

27 January 2015

The Secretary of State for Business, Innovation & Skills
and
Post Office Limited

DEED OF AMENDMENT AND RESTATEMENT

relating to
an agreement to provide funding to Post Office Limited

Linklaters

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Telephone
Facsimile

GRO

Ref L-220198

This Deed (the "Deed") is made on 27 January 2015 between:

- (1) **THE SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS**, of 1 Victoria Street, London SW1H 0ET (the "Secretary of State"); and
- (2) **POST OFFICE LIMITED**, a company incorporated under the laws of England and Wales with registered number 2154540 and registered office at 148 Old Street, London EC1V 9HQ ("POL").

Whereas:

- (A) The Secretary of State and POL entered into an agreement on 26 November 2013 under which POL is provided funding to enable it to provide post office services of general economic interest over a national network of post offices across the United Kingdom (the "Funding Agreement").
- (B) The Secretary of State and POL now wish to amend and restate the Funding Agreement.

It is agreed as follows:

1 Definitions and Interpretation

In this Deed, unless the context otherwise requires, the provisions in this Clause 1 apply:

1.1 Incorporation of defined terms

Unless otherwise stated, terms defined in the Funding Agreement shall have the same meaning in this Deed.

1.2 Interpretation clauses

1.2.1 The principles of interpretation set out in Clause 1 of the Funding Agreement shall have effect as if set out in this Deed, save that references to "this Agreement" shall be construed as references to this Deed.

1.2.2 References to this Deed include its Schedule.

2 Amendment

With effect from the date of this Deed, the Funding Agreement shall be amended and restated in the form set out in the Schedule to this Deed.

3 Miscellaneous

3.1 Incorporation of terms

The provisions of clause 13 (Consents) and 14 (Confidentiality) of the Funding Agreement shall apply to this Deed as if set out in full in this Deed and as if references in that clause to "this Agreement" are references to this Deed and references to "party" or "parties" are references to parties to this Deed.

3.2 Third party rights

A person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Deed.

3.3 Counterparts

This Deed may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. A party may enter into this Deed by executing any such counterpart.

4 Governing law and submission to jurisdiction

4.1 Governing law

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

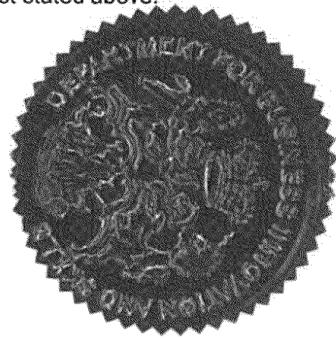
4.2 Jurisdiction

The parties irrevocably agree that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Deed.

In witness whereof this Deed has been delivered on the date first stated above.

THE CORPORATE SEAL of)
THE SECRETARY OF STATE)
FOR Business, Innovation and Skills)
hereunto affixed is authenticated by)

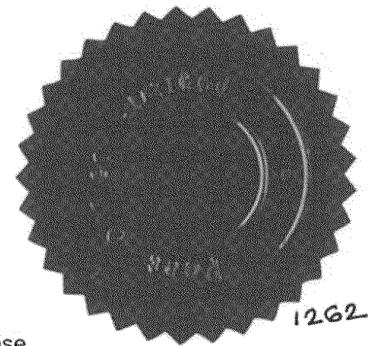
GRO



An official in the Department for Business, Innovation and Skills

Executed by the affixing)
of the COMMON SEAL of)
POST OFFICE LIMITED)
in the presence of:)

GRO



A person authorised by Post Office Limited to act for that purpose

Schedule

POL00362162
POL00362162

AMENDED & RESTATED VERSION
Funding Agreement

Dated 26 November 2013

as amended and restated on 27 January 2015

THE SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS

POST OFFICE LIMITED

FUNDING AGREEMENT

CONTENTS

CLAUSE	PAGE
1. INTERPRETATION	1
2. CONDITIONS.....	4
3. DELAYED PAYMENT	6
4. STATE AID CLEARANCES	6
5. GOVERNMENT FUNDING FOR SERVICES OF GENERAL ECONOMIC INTEREST	6
6. POL STRATEGIC PLAN.....	10
7. FINAL CONTRIBUTION.....	10
8. EMPLOYEE INCENTIVE ARRANGEMENTS	10
9. SUB-POSTMASTER COMPENSATION CONDITIONS.....	10
10. ACCESS CRITERIA.....	11
11. JOINT VENTURES	12
12. PUBLIC CONSULTATION, COMMUNICATION AND EQUALITY.....	12
13. CONSENTS	12
14. CONFIDENTIALITY	12
15. NOTICES.....	14
16. ENTIRE AGREEMENT.....	15
17. GENERAL.....	15
SCHEDULE 1 DELIVERABLES	18
SCHEDULE 2.....	19
PART A FUNDAMENTAL CHANGE	19
PART B POTENTIAL FUNDAMENTAL CHANGE.....	19
SCHEDULE 3 CALCULATION OF ACTUAL SGEI COST.....	20
APPENDIX A POL ENTRUSTMENT LETTER	21
APPENDIX B STRATEGIC PLAN	22

AMENDED & RESTATED VERSION
Funding Agreement

THIS AGREEMENT was made on 26 November 2013 and is amended and restated on
27 January 2015

BETWEEN:

- (1) **THE SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS** of 1 Victoria Street, London SW1H 0ET (the *Secretary of State*); and
- (2) **POST OFFICE LIMITED**, a company incorporated in England and Wales (registered number 2154540) and whose registered address is 148 Old Street, London EC1V 9HQ (**POL**).

WHEREAS:

- (A) The Parties entered into the 2010 Funding Agreement in respect of funding for certain post office services until the end of the Financial Year 2014/15.
- (B) The Secretary of State has requested that POL continues to provide a national network of post offices across the United Kingdom and wishes to entrust to POL the provision of services of general economic interest over that network.
- (C) The Secretary of State has agreed to enter into this Agreement in order to provide funding to POL to enable it to continue to provide services of general economic interest across that national network.

