UKGI00042011
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Shareholder Executive

HM Government

Post Office Limited ("POL")

Quarterly Review

June 2013

RESTRICTED – POLICY & COMMERCIAL

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Quarterly Update – Summary

POL made significant progress in 2011/12 in relation to both "business-as-usual" milestones and also in relation to selected strategic initiatives…

…these initiatives are being monitored closely by ShEx to ensure that targets are met and where risks are identified, mitigating actions are taken…

…we have also recently engaged with POL in relation to its new strategy and funding deal. This will remain our focus through much of the rest of the year

2012/13 Financial Performance

- POL delivered a strong set of results for the year to March 2013 – this was a second year of consecutive revenue growth after a long term period of decline. All key revenue lines were up year-on-year with the exception of Government Services, despite this being identified in POL's strategy as a key growth driver for the business
- Management's track record of cost control was also maintained, and combined with revenue growth operating profit was £33m ahead of 2011/12 (or £3m ahead given the £30m increase in the Network Subsidy) and £10m up on budget

Progress on Network Transformation Programme

- This is a critical pillar of POL's strategy which moved into implementation after a successful pilot which saw 270 branches convert to new models. By the end of the year 507 new models were open, delivering benefits to customer experience (e.g. longer hours, shorter queues) but also to POL (e.g. changed sales incentives, reduced fixed costs)
- POL's target of 1,250 conversion contract signatures was met (achieved 1,450 for the year) although the gap between signatures and open branches continued to widen throughout the year. The profile of conversions also diverted from the plan, with more onsite Main conversions taking place than had been expected

Progress on Crown Transformation Programme

- Significant progress towards achieving breakeven was made during the year with the £46m loss seen in 2011/12 narrowing to a loss of £37m (which was c.£3m ahead of budget). Performance was driven by both strong revenue growth and close and effective management of costs
- The programme is being monitored closely and further progress is expected to be made during 2013/14 (e.g. through POL's recently announced franchising plans, benefits of redundancies, benefits of increased automation)

Mutualisation

- During the year POL brought together stakeholders to convene the POL Stakeholder Forum - this is a body set up to develop a definition of the Public Benefit Purpose of a mutual POL and the first Phase of its work recently came to an end. A public engagement exercise is taking place over the Summer to solicit a broad range of views on this work
- At the same time some work has also been taking place on other workstreams (e.g. cultural change, finance) although further progress depends on the outcome of the work of the POL Stakeholder Forum

New Strategic Plan and Funding

- POL recently presented its proposed new strategic plan to ShEx, with a funding "ask" that covers the current SR and potentially 2016/17 (subject to agreement with BIS Finance and HMT). Further information is provided on Pages 8 – 11
- Our initial work has identified a number of key risks. **The most critical of these relate to Network Transformation (and the stakeholder management strategy around this) and POCA**. Others relate to revenue growth and costs

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2012/13 Full Year Financial Performance – Revenue by Activity

Revenue performance marks a second year of growth after POL's 2011/12 outturn…

…however Group level performance masks a number of mix-effects, with weaker than expected performance in Government Services and Telephony being offset by stronger results in Financial Services and Other income…

…Mail and Retail remains a key revenue driver representing c.45% sales

YE Mar - £m	2012/13A	Budget	% vs.	Prior Year	% vs.
Mails & Retail	404.0	403.8	*0.0%*	387.5	*4.2%*
Financial Services	279.6	274.7	*1.8%*	261.5	*6.9%*
Government Services	133.2	139.9	*(4.8%)*	135.7	*(1.8%)*
Telephony	45.0	45.7	*(1.5%)*	41.4	*8.7%*
Other	40.7	33.8	*20.4%*	39.3	*3.5%*
POL Net Income	**902.4**	**897.9**	***0.5%***	**865.3**	***4.3%***

Mails & Retail

- In line with budget but masks a mix-effect where strong results in Parcelforce, Special Delivery and Retail and Lottery were offset by lower than expected performance in International Priority and the Royal Mail fixed fee (due to delays in launching a "dangerous goods" service)
- The net position in stamps and labels was £0.4m up against budget, with 2nd class £4.4m ahead and 1st class £4.0m behind for the year. Much of this is believed to be due to the price increase in April 2012 and customer substitution

