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Brief for Tim Parker meeting with Robert Swannell – 7 November 2017

1. Background

Six monthly meeting with the Chairman of UKGI; the previous meeting took place on 30 March 2017.

Opportunity to:

- Maintain high level contact
- Record appreciation for decision on Government Funding
- Promote understanding of the Post Office's development to date and its strategy in the future

A short background biography of Robert Swannell (RS) is at Appendix 1, as well as some key facts on the Post Office at Annex 2.

2. Post Office – current trading position

Report and Accounts 2016/17 – to be issued shortly – shows EBITDAS improved from a loss of £17m to a profit of £13m. Important milestone for the business. Our revenue was largely flat at £957m (a small reduction of £7m from the previous year). Network subsidy from Government reduced from £130m to £80m (and is set to continue to reduce year on year to £50m in 2020/21).

The target for this year is £28m EBITDAS and current trading shows that we are on track. At the end of Q2 income is £463.3m, up £7.3m against target, and EBITDAS is £2.7m above target.

Also, a key focus this year is on hitting our cash target. We have a number of projects underway to ensure that the cash we hold in our branches and cash centres is kept as low as possible. This has a positive impact on the level of Government loan that we utilise and at the half year point we are on track to hit our cash target.

3. Funding to 2021

Although the decision is yet to be made public, Post Office is delighted that a further tranche of investment funding (£210m) has been agreed by Government to 2021 together with further network subsidy payment (£160m) over the same period.

Our overall ambition over the coming years is to generate a sustainable profit of over £100m so that we can invest in the business and grow Post Offices across the UK. We want to ensure that the Post Office matters as much in the next decade as it has in the last which means building a business that thinks customer at every turn and delivering the digital innovation which will enable us to offer the products and services customers want and need.

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4. Post Office – progress in key areas mentioned at last meeting

Significant progress in key areas:

- **Rationalisation of Central Functions** – We've restructured the centre of the business around the network/retail functions and the financial services/digital functions – with the last announced changes reducing headcount by 20%
- **NT Programme** – Programme has now delivered over 7400 branch modernisations – improving premises, shifting to variable costs and increasing opening hours and Sunday opening
- **Directly Managed Branches** – Ongoing activity to improve the performance of the larger city centre branches we run ourselves through activity such as franchising (with eg WHSmith). This part of the network, traditionally loss making, is now operating profitably
- **Banking framework** – In January we announced our framework agreement with all the UK banks – such that their customers can use Post Offices for banking transactions. 99% personal banking customers in the UK and 95% business banking customers, whatever their bank, can now use our 11600 strong Post Office network. A key development for the banking infrastructure in the UK.

Current Issues:

- **Postmaster litigation** - The Case Management Conference was held in late October in relation to the Postmaster Litigation. This was a procedural hearing which addressed a range of issues, the most material of which were:
 - A trial has been set for 5 November 2018 which is expected to last for 20 days to determine issues relating to the postmaster contracts.
 - The date for new Claimants to join the action has been extended until 24 November 2017. As a result we expect at least a further 70 applicants to join the litigation.
 - Orders were made for the selection of 6 lead cases to be heard at the trial, from a pool of 12.
 - The claimants are required to provide more information on the value of their claims.
- **Stranded Postmasters** – There are 575 Postmasters who have expressed a preference to leave under the NT programme but cannot do so as, under the terms of our government funding, we can only release a leaver's payment when we can replace their branch with another in the same area. These 'stranded' or 'hard to place' branches represent 5% of the network (a smaller proportion than we had feared at the start of NT) and continue to receive fixed remuneration, opening traditional hours. Operators are often demotivated and we are actively looking to reduce their number. We are reviewing our approach to this group as a priority and will step up our 'whitespace' activity to see whether we can find a more creative solution which would enable us to let these stranded branches close. We are also looking at whether we could replace these

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branches with mobile or outreach flexible services where there are low customer sessions numbers, although in the majority of cases the service is critical and the branch serves high levels of customers.

- **Directly Managed branches (DMBs)** – our current strategy is to continue franchising DMBs and also replacing these with a combination of Local and small Mains branches. An initial study and business case has concluded that moving away from DMBs reduces our ongoing costs, making these branches more sustainable going forward. By combining Post Office services with a successful retail offer, we can also deliver significant benefits for customers through improved opening hours, allowing access to Post Office services outside of traditional core hours and across 7 days a week. We are currently reviewing the potential to move all DMBs to an Agency run model to simplify the business and offer greater customer access and convenience. From the 227 DMB network following current divestment plans, this new plan will leave between 0 to 92 branches in any residual DMB network, depending on the option approved as part of our business case process.

