

2023 Board Away Day

Session 1

POL Today

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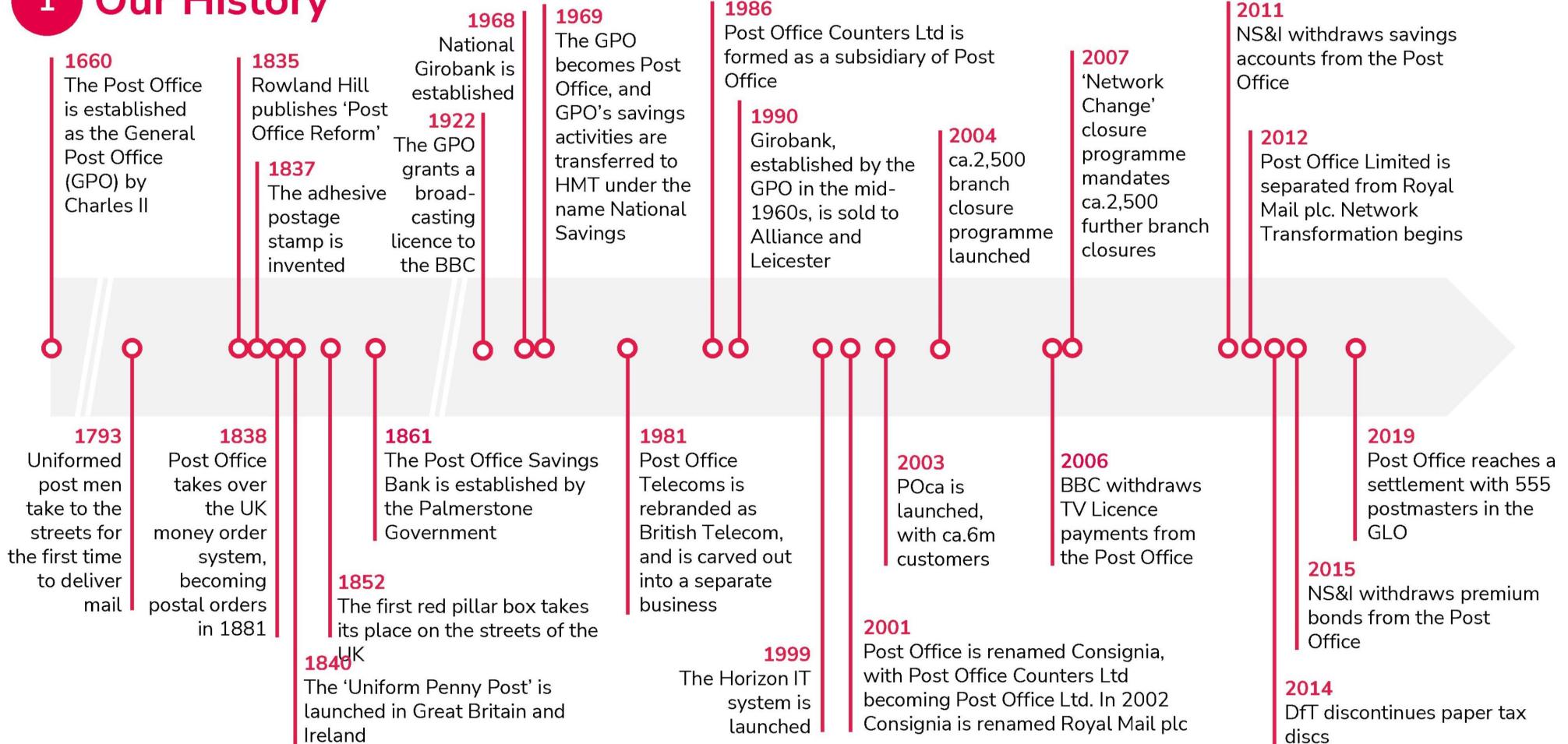
Agenda