Financial Services

- Overall strong performance, driven by personal financial services (due mainly to the BoI contract renegotiation), bill payments (due to stronger than expected volumes and pricing) and banking services (due to higher volumes)
- Partially offset by weaker trading in travel (including Moneygram, bureau and travel insurance), ATMs (due to delayed rollout of 550 new machines) and payment services (due to lower postal order volumes and gift voucher income)

Government Services

- Weak performance for the year due mainly to shortfalls in POCA income (driven by fewer accounts and low interest rates) and ID services (due to DVLA and UKBA volumes being behind target). Partially offset by higher volumes in other motoring services and passports

Telephony and Other

- Some softness in Telephony due to weak eTopup performance, offset by higher home phone, broadband and phonecard income. Results in Other mainly due to warehousing work with Royal Mail linked to the Olympics

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2012/13 Full Year Financial Performance – Income Statement

Operating profit was materially up year on year and was also significantly ahead of budget…

…this result against budget was driven by strong revenue performance and a broad and effective management of costs, and was achieved despite higher than expected spending on Project Costs…

…however much growth year on year was driven by the £30m increase in the Network Subsidy Payment

YE Mar - £m	2012/13A	Budget	% vs.	Prior Year	% vs.
POL Net Income	**902.4**	**897.9**	***0.5%***	**865.3**	***4.3%***
Staff Costs	(257.4)	(268.9)	*(4.3%)*	(251.3)	*2.4%*
Agents Costs	(478.1)	(482.8)	*(1.0%)*	(482.9)	*(1.0%)*
Non-Staff Costs	(162.3)	(166.2)	*(2.3%)*	(149.2)	*8.8%*
Interbusiness & O'head Allocation	(98.4)	(100.1)	*(1.7%)*	(104.6)	*(5.9%)*
Depreciation	(0.4)	(0.8)	*(52.2%)*	(0.4)	*(5.7%)*
POL Operating Profit	**(94.2)**	**(120.9)**	***(22.1%)***	**(123.0)**	***(23.4%)***
Financial Services JVs	31.9	32.6	*(2.4%)*	30.8	*3.4%*
Group Operating Profit (pre-POOC)	**(62.4)**	**(88.3)**	***(29.3%)***	**(92.2)**	***(32.3%)***
Project One-Off Costs	(53.4)	(37.7)	*41.7%*	(26.5)	*101.8%*
Group Operating Profit (post-POOC)	**(115.8)**	**(126.0)**	***(8.1%)***	**(118.7)**	***(2.4%)***
Network Subsidy Payment	210.0	210.0	*0.0%*	180.0	*16.7%*
Group Operating Profit (post-NSP)	**94.2**	**84.0**	***12.1%***	**61.3**	***53.5%***
Memo: Net Income (incl. NSP)	*1,112.4*	*1,107.9*	*0.4%*	*1,045.3*	*6.4%*

- Operating profit outperformance to budget of £10m primarily driven by firm net income, and the contribution from lower than expected costs – in particular in relation to staff costs (due to lower LTIP awards, unused central staff contingency and cost benefits from delays in the BoI contract renegotiation), non-staff costs (due to lower legal, IT and consumables spending) and agents costs
- Offset by higher than expected spending on Project One Off Costs related to a wide range of strategic initiatives

Note: Holding Network Subsidy flat operating profit was only c.£3m higher than 2011/12 (growth of c.5%)

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2013/14 Budget – Revenue by Activity

The momentum achieved through top line growth in 2011/12 and 2012/13 is maintained into 2013/14 however this is mainly focused on recovering revenue lost from contract losses and recent renegotiations…

…management believe these targets are ambitious but that they set a strong platform for future growth…

…this is important due to the reliance of the new strategy on revenue performance

