POL00362169

Paula Vennells
Post Office Limited 148 Old Street
London
EC1V 9HQ

25 November 2013

Dear Paula,

ENTRUSTMENT OF POST OFFICE LIMITED WITH THE DELIVERY OF CERTAIN PUBLIC SERVICES

Commencement

This letter has effect from the later of: (i) the date on which the European Commission confirms that the requirements of this letter are compatible with the requirements on State Aid of the Treaty on the Functioning of the European Union; and (ii) 1 April 2015 (the **"Effective Date"**).

Existing Entrustment Letter

Notwithstanding the signing of this letter, in respect of the period prior to the Effective Date, the provisions of the letter from the Government to Post Office Limited entitled "Entrustment of Post Office Limited with the delivery of certain public services" and dated 21 March 2012 (the **"Existing Entrustment Letter"**) shall continue in full force and effect and the provisions of this letter shall be without prejudice to any rights, remedies, obligations or liabilities of any party accrued under the Existing Entrustment Letter.

The Existing Entrustment Letter shall be terminated on the Effective Date.

Entrustment

This letter contains an overarching ministerial instruction entrusting Post Office Limited with the provision and delivery of certain services of general economic interest. This instruction is legally binding on Post Office Limited and Post Office Limited has signed this letter in agreement and acknowledgement of this.

We confirm that Post Office Limited is under a public service obligation (as set out here and also contractually in the Post Office Limited Funding Agreement dated 26 November 2013 (the **"2013 Funding Agreement"**)) to maintain, from the Effective Date until the end of its financial year ending on or around 31 March 2018, a network of post offices beyond its optimal commercial size (the **"Network SGEI"**). That network must number a minimum of 11,500 post offices and also meet the following minimum access requirements:

- Nationally, 99% of the UK population to be within 3 miles and 90% of the population to be within 1 mile of their nearest post office outlet.

- 99% of the total population in deprived urban areas across the UK to be within 1 mile of their nearest post office outlet.

POL00362169

- 95% of the total urban population across the UK to be within 1 mile of their nearest post office outlet
- 95% of the total rural population across the UK to be within 3 miles of their nearest post office outlet.

In addition the following criterion will apply at the level of each and every individual postcode district, establishing a minimum level of coverage at a very local level.

- 95% of the population of the postcode district to be within 6 miles of their nearest post office outlet.

Post Office Limited is required to provide this network of post office branches to make available the services of general economic interest detailed in Annex A (**"Product SGEI"**) on the basis set out in the 2013 Funding Agreement. This Network SGEI obligation therefore extends the provision of the Product SGEI over a network which may be beyond that required under individual Product SGEI contracts entered into on a commercial basis between Post Office Limited and relevant Government departments or bodies (whether public or private). The delivery of the Product SGEI by Post Office Limited across its network will be governed in accordance with contracts or other agreements under which the terms of the provision of the individual product SGEI are specified.

The entrustment of the delivery of the Network SGEI set out in this letter to Post Office Limited does not replace or change in any way any contracts or other agreements under which the terms of the provision of the individual Product SGEI are specified. Post Office Limited is expected to use reasonable endeavours to enter into contracts with Government departments or bodies (whether public or private) contracting with Post Office Limited in respect of the provision of one or more Product SGEIs. A list of the current individual contracts and agreements held by Post Office Limited to deliver the Product SGEI is provided in Annex B.

Method of Calculating Compensation

As soon as reasonably practicable following publication of its audited accounts for the Financial Year ending on or around 31 March 2018, Post Office Limited will be required to provide, in accordance with the 2013 Funding Agreement, a statement (the **"Cumulative SGEI Statement"**). The Cumulative SGEI Statement must be accompanied by a supporting statement from an independent financial adviser, to confirm that the aggregate amount of the SGEI compensation payments made by the Government to Post Office Limited under the funding agreement dated 25 October 2010 (the **"2010 Funding Agreement")** and the 2013 Funding Agreement (the **"Cumulative SGEI Payment"**) did not exceed the difference between the actual net costs incurred by Post Office Limited and the reasonable net profits that would have been incurred in connection with the provision of a network that Post Office Limited would maintain on a purely commercial basis (as specified by the relevant European Commission decision(s)), during the financial years covered by the 2010 Funding Agreement and the 2013 Funding Agreement (the **"Cumulative SGEI Cost"**). The calculation of those net costs shall include:

POL00362169

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 Post Office Limited 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.

Recovery of Overpayment

Notwithstanding clause 5.2 of the 2013 Funding Agreement, in the event that the Cumulative SGEI Payment exceeds the Cumulative SGEI Cost, Post Office Limited will be required to repay to the Government, within 10 Business Days of a request from the Government, an amount equal to such excess.