- 1 POL Today
- 2 Our Business
- 3 Our Network
- 4 Key Takeaways

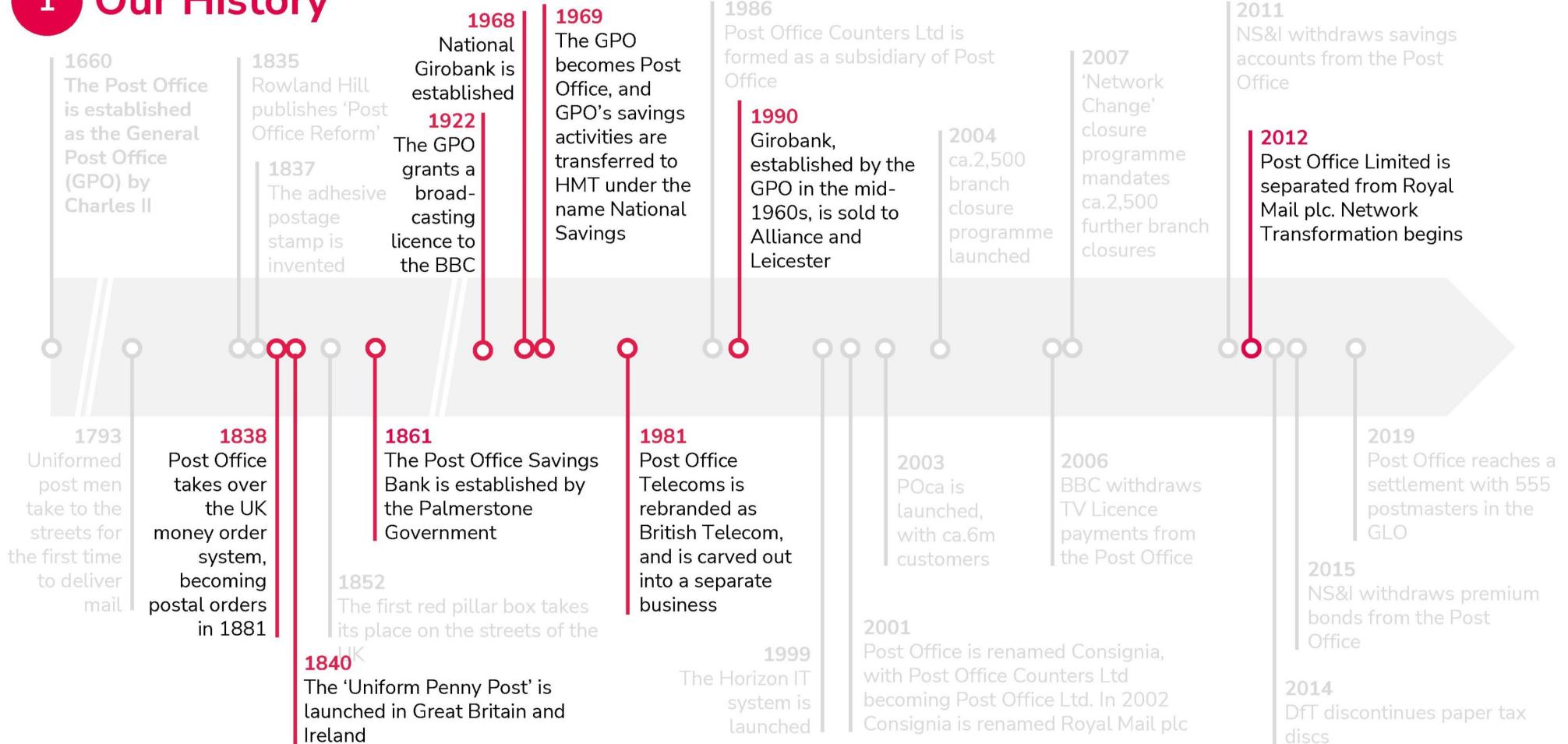
Section 1

POL Today

1 Our History



1 Our History

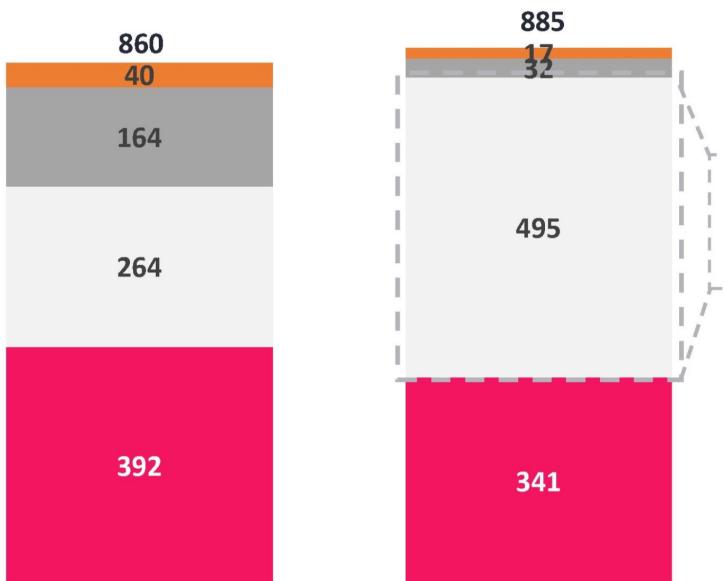


1 Our Recent Trajectory

With support and investment from HMG we have sustained and transformed our business over the last decade. Network aside POL today is almost unrecognisable to the business that was separated from Royal Mail in 2012

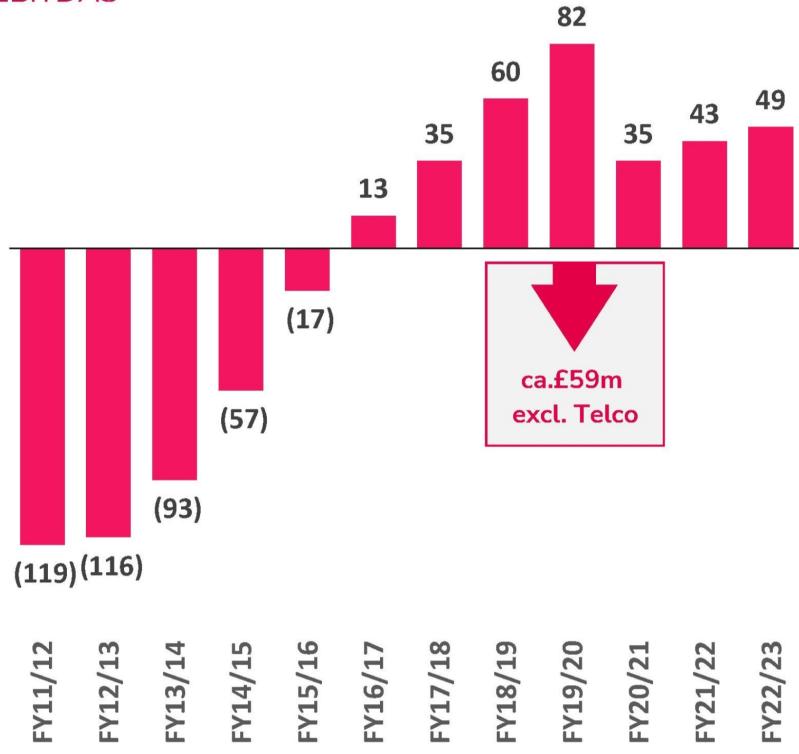
Evolution of Sales Mix (excl. Telco)

£m Revenue



Track Record of EBITDAS Growth (incl. Telco)

£m EBITDAS



FY11/12

■ Mails & Retail
■ HMG Services

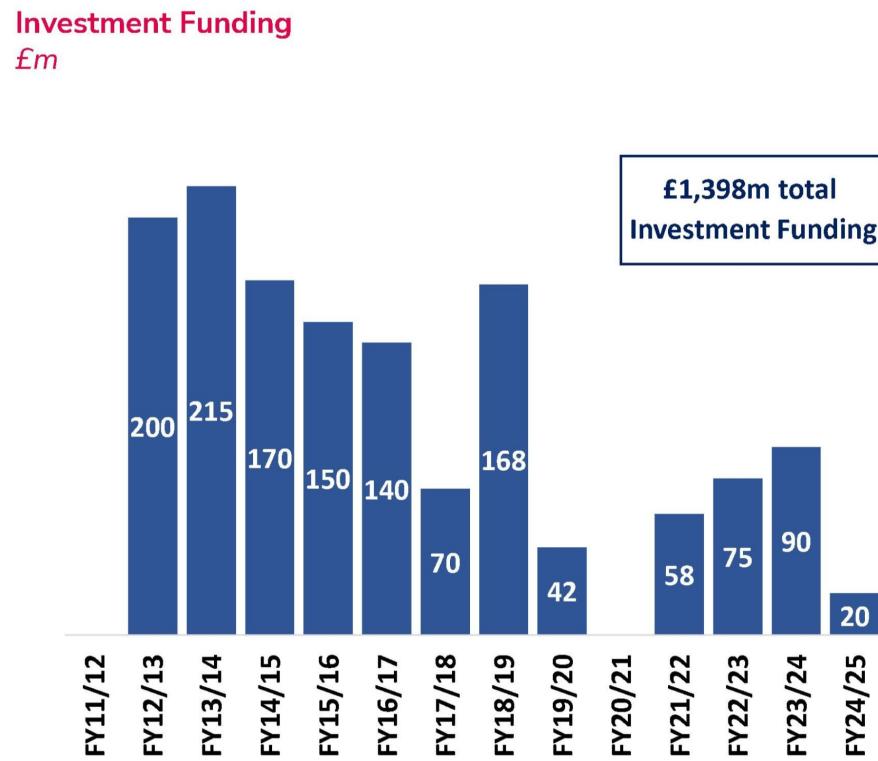
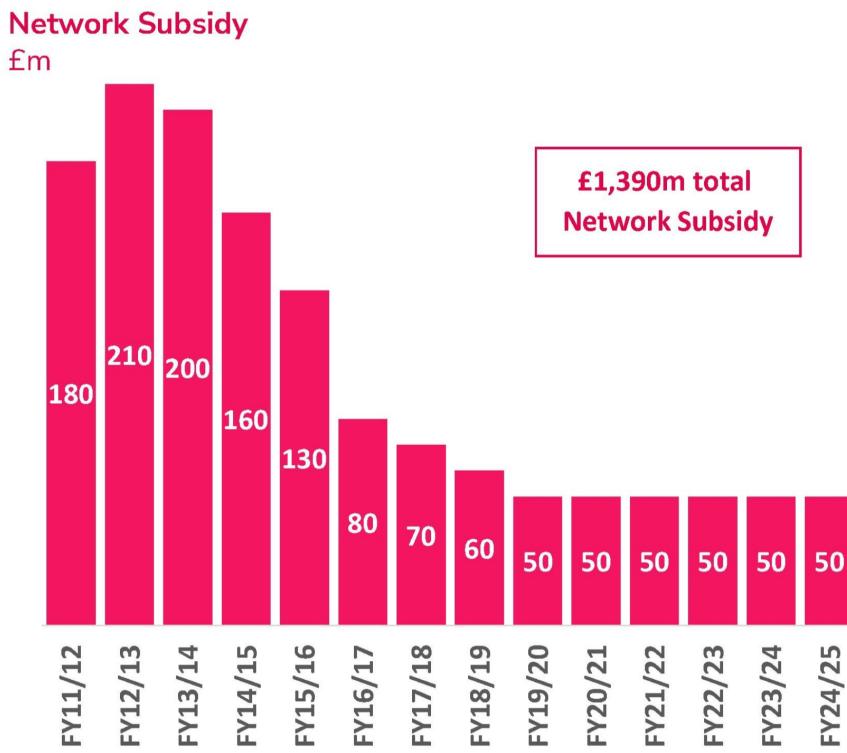
FY22/23