YE Mar - £m	2013/14B	2012/13A	% vs.
Mails & Retail	414.6	404.0	*2.6%*
Financial Services	277.4	279.6	*(0.8%)*
Government Services	115.6	133.2	*(13.2%)*
Telephony	50.7	45.0	*12.7%*
Other	41.7	40.7	*2.5%*
POL Net Income	**900.0**	**902.4**	***(0.3%)***

- After returning to growth in 2011/12 and continuing its top line expansion in 2012/13 POL's revenue is expected to be broadly flat in 2013/14
  - Marks a significant commercial turning point as c.£50m revenue is expected to be lost due to contract losses (e.g. NS&I and DWP exceptions), recent renewals and renegotiations (e.g. DVLA, Santander) and increased competitive pressures in mature or substitutable markets (e.g. bill payments, POCA)
  - However these declines should be offset by growth in a number of areas including in traditional mails activities (e.g. new Royal Mail products), in financial services through continued momentum following the 2012 BoI renegotiation (e.g. mortgages, savings and insurance) and in telephony (e.g. due to improved terms with the new Fujitsu contract)
- No significant growth is assumed to be generated from new product launches – many of these will be piloted during the year but are only expected to contribute to the top line in 2014/15 and beyond
  - These include the proposed nationwide launch of POL's current account proposition, the rollout of a "Click and Collect" offer in packets and parcels together with Royal Mail and a pre-paid mobile service
- Management believe that these revenue targets are ambitious. If POL is able to meet these – in addition to delivering on certain strategic initiatives that are linked to income, but which do not contribute to the top line this year – it will establish a platform on which it can build in the future
  - This will be critical to the success of POL's new strategy which relies on the business delivering significant and broad-based growth across each key revenue channel

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2013/14 Budget – Income Statement

Operating profit is expected to grow by almost £8m despite a £10m reduction in the Network Subsidy Payment…

…strong cost performance is expected to be the driving force behind this, with efficiencies expected in staff costs, interbusiness and overhead costs and Project Costs…

…at the same time a number of investments will be focused on future growth and are expected to deliver only limited in-year benefits

YE Mar - £m	2013/14B	2012/13A	% vs.
POL Net Income	**900.0**	**902.4**	***(0.3%)***
Staff Costs	(251.5)	(257.4)	*(2.3%)*
Agents Costs	(480.0)	(478.1)	*0.4%*
Non-Staff Costs	(170.0)	(162.3)	*4.8%*
Interbusiness & O'head Allocation	(92.2)	(98.4)	*(6.3%)*
Depreciation	(0.8)	(0.4)	*108.1%*
POL Operating Profit	**(94.5)**	**(94.2)**	***0.3%***
Financial Services JVs	31.5	31.9	*(1.1%)*
Group Operating Profit (pre-POOC)	**(63.0)**	**(62.4)**	***1.0%***
Project One-Off Costs	(35.0)	(53.4)	*(34.5%)*
Group Operating Profit (post-POOC)	**(98.0)**	**(115.8)**	***(15.4%)***
Network Subsidy Payment	200.0	210.0	*(4.8%)*
Group Operating Profit (post-NSP)	**102.0**	**94.2**	***8.3%***
Memo: Net Income (incl. NSP)	1,100.0	1,112.4	*(1.1%)*

- Growth in operating profit of c.£8m (or c.£18m taking into account the £10m reduction in the Network Subsidy Payment) driven by effective cost management more than offsetting a slight decline in revenue
- On a business-as-usual basis this is primarily due to reductions in staff costs (due to Crown Transformation and other back office efficiencies) and interbusiness and overhead allocations, which are partially offset by non-staff costs (due to increased telephony costs and planned spending on 3rd party contracts) and agents costs
- Reduced spending on Project Costs also has a major impact, despite many strategic initiatives remaining "live" through the period (e.g. certain costs, such as those related to Crown redundancies, were incurred up front in 2012/13 although the programme is ongoing). Benefits from these will continue to accrue to POL during 2013/14 and beyond

Note: Most costs related to the Network Transformation Programme (e.g. agents' compensation) fall below the line

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2013/14 Current Financial Performance – April 2013

Large portion of YTD underperformance** to **budget due to budget phasing issues which are being addressed…