NOW THIS AGREEMENT WITNESSES as follows:

1. INTERPRETATION

1.1 In this Agreement, including the recitals, Schedules and Appendices, unless the context requires otherwise:

2010 Funding Agreement means the funding agreement entered into by, *inter alia*, the Parties dated 25 October 2010.

Actual SGEI Cost means POL's net cost of: (i) maintaining a network of post offices in accordance with clause 10 (*Access Criteria*); and (ii) ensuring the provision of services of general economic interest over that network, calculated in accordance with Schedule 3 (*Calculation of Actual SGEI Cost*).

Branch means any retail outlet of POL, including any post office counter or means of transacting any post office services (including those services described in clause 10.1(a) (*Access Criteria*)) at a third party premises and any other facility (including an "outreach" facility) designated for the transaction of business with members of the public by or on behalf of POL.

Business Day means a day (not being a Saturday or a Sunday) on which banks are open for general non-automated banking business in the City of London.

Code of Practice means the Code of Practice on Public Consultation and Communication with respect to change in the Post Office network published in December 2012 as amended, varied, supplemented or substituted from time to time.

AMENDED & RESTATED VERSION
Funding Agreement

Community Branch means Branches that possess characteristics that could make them unviable if they were to receive the same terms as those offered to subpostmasters under new or amended agency contracts. They are predominantly, but not exclusively, the “only shop in the community”, where “the community” is defined as a direct ‘crow flies’ distance of 0.5 miles from the current post office. When considering if Branches are the “only shop in the community”, only alternative retailers most likely to be suitable for post offices are included, such as convenience and CTN (Confectioner, Tobacconist and Newsagent) stores.

Cumulative SGEI Cost has the meaning given to it in clause 5.9 (*Government Funding for Services of General Economic Interest*).

Cumulative SGEI Payment means the total aggregate amount of all SGEI Payments made by the Secretary of State under clauses 5.5 and 5.6 (*Government Funding for Services of General Economic Interest*).

Cumulative SGEI Statement has the meaning given to it in clause 5.9 (*Government Funding for Services of General Economic Interest*).

Deprived Urban Areas means:

- (a) the most deprived fifteen per cent. (15%) of super output areas in England;
- (b) the most deprived fifteen per cent. (15%) of data zones in Scotland; and
- (c) the most deprived thirty per cent. (30%) of super output areas in Wales and Northern Ireland,

based upon each country’s then current index of multiple deprivation.

Entrustment Letter means the letter in the form set out at Appendix A (*POL Entrustment Letter*) from the Secretary of State to POL and countersigned by POL.

Financial Year means an accounting period of POL commencing on or around 1 April in any calendar year and ending on or around 31 March in the following calendar year.

Fundamental Change means the occurrence of any of the events listed in Part A of Schedule 2 (*Fundamental Change*).

Funding Period means the period commencing the start of Financial Year 2015/16 and ending the end of Financial Year 2017/18.

Government means Her Majesty’s Government.

Milestone means:

- (a) in respect of the SGEI Payment payable on 1 April 2015 (or the first Business Day thereafter), the requirements referred to as Milestone 1;
- (b) in respect of the SGEI Payment payable on 1 April 2016 (or the first Business Day thereafter), the requirements referred to as Milestone 2; and
- (c) in respect of the SGEI Payment payable on 1 April 2017 (or the first Business Day thereafter), the requirements referred to as Milestone 3,

AMENDED & RESTATED VERSION
Funding Agreement

in each case in Appendix A (*Funding milestones and test dates*) of the Strategic Plan.

Milestone Test Date means, in respect of each SGEI Payment, the date specified in Appendix A (*Funding milestones and test dates*) of the Strategic Plan for the achievement of the Milestone applicable to that SGEI Payment.

Order means the Post Office Network Subsidy Scheme Order 2007 (SI 2007/962) made pursuant to section 103 of the PSA2000 and amended by the Post Office Network Subsidy Scheme (Amendment) Order 2011 (SI 2011/98) as may be further amended or replaced by any subsequent payment order increasing the maximum amount payable under it in any twelve (12) month period.

Parties means the parties to this Agreement.

PO Group means POL and its subsidiaries from time to time.

POL Working Capital Facility means the working capital facility provided to POL pursuant to the terms of the credit facilities agreement between the Secretary of State and POL dated 17 October 2003 (as amended from time to time).

Potential Fundamental Change has the meaning given to it in Part B of Schedule 2 (*Potential Fundamental Change*).

PSA2000 means the Postal Services Act 2000.

PSA2011 means the Postal Services Act 2011.

Relevant Payment has the meaning given to it in clause 3 (*Delayed payment*).

Remedy Period has the meaning given to it in clause 3 (*Delayed payment*).

Required Payment Date has the meaning given to it in clause 3 (*Delayed payment*).

Rural Areas means those areas which are not Urban Areas.

SGEI Payment means a payment by the Secretary of State in a Financial Year of an amount calculated to compensate POL for the net cost of: (i) maintaining a network of post offices in accordance with clause 10 (*Access Criteria*); and (ii) ensuring the provision of services of general economic interest over that network, in each case during that Financial Year.

SGEI Statement has the meaning given to it in clause 5.9 (*Government Funding for Services of General Economic Interest*).

SGEI Supporting Statement has the meaning given to it in clause 5.9 (*Government Funding for Services of General Economic Interest*).

State Aid Clearance means, in respect of any payment to be made to POL under this Agreement, confirmation by the European Commission that such payment is compatible with the requirements on State Aid of the Treaty on the Functioning of the European Union.

Strategic Plan means POL's strategic plan in relation to the provision of services of general economic interest as set out in Appendix B (*Strategic Plan*).