■ Banking & FS
■ Other

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1 Our Recent Funding

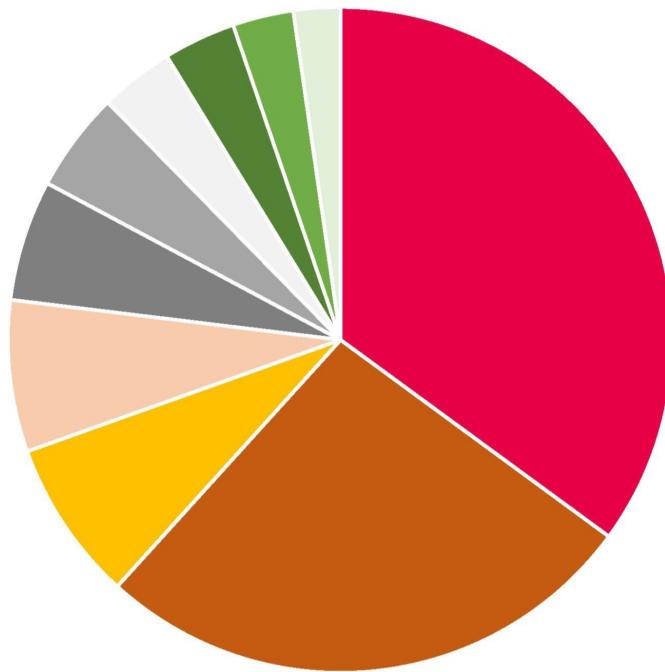
We have received almost £2.8bn funding from HMG since FY11/12 to sustain the network and transform the business. The trajectory of this funding has been on a broadly declining trajectory for a number of years



1 Our Revenue

Our revenue mix is highly diversified, albeit there is a concentration in Mails and Banking Services which account for IRRELEVANT income combined. Within each of these revenue lines income is further diversified

FY22/23 IRRELEVANT Revenue

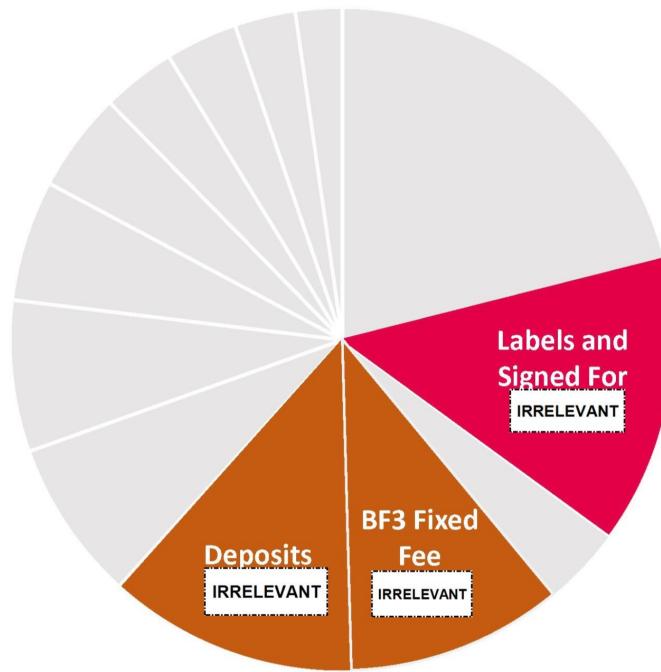


IRRELEVANT

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FY22/23 IRRELEVANT Revenue



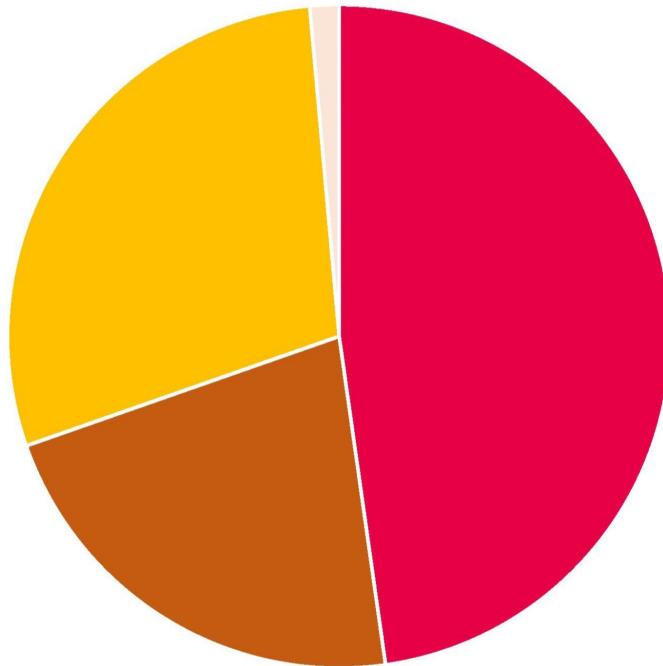
IRRELEVANT

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1 Our Costs & Postmaster Remuneration

POL pays out ca. [REDACTED] revenue in Postmaster remuneration, representing [REDACTED] or [REDACTED] of POL's total accounting outgoings. Non-staff costs represent a majority of the wider costs.

FY22/23 [REDACTED] Total Accounting Costs

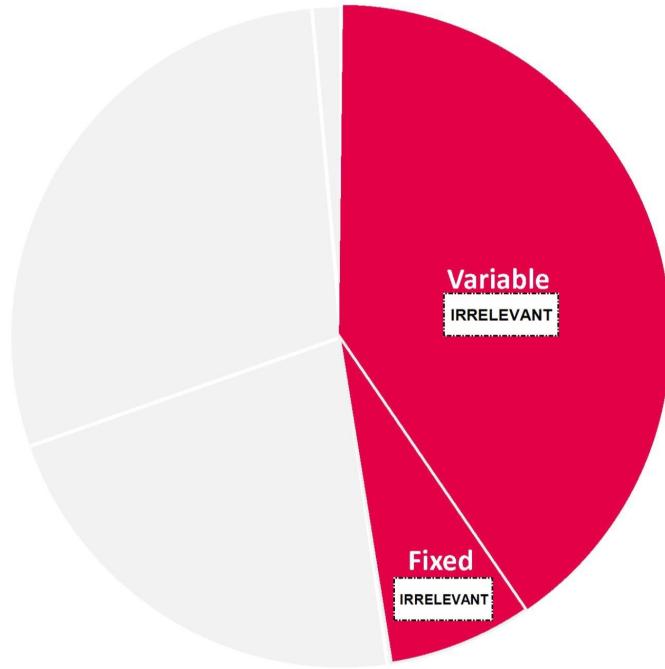


IRRELEVANT

1 Our Costs & Postmaster Remuneration

Of **IRRELEVANT** Postmaster remuneration in FY22/23 around **IRRELEVANT** of this was classified as variable. Only ca. **IRRELEVANT** of fixed remuneration relates to SPSOs with about **IRRELEVANT** linked to uncommercial Branches or Branch retention payments