…on trading, strong results in Travel, Passports, Retail and Homephone were offset by weakness in Labels, International Mail, Lottery and ATMs…

…partially offset by good non-POOC outturn (e.g. lower agents' and non-staff costs)…

…we are monitoring early year trends closely although we have received comfort from management that these are not thought to signal wider commercial issues

YE Mar - £m	Apr-13	Budget	% vs.	Prior Year	% vs.
Mails & Retail	35.7	39.0	*(8.5%)*	43.1	*(17.0%)*
Financial Services	24.6	25.0	*(1.5%)*	22.2	*10.8%*
Government Services	11.1	12.8	*(13.9%)*	14.2	*(22.2%)*
Telephony	5.3	3.2	*64.6%*	3.8	*39.9%*
Other	3.3	3.8	*(13.2%)*	4.1	*(19.1%)*
POL Net Income	**80.0**	**83.9**	***(4.6%)***	**87.4**	***(8.4%)***
Staff Costs	(23.5)	(23.6)	*(0.4%)*	(22.5)	*4.1%*
Agents Costs	(43.1)	(46.3)	*(6.8%)*	(48.7)	*(11.4%)*
Non-Staff Costs	(12.4)	(14.8)	*(16.3%)*	(14.3)	*(13.0%)*
Interbusiness & O'head Allocation	(9.1)	(9.1)	*0.2%*	(9.2)	*(1.1%)*
Depreciation	(0.0)	(0.1)	*(67.7%)*	(0.1)	*(59.8%)*
POL Operating Profit	**(8.2)**	**(10.0)**	***(18.3%)***	**(7.4)**	***10.3%***
Financial Services JVs	2.5	2.6	*(5.6%)*	2.0	*24.9%*
Group Operating Profit (pre-POOC)	**(5.7)**	**(7.4)**	***(22.7%)***	**(5.5)**	***5.0%***
Project One-Off Costs	(7.4)	(4.0)	*85.3%*	(4.9)	*50.8%*
Group Operating Profit (post-POOC)	**(13.1)**	**(11.4)**	***15.0%***	**(10.4)**	***26.7%***
Network Subsidy Payment	19.2	19.2	*0.0%*	19.8	*(2.9%)*
Group Operating Profit (post-NSP)	**6.1**	**7.8**	***(21.9%)***	**9.5**	***(35.3%)***
Memo: Net Income (incl. NSP)	*99.3*	*103.1*	*(3.8%)*	*107.2*	*(7.4%)*

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2013/14 to 2019/20 Strategic Plan – Takeaways and Timing

- **In April 2013 POL presented a draft of its new strategy to BIS**
  - Covers the period from 2013/14 to 2019/20 (i.e. updates the last 3 years of the existing plan, and extends it by a further 3 years to 2019/20)
  - Management believe that this extension takes the business to a "steady state" of commercial and financial sustainability, supporting both POL's long term viability and its mutualisation objectives
  - ShEx has appointed KPMG to work on diligencing the plan. A Phase I report has recently been provided with a final due diligence report due towards the end of June (aligned to the timing of the SR process)
- **The plan builds on POL's existing strategy, and continues to rely on transformation of the network, revenue growth and cost control**
  - The objectives of the Network Transformation Programme are broadly the same but POL have requested BIS's support in changing certain aspects of this (e.g. moving from a voluntary to a scheduled strategy). This is the most important element of the plan, and the biggest risk / challenge
  - Top line performance remains important and POL are expecting to deliver a broad base of growth across both existing and new services. There is a high degree of risk in a number of these areas where visibility is limited. KPMG and ShEx are looking at these areas closely
  - Costs remain important both in relation to driving profit growth and in achieving the Crown Transformation Programme's objectives. Risks increase towards the back end of the plan but early years are not without challenge
- **Discussions with BIS Finance and HMT in relation to POL's funding request for 2015/16 (as part of the current SR process) are ongoing**
  - To allow management to operate POL in a commercial fashion, and due to the efficiencies in seeking a longer funding package (e.g. no need to repeat a State Aid approval process), we are seeking a 2 year funding deal. Informally this looks as though it *should* be achievable
- **The key risks to agreeing the plan (and its execution) relate to POL's stakeholder landscape – and in particular the NFSP's continued support for the Network Transformation Programme – and POCA**
  - Expect the NFSP to interpret a move from a voluntary to a scheduled NTP as a move to mandating subpostmaster conversions; there is significant political risk around their reaction to this. There is an emerging dialogue between the Minister, POL and the NFSP on these and other issues
  - POCA is a critical contract to POL, not just for the income it generates but also due to the footfall it brings to the network. POL have assumed this contract will be renewed, which we understand conflicts with DWP's thinking. Work is ongoing to understand this risk in more detail
- **Management and ShEx remain confident that this is the right strategy**
  - Meets HMG's objectives for the Post Office and its network, and establishes a platform on which POL might be able to grow its number of outlets
  - Avoids "locking in" an unsustainable business that requires high levels of funding in the long term
  - Identifies those "Community" branches that will continue to need support – this increases the VfM profile of HMG's support for POL
  - Strengthens POL's competitive positioning making it fit-for-purpose in fast moving and competitive markets