AMENDED & RESTATED VERSION
Funding Agreement

Urban Areas means communities with ten thousand (10,000) or more inhabitants in a continuous built up area.

VAT Amount has the meaning given to it in clause 5.12 (*Government Funding for Services of General Economic Interest*).

1.2 In this Agreement, except where the context otherwise requires:

- (a) a reference to a person (which shall include any individual, firm, company, corporation or other body corporate, government, state or agency or any association, trust, fund or partnership (whether or not having separate legal personality) shall include, as appropriate, its successors, permitted assignees or transferees;
- (b) a reference to an enactment or statutory provision shall include a reference to any subordinate legislation made under that enactment or statutory provision and is a reference to that enactment, statutory provision or subordinate legislation as from time to time amended, consolidated, modified, or re-enacted;
- (c) words in the singular shall include the plural and vice versa;
- (d) references to one gender include other genders;
- (e) a reference to any agreement or other instrument (other than an enactment or statutory provision) shall be deemed to be a reference to that agreement or instrument as from time to time amended, varied, supplemented, substituted, novated, assigned or restated;
- (f) a reference to a clause, Schedule or Appendix shall be a reference to a clause of, or Schedule or Appendix to, this Agreement;
- (g) a reference to “includes” or “including” shall be construed without limitation to any events, circumstances, conditions, acts or matters specified after those words;
- (h) references to dates which do not fall on a Business Day shall be construed as references to the immediately subsequent Business Day;
- (i) the headings are for convenience only and shall not affect its interpretation; and
- (j) references to this Agreement include this Agreement as amended or supplemented.

1.3 The Schedules and Appendices form part of this Agreement and shall have the same force and effect as if expressly set out in this Agreement, and any reference to this Agreement shall include the Schedules and Appendices.

2. CONDITIONS

2.1 The obligation of the Secretary of State under this Agreement to make any SGEI Payment is conditional on:

- (a) all necessary State Aid Clearances having been obtained for the making of that payment; and
- (b) the relevant Milestone having been achieved.

AMENDED & RESTATED VERSION
Funding Agreement

2.2 Each obligation of POL under clauses 5 (*Government Funding for Services of General Economic Interest*), 6 (*POL Strategic Plan*), 8 (*Employee Incentive Arrangements*), 10 (*Access Criteria*) and 12 (*Public Consultation, Communication and Equality*) of this Agreement, and the obligations of POL under the Entrustment Letter, in each case in each of Financial Years 2015/16 and 2016/17 and 2017/18 (respectively), is conditional on the conditions referred to in clause 2.1 having been met in respect of the SGEI Payment for, subject to clause 2.3, that Financial Year, save that to the extent the condition in clause 2.1(b) is not met and (at the absolute discretion of the Secretary of State) only part of the SGEI Payment for that Financial Year is paid, then POL shall perform such of its obligations under this Agreement and the Entrustment Letter as shall be correspondingly adjusted by POL and the Secretary of State to be appropriate having regard to the funding constraints to which POL will be subject and to POL's obligations under clause 6 (*POL Strategic Plan*).

2.3 In the event that POL fails to achieve any Milestone by the Milestone Test Date, POL shall provide to the Secretary of State a remedial plan and the Secretary of State shall have no obligation to make the SGEI Payment until POL has achieved the Milestone. Should POL not achieve the Milestone within three (3) months following the Milestone Test Date, any payment (or part thereof) by the Secretary of State of the SGEI Payment shall be at the absolute discretion of the Secretary of State.

Deliverables

2.4 On the date of this Agreement, POL shall deliver (or ensure that there is delivered) all those documents listed in Schedule 1 (*Deliverables*) in a form and substance satisfactory to the Secretary of State (acting reasonably).

Fundamental Change

2.5 Without prejudice to the accrued rights and remedies of the Parties, the obligations of the Secretary of State to make or facilitate any payments in accordance with this Agreement, the obligations of POL under clauses 5 (*Government Funding for Services of General Economic Interest*), 8 (*Employee Incentive Arrangements*), 10 (*Access Criteria*) and 12 (*Public Consultation, Communication and Equality*) of this Agreement and the obligations of POL under the Entrustment Letter, shall immediately terminate upon the occurrence of a Fundamental Change.

2.6 If on the date on which any payment is due to be made by the Secretary of State to POL under this Agreement a Potential Fundamental Change exists, the Secretary of State shall be entitled to withhold such payment until such time as:

- (a) a Fundamental Change occurs, whereupon clause 2.5 shall apply and the Secretary of State shall have no obligation to make that payment; or
- (b) the Potential Fundamental Change ceases to exist, whereupon the payment shall become immediately due and payable, together with interest from the due date until the date of actual payment at a rate equivalent to the rate of interest then applicable to drawings by POL under the POL Working Capital Facility (as amended from time to time).

2.7 Until the date on which the last SGEI Payment is due to be made by the Secretary of State to POL under this Agreement, POL shall promptly disclose to the Secretary of State any matter or thing of which its board of directors becomes aware after entering into this Agreement which constitutes, or which in the reasonable opinion of its board of directors is reasonably likely to give rise to, a Fundamental Change or a Potential Fundamental Change.

AMENDED & RESTATED VERSION
Funding Agreement

3. DELAYED PAYMENT

If any SGEI Payment to be made by the Secretary of State to POL under this Agreement (a *Relevant Payment*) is not made on or by the date on which it is required by clause 5.5 (*Government Funding for Services of General Economic Interest*) to be made (the *Required Payment Date*), then during the period between the Required Payment Date and the end of the tenth (10th) Business Day thereafter (such period being the *Remedy Period*), the Parties shall continue to comply with their respective obligations under this Agreement and the Secretary of State shall make the Relevant Payment within the Remedy Period.