FY22/23 **IRRELEVANT** Total Accounting Costs



IRRELEVANT

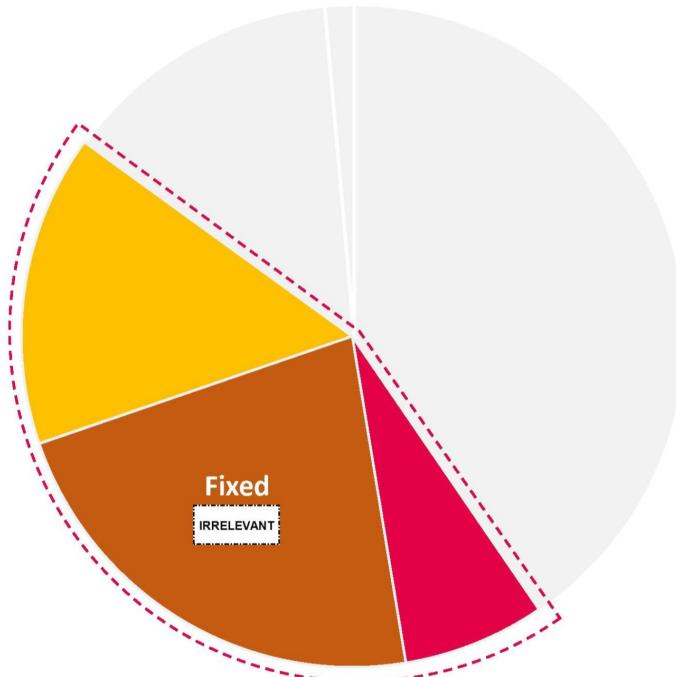
*Postmaster Remuneration here includes elements outside of fixed and variable remuneration e.g. they do include other items, such as payments to the NFSP.

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1 Our Costs & Postmaster Remuneration

While around **IRRELEVANT** of POL's cost based is fixed more is treated as fixed in practical terms, since to sustain Branches POL has historically taken active steps to increase remuneration rates. This offers some 'protection' to variable remuneration

FY22/23 **IRRELEVANT** Total Accounting Costs



IRRELEVANT

1 Our Purpose and Vision

In 2021 we set out our Purpose and a Vision to 2025. While the timeline to achieve this has shifted over the past two years these still define the shape of our wider ambition and the direction of travel of our business

“We’re here, in person, for the people who rely on us”

-  **Prioritise** strong, trusting and rewarding relationships with our postmasters
-  **Strengthen** our network, making sure we have the right services in the right locations nationwide
-  **Innovate** in mails, working with more carriers and delivering more of what consumers and SMEs want
-  **Secure** free, convenient and reliable access to cash in every community
-  **Build** commercial partnerships to launch new products and services in our branches and online
-  **Invest** in new branch technology for postmasters’ and online for their customers
-  **Create** value for our shareholder with a successful, sustainable and efficient business

Section 2

Our Business

2 Our Business: Fundamentals

A number of commercial fundamentals determine where we are today as a business – and our future trajectory



Our diverse portfolio helps our resilience



We are a costly distribution channel to our Clients



Our strategy is to focus on the 'Core'



Our revenue markets are moving online



We need to compete with commercial organisations

Our strengths



Critical nationwide infrastructure and brand awareness



Primarily franchised and outsourced operating model



Enviable weekly footfall

2 Our Business: Mails and Parcels

POL is a network provider, utilising the physical reach of Postmasters. We are not involved in mails logistics where margins are tight and success is driven by operational efficiency



Mails carriers e.g. Royal Mail, Evri, Amazon. Ultimate ownership of E2E logistics, product, pricing and customer data



Purchase postage
(In Store or Online)

Drop off acceptance

Mails Logistics

Pick up
• Click and Collect
• Undelivered

Drop off returns

Physical Location A

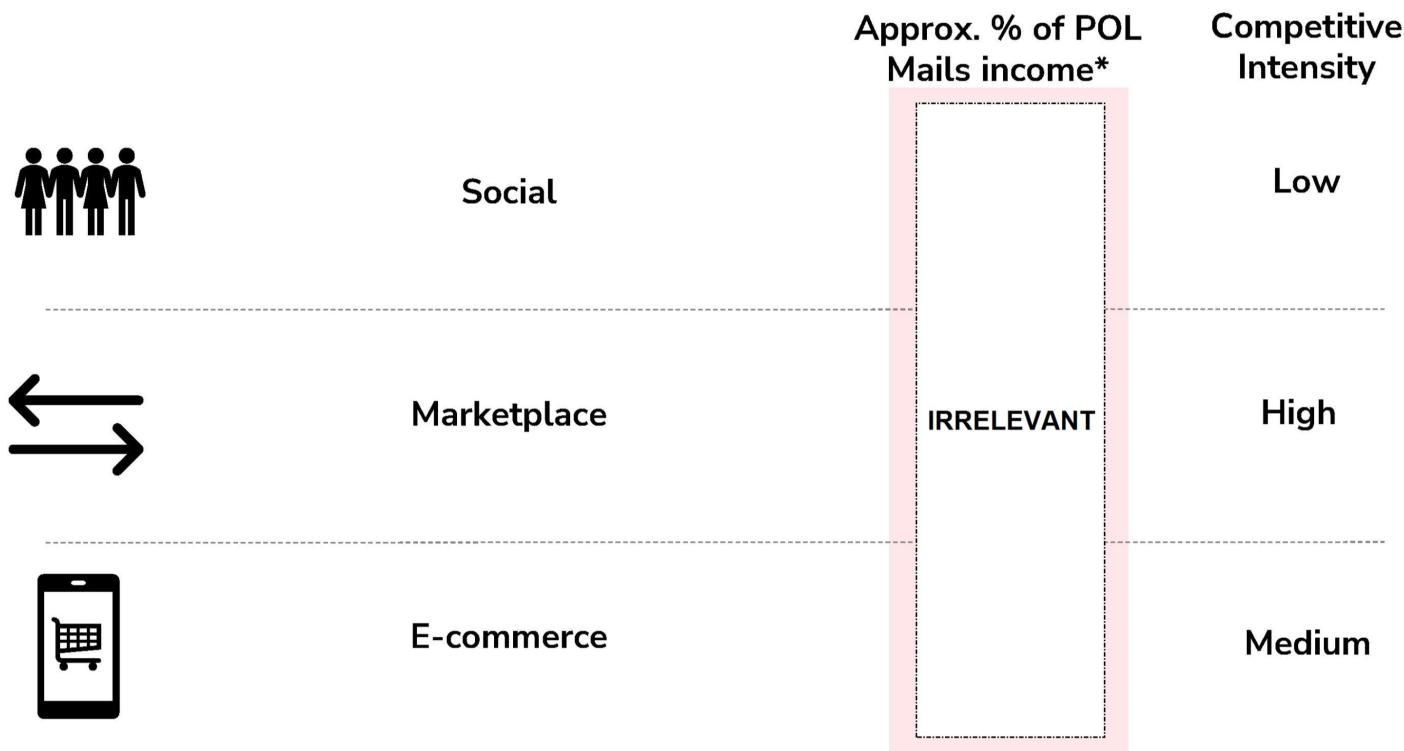
Physical Location B



Network Providers e.g. Post Office, InPost, Collect +, Asda, Co-Op.
Provide carriers with physical stores, sales support, lockers, pick up and drop off points

2 Our Business: Mails and Parcels

We serve three key customer segments. Marketplace is the higher value and most competitive, while e-commerce presents an opportunity for the business given our lower presence in this area



