March 2018 | 230 | - | - | 230 |
| Reclassification | 52 | - | 3 | 55 |
| Disposals | (15) | - | - | (15) |
| At 1 April 2019 | 267 | - | 3 | 270 |
| Amortisation | 77 | - | - | 77 |
| Impairment | 10 | - | - | 10 |
| **At 29 March 2020** | **354** | **-** | **3** | **357** |
| **Net book value** | | | | |
| **At 29 March 2020** | **177** | **1** | **3** | **181** |
| At 31 March 2019 | 211 | 1 | 3 | 215 |

Included within the above table are assets under construction of £42 million (2019: £46 million).

During the prior year, a review of property, plant and equipment and intangible assets took place, no reclassifications between categories were required.

Goodwill and intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Management determined that in relation to software assets, an impairment charge of £10 million (2019: £nil) was required as a result of strategic decision making, impacting the future benefits of some assets held. No further impairments were required.

Amortisation rates are disclosed on page 69 within the Group accounting policies note.

# 4. Property, plant and equipment

| | Land and Buildings | | | | | | |
|---|---|---|---|---|---|---|---|
| | Freehold £m | Long leasehold £m | Short leasehold £m | Motor vehicles £m | Plant and machinery £m | Fixtures and equipment £m | Total £m |
| **Cost** | | | | | | | |
| At 26 March 2018 | 40 | 39 | 22 | 25 | 1 | 805 | 932 |
| Reclassification | 2 | - | - | - | - | 27 | 29 |
| Additions | 1 | 1 | 1 | - | - | 35 | 38 |
| Disposals | (4) | (1) | (2) | - | - | (22) | (29) |
| At 1 April 2019 | 39 | 39 | 21 | 25 | 1 | 845 | 970 |
| Additions | 1 | 5 | - | - | - | 14 | 20 |
| Right-of-use on transition | - | 23 | 37 | 2 | 1 | - | 63 |
| Right-of-use additions | - | - | 1 | 1 | - | - | 2 |
| Disposals | (7) | (4) | (2) | (1) | - | (18) | (32) |
| Right-of-use disposals | - | (4) | (2) | - | - | - | (6) |
| **At 29 March 2020** | **33** | **59** | **55** | **27** | **2** | **841** | **1,017** |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 26 March 2018 | 29 | 16 | 21 | 24 | 1 | 693 | 784 |
| Reclassification | 1 | 2 | - | - | - | 32 | 35 |
| Disposals | (2) | (1) | (2) | - | - | (17) | (22) |
| At 1 April 2019 | 28 | 17 | 19 | 24 | 1 | 708 | 797 |
| Depreciation | 1 | 2 | - | - | - | 34 | 37 |
| Right-of-use asset depreciation | - | - | 8 | 1 | - | - | 9 |
| Disposals | (5) | (2) | (2) | (1) | - | (11) | (21) |
| **At 29 March 2020** | **24** | **17** | **25** | **24** | **1** | **731** | **822** |
| **Net book value** | | | | | | | |
| **At 29 March 2020** | **9** | **42** | **30** | **3** | **1** | **110** | **195** |
| At 31 March 2019 | 11 | 22 | 2 | 1 | - | 137 | 173 |

Included within the above table are assets under construction of £13 million (2019: £9 million).

Depreciation rates are disclosed on page 68 within the Group accounting policies note. No depreciation is provided on freehold land, which represents £2 million (2019: £2 million) of the total cost of properties.

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

An impairment test was performed during the year. Intangible assets and property, plant and equipment were tested for impairment by comparing the carrying amount of each Cash Generating Unit (CGU) with the recoverable amount determined from the value in use calculations.

The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of the CGU's identified, being Post Office Limited. Value in use is determined using the Group's net cash inflows from the continued use of the assets within each CGU over a four-year period and then continued into perpetuity, with no nominal growth rate assumed outside of this period. A pre-tax discount rate for Post Office Limited of 9.3% (2019: 9.5%) has been used to discount the forecasted cash flows.

A sensitivity analysis has been performed in assessing the value in use of property, plant and equipment and intangible assets. This was based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to 12% and a reduction in forecasted cashflows to that of a plausible downside scenario factoring in key cashflow variables. The sensitivity analysis showed that no impairment would arise under each scenario assessed.

Management therefore believes that any reasonably possible change in the key assumptions would not cause the carrying amount of any CGU's to exceed their carrying value.

## 5. Investment in subsidiaries

The carrying value of £62 million is made up of two investments in subsidiaries.

The carrying value of the Company's investment in Post Office Management Services Limited is £43 million – a 100% subsidiary of the Company with 60,000,000 shares at a nominal value of £1 and 1 share with a nominal value of £100. In the current year, the investment has been impaired, with a charge of £17 million recognised in the Company income statement. This impairment was triggered by an impairment of goodwill in the subsidiary financial statements. The rationale for the impairment has been disclosed in note 9 of the Group financial statements.

The remaining £19 million is for the Company's investment in Payzone Bill Payments Limited, a 100% subsidiary of the Company with 1 share at a nominal value of £1.