4. STATE AID CLEARANCES

4.1 The Secretary of State agrees to:

- (a) prepare as soon as reasonably practicable, in consultation with POL, an application for State Aid Clearance for all arrangements under this Agreement requiring such State Aid Clearance, including any payments to POL under clause 5 (*Government Funding for Services of General Economic Interest*), in respect of each of the Financial Years 2015/16 and 2016/17 and 2017/18;
- (b) pursue such State Aid Clearance application in good faith and expeditiously;
- (c) keep POL informed as to the progress of such State Aid Clearance application;
- (d) permit representatives appointed by POL to attend meetings with the European Commission in respect of such application, to the extent permitted by the European Commission and deemed appropriate by the Secretary of State;
- (e) discuss with POL any written notifications to the European Commission in respect of such State Aid Clearance application before they are submitted; and
- (f) discuss with POL any written notifications from the European Commission in respect of such State Aid Clearance application promptly upon their receipt.

4.2 As at the date of this Agreement the Secretary of State is targeting the obtaining of the State Aid Clearance referred to in clause 4.1 by the start of the Funding Period and the Parties shall use their reasonable endeavours to obtain the State Aid Clearance by such date, it being acknowledged that a mere failure to achieve that target is not of itself a breach of this clause 4.2.

5. GOVERNMENT FUNDING FOR SERVICES OF GENERAL ECONOMIC INTEREST

5.1 POL undertakes to the Secretary of State that it will for the duration of the Funding Period: (i) maintain a network of post offices in accordance with clause 10 (*Access Criteria*); and (ii) provide across that network the services of general economic interest entrusted to it by the Entrustment Letter.

5.2 Subject to clause 2.1 (*Conditions*), the Secretary of State agrees to make to POL in each of the Financial Years 2015/16, 2016/17 and 2017/18 an SGEI Payment in the amount specified in clause 5.6, to enable POL to maintain the network and to provide services of general economic interest over the network.

5.3 The SGEI Payment for each of the Financial Years 2015/16, 2016/17 and 2017/18 shall be made in a manner or manners to be determined by the Secretary of State in his

AMENDED & RESTATED VERSION
Funding Agreement

absolute discretion (but having consulted with POL as to the impact thereof (if any) on their profit and loss accounts and the tax treatment of such payments).

5.4 The Secretary of State agrees:

- (a) to submit for approval of both Houses of Parliament as soon as reasonably practicable any order amending or replacing the Order to increase the maximum amount payable under the Order in any period of twelve (12) months in order to make any payment under this Agreement which it is determined by the Secretary of State in accordance with clause 5.3 will be made pursuant to section 103 of the PSA2000;
- (b) to submit for approval of the House of Commons as soon as reasonably practicable any payment under this Agreement which it is determined by the Secretary of State in accordance with clause 5.3 will be made pursuant to section 8 of the Industrial Development Act 1982;
- (c) to keep POL informed as to the progress of such approval(s); and
- (d) to notify POL in writing as soon as reasonably practicable after such approval(s) have been obtained.

5.5 Each SGEI Payment shall be made by way of payment on 1 April (or the first Business Day thereafter) of the relevant Financial Year of the amount specified in clause 5.6.

5.6 The amount payable in:

- (a) the Financial Year 2015/16 shall be up to two hundred and eighty million pounds (£280,000,000);
- (b) the Financial Year 2016/17 shall be up to two hundred and twenty million pounds (£220,000,000); and
- (c) the Financial Year 2017/18 shall be up to one hundred and forty million pounds (£140,000,000).

In ascertaining for any purpose of this clause 5 the amount or maximum amount of any SGEI Payment no account shall be taken of: (i) any VAT Amount which may be payable under clause 5.12; or (ii) the benefit of any interest receivable on any amount held by POL prior to its expenditure.

5.7 The Secretary of State acknowledges that, without prejudicing clause 5.2 or his discretion to determine the method of payment of the SGEI Payment referred to in clause 5.3 above, it is his current expectation that:

- (a) one hundred and thirty million pounds (£130,000,000) of the SGEI Payment for Financial Year 2015/16;
- (b) eighty million pounds (£80,000,000) of the SGEI Payment for Financial Year 2016/17; and
- (c) seventy million pounds (£70,000,000) of the SGEI Payment for Financial Year 2017/18,

AMENDED & RESTATED VERSION
Funding Agreement

will be made by way of a payment under a network subsidy scheme introduced under the Order provided that: (i) the necessary statutory instrument to permit such payment has been approved by an affirmative resolution of each House of Parliament; and (ii) any necessary consent to the making of such statutory instrument has been given by the Lords Commissioners of Her Majesty's Treasury.

5.8 It is acknowledged by the Parties that any part of the SGEI Payments received by POL under a network subsidy scheme pursuant to section 103 of the PSA2000 (currently expected to be the amounts specified in clause 5.7 above) would be treated as revenue in POL's accounts, which has an impact on POL's operating profit. Should any SGEI Payment (or part thereof) be made in any Financial Year in any manner which would result in it not being treated as revenue in POL's accounts then any target operating profit applicable for any purpose to POL, or the PO Group as a whole, in such Financial Year shall be reduced by the amount of any SGEI Payment (or part thereof) received in any such manner in that Financial Year.

5.9 Within three months following the signature of POL's accounts in respect of each of the Financial Years 2015/16, 2016/17 and 2017/18, POL shall provide to the Secretary of State a statement (the *SGEI Statement*) setting out in writing the Actual SGEI Cost for that Financial Year and a cumulative statement (the *Cumulative SGEI Statement*) setting out the cumulative amount of all Actual SGEI Cost for the Funding Period up to and including the relevant Financial Year (the *Cumulative SGEI Cost*), together with supporting calculations and a clear explanation of how the amounts of each have been calculated. Each SGEI Statement shall be accompanied by a statement (the *SGEI Supporting Statement*) from an independent firm of financial advisers confirming:

- (a) that the SGEI Statement has been properly prepared in accordance with the requirements of Schedule 3 (*Calculation of Actual SGEI Cost*) and any additional conditions imposed by any relevant State Aid Clearance; and
- (b) that while carrying out its financial analysis for the purposes of providing the statement referred to in paragraph (a) above, they did not discover any inconsistency of POL's use of the SGEI Payment as against the terms of this Agreement or of any applicable State Aid Clearance.