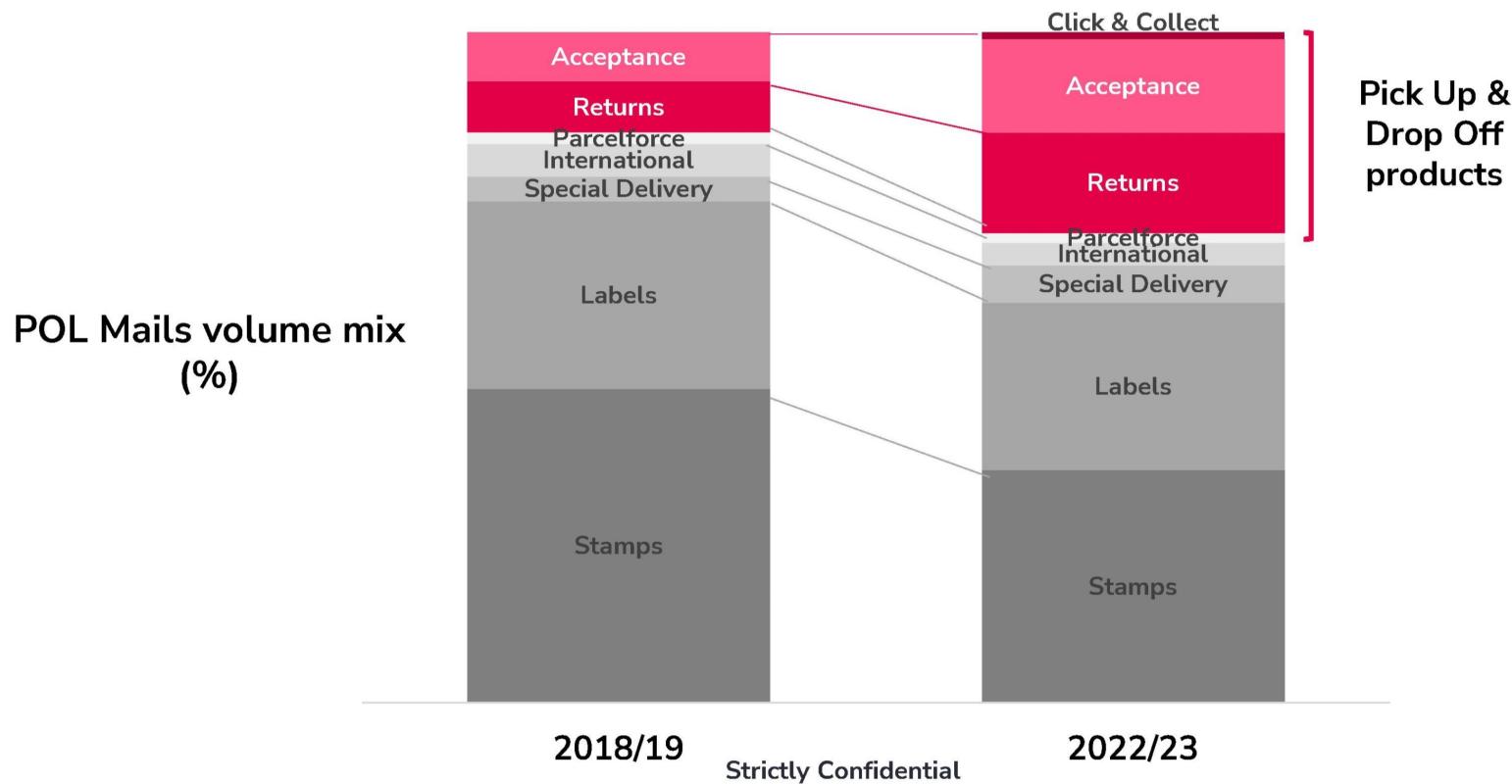
*Based on McKinsey analysis from 2020
underpinned by a number of assumptions.

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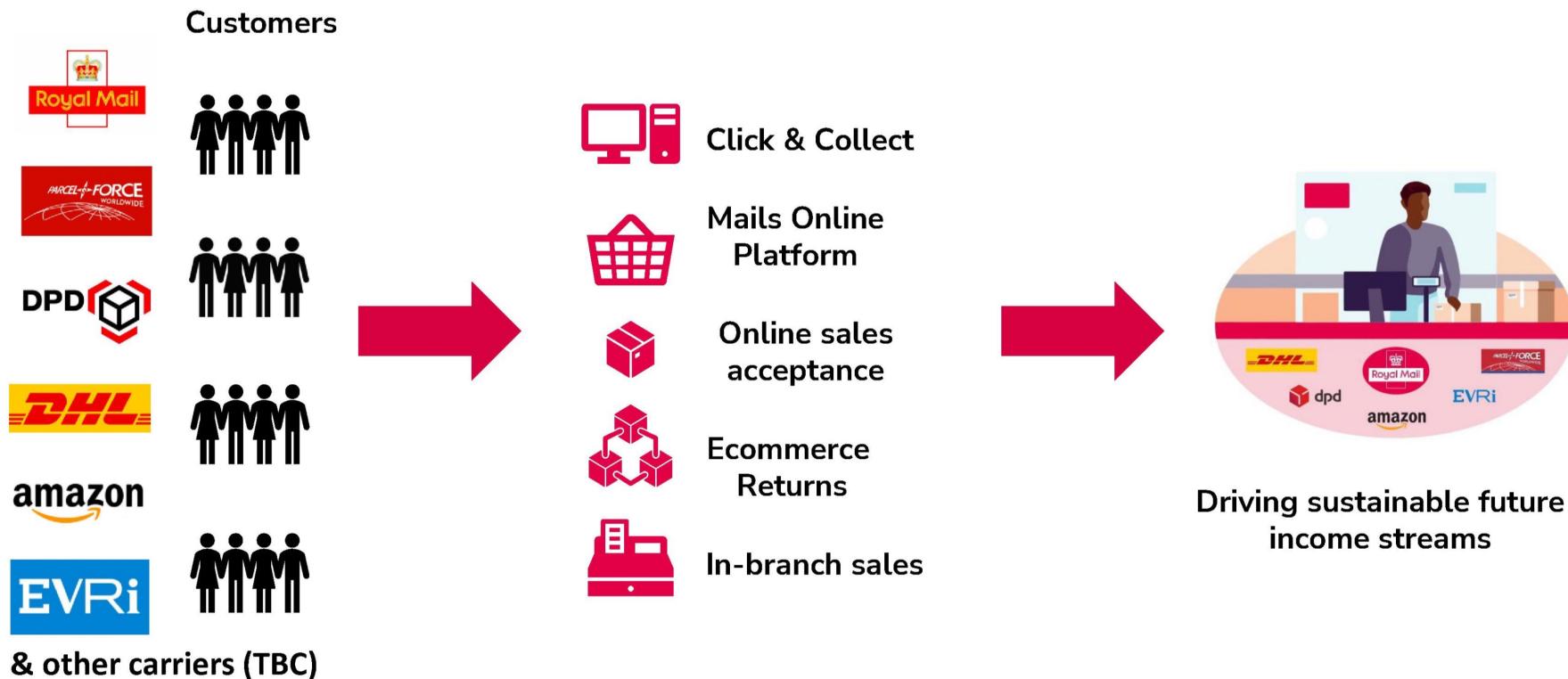
2 Our Business: Mails and Parcels

Stamps and Labels volumes are being replaced by Acceptance, Click & Collect and Returns volumes, which drive lower income and lower Postmaster remuneration



2 Our Business: Mails and Parcels

The execution of our Mails strategy means moving to multi-carrier and multi-channel and will position us as the most extensive and accessible sales and acceptance network for customers, carriers and retailers



2 Our Business: Cash & Banking

Post Office and its network are critical to recently approved Access to Cash legislation



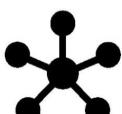
- Cash still represents 15% of all transactions