The registered address of both Post Office Management Services Limited and Payzone Bill Payments Limited is Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

## 6. Investments in joint ventures

| | **2020** **£m** | 2019 £m |
|---|---|---|
| **Investment in joint ventures** | **67** | 66 |

During the current and prior year, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited with a carrying value of £67 million (2019: £66 million), whose principal activity is the provision of foreign currency exchange. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

# 7. Trade and other receivables

| | **2020** **£m** | 2019 £m |
|---|---|---|
| Current: | | |
| Trade receivables | **82** | 92 |
| Amounts owed by group undertakings | **12** | 8 |
| Accrued income | **61** | 71 |
| Prepayments | **31** | 25 |
| Client receivables | **77** | 125 |
| Other receivables | **16** | 24 |
| Total | **279** | 345 |
| Non-current: | | |
| Accrued income | **3** | 2 |
| Prepayments | **-** | 4 |
| Total | **3** | 6 |

# 8. Cash and cash equivalents

| | **2020** **£m** | 2019 £m |
|---|---|---|
| Cash in the Post Office Limited network | **449** | 549 |
| Short-term bank deposits | **-** | 4 |
| Total | **449** | 553 |

# 9. Trade and other payables

| | **2020 £m** | 2019 £m |
|---|---|---|
| Current: | | |
| Trade payables | **59** | 50 |
| Amounts owed to group undertakings | **-** | 4 |
| Accruals | **98** | 118 |
| Deferred income | **19** | 20 |
| Social security | **6** | 8 |
| Client payables | **198** | 316 |
| Lease liabilities | **12** | - |
| Capital payables | **-** | 10 |
| Other Payables | **-** | 5 |
| Total | **392** | 531 |
| Non-current: | | |
| Lease liabilities | **56** | - |
| Other payables | **13** | 14 |
| Total | **69** | 14 |

# 10. Financial liabilities – interest bearing loans and borrowings

| | **2020 £m** | 2019 £m |
|---|---|---|
| Department for Business, Energy and Industrial Strategy | **617** | 565 |

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

# 11. Provisions

| | Network Programmes £m | Property £m | Severance £m | Legal £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 April 2019 | 15 | 45 | 22 | - | 9 | 91 |
| IFRS 16 adjustment | - | (23) | - | - | - | (23) |
| Restated at 1 April 2019 | 15 | 22 | 22 | - | 9 | 68 |
| Charged to investments | 28 | 27 | 27 | - | 1 | 83 |
| Charged to trading | - | - | - | 153 | 3 | 156 |
| Utilisation | (15) | (19) | (31) | - | (1) | (66) |
| Provisions released in the year – investments | - | - | (8) | - | (2) | (10) |
| Provisions released in the year – trading | (1) | - | - | - | (4) | (5) |
| **At 29 March 2020** | **27** | **30** | **10** | **153** | **6** | **226** |

| | Network Programmes £m | Property £m | Severance £m | Legal £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| **Disclosed as:** | | | | | | |
| **At 29 March 2020** | | | | | | |
| **Current** | **6** | **7** | **10** | **-** | **6** | **29** |
| **Non-current** | **21** | **23** | **-** | **153** | **-** | **197** |
| | **27** | **30** | **10** | **153** | **6** | **226** |
| At 31 March 2019 | | | | | | |
| Current | 9 | 12 | 22 | | 9 | 52 |
| Non-current | 6 | 33 | - | | - | 39 |
| | 15 | 45 | 22 | | 9 | 91 |

Details of the provisions are included in note 16 in the Group financial statements.

## 12. Retirement benefit surplus

The Company pension's disclosure is consistent with the Group disclosure included in note 18 of the Group financial statements.

## 13. Equity

### Called up share capital

| | 2020 £ | 2019 £ |
|---|---|---|
| Authorised | | |
| Ordinary shares of £1 each | **51,000** | 51,000 |
| Total | **51,000** | 51,000 |
| *Allotted and issued* | | |
| Ordinary shares of £1 each | **50,003** | 50,003 |
| Total | **50,003** | 50,003 |

### Share premium

On 7 August 2007 one ordinary share of £1 was issued in return for £313 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £313 million resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £152 million resulted from this subscription.

### Other reserves

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

## 14. Commitments and contingent liabilities

Details of the Company commitments under non-cancellable operating leases and Company contingent liabilities are disclosed in note 20 of the Group financial statements.

## 15. Related party disclosures

Related parties for Post Office Limited are as per the Group; details of which are disclosed in note 22 of the Group financial statements.

## 16. Investments expenditure

Details of operating investments expenditure is disclosed in note 5 of the Group financial statements.

## 17. Taxation

Details of the taxation credit recognised in the year are disclosed in note 8 of the Group financial statements.

## 18. Business combination

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

## 19. Post balance sheet events

Details of post balance sheet events are included in note 25 of the Group financial statements.

## 20. Ultimate controlling party

The Secretary of State for BEIS holds a special share in Post Office Limited and the rights attached to that special share are enshrined within Post Office Limited Articles of Association. BEIS, through UK Government Investments Limited ("UKGI"), has no day to day involvement in the operations of Post Office Limited or in the management of its branch network and staff. As such, at 29 March 2020, the Directors regarded Post Office Limited as the immediate and ultimate parent Company.

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

# Corporate information

**Registered Office**
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