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Brief for Tim Parker meeting with Robert Swannell 30 March

1. Background

We understand that this is a six monthly meeting with the Chairman of UKGI – the previous meeting took place with him on 19 July.

From Post Office's perspective the meeting may be an opportunity to:

- Maintain high level contact
- Promote understanding of the Post Office's development to date and its strategy in the future
- Promote support for resolution the funding position (note – the meeting with Greg Clark will have taken place on 28 March).

To support high level discussion a short background brief of Robert Swannell (RS) is given at Appendix 1 and some 'key facts' on the Post Office are given at Appendix 2 that may be helpful.

The following brief can support the conversation as required;

2. Post Office – current trading position

On track to exceed our 16/17 EBITDA before subsidy target of £ (10) m: this is strong performance – effectively the first time in 15 years Post Office is on the threshold of operating profit. In 2013 before subsidy losses were £ (116) m pa – this has now effectively been reversed.

The target for next year is £28m EBITDAS and the business has set an ambition in its funding submission to government of generating a sustainable profit of over £100m. This level creates sustainability and potentially removes any need for government funding or subsidy. (Funding update below)

Trading: the business throughput is approx £65bn cash and payments. Income target is £984m, with performance approx 2% (£20m) off, partly externally driven such as the impacts of post referendum low interest rates on POCA revenues and financial products.

However we had good Christmas mails trading, bureau de change although volatile, finished strong and we have improved efficiency through cost reduction through the year to enable a continuation of our positive financial trajectory at the same time as our annual network subsidy reduces year on year.

3. Post Office – progress on key issues mentioned at last meeting

This is an opportunity to update and emphasise the significant progress that has been made in areas which were flagged as 'issues' at the last meeting with RS.

- **Pensions** – The DB scheme is closing to future accrual at end March 2017 following a full and thorough consultation process.
- **Supply Chain** – We have refocused this key cash distribution part of our business away from external markets towards efficiently servicing our network. In so doing we have reduced costs by 50% in two years. Strong

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example of the transformation we are delivering – clear focus and sharpening efficiency. Handling difficult change professionally

- **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 latest announced changes reducing headcount by 20%
- **NT Programme** – This programme now delivered over 7150 branch modernisations – improving premises, variabilising costs and increasing opening hours and Sunday opening.
- **Directly Managed Changes** – Ongoing activity to improve the performance of the larger city centre branches we run ourselves through activity such as franchising (with parties like 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 over 75% 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

4. Overall strategy and funding approach

Our strategy position remains as we established last summer;

Three main priorities:

- **strengthening our commercial partnerships**, in particular by securing our long-term relationship with Royal Mail and renegotiating our FS partnerships to drive greater value for the Post Office;
- **delivering a lean, competitive cost base**, in particular by optimising the network structure (continuing the shift towards vibrant retail hosts) and by radically restructuring the central organisation; and
- **investing in our digital capabilities** to respond to rapidly rising customer expectations and provide the platform for future growth.

Through these measures we can deliver a significant step change in our profitability, enabling us to reinvest in the business and support our social purpose from our own profits rather than from subsidy. Huge opportunity to put the business on a sustainable footing. We have a clear narrative around improving value for money for taxpayers and improving services and accessibility for customers.

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

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5. Narrative supporting the funding position

The continued importance of the Post Office:

Post Offices are crucial part of the national infrastructure:

- there is a branch within a mile of 93% of the population;
- 17 million customers, including a third of all SMEs, visit a Post Office every 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 left;
- the business creates £9bn of social value every year according to independent research.

Our progress to date:

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, with over 7,000 branches modernised providing a million additional opening hours a month;
- the new banking framework gives 99pc of UK bank account holders access at Post Offices;
- from a loss of £115m just a few years ago the business is on the verge of generating an operating profit for the first time in 15 years.

All this has been delivered through a sharp commercial focus and a willingness to take tough decisions in the face of constant union and stakeholder pressure.

The challenges still remaining:

However, the transformation is not yet complete, with major challenges still to be addressed:

- Our core IT system is two decades old and increasingly unstable.
- Without investment in our digital capabilities we will lose ground to competitors.
- We face an intense fight to win and retain the high street retailers who we rely on to host our branches, and who are themselves facing significant pressures. Unless we simplify and strengthen our offer to retailers we forecast that up to 3,000 branches could leave the network by 2020.
- We are now just 22 months away from the date at which our long-term agreement with Royal Mail must be renegotiated. We must get match fit now to ensure a successful outcome from these negotiations.

Our strategy and funding request:

With investment we are confident we can address these challenges - by building digital capability, reducing costs, modernising our infrastructure and simplifying services to make us more compelling for retailers.

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With the necessary investment funding in place by the next election the Post Office could be self-sustaining, generating a profit of around £100m a year, enabling it to invest sustainably in its own network, systems and customers.

The business would be secured for another generation. And for the first time in decades this would enable us to grow the network.

The risks without investment funding:

The risk is that without investment to act now, there will be a bigger bill to rescue the business and stabilise the network a few years down the road.

Despite best efforts we would be likely to see a pattern of falling sales, lost customers and departing retailers, tipping the network into uncontrolled closures.

The more immediate challenge we have is that, without clarity on future investment funding, we will be obliged to set out our underlying balance sheet position to partners, clients and suppliers – and then later this year to the general public. This would be exploited by some stakeholders, given the febrile environment in which we operate, increasing both the commercial and political risks.

The meeting with RS may be an opportunity to;

- *Show appreciation for the work of the UKGI team as it works with us on the funding position*
- *Emphasise the importance to the business of achieving a resolution and ensure support from Robert within UKGI / Government to assist*
- *Determine if Robert has any advice in terms of Government liaison given the critical nature of funding clarity for the business and for the sustainability of the network.*

Appendices;

1. Biography detail on Robert Swannell
2. Key messages and facts about Post Office Ltd

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Appendix 1 – Background on Robert Swannell

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



Robert (born [REDACTED] **GRO**) 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

Article in the Guardian December 2016

Marks & Spencer chairman Robert Swannell to retire

Former investment banker, who took on role six years ago, will remain in post until his successor is found

The chairman of Marks & Spencer is to retire next year after six years in the role.

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Robert Swannell, a former investment banker, has overseen a tricky time at the high street stalwart, appointing long-term staffer Steve Rowe to take over as chief executive a year ago from former boss Marc Bolland.

Swannell, 66, who was previously an adviser to M&S helping to fend off a bid attempt by the Topshop boss, Sir Philip Green, during his 30 years in banking at Schroders and Citigroup, joined the company's board as a non-executive in late 2010. He became chairman a few months later, taking over from Sir Stuart Rose.

His departure is another step in the changing of the guard since Bolland stepped down in the spring.

Rowe has since pulled back on some of Bolland's key initiatives, including international expansion.

Swannell said: "A year ago we chose Steve Rowe as our chief executive. Steve completed a thorough analysis of the business and developed a detailed plan to build a simpler and more relevant M&S.

"This plan is now under way and I feel that it is the right time for the business to look for a new chairman. It is a real privilege to chair this iconic company and I will continue to do so until my successor is in place."

M&S's senior independent director, Vindi Banga, will now lead the process to identify and appoint the next M&S chairman.

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Appendix 2 –Key background facts

- The Post Office is publicly owned, fully separate from the Royal Mail since 2012
- 11,643 branches across the UK
- 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 19.7% 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 over 75% 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 Government's '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 over 1300 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

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

Accessibility performance

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