- Loss of access to cash impacts rural and remote communities the most



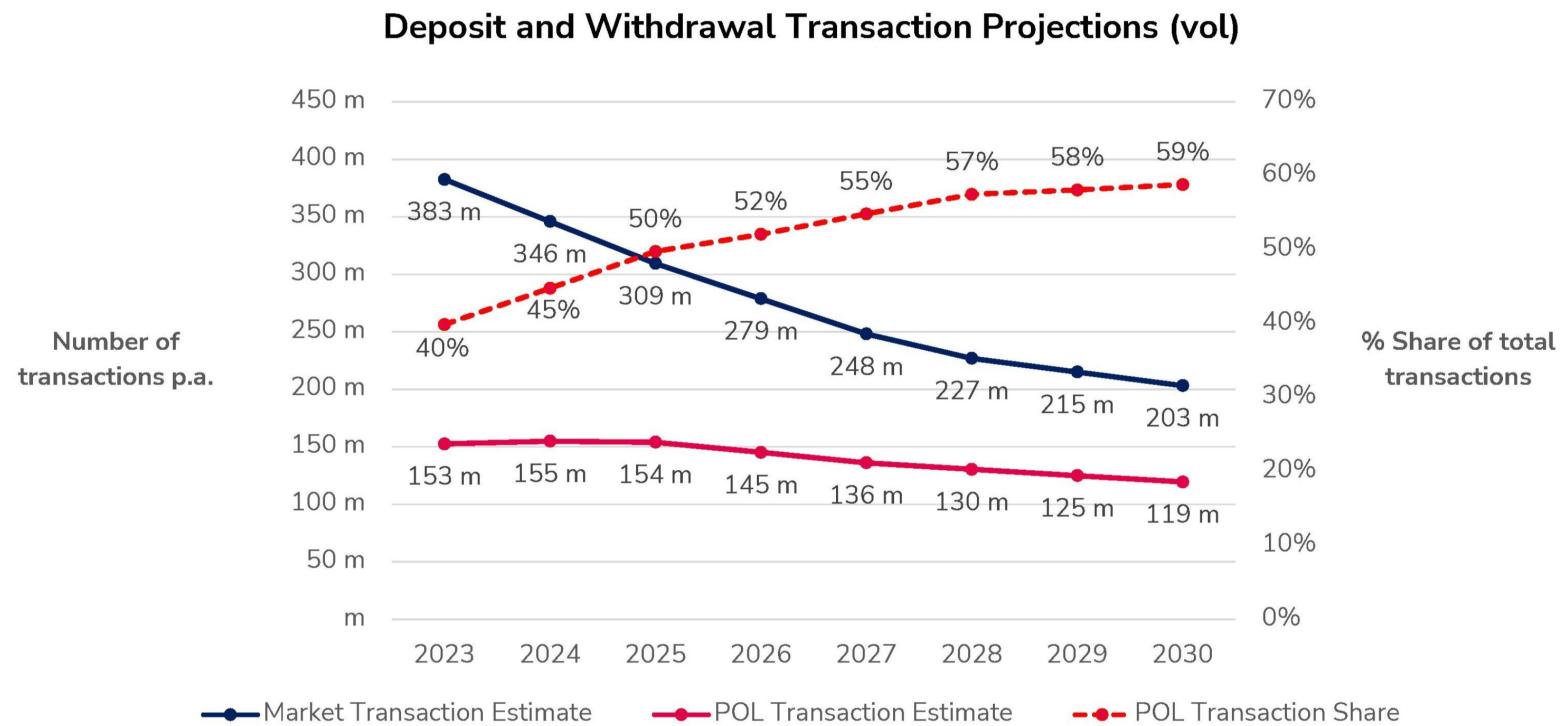
- Budgeting in cash helps the most vulnerable



- The Banking Framework was created in 2017 to consolidate our partnerships

2 Our Business: Cash & Banking

Bank branch closures will continue to increase our share of cash in a declining market



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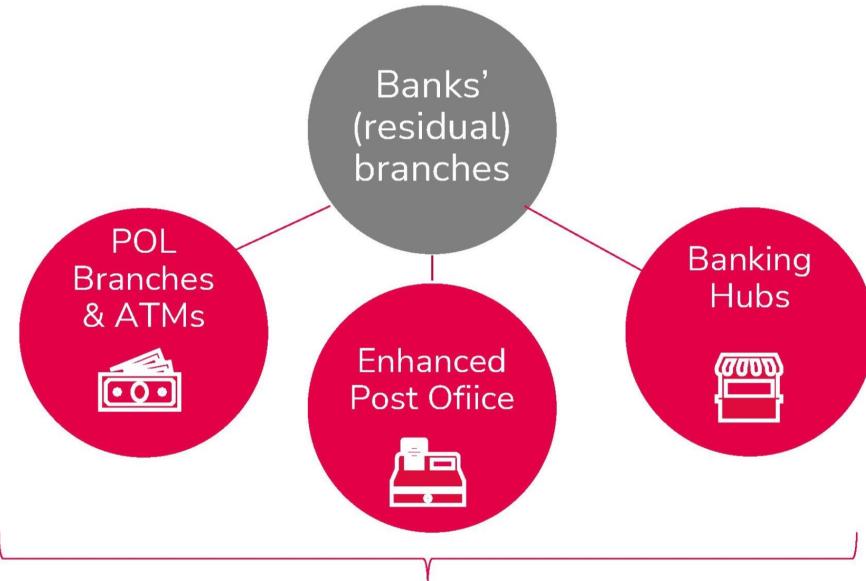
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*Assumes cash share of transactions 10% by 2030 based on UKF UK Payment Markets 2018 projections. Income projections use existing BF3 assumptions and dial them forwards.

2 Our Business: Cash & Banking

We aim to capture a greater share of a slowly declining market whilst maintaining our position at the heart of the UK cash infrastructure

Post Office branches expand retail banks' physical reach



Automation (e.g. TCRs) underpins and supports our Banking ambitions, by making the physical network more cost effective and efficient

2 Our Business: Platform Products

Our Platform Products drive our profit, allowing us to re-invest in the business



Credit Cards

In-branch



Online - direct



Online - intermediary



Mortgages, Savings & Loans

Savings only



Identity Services



Insurance

Travel & Protection only

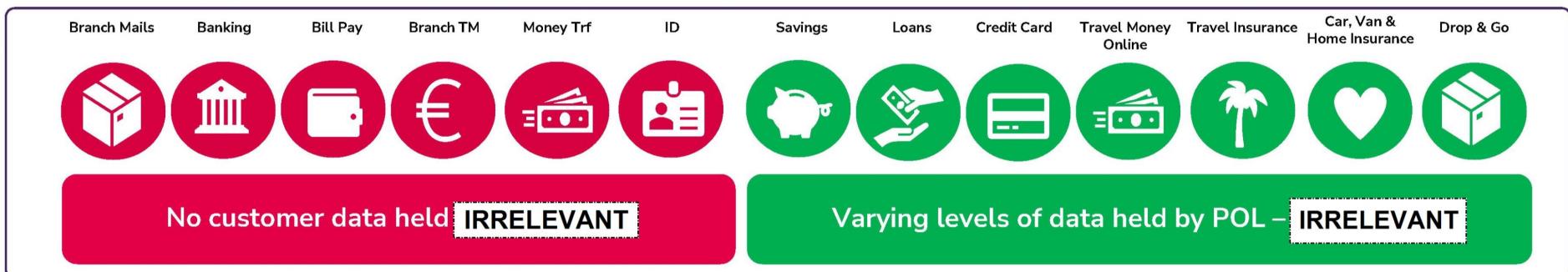
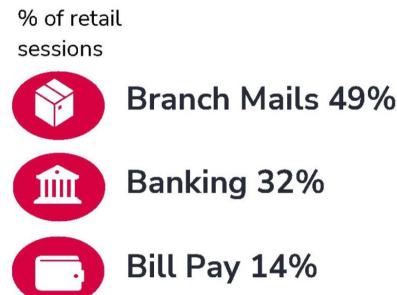


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2 Our Business: Our Customers