The 2010 Funding Agreement does not foresee an outcome in which the objectives associated with the entrusted obligations under the 2010 Funding Agreement will need to be re-phased. In the unlikely event that this occurs and a repayment from Post Office Limited arises under the 2010 Funding Agreement, the Government waives its right to receive any such repayment on the strict understanding that (a) the cumulative reconciliation described in the paragraph above will be carried out and (b) any objectives that are not achieved during the 2010 Funding Agreement will remain as objectives under the 2013 Funding Agreement. This is in recognition of the scale and complexity of the activities being carried out by Post Office Limited and the parties' desire to promote the efficient use of all funds committed by the Government to Post Office Limited under the 2010 Funding Agreement and the 2013 Funding Agreement.

It is possible that Post Office Limited may during the period of this entrustment cease to provide an individual Product SGEI, the provision of which over the post office network beyond its optimal commercial size is compensated by the Government. In those circumstances, the Government shall, provided that the provision of the Network SGEI will be maintained, withhold such proportion of that compensation (if any) which corresponds to the net direct costs of providing that Product SGEI.

Yours sincerely,

JO SWINSON

POL00362169

Post Office Limited acknowledges that the instructions set out in this letter are legally binding.

Signed by

for and on behalf of Post Office Limited

Dated ____ November 2013

POL00362169

Annex A

SCHEDULE OF SERVICES OF GENERAL ECONOMIC INTEREST PROVIDED BY POST OFFICE LTD AT POST OFFICE BRANCHES

	Category of Service	Service Provided	Service Provided on Behalf of
1.	Processing social benefit and tax credit payments to the public.	Cash payment of state benefits including state pension, child benefits and tax credits Issuing of vouchers to eligible asylum seekers	The Department for Work and Pensions The Social Security Agency - Northern Ireland Her Majesty's Revenue & Customs Financial Institutions The Home Office
2.	Processing of national identity and licensing scheme applications	Providing passport application forms for customers to complete and return Checking and authentication of passport applications and supporting documentation Capturing biometric data for Biometric Residence Permits Providing vehicle licence application forms for customers to complete and return Receiving payment for vehicle licences and photocard licences Services for the sale of Rod Fishing Licences	Her Majesty's Passport Office UK Visas and Immigration Driver and Vehicle Licensing Agency The Environment Agency
3.	Universal payment facilities for public utility services.	Provision of facilities for payment of electricity, gas, telecommunications and water bills. Payment options include pre-payment and other budgeting schemes (e.g. including savings stamps) Provision of facilities for payment of tax bills and social housing rents	Financial Institutions Individual Utility Service Providers Billing Service Providers Her Majesty's Revenue and Customs Local Authorities Housing Associations

POL00362169

	Category of Service	Service Provided	Service Provided on Behalf of
4.	Access to postal services	Provision of access to postal services which the universal service provider (Royal Mail Group Limited) is required to provide under regulatory conditions and directions issued by Ofcom in accordance with section 36 of the Postal Services Act 2011 and the Designated Universal Service Provider Conditions issued by Ofcom on 27 March 2012	Royal Mail Group Limited
5.	Universal access to basic cash and banking facilities and Government savings instruments, especially for rural customers and those on social benefits.	Provision of basic community banking facilities (e.g. including cashing of cheques, cash deposit, Post Office card account and cash withdrawals and deposits) and cash transmission facilities (e.g. including postal orders), in particular to socially excluded customers and businesses local to post office branches Access to certain Government savings instruments	Financial Institutions Her Majesty's Treasury, National Savings & Investments The Department for Work and Pensions The Social Security Agency - Northern Ireland, Her Majesty's Revenue & Customs

Annex B

POST OFFICE CONTRACTS TO DELIVER SGEI
AS AT THE DATE OF THIS LETTER

Category 1: Processing Social Benefit and Tax Credit Payments to the Public

Description of Services	Contracting Entity Opposite Post Office Limited
POCA Card Account	The Department for Work and Pensions
Asylum Seekers Benefits Payments	Sodexho Pass
Meals on Wheels Vouchers	Fife Council
Meals on Wheels Vouchers	London Borough of Waltham Forest
Meals on Wheels Vouchers	London Borough of Tower Hamlets
Meals on Wheels Vouchers	Salford City Council
Meals on Wheels Vouchers	London Borough of Islington
Meals on Wheels Vouchers	Eastleigh Borough Council
Homecare Vouchers	Salford City Council
Payout (Emergency Payments) Contracts	Bedford Council
Payout (Emergency Payments) Contracts	Blackpool Council
Payout (Emergency Payments) Contracts	Cornwall Council
Payout (Emergency Payments) Contracts	Derbyshire Council
Payout (Emergency Payments) Contracts	Glasgow Council
Payout (Emergency Payments) Contracts	Greenwich Council
Payout (Emergency Payments) Contracts	Lewisham Council
Payout (Emergency Payments) Contracts	Merton Council
Payout (Emergency Payments) Contracts	Reading Council
Payout (Emergency Payments) Contracts	Rotherham Council
Payout (Emergency Payments) Contracts	Staffordshire Council
Payout (Emergency Payments) Contracts	Torbay Council
Payout (Emergency Payments) Contracts	Tower Hamlets Council
Payout (Emergency Payments) Contracts	Westminster (City of)
Payout (Emergency Payments) Contracts	West Lothian Council
Payout Contracts	Autism Initiatives
Payout Contracts	Durham and Darlington NHS
Payout Contracts	First Initiatives
Payout Contracts	Blackburn and Darwin Council
Payout Contracts	Buckinghamshire Council
Payout Contracts	Cumbria Council
Payout Contracts	Hampshire Council
Payout Contracts	Hull Council
Payout Contracts	Lambeth Council
Payout Contracts	Lancaster Council
Payout Contracts	Leeds Council
Payout Contracts	Lewisham Council
Payout Contracts	Manchester City Council