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2013/14 to 2019/20 Strategic Plan – Financial Summary

POL's new strategy is a continuation of the existing plan, and builds on the successes seen over the past few years…

…it is however highly ambitious and requires management to deliver growth in existing and new services in all channels…

…that said, there is a greater relative degree of comfort in the period up to 2016/17. This is the period for which we are seeking funding as part of the current SR process

Proposed funding period

YE Mar - £m	2013/14B	2014/15F	2015/16F	2016/17F	2017/18F	2018/19F	2019/20F
Mails & Retail	**415**	**413**	**425**	**448**	**482**	**515**	**546**
% growth	*n.a.*	*(0.6%)*	*3.1%*	*5.3%*	*7.7%*	*6.8%*	*6.1%*
Financial Services	**309**	**324**	**352**	**427**	**458**	**498**	**525**
% growth	*n.a.*	*4.7%*	*8.7%*	*21.5%*	*7.2%*	*8.8%*	*5.4%*
Government Services	**116**	**131**	**158**	**174**	**173**	**190**	**206**
% growth	*n.a.*	*13.4%*	*20.3%*	*10.1%*	*(0.7%)*	*9.8%*	*8.6%*
Telephony and Homeservices	**50**	**69**	**94**	**119**	**137**	**145**	**150**
% growth	*n.a.*	*36.4%*	*37.1%*	*26.2%*	*15.6%*	*5.8%*	*3.2%*
Other	**42**	**40**	**42**	**41**	**45**	**45**	**44**
% growth	*n.a.*	*(4.8%)*	*5.0%*	*(2.4%)*	*9.5%*	*0.2%*	*(2.2%)*
Gross Revenue	**932**	**976**	**1,071**	**1,208**	**1,294**	**1,393**	**1,471**
% growth	*n.a.*	*4.6%*	*9.7%*	*12.9%*	*7.1%*	*7.6%*	*5.6%*
Income Contingency	0	(20)	(40)	(60)	(80)	(100)	(120)
Net Revenue	**932**	**956**	**1,031**	**1,148**	**1,214**	**1,293**	**1,351**
% growth	*n.a.*	*2.5%*	*7.8%*	*11.4%*	*5.8%*	*6.5%*	*4.5%*

- POL's revenue strategy for the period to 2019/20 is ambitious, with growth expected across all channels in both existing and new products
  - Key drivers of this growth include: the rollout of a collections and returns offering in Mails & Retail; the launch of successful Identity and Assisted Digital offerings in Government Services; the transformation of POL's Insurance business and growth in Savings and Investments and Payment and Banking Services in Financial Services; and the launch of a Mobile product and Homeservices proposition (e.g. utilities) in Telephony and Homeservices
- Assumptions have also been taken in relation to certain existing revenue streams. These assumptions, including those related to the renewal of POCA, are also key risk areas in the plan
- The successful delivery of the Network Transformation and Crown Transformation Programmes are key facilitors for this revenue growth. If these are not delivered successfully, management's ability to deliver the plan will be at risk