We are primarily a B2B2C business, servicing other businesses' customers via franchisees.
We have pockets of insight, but data is limited

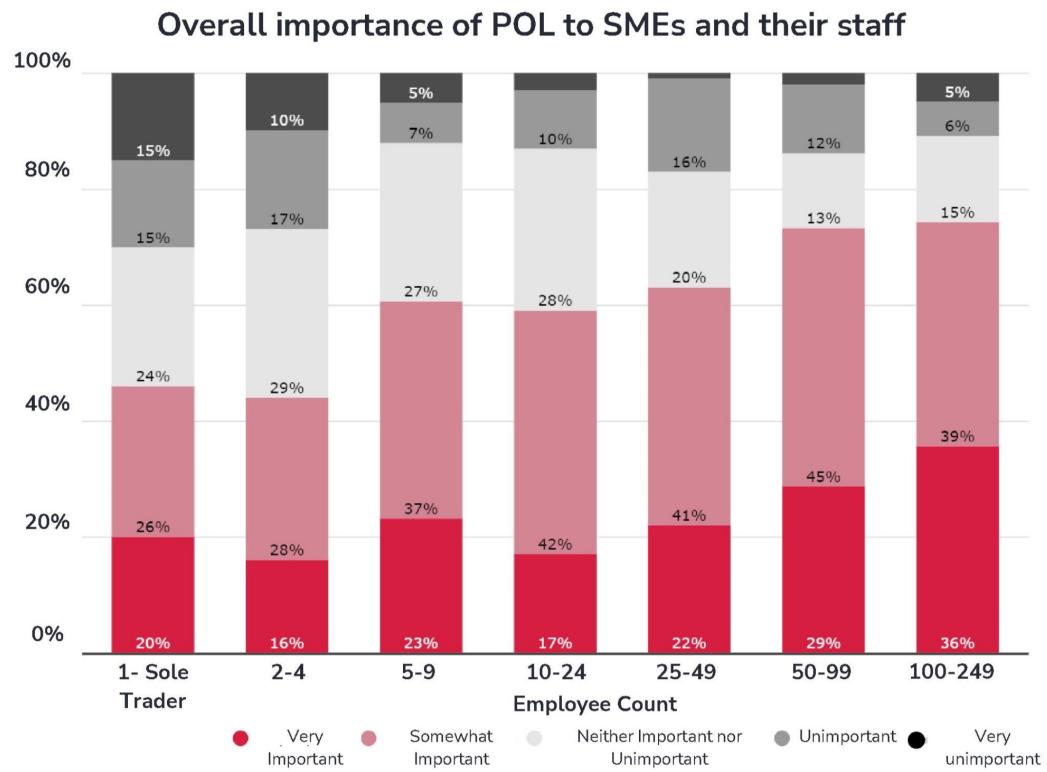
 Total 2022/23 Retail Sessions: 496m  Total 2022/23 POL Web Visits (unique): 71.5m



2 Our Business: Our Customers

Micro SMEs appear to be a core customer segment for PO, building on trust and proximity

- **POL enables economic activity**
- **43% of SMEs** say they would not be able to continue functioning without us
- **Nearly 3 in 10 SMEs use a Post Office branch** at least once a week

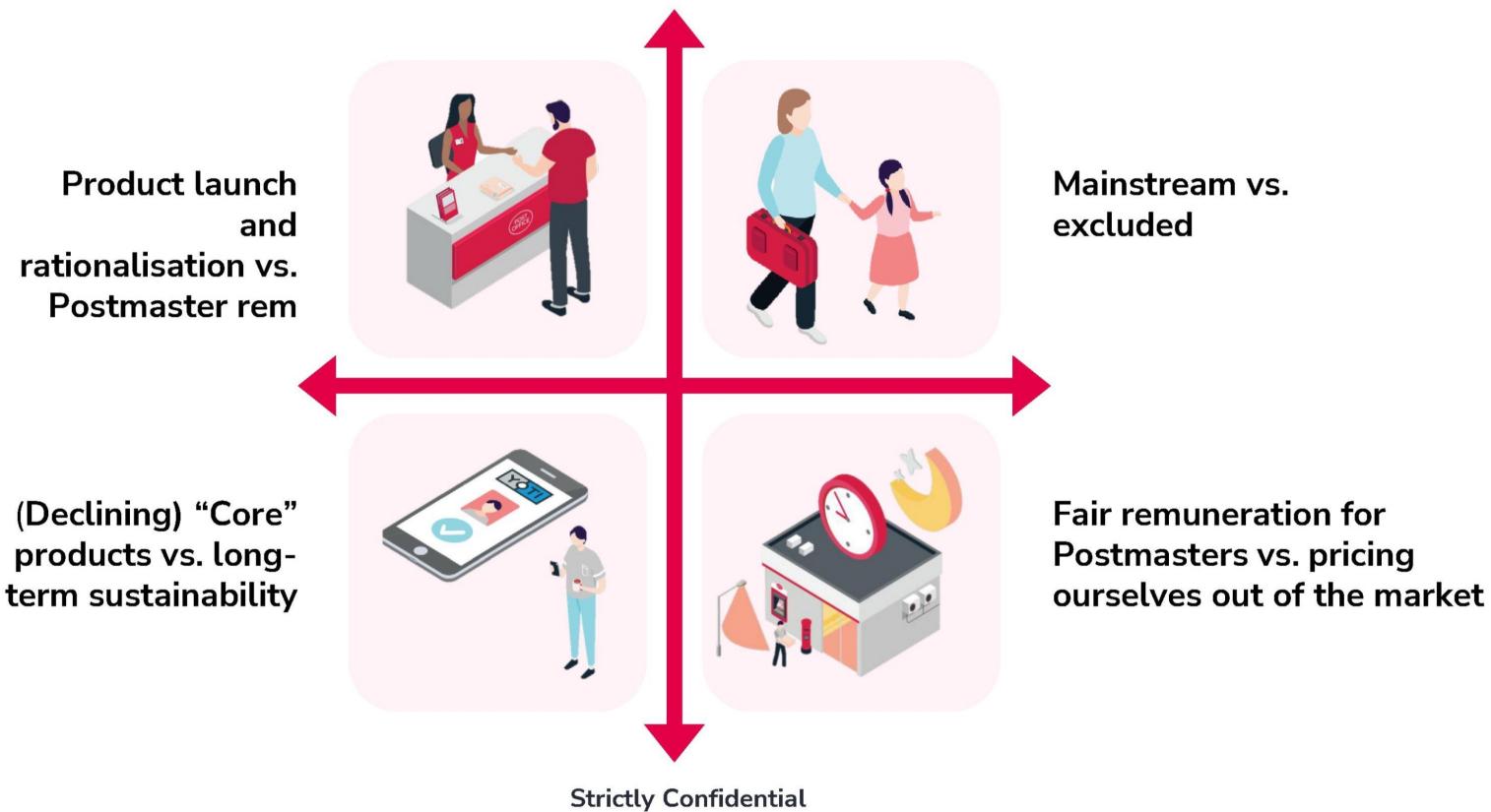


Sources: Public First, London Economics, SME Segmentation

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2 Our Strategic Challenge

The different requirements on our business see us pushing in competing directions