POL00362169

Payout Contracts	Newham Council
Payout Contracts	Redbridge Council
Payout Contracts	St Helen's Council
Payout Contracts	Staffordshire Council
Payout Contracts	City Of Westminster Council
Payout Contracts	Wirral Council

POL00362169

Category 2: Processing of National Identity and Licensing Scheme Applications

Description of Services	**Contracting Entity Opposite Post Office Limited**
Passport Applications 'Check & Send'	Her Majesty's Passport Office
Driving Licence Applications	Driver and Vehicle Licensing Agency
Services for the sale of Rod Fishing Licences	The Environment Agency
Capture of photograph in support of applications	Security Industry Authority (The Home Office)
Biometric data capture for Biometric Residence Permit applications	UK Visas and Immigration
Identity Assurance Services (for access to online public services)	Government Digital Services (The Cabinet Office)
Document checking in support of a Vetting and Barring Scheme application (formerly CRB)	Care Quality Commission

POL00362169

Category 3: Universal Payment Facilities for Public Utility Services

Description of Services	Contracting Entity Opposite Post Office Limited
Bill Payments	Santander (A&L Commercial Bank plc as was)
Bill Payments	The Co-Operative Bank plc
Bill Payments	Allpay.net Ltd
Bill Payments	Airtricity Holdings Limited (Republic of Ireland company)
Bill Payments	Freedom Council - London Councils Transport and Environment Committee
Bill Payments	EON Energy Limited
Bill Payments	EDF Energy
Bill Payments	RWE Npower plc
Bill Payments	Scottish Power Energy Retail Limited
Bill Payments	Scottish & S Southern (SSE)
Bill Payments	British Gas Trading Limited
Bill Payments	Phoenix Gas
Bill Payments	BT plc, novated to BT Payment Services Limited
Bill Payments	South West Water Limited
Bill Payments	Northern Ireland Electricity plc, novated to NIE Energy Ltd
Bill Payments	United Utilities
Bill Payments	Yorkshire Water
Bill Payment	Bristol and Wessex Billing Services Ltd
Bill Payment	Siemens Energy Services (a Management Division of Siemens PLC)
Travel Tickets	West Yorkshire Passenger Transport Executive
Travel Tickets	Merseyside Passenger Transport Executive
Travel Tickets	Cardiff Council
Travel Tickets	Brighton and Hove Bus & Coach Company
Travel Tickets	Coventry Council
Travel Tickets	Neath Port Talbot Council
Travel Tickets	Scotland Improvement Service
Travel Tickets	Strathclyde Council
Travel Tickets	Transport for London
Council Tax and Other Related Council Services	The Lord Mayor & Citizens of the City of Westminster
Council Tax and Other Related Council Services	London Borough of Hammersmith and Fulham

POL00362169

Category 4: Access to Postal Services

Description of Services	Contracting Entity opposite Post Office Limited
Master Distribution Agreement - Mail support services from Post Office Limited to Royal Mail Group Limited to assist Royal Mail Group Limited in meeting its designated Universal Service Provider conditions	Royal Mail Group Limited

POL00362169

Category 5: Universal Access to Basic Cash and Banking Facilities and Government Savings Instruments, Especially for Rural Customers and Those on Social Benefits

Description of Services	Contracting Entity opposite Post Office Limited
ATM Services	Bank of Ireland
Provision of Basic Banking Facilities	Bank of Ireland
Provision of Basic Banking Facilities	Barclays Bank
Provision of Basic Banking Facilities	Charities Aid Foundation (CAF) bank
Provision of Basic Banking Facilities	Cahoot
Provision of Basic Banking Facilities	Clydesdale Bank
Provision of Basic Banking Facilities	Co-operative Bank
Provision of Basic Banking Facilities	Danske Bank
Provision of Basic Banking Facilities	First Direct
Provision of Basic Banking Facilities	First Trust Bank
Provision of Basic Banking Facilities	HBOS
Provision of Basic Banking Facilities	HSBC Bank
Provision of Basic Banking Facilities	Lloyds Bank
Provision of Basic Banking Facilities	National Australia Group
Provision of Basic Banking Facilities	National Savings & Investments
Provision of Basic Banking Facilities	Nationwide Building Society
Provision of Basic Banking Facilities	Northern Bank
Provision of Basic Banking Facilities	RBS Group
Provision of Basic Banking Facilities	Santander
Provision of Basic Banking Facilities	Smile
Provision of Basic Banking Facilities	TSB
Provision of Basic Banking Facilities	Virgin Money
POCA Card Account	The Department for Work and Pensions
Premium Bonds applications	National Savings & Investments