For the avoidance of doubt, the independent firm of financial advisers will not be responsible for determining whether the net profit that would have been incurred by POL in Schedule 3 (*Calculation of Actual SGEI Cost*) is reasonable. POL agrees to use reasonable endeavours to engage such independent firm of financial advisers on the basis that, if requested by the Secretary of State and on such terms as the financial advisers may agree:

- (a) an accountancy firm nominated by the Secretary of State shall be entitled to discuss directly with the financial advisers the manner in which the SGEI Supporting Statement has been prepared; and
- (b) the financial advisers shall provide to the Secretary of State all notes and other work products produced by them in the preparation of the SGEI Supporting Statement.

5.10 If following the end of the Funding Period the Cumulative SGEI Statement (for the entire Funding Period) shows that the Cumulative SGEI Cost is less than the Cumulative SGEI Payment, POL shall, within ten (10) Business Days of a request by the Secretary of State, reimburse to the Secretary of State, without deduction, an amount equal to the difference.

AMENDED & RESTATED VERSION
Funding Agreement

5.11 POL shall use each SGEI Payment only to meet the direct and indirect costs associated with: (i) maintaining a network of post offices in accordance with clause 10 (*Access Criteria*); and (ii) ensuring the provision of services of general economic interest over that network (as entrusted to it pursuant to the Entrustment Letter), as described in Schedule 3 (*Calculation of Actual SGEI Cost*) (or to make any reimbursement required to be made by POL pursuant to clause 5.10) and only for purposes permitted by any State Aid Clearance applicable to it.

5.12 It is the mutual opinion of the Parties that the SGEI Payments received by POL will not (and POL agrees not to take any steps with the intention of procuring that they will) constitute, for VAT purposes, the consideration for any taxable supply and that, accordingly, the receipt by POL of such SGEI Payments should not give rise to any liability of POL (or any other member of the PO Group) to account for VAT in respect of any such receipt. Notwithstanding the foregoing opinion, if it should, at any time (whether or not a time falling within the duration of this Agreement), be determined by Her Majesty's Revenue and Customs that such SGEI Payments (or any of them) must be treated as the consideration for taxable supplies made by POL (or, as the case may be, by any other member of the PO Group) and that in consequence POL (or such other member of the PO Group) is liable to account for VAT in respect of the receipt of any of such SGEI Payments (the *VAT Amount*), POL shall notify the Secretary of State of that determination within five (5) Business Days of being so advised by Her Majesty's Revenue and Customs and the Secretary of State shall, as soon as reasonably practicable following notification of such determination, make a payment to POL, in addition to all amounts otherwise payable by the Secretary of State to POL under this Agreement, of a sum equal to the VAT Amount, against production of a valid VAT invoice.

5.13 If Her Majesty's Revenue and Customs issues a determination as referred to in clause 5.12, the Parties shall (acting reasonably) consult as to what action to take regarding such determination. If the Secretary of State disagrees with the determination he may, within ten (10) Business Days of being notified by POL of such determination, give written notice to POL that he requires POL (or any other member of the PO Group) to obtain a review by Her Majesty's Revenue and Customs of that determination; and POL (or such other member of the PO Group, as the case may be) shall promptly request (the form of that request being subject to reasonable review by the Secretary of State) Her Majesty's Revenue and Customs to undertake such review. In the event that the review results in POL obtaining a refund of any VAT Amount, or not being required to pay a VAT Amount, in each case in respect of which the Secretary of State shall have made a corresponding payment under clause 5.12, POL shall promptly refund to the Secretary of State the amount of such corresponding payment.

5.14 The Secretary of State acknowledges the expectation of the Parties that ongoing SGEI Payments may be required to be made to POL following the end of the Funding Period to the extent that POL may be requested to continue to provide services of general economic interest following the Funding Period.

5.15 The Secretary of State acknowledged in the 2010 Funding Agreement that the expectation of the Parties was that ongoing SGEI payments would be required to be made to POL following the end of the 2010 Funding Period to the extent that POL was requested to continue to provide services of general economic interest following the 2010 Funding Period. The Secretary of State acknowledges that this Agreement and the Strategic Plan continue the arrangements under the 2010 Funding Agreement.

AMENDED & RESTATED VERSION
Funding Agreement

6. POL STRATEGIC PLAN

6.1 POL shall from 1 April 2015 use its best endeavours to procure the delivery of the Strategic Plan within the financial parameters of the SGEI Payments provided pursuant to this Agreement and (unless otherwise agreed by the Secretary of State or required by the terms of any State Aid Clearance) POL shall not apply any SGEI Payment for a purpose inconsistent with the Strategic Plan or make any material deviation from the Strategic Plan.

6.2 In monitoring POL's progress in delivering the Strategic Plan, the Secretary of State may request information both on a routine and an *ad hoc* basis. The Secretary of State will ensure that information requests are not overly onerous and POL will use its reasonable endeavours to satisfy all information requests.

7. FINAL CONTRIBUTION

POL acknowledges that the SGEI Payments to be provided by the Secretary of State pursuant to this Agreement represent the Secretary of State's final funding contribution in respect of POL's obligations over the Funding Period to: (i) maintain a network of post offices in accordance with clause 10 (*Access Criteria*); and (ii) ensure the provision of services of general economic interest over that network in accordance with the Strategic Plan as entrusted to it by the Entrustment Letter.