Section 3

Our Network

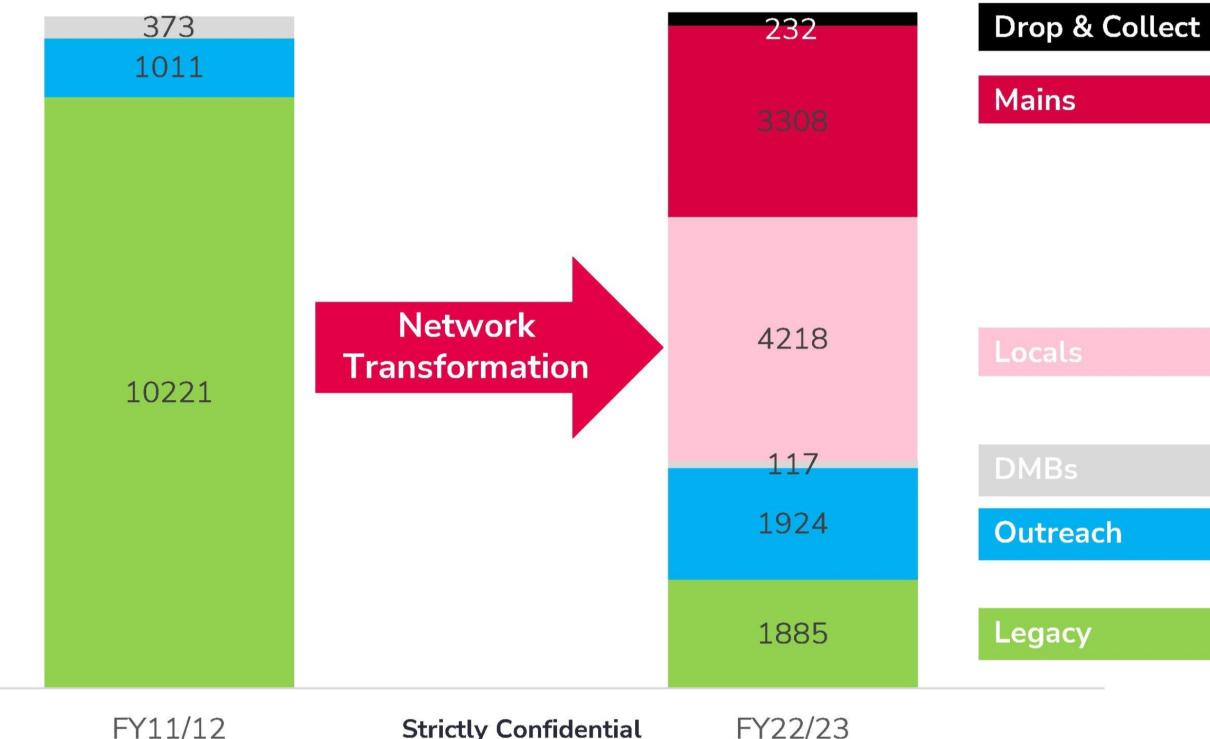
3 Network Formats

We have a variety of formats that meet the varied needs of our retailer hosts and customers

Format	MAINS & DMBs	LOCALS	LEGACY	DROP & COLLECT	OUTREACH
# POs May 2023	3,298	4,211	1,869	268	1,909
Dedicated staffing?	Dedicated staffing required	Non-Dedicated staffing	Dedicated staffing required	Non-Dedicated staffing	Dedicated staffing
Product offering:	All products	95% Don't offer some govt services	Most products	Parcel collections & returns, bill pay	All products
Av. customer sessions per week	1,650 Mains	750	400	75	21
Average POL income per branch	IRRELEVANT				

3 Evolution of the Network

Today half our network is in 'standalone' post offices with limited retail (principally Legacy, DMBs and some Mains). By 2032 our network will need to continue this shift towards post offices co-located in good retailers.



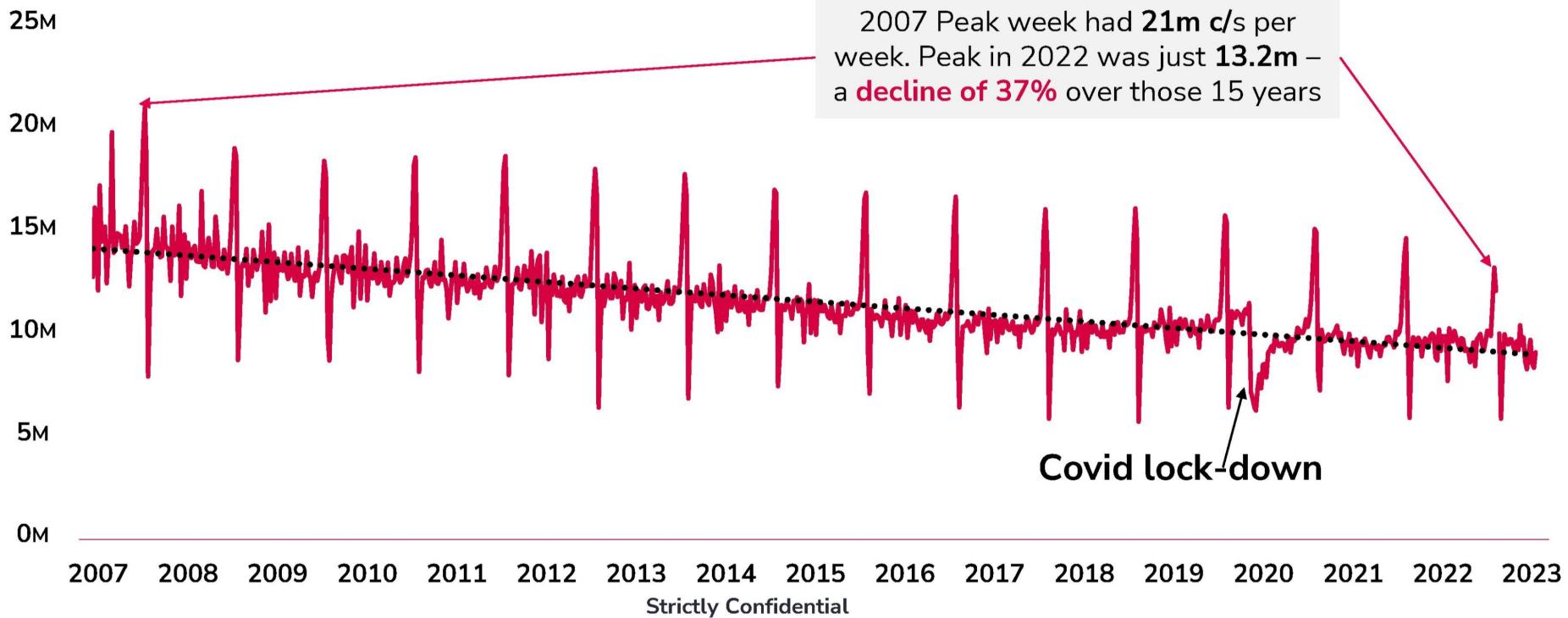
*Network numbers at year end

3

Network Footfall

Post Office footfall has been experiencing steady decline footfall and has re-baselined since Covid at c.9.5m each week – 1m less than pre-Covid levels.

Weekly customer sessions (footfall) since 2007



3

Our Network Strategy

Looking ahead, our Network Strategy is focused on gradually shifting the network from under-used rural post offices towards high-demand urban areas, while continuing to meet our network obligations.



1. Deliver a more convenient network for customers, closing the gaps in urban coverage and reducing under-used branches



2. Concentrate our limited resources on the branches we want to retain long term to support our commercial objectives



3. Support roll-out of new branch IT, ensuring efforts are focussed on sustainable branches while right-sizing the number of counters



4. Release savings to support both short and long-term business sustainability

Section 4

Recap

4

Key Takeaways

- Post Office's past and recent history shows our **capacity for innovation, reinvention and resilience**
- Our Mails and Cash and Banking businesses are our foundation but both are facing **significant structural challenges**
- These challenges **threaten our business as it operates today** as well as our Postmasters and their branches.
- We are taking action through our Network and Commercial strategies to optimise our position but **more will need to be done for us to be sustainable**
- More means **accessing funding to take out cost and reviewing DBT's policy** to ensure HMG is both behind the network and is willing to fund it