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2013/14 to 2019/20 Strategic Plan – Financial Summary (cont'd)

POL's strategic plan is extremely ambitious, and requires management to deliver strong revenue growth, transformation of the cost base and certain key "facilitating' strategic initiatives…

…if targets can be met it will take POL a significant way towards financial sustainability, supporting progress towards mutualistion, making the post office network more sustainable in the long term and reducing the funding "ask" from HMG

Proposed funding period

YE Mar - £m	2013/14B	2014/15F	2015/16F	2016/17F	2017/18F	2018/19F	2019/20F
Gross Revenue	**932**	**976**	**1,071**	**1,208**	**1,294**	**1,393**	**1,471**
Income Contingency	0	(20)	(40)	(60)	(80)	(100)	(120)
Net Revenue	**932**	**956**	**1,031**	**1,148**	**1,214**	**1,293**	**1,351**
Subpostmasters' Costs	(481)	(488)	(495)	(517)	(531)	(564)	(592)
Staff Costs	(196)	(182)	(170)	(167)	(165)	(164)	(162)
Non-Staff Costs	(258)	(236)	(220)	(212)	(209)	(206)	(204)
Supply Chain	(96)	(96)	(96)	(96)	(96)	(96)	(96)
New Costs	0	(33)	(85)	(151)	(178)	(225)	(260)
Franchising Cost Benefit	0	6	10	9	9	8	7
Income Contingency	0	12	24	36	48	60	72
EBITDA (pre-Network Subsidy)	**(98)**	**(61)**	**(0)**	**51**	**92**	**107**	**117**
% margin	(10.5%)	(6.4%)	(0.0%)	4.4%	7.6%	8.2%	8.6%
Network Subsidy Payment	200	160	130	80	70	60	50
EBITDA	**102**	**99**	**130**	**131**	**162**	**167**	**167**
% margin	10.9%	10.3%	12.6%	11.4%	13.4%	12.9%	12.3%

- Management's approach to costs is as ambitious as its revenue strategy, and requires tight control across all key categories. The cost model has been prepared in less detail than the revenue model which raises risks in the plan, and questions in relation to whether POL is investing sufficient margin to support revenue growth targets
  - To deliver these targets management will need to extract efficiencies across the business. This includes reductions in Staff and Non-Staff costs (e.g. management have put in place a "strategic" challenge to reduce Central Costs by 25% over the period) and maintaining Supply Chain costs at 2013/14 levels
- Revenue and cost performance is expected to drive strong growth in EBITDAS, with POL planning to reach breakeven in 2015/16 on a run-rate basis. This increased level of profitability means POL's funding requirement from HMG is expected to fall, reaching a potential steady state funding need of £50m per year in 2019/20

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2013/14 to 2019/20 Strategic Plan – Financial Summary (cont'd)

As expected POL will continue to need funding from HMG for the foreseeable future…

…however the investments that have been made to date, and those supported under the current funding deal, are expected to bring significant financial benefits…

…this means POL's "ask" to HMG will fall considerably over the coming years and is expected to reach a steady state in 2019/20

YE Mar - £m	2013/14B	2014/15F	2015/16F	2016/17F	2017/18F	2018/19F	2019/20F
Network Subsidy Payment	200.0	160.0	130.0	80.0	70.0	60.0	50.0
Other Government Funding	215.0	170.0	80.0	80.0	0.0	0.0	0.0
Total Funding	**415.0**	**330.0**	**210.0**	**160.0**	**70.0**	**60.0**	**50.0**
	existing funding		*current funding ask*		*possible future funding profile*		

Existing Funding

- Remaining funding available under current deal to support business transformation initiatives (e.g. first phase of the Network Transformation Programme, Crown Transformation Programme breakeven, other key initiatives)
- Carried over c.£100m "unspent" funds from 2012/13 into current year, mainly due to the profile of Network Transformation conversions and the sequencing of other key strategic initiatives