8. EMPLOYEE INCENTIVE ARRANGEMENTS

8.1 POL shall continue to maintain an incentive scheme, approved by the Secretary of State, for its senior executive team in a manner which is designed to ensure, and is consistent with ensuring, the delivery of the Strategic Plan.

8.2 POL confirms that:

- (a) the terms of any bonus arrangements specific to POL (or those parts of any group-wide arrangements which are related to the performance of POL) are designed to incentivise and reward the performance of POL;
- (b) the terms of such bonus arrangements are robust, subject to annual review and designed not to provide rewards where POL's business has not performed satisfactorily against the relevant target; and
- (c) accordingly, no such bonus arrangements will pay out in respect of any Financial Year during the Funding Period in which POL seeks and obtains new funding from the Secretary of State, over and above that anticipated in this Agreement, as a result of a failure by POL to perform in accordance with the requirements of the Strategic Plan (other than as a result of a change in Government policy or other reasons beyond POL's control). Any future bonus arrangements following any such Financial Year will be discussed with the Secretary of State at the time.

9. SUB-POSTMASTER COMPENSATION CONDITIONS

9.1 As part of its obligations to deliver the Strategic Plan, POL shall ensure that it complies with the provisions of clause 10 (*Access Criteria*) and confirms that the Strategic Plan has been developed on the basis that no community loses access to services of the type contemplated in clause 10 (*Access Criteria*) other than due to circumstances beyond POL's control.

AMENDED & RESTATED VERSION
Funding Agreement

9.2 POL shall ensure that during the Funding Period all new or amended agency contracts entered into between POL and any sub-postmaster shall be on such terms as to ensure that such sub-postmaster has no right to receive: (i) fixed pay; or (ii) any compensation payment for termination of such agency contract (other than in respect of a breach by POL of the terms of such agency contract or applicable law), provided that that any new agency contracts entered into with sub-postmasters of Community Branches pursuant to a sale, transfer, termination or otherwise may be on materially the same terms as the existing agency contract for such Community Branches.

9.3 POL shall ensure that (save as required by law or contractual requirements) during the Funding Period, no compensation payments may be paid to any sub-postmaster upon replacement of such sub-postmaster's existing agency contract, unless such replacement agency contract complies with the provisions of clause 9.2.

10. ACCESS CRITERIA

10.1 Without prejudice to its obligations pursuant to clause 5.1 (*Government Funding for Services of General Economic Interest*), POL shall throughout the Funding Period provide a network of at least eleven thousand, five hundred (11,500) Branches which:

- (a) provide access to all of the following services:
 - (i) postal services;
 - (ii) basic cash and banking facilities and payout services including those that POL is required to provide on behalf of Government (in respect of pensions, benefits or tax credits);
 - (iii) bill payment facilities; and
 - (iv) information about other services which may be available from POL outlets from time to time,

provided that only eleven thousand (11,000) of such Branches (such Branches to be determined by POL in its absolute discretion) shall be required to provide the service contemplated in clause 10.1(a)(ii) (*Access Criteria*) above; and

- (b) enables the following criteria to be met:
 - (i) **Nationally:**
 - (A) ninety per cent. (90%) of the UK population are within one (1) mile of the nearest Branch;
 - (B) ninety nine per cent. (99%) of the UK population are within three (3) miles of the nearest Branch;
 - (ii) **In Urban Areas:**
 - (A) ninety five per cent. (95%) of the total population within Urban Areas across the UK are within one (1) mile of the nearest Branch;

AMENDED & RESTATED VERSION
Funding Agreement

(B) ninety nine per cent. (99%) of the total population within Deprived Urban Areas across the UK are within one (1) mile of the nearest Branch;

(iii) **In Rural Areas:** ninety five per cent. (95%) of the total population within Rural Areas across the UK are within three (3) miles of the nearest Branch;

(iv) **In each postcode district:** ninety five per cent. (95%) of the population in each individual postcode district are within six (6) miles of the nearest Branch.

10.2 In applying the above criteria POL shall in addition take account of geographical constraints such as rivers, mountains and valleys, motorways and sea crossings to islands so as not to impose undue hardship when considering the appropriate Branch network.

10.3 Reference to "Branch" in this clause 10 shall mean a Branch providing the services described in clause 10.1(a).

11. JOINT VENTURES

Unless otherwise agreed with the Secretary of State, POL agrees that it shall only enter into joint ventures with third parties for purposes consistent with the delivery of the Strategic Plan and provided that the joint venture is structured on the basis that it would not (according to Government advice) be classified as part of the public sector under the relevant rules of Her Majesty's Treasury.

12. PUBLIC CONSULTATION, COMMUNICATION AND EQUALITY

12.1 POL shall at all times comply with the Code of Practice.

12.2 POL acknowledges the commitment recorded in the resolutions made during its board meeting of 21 January 2008 that any individuals taking any decision or exercising any other function on POL's behalf should do so having due regard to the need to observe factors which comprise the statutory equality duties and that appropriate steps be taken to inform all people making decisions or exercising functions on POL's behalf of these equality duties. POL shall ensure that this commitment is maintained in the performance of its obligations under this Agreement.

13. CONSENTS

The Secretary of State hereby consents, for the purposes of the articles of association of POL and of any other document or arrangement under which its consent or approval is required, to the execution and performance by POL of this Agreement and the documents and arrangements to be entered into pursuant to, or otherwise contemplated by, this Agreement (other than any agreement contemplated in clause 11). The Secretary of State agrees that such consents will take effect notwithstanding any failure to comply with any procedural requirements of such articles or other documents in connection with the obtaining of such consents.

14. CONFIDENTIALITY

14.1 Each Party undertakes to the other Party that, subject to clause 14.2, it shall treat as strictly confidential all confidential information. For the purposes of this clause 14, *confidential information* shall mean:

AMENDED & RESTATED VERSION
Funding Agreement

- (a) the provisions of this Agreement, the Entrustment Letter and the Strategic Plan; and
- (b) the negotiations relating to this Agreement, the Entrustment Letter and the Strategic Plan.