5. Overall strategy

We've identified 5 strategic priorities for the next phase in our development:

- **Simplify the retailer proposition** – to increase retailer demand for post offices
- **Build innovative, flexible and secure IT** – to enable better services for customers, agents and staff
- **Modernise our products and services** – deliver substantial revenue from new products
- **Digitise and optimise the business** – free our people to add strategic value by automating wherever possible; and
- **Modernise our skills, culture and HR policies** – rights skills and talent to support next phase in development and drive up employee engagement.

Through these measures, we will deliver a significant step change in our profitability, enabling us to reinvest in the business and support our social purpose.

Our performance of delivering change and financial improvements in 2016/17 and into this current year shows both the capability and determination to achieve this strategy.

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6. The Post Office Journey

The continued importance of the Post Office:

- there is a branch within a mile of 93% of the population;
- 17 million customer visits, including a third of all SMEs, per week;
- it is the market leader for mails, travel money, identity checks (both online and in-branch) and banking;
- in over 3,000 communities the Post Office is the only retail outlet;
- the business creates up to £9bn of social value every year according to independent research (YouGov 2016).

Our progress:

After decades of neglect, recent years have seen the delivery of one of the largest transformation programmes in UK business history.

- the branch network has stabilised around 11600, with over 7,000 branches modernised providing a million additional opening hours a month;
- the new banking framework gives universal UK bank account access at Post Offices;
- just five years ago we were losing £119m, we delivered a profit of £13m in 2016/17, the first profit for 16 years.

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Appendix 1 – Background on Robert Swannell

Robert Swannell - Chairman of UK Government Investments (UKGI).



Robert (born [REDACTED] GRO [REDACTED]) is the Chairman of UK Government Investments (UKGI) having been Chairman of the Shareholder Executive from 2014 -2016.

UKGI is the UK Government's centre of excellence in corporate finance and corporate governance.

Robert Swannell was appointed a Non-Executive Director of Marks & Spencer in October 2010 and became its Chairman in January 2011 taking over from Sir Stuart Rose. He has announced that he will retire in 2017.

Until 2010, Robert spent over 30 years in investment banking with Schroders/Citigroup. He was formerly Vice-Chairman of Citi Europe and Chairman of Citi's European Investment Bank.

Robert was Senior Independent Director of both The British Land Company plc (NED 1999-2010) and of 3i Group plc (NED, 2006-2010). Robert was Chairman of HMV Group plc from February 2009 until March 2011. He was also Chairman and a Member of the Governing Body of Rugby School from 2004-2014. Robert's regulatory and government department experience includes the Regulatory Decisions Committee of the FSA, the Takeover Panel Appeal Board and the Industrial Development Advisory Board of BEIS (Department for Business, Energy and Industrial Strategy).

He is an Advisory Board Member of The Sutton Trust, a founder and Trustee of the SpringBoard Boarding Bursary Foundation, a Trustee of Teach First and a Trustee of the Kew Foundation. He is also a Director of the Investor Forum. Robert qualified both as a chartered accountant and barrister.

Appendix 2 –Key background facts

- 11,659 branches across the UK (end March 2017)
- 95% of the population say they use the Post Office at least once a year – with millions of customers and small businesses visiting every day.
- Operates in commercially competitive and fast changing markets - the retail mails, banking and financial services, government services and telecoms. 97% of post offices are operated in conjunction with local businesses, increasingly alongside convenience retail
- Essential services are provided for people throughout UK – mails, banking, pensions, bill payment, and Government services. Post Offices enable unique levels of cash accessibility in local communities.
- Research shows that communities want a post office, bank and shop to survive and thrive. Post Offices are increasingly providing all three services under one roof.
- Post Office financial services (mortgages, insurance, travel) grew by 6% last year
- The Post Office is the number one provider of travel money in the UK
- Provision of banking services for customers of other banks is now running at over 110m transactions a year. 99% personal banking customers in the UK and 95% of business banking customers can use the Post Office for banking transactions
- Post Office leads the market in the provision of 'identity services' through the Governments 'Verify' initiative.
- Post Office is handling around £60bn each year in payments and receipts through its network - playing a major role in cash distribution into local economies.
- Post Office offers widespread service provision with over 6000 branches in rural areas and around 1400 in urban deprived areas and continues to develop sustainable and innovative service arrangements such as mobile Post Offices or partnerships with community run shops.
- Social Value - Recent independent research shows that the Post Office delivers social value in the range of over £4bn to £9bn each year to people and businesses throughout the UK.
- Provides unique physical accessibility across the UK - the Post Office continues to maintain the size of its network and meet all the Government's accessibility criteria

Network size

End of March	Post Offices
2013/14	11696
2014/15	11634
2015/16	11643
2016/17	11659

Accessibility performance

Criteria	Total population in 3 miles	Total population in 1 mile
Minimum requirement	99%	90%
Performance	99.7%	92.9%

Note the network is further supplemented for cash access by c2,000 'free to use' external cash machines (ATMs) across the UK