Current Funding Ask

- **Seeking two year funding extension to 2016/17 totalling £370m** in order to support completion of the Network Transformation Programme and other investments to drive long term commerciality and sustainability of POL
- In line with indicative funding "ask" presented to HMT as part of the funding deal agreed in 2010. Note that the 2015/16 numbers are £50m lower than the £260m "bid" that has been made as part of the current SR process

Possible Future Funding Profile

- Assuming POL can deliver its strategy successfully through 2013/14 – 2016/17 management expect the need for "Other Government Funding" to drop away, and for the Network Subsidy Payment "ask" to fall considerably
- This is broadly in line with the long term indications provided to HMT as part of the funding deal agreed in 2010
- By 2019/20 it should be possible to target funding on only the loss making portion of the network – this establishes a platform for a new and more transparent type of relationship with HMG (e.g. contractual). In turn this is expected to support a funding framework for a mutual POL and more "commercial" interactions between POL and HMG

Primary Narrative: *The investments that HMG has been making in POL are expected to achieve significant financial benefits which will reduce its reliance on further HMG support. Funding today will set POL up well for the future, allowing management to continue to reduce the funding "ask" required to support the business and post office network in the long term*

Proposed funding period

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2013/14 to 2019/20 Strategic Plan – Risk Assessment

	Out to 2016/17	Out to 2019/20
Network Transformation	• Objectives are the same as today although **SCHEDULED** approach marks a change. Requires stakeholder support and if delayed will impact revenue growth and cost flexibility	• Delays have **CRITICAL** implications for sustainability and POL's competitive positioning. The market is moving fast and a failed NTP will impact POL's commerciality and funding
POCA	• Assumes **EXTENSION** of existing contract on current terms, and constant attrition rates. Considered to be an aggressive base case assumption given dialogue to date with DWP	• Assumed to secure **RETENDER** of replacement (or high market shares in a no-POCA "world"). Less reliant on this as an income stream but still an important network footfall driver
Government Services Growth	• Doubling of Passports revenue considered achievable although as plan develops Identity and Assisted Digital become key contributors (visibility is **VERY** limited)	• Continued growth in Identity and Assisted Digital although no contracts, volumes or prices have been agreed. **QUESTIONS** around maturity and volume growth profile
Financial Services Growth	• Transformation of Insurance is a key driver with growth also **RELIANT** on new services which require sales capability and rely on untested products (e.g. savings, banking services)	• **CONTINUED** strong growth in Insurance with earlier growth drivers expected to remain important (although banking services increasingly critical vs. savings products)
Mails & Retail Growth	• Large share of growth driven by collect and returns which is scheduled to launch in 2013/14 and some **UNSPECIFIED** "new retail" income. Former relies on NTP and CTP	• Continued reliance on new revenue through collect and returns and "new retail" increases risk profile of projections. Close analysis of assumptions required
Telephony and Homeservices	• Strong growth in basic telephony – relies on increase in subs and resilient pricing. Significant growth also required in mobile telephony although product **NOT** yet launched	• Growth in telephony and mobile, albeit less than earlier in the plan, with Homeservices (not launched and **NOT** developed) performance becoming increasingly important
Cost Performance	• **LIMITED** detailed assumptions – plan relies on "strategic" cost themes. Level of control required is challenging given investment that is required to support revenue growth	• Continued **UNCERTAINTY** given reliance of plan on new income and lack of detail on assumptions. Cost challenge would be difficult to achieve even without this income growth

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Traffic Light Analysis

	Sept-12	Dec-12	Current	Comments
Shareholder Relationship				• Frequent dialogue and productive relationship with POL's Board. Established after appointment in 2012
Implementation of Shareholder Model				• Regular interactions with management around stakeholder, commercial and strategic and financial areas
Quality of Management Team & Board				• Succession plan in development. Management capabilities / capacity being monitored given new strategy
Strategy				• Close and structured monitoring on "business as usual" matters and in relation to POL's new strategic plan
Financial Performance				• Monitored closely on a monthly basis, with access provided to divisional management where required
Balance Sheet & Risk				• Discussions around strategy and funding post-2015 ongoing. Planned to give visibility through to March 2017