14.2 Clause 14.1 shall not prevent the disclosure by a Party of any confidential information:

- (a) to those of its officers (including auditors), employees and agents as it considers have a need for such information in the performance of their respective functions and who shall in each case be made aware by such Party of its obligations under this Agreement and shall be required by such Party to observe the same restrictions on the use of the confidential information as are contained in this clause 14;
- (b) to Postal Services Holding Company PLC and its officers (including auditors), employees and agents, in each case who are bound to such Party by a duty of confidence which applies to the confidential information disclosed;
- (c) to its professional advisers who are bound to such Party by a duty of confidence which applies to the confidential information disclosed;
- (d) to the extent required by applicable law or by the regulations of any regulatory or supervisory authority to which such Party is subject or pursuant to any order of court or other competent authority or tribunal;
- (e) which shall have entered the public domain or ceased to be confidential other than as a result of a breach by such Party of its obligations under this clause 14;
- (f) which was already known to such Party prior to its disclosure to such Party other than as a result of a breach by such Party of an obligation of confidentiality;
- (g) as such Party, acting reasonably, considers necessary in connection with any investigations, inquiries, or actual or threatened proceedings in connection with POL or any of its directors;
- (h) in the case of POL, to the extent that its board of directors acting reasonably, considers disclosure necessary from time to time in its statutory accounts;
- (i) to the extent that the Secretary of State, acting reasonably, considers disclosure necessary from time to time in the published accounts of the Department of Business, Innovation & Skills or Her Majesty's Treasury;
- (j) to the extent required by any Parliamentary obligation;
- (k) to the extent required for the purposes of any examination pursuant to section 6(1) of the National Audit Act 1983 of the economy, efficiency and effectiveness with which the Secretary of State has used his resources;
- (l) to the European Commission for the purposes of obtaining State Aid Clearance; or
- (m) with the prior written consent of the other Party.

14.3 If a Party becomes required, in circumstances contemplated by clause 14.2(d), (g) or (h) to disclose any confidential information, such Party shall, to the extent permitted by law,

AMENDED & RESTATED VERSION
Funding Agreement

give to the other Party such notice of such disclosure as is practicable in the circumstances and shall, to the extent permitted by law and practicable in the circumstances, consult with the other Party as to the extent of such disclosure.

15. NOTICES

15.1 A notice to be served pursuant to or in connection with this Agreement shall be in writing and, unless otherwise stated, served in person or sent by pre-paid first class post, fax or any electronic method of communication as agreed by the Parties to the relevant Party at its address or fax number set out below, or such other address in England or Wales or fax number notified by it to the other Party and marked for the attention of the person or department therein specified.

15.2 The address and addressee of each Party at the date of this Agreement are:

Name of Party	Addressee	Address	Fax Number
Secretary of State	Legal Director for Postal Services	1 Victoria Street, London SW1H 0ET	GRO
POL	Company Secretary	148 Old Street, London EC1V 9HQ	GRO

15.3 A notice shall be deemed to be received on the date and time specified below (save that where such notice would otherwise be deemed to be received after 17:00 London time on a particular day, it shall be deemed to have been received at 9:00 London time on the next Business Day):

- (a) in the case of a notice served in person, upon delivery at the address of the addressee;
- (b) in the case of a posted letter, on the second Business Day after posting;
- (c) in the case of a fax, when received in legible form; and
- (d) in the case of any other electronic method of communication agreed by the Parties, when actually received in readable form.

15.4 Each Party undertakes to notify the other Party by notice served in accordance with this clause if the address specified for that Party herein is no longer an appropriate address for the service of notice or if it is desired to substitute any individual addressee of that Party named in clause 15.2.

15.5 In proving service of any notice under or in connection with this Agreement it will be sufficient to prove:

- (a) in the case of a letter, that such letter was properly stamped or franked, addressed and placed in the post or in the case of personal delivery, was left at the correct address; and
- (b) in the case of a fax transmission, that fax was duly transmitted to the fax number, as appropriate, of the addressee referred to in clause 15.2.

AMENDED & RESTATED VERSION
Funding Agreement

16. ENTIRE AGREEMENT

16.1 This Agreement and any documents referred to in it or annexed to it constitute the whole and only agreement between the Parties relating to its subject matter and, for the avoidance of doubt, supersedes any other prior arrangement, understanding or agreement between the Parties relating to the subject matter of this Agreement.

16.2 Each Party acknowledges that in entering into this Agreement, it is not relying on any pre-contractual statement which is not set out in this Agreement.

16.3 Except in the case of fraud, neither Party shall have any right of action against the other Party arising out of or in connection with any pre-contractual statement except to the extent that it is expressly provided for in this Agreement.

16.4 For the purposes of this clause 16, *pre-contractual statement* means any draft, agreement, undertaking, representation, warranty, promise, assurance, forecast, estimate or arrangement of any nature whatsoever, whether or not in writing, relating to the subject matter of this Agreement made or given by any person at any time prior to the date of this Agreement.

17. GENERAL

Secretary of State

17.1 Nothing in this Agreement fetters the powers conferred on the Secretary of State by the PSA2000 and the PSA2011.

Costs

17.2 Save as expressly provided for elsewhere in this Agreement, each of the Parties shall at its own expense do all such things as shall be necessary to give full effect to the obligations imposed on it under this Agreement.

Third parties

17.3 For the purposes of the Contracts (Rights of Third Parties) Act 1999, no person other than a Party shall have any rights in respect of this Agreement.

Counterparts

17.4 This Agreement may be executed in any number of counterparts and by the Parties on separate counterparts, each of which when so executed and delivered shall be an original, but all the counterparts shall together constitute one and the same instrument.

AMENDED & RESTATED VERSION
Funding Agreement

Partial invalidity

17.5 If any term or provision in this Agreement is held to be illegal or unenforceable in whole or in part under any enactment or rule of law, such term or provision or part shall to that extent be deemed not to form part of this Agreement but the enforceability of the remainder of this Agreement shall not be affected.

Rights, variations and waivers

17.6 The rights and remedies of the Parties shall not be affected by any failure to exercise or delay in exercising any right or remedy or by the giving of any indulgence by the other Party or by anything whatsoever except a specific waiver or release in writing and any such waiver or release shall not prejudice or affect any other rights or remedies of the Parties. No single or partial exercise of any right or remedy prevents any further or other exercise thereof or the exercise of any other right or remedy.

17.7 No variation of this Agreement shall be of any effect unless it is agreed in writing by or on behalf of each Party.

17.8 Any waiver of any right, power or remedy under this Agreement must be in writing and may be given subject to any conditions thought fit by the grantor. The person seeking the waiver shall disclose to the grantor all material facts then in that person's knowledge relevant to the subject matter of the waiver. Unless otherwise expressly stated, any waiver shall be effective only in the instance and only for the purpose for which it is given.

Remedies

17.9 Without prejudice to any other rights or remedies that either Party may have, each Party acknowledges and agrees that damages alone would not be an adequate remedy for any breach by a Party of the provisions of this Agreement, and that the remedies of injunction and specific performance as well as any other equitable relief for any threatened or actual breach of the provisions of this Agreement by a Party may be more appropriate remedies and that no proof of special damages shall be necessary for the enforcement of this Agreement.

Governing law and jurisdiction

17.10 This Agreement and any non-contractual obligations arising out of or in relation to this Agreement shall be governed by and construed in accordance with English law.

17.11 Each Party hereby submits to the exclusive jurisdiction of the courts of England.

EXECUTED by the Parties on the date first written above.

AMENDED & RESTATED VERSION
Funding Agreement

SIGNED by
for and on behalf of
THE SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS

Signature: Will Gibson
Name: Will Gibson
Title: Executive Director, Shareholder Executive

SIGNED by
for and on behalf of
POST OFFICE LIMITED

Signature: P A Vennells
Name: Paula Vennells
Title: Chief Executive

Signature: Chris Day
Name: Chris Day
Title: CFO

AMENDED & RESTATED VERSION
Funding Agreement

SCHEDULE 1

DELIVERABLES

A certified copy of a resolution of the board of POL:

- (a) approving the terms of, and the transactions contemplated by, this Agreement and the amended and restated POL Working Capital Facility and resolving that it execute and perform this Agreement and the amended and restated POL Working Capital Facility;
- (b) authorising a specific person or persons to execute this Agreement on its behalf; and
- (c) authorising a specified person or persons, on its behalf, to sign and/or dispatch all documents and notices to be signed and/or dispatched by it under or in connection with this Agreement and the amended and restated POL Working Capital Facility.

AMENDED & RESTATED VERSION
Funding Agreement

SCHEDULE 2

Part A
Fundamental Change

A Fundamental Change will have occurred if:

1. an order has been made or resolution has been passed for the winding-up of, or a provisional liquidator to be appointed in respect of, POL;
2. an administrator has been appointed in respect of POL;
3. a receiver (which expression shall include an administrative receiver) has been appointed in respect of POL;
4. POL has stopped paying its debts as they fall due;
5. a moratorium is declared in respect of the indebtedness of POL or POL enters into a moratorium or a composition, assignment or similar arrangement with its creditors generally;
6. a scheme of arrangement is approved, or proposed by POL, under Part 26 of the Companies Act 2006 with a view to rescheduling or restructuring POL's indebtedness;
7. a voluntary arrangement has been proposed by POL under section 1 of the Insolvency Act 1986 in respect of POL; or
8. an event analogous to the foregoing has occurred in relation to POL in any jurisdiction outside England.

Part B
Potential Fundamental Change

A Potential Fundamental Change exists at any time if at that time a Fundamental Change shall not have occurred but:

1. a petition has been presented or a meeting has been convened for the purpose of winding-up POL or appointing a provisional liquidator in respect of POL and such petition has not been discharged or such meeting has not been held; or
2. POL is currently taking steps with a view to appointing an administrator or agreeing a moratorium, composition, assignment or similar arrangement with its creditors generally.

AMENDED & RESTATED VERSION
Funding Agreement

SCHEDULE 3

CALCULATION OF ACTUAL SGEI COST

The amount of the Actual SGEI Cost shall be equal to the difference between the actual net costs incurred by POL and the reasonable net profits that would have been incurred in connection with the provision of a network that POL would maintain on a purely commercial basis (as specified by the relevant European Commission decision(s)), during the relevant Financial Year(s).

The calculation of those net costs shall include:

1. All variable costs including those incurred in providing the Network SGEI and the Product SGEIs; plus
2. All fixed costs including those incurred in providing the Network SGEI and the Product SGEIs; less
3. All revenues received by POL from providing the Product SGEIs as well as non-SGEI services.

For the purposes of the calculation above:

- The costs shall include, without limitation, contributions to pension funds, interest costs, central costs, capital expenditure, costs of any employee incentivisation arrangements and the costs of transforming the network, in each case whether such costs are recurring or exceptional.
- *Network SGEI* means, as set out in the Entrustment Letter, the obligation on POL to maintain during the Funding Period a network of post offices beyond its optimal commercial size.
- *Product SGEI* means, as set out in the Entrustment Letter, the obligation on POL to make available during the Funding Period certain services of general economic interest across a network of post offices as defined by the Network SGEI.

AMENDED & RESTATED VERSION
Funding Agreement

APPENDIX A
POL ENTRUSTMENT LETTER

POL00362162
POL00362162

AMENDED & RESTATED VERSION
Funding Agreement

APPENDIX B
STRATEGIC PLAN

POL00362162
